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Babcock International Group PLC

Half Year Report

For the six months ended 30 September 2017

babcockinternational.com

Contact

Babcock International Group PLC
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Analysts and investors

A meeting for investors and analysts was held on 21 November 2017 at 0830 am at FTI Consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD. The presentation was webcast live and is subsequently available on demand at www.babcockinternational.com.

Continuing to deliver

21 November 2017

Financial highlights

Statutory	September 2017	September 2016	Change
Revenue	£2,316.7m	£2,173.1m	+6.6 %
Operating profit	£172.2m	£165.6m	+4.0 %
Profit before tax	£181.9m	£163.5m	+11.3 %
Basic earnings per share	30.5p	28.3p	+7.8 %

The adjustments described below, collectively, are made to derive the underlying results of the Group. The underlying figures provide a consistent measure of business performance year-to-year, thereby enabling comparison and understanding of Group financial performance. A reconciliation from statutory to underlying is provided within the financial review.

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

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

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

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

Underlying			
Revenue*	£2,638.9m	£2,492.8m	+5.9 %
Operating profit**	£275.8m	£269.7m	+2.3 %
Profit before tax***	£239.5m	£228.4m	+4.9 %
Basic earnings per share****	38.7p	37.2p	+4.0 %

Net debt	£1,291.1m	£1,291.2m	–
Net debt/EBITDA	1.9x	2.0x	–5.0 %
Order book	£18.5bn	£20.0bn	–7.5 %
Bid pipeline	£12.2bn	£10.8bn	+13.0 %
Half year dividend	6.85p	6.50p	5.4 %

Financial highlights

- £146 million increase in underlying revenue; up 6%
- £11 million increase in underlying profit before tax; up 5%
- £6 million increase in underlying operating profit; up 2%
- Last twelve months' free cash flow, £281 million, excluding FOMEDEC
- 4.0% increase in underlying EPS to 38.7 pence
- 5.4% increase in interim dividend to 6.85p
- IFRS 15: opening balance review complete: no changes required

Operational highlights

- Sector realignment successfully implemented
- Order book and bid pipeline increased to c£31 billion (FY17: c£30 billion)
- 92% of revenue in place for this financial year; 59% of revenue in place for 2018/19
- French military air training mobilisation underway (FOMEDEC)
- Aircraft carriers: Queen Elizabeth on sea trials, Prince of Wales named
- Major firefighting effort across Southern Europe
- Agreed Magnox terms to contract end in 2019
- Awarded new RAF TSSP contracts in November 2017

Chief Executive Archie Bethel said:

"Babcock made good progress during the first half, building on our leadership position in the engineering services market. We increased revenue, profit and earnings with underlying organic revenue growth at constant exchange rates of 5%, and are maintaining our track record of increasing returns to shareholders by again raising our interim dividend. We completed our sector realignment, successfully establishing the springboard for our next phase of development. Our competitive strength is reflected in our double-digit margin, our continued strong win rates and the increase in our combined order book and pipeline to £31 billion.

"The increasing number and value of our opportunities both in the UK and internationally, where we continue to gain traction, highlights Babcock's long-proven ability to grow despite uncertain market conditions. Our focus on technology-intensive critical services where barriers to entry are high has consistently enabled us to generate sustainable growth regardless of any decline in spending on original equipment. I expect this to remain a key element of differentiation for Babcock in the coming months and years.

"We have excellent revenue visibility with 92% of budgeted revenue now in place for FY18, and we expect a slight improvement in overall group margin during the second half. We therefore remain confident that full year results will be in line with our expectations and that we will make further good progress beyond this year."

Archie Bethel

Archie Bethel
Chief Executive

Introduction

Overview

Babcock again delivered solid growth in the first half of 2017/18, adding £2.1 billion of order intake and maintaining its win rates at well over 40% for new bids and 90% of rebids. The combined order book and pipeline of short-term opportunities has increased by £1.2 billion to £30.7 billion (order book £18.5 billion, bid pipeline £12.2 billion) and we continue to see opportunities across all our markets, both in the UK and internationally. The successful implementation of the Group's realignment into sectors has brought us closer to our customer and has enhanced our ability to capture opportunities in the UK and internationally.

In addition to continuing to deliver on our long-term portfolio of contracts, we have been awarded a number of key new contracts including a £360 million contract to become Marine Systems Support Partner for the Royal Navy's new Queen Elizabeth Class (QEC) aircraft carriers and Type 45 Destroyers, a new Norwegian air ambulance contract worth up to £500 million, a year-long extension of the Metropolitan Police fleet management contract, and we have been named as preferred bidder for a contract to support the Australian Defence Force's ground support equipment. Outside the period we won a competitive bid to expand technical support services provision (TSSP) to Royal Air Force (RAF) bases across the UK, worth up to £220 million over seven years. Additionally we have experienced increased activity in our aerial firefighting operations in Italy, Portugal and Spain during a particularly challenging summer for the region, and have agreed terms with the UK's Nuclear Decommissioning Authority (NDA) through to the end of the first phase of the Magnox decommissioning work in 2019.

During the period, underlying revenue grew by 5.9%, underlying profit before tax grew by 4.9% and underlying operating profit grew by 2.3%, in line with expectations. Cash generation remains a key priority for the Group, and excluding the short term impact from the French military air training contract FOMEDEC as previously advised, which is discussed in detail in the Financial Review below, cash conversion over the last twelve months has remained broadly stable at 106% before capital expenditure (FY17: 115%) and 78% after capital expenditure (FY17: 86%). Net debt to EBITDA at the end of the first half was 1.9 times (2016: 2.0 times) and is expected to reduce to 1.7 times at the end of this financial year as previously advised, with the extent of the reduction limited by the negative impact of exchange rates on the portion of the Group's net debt held in Euros.

Interim dividend

Based on continued growth and strong revenue visibility the Board has decided to increase the half year dividend by 5.4% to 6.85 pence per share, moving the dividend cover closer to the middle of our 2.5 - 3.0x target range. The dividend will be paid on 16 January 2018 to shareholders on the register on 8 December 2017.

Current environment

The external environment under which we operate has continued to be subject to some change during the period. Our customers are currently determining the way forward in a number of areas, most notably relating to the UK's exit from the European Union and any resulting potential impact on public sector budgets. However, it should be noted that the vast majority of the work we do is critical and therefore not discretionary and the Group's performance over the last decade would suggest the essential services we provide in defence and in emergency services are to a significant extent insulated against any budgetary pressures. Indeed it is likely that there will be an increased requirement to make savings without reducing availability of these essential services which could provide additional opportunities for the Group. The UK Government is currently undertaking a National Security Capability Review (NSCR) which is expected to report around the beginning of 2018 and which will impact the timing of major programmes relating to military land equipment. The NDA is currently subject to a review which is expected to conclude in the first half of 2018, and this will help to determine the structure of the next phase of the Magnox decommissioning work. Internationally the Group has continued to win new contracts and we continue to see opportunities across all our sectors. Finally the wider oil and gas market remains difficult, and we would expect this to continue throughout the financial year and into 2018/19.

Outlook

Despite the volatile background, we continue to see opportunities across all our markets in both the UK and internationally. We are intent on delivering value to our shareholders through a focus on margins, returns and cash flow.

Our c£31 billion order book and pipeline provides excellent revenue visibility and underpins our expectations for continued growth. The Board continues to expect full year results to be in line with expectations and we remain confident of making good progress this year and beyond.

Financial review

Statutory to underlying reconciliation

	Statutory £m	Joint ventures and associates: Revenue and operating profit £m	Finance costs £m	Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Change in tax rate £m	Underlying £m
30 September 2017								
Revenue	2,316.7	322.2						2,638.9
Operating profit	172.2	39.2			15.3	49.1		275.8
Share of profit from jv	32.8	(39.2)	12.2	5.6	(14.3)	2.9		–
Investment income	1.0				(1.0)			–
Net finance costs	(24.1)		(12.2)					(36.3)
Profit before tax	181.9	–	–	5.6	–	52.0	–	239.5
Tax	(26.6)			(5.6)		(10.7)	(0.2)	(43.1)
Profit after tax	155.3	–	–	–	–	41.3	(0.2)	196.4
Return on revenue	7.4%							10.5%
30 September 2016								
Revenue	2,173.1	319.7						2,492.8
Operating profit	165.6	32.7			15.5	55.9		269.7
Share of profit from jv	25.6	(32.7)	13.1	6.1	(15.0)	2.9		–
Investment income	0.5				(0.5)			–
Net finance costs	(28.2)		(13.1)					(41.3)
Profit before tax	163.5	–	–	6.1	–	58.8	–	228.4
Tax	(19.4)			(6.1)		(13.1)	(0.9)	(39.5)
Profit after tax	144.1	–	–	–	–	45.7	(0.9)	188.9
Return on revenue	7.6%							10.8%

Income statement

On a statutory basis, revenue for the first half increased by 6.6% to £2,316.7 million (2016: £2,173.1 million) and operating profit by 4.0% to £172.2 million (2016: £165.6 million). Statutory profit before tax for the first half increased by 11.3% to £181.9 million (2016: £163.5 million) and basic earnings per share rose 7.8% to 30.5 pence (2016: 28.3 pence).

Underlying revenue for the first half increased by 5.9% to £2,638.9 million (2016: £2,492.8 million). Underlying organic revenue growth at constant exchange rates was 5.0% for the first half. The Aviation sector reported a 13.7% increase in revenue, benefiting from the new UK Military Flying Training Systems contracts and increased activity in aerial emergency services, primarily from firefighting activities. The Land sector also delivered good growth of 10.3% in the period, driven by strong performance in DSG and South Africa. Our Cavendish Nuclear business grew 6.0% from the volume increases in our decommissioning contracts. The decrease in revenue of 2.1% in the Marine sector was primarily due to the planned reduction of Queen Elizabeth Class (QEC) aircraft carrier volumes as previously indicated, with growth in key markets across the rest of the sector.

Total underlying operating profit for the Group increased by 2.3% to £275.8 million in the first half (2016: £269.7million). Included in the first half trading was a £7.5 million charge to provisions, primarily relating to contract and reorganisation costs, and a £5 million increase in pension costs. In the Marine sector underlying operating profit increased by 6.8% , with margin improvement driven by contract performance and business mix . Land sector underlying profits grew 5.2%, following revenue growth, but were diluted by lower margin DSG procurement work. In aviation, the decline in margins is due to last year's UK military aviation contract close profit take, combined with conservative profit take on new contracts and continuing pressure in the oil and gas market. Cavendish Nuclear achieved a 2.1% increase in operating profit reflecting the increasing maturity of the decommissioning contracts, partially offset by additional bidding activity from an increasing sales pipeline. Overall the blended Group underlying operating margin for the period was 10.5% (2016: 10.8%). This is expected to improve in the second half due to lower levels of lower margin revenue work, such as QEC and DSG procurement and the £7.5 million first half provision charge is not expected to repeat, resulting in the margin remaining broadly stable year on year for financial year 2017/18.

Total underlying net finance costs decreased to £36.3 million (2016: £41.3 million) which benefitted from the expected reduction in pension interest and better than expected group interest as a result of the early unwind of expensive finance leases. Joint venture interest is expected to increase by approximately 10% in 2018/19, reflecting the stage of completion of the Ascent and LGE joint ventures.

Underlying profit before tax increased by 4.9% to £239.5 million (2016: £228.4 million). Underlying taxation charges, including the Group's share of joint venture tax, were £43.1 million (2015: £39.5 million), representing an effective underlying tax rate of 18.0% as expected (2016: 17.3%).

Underlying Organic Growth

	Marine £m	Land £m	Aviation £m	Nuclear £m	Unallocated £m	Total £m
Underlying revenue						
30 September 2016	902.7	847.1	438.4	304.6	–	2,492.8
Exchange adjustment	1.8	9.2	10.8	–	–	21.8
Organic growth	(21.2)	78.1	49.3	18.2	–	124.3
30 September 2017	883.3	934.4	498.2	322.8	–	2,638.9
Underlying revenue growth	(2.1%)	10.3%	13.7%	6.0%	–	5.9%
Organic growth at constant exchange rates	(2.4%)	9.2%	11.2%	6.0%	–	5.0%
Underlying operating profit						
30 September 2016	108.2	53.7	84.6	28.4	(5.2)	269.7
Exchange adjustment	0.2	0.5	1.9	–	(0.2)	2.4
Organic growth	7.2	2.3	(8.0)	0.6	1.6	3.7
30 September 2017	115.6	56.5	78.5	29.0	(3.8)	275.8
Underlying operating profit growth	6.8%	5.3%	(7.3%)	2.1%	(28.2%)	2.3%
Organic growth at constant exchange rates	6.7%	4.2%	(9.5%)	2.1%	(29.9%)	1.4%

Exchange rates

The impact of foreign currency movements over the period resulted in an increase in underlying revenue of £21.8 million and a corresponding £2.4 million increase in underlying operating profit. A 10% increase in the Euro against Sterling affects full year revenue by around £37.9 million and operating profit by £5.9 million. A 10% movement in the Rand affects full year revenue by around £29.4 million and operating profit by £2.4 million. A 10% movement in Canadian Dollars affects full year revenue by around £14.0 million and operating profit by £0.8 million.

Earnings per share

Underlying earnings per share for the first half was 38.7 pence (2016: 37.2 pence), an increase of 4.0%. Basic continuing earnings per share, as defined by IAS 33, was 30.5 pence (2016: 28.3 pence).

Cash flow and net debt

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

	30 September 2017 £m	30 September 2016 £m
Operating profit before amortisation of acquired intangibles	221.3	221.5
Amortisation and depreciation	50.7	45.8
Other non-cash items	6.6	6.6
Working capital (excluding excess retirement benefits and FOMEDEC)	(71.3)	(19.0)
FOMEDEC	(43.8)	–
Provisions	(10.4)	(16.6)
Operating cash flow	153.1	238.3
Cash conversion % – excluding FOMEDEC	89%	108%
Capital expenditure (net)	(63.1)	(63.9)
Operating cash flow after capital expenditure	90.0	174.4
Cash conversion % – after capital expenditure, excluding FOMEDEC	60%	79%
Interest paid (net)	(17.2)	(23.4)
Taxation	(43.6)	(33.2)
Dividends from jvs	15.1	10.4
Free cash flow before pension contribution in excess of income statement	44.3	128.2
Pensions contributions in excess of income statement	(11.3)	(0.7)
Free cash flow after pension contribution in excess of income statement	33.0	127.5
Acquisitions and disposals net of cash/debt acquired	(1.7)	(25.9)
Issue of shares	–	0.9
Investments in joint ventures	(4.1)	0.6
Movement in own shares	–	(0.2)
Dividends paid	(112.8)	(100.4)
Net cash (outflow)/ inflow	(85.6)	2.5
Net debt reconciliation		
Opening net debt	(1,173.5)	(1,228.5)
Net cash (outflow)/ inflow	(85.6)	2.5
Exchange difference	(32.0)	(65.2)
Closing net debt	(1,291.1)	(1,291.2)

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

	30 September 2017 £m	30 September 2016 £m
Cash generated from operations	141.8	237.6
Retirement benefit contributions in excess of income statement	11.3	0.7
Operating cash flow	153.1	238.3

In France we have begun work on our c€500 million FOMEDEC military air training contract for the French Air Force. Under the terms of the agreement, we are procuring dedicated training aircraft and assets for the customer, who expects to finance lease the assets over the first four years of the 11 year contract. Following changes made by the customer to the programme schedule, we anticipate formal acceptance of these assets in the next financial year. This has resulted in an increase in the Group's working capital of £44 million in the period (expected to total approximately £70 million for the full financial year 2017/18), which will reverse in 2018/19 upon the signing of finance leases with the French government which we expect to securitise in the same year. The £44 million outflow in the first half was £55 million in debtors offset by £11 million in creditors.

Working capital cash outflows, excluding FOMEDEC, during the period were £71.3 million (2016: £19.0 million), with a further £10.4 million outflow for provision movements (2016: £16.6 million). Excluding FOMEDEC, the working capital outflows in the first half resulted in cash conversions of 89% pre capital expenditure and 60% after capital expenditure, but are expected to normalise by the end of this financial year.

After excluding FOMEDEC, working capital outflow in the first half was predominantly within payables and inventory. The payables outflow in the first half reflected unwinds of advance payments on long term Marine and Aviation contracts with the inventory build reflecting anticipated revenues in South Africa. Neither effect is expected to repeat in the second half.

Over the last 12 months excluding FOMEDEC, the conversion rate of underlying operating profit to cash before capital expenditure was 106% (2017 full year: 115 %), and after capital expenditure 78% (2017 full year: 86%) after capital expenditure, reflecting a broadly stable rate of cash conversion year on year.

There was a £10.4 million provision outflow in the period which included a net charge of £7.5 million, mainly related to contract and reorganisation costs.

Net capital expenditure (including new finance leases) during the first half was £63.1 million (2016: £63.9 million) or around 1.2 times depreciation (2016: 1.4 times). We expect to achieve a net capital expenditure to depreciation ratio at current exchange rates of around 1.2 times for the full year.

Pension payments in excess of the income statement were £11.3 million (2016: £0.7 million). This increase does not change expected pension contributions in excess of the income statement to be around £45 million for the full year.

Net cash interest paid, excluding that paid by joint ventures, was £17.2 million (2016: £23.4 million). After taxation payments of £43.6 million (2016: £33.2 million), free cash flow before excess pension contributions excluding FOMEDEC was £88.1 million and £44.3 million including FOMEDEC (2016: £128.2 million).

Free cash flow after excess pension contributions excluding FOMEDEC was £76.8 million and £33.0 million including FOMEDEC (2016: £127.5 million). The last 12 month free cash flow pre excess pensions excluding FOMEDEC was £280.8 million, demonstrating our continuing ability to generate cash (full year March 2017 £320.9 million, less half year September 2016 of £128.2 million, plus half year September 2017 of £88.1 million equates to annual to September 2017 of £280.8 million).

During the half the Group received £15.1 million in dividends from its joint ventures (2016: £10.4 million). This has continued to improve and total dividends from joint ventures for the full year is expected to be around £35 million as previously advised. This is expected to increase to approximately £40 million for full year 2018/19 and £60 million for full year 2019/20. Distributable reserves within the joint ventures are currently at around £120 million.

Cash dividends paid out in the half totalled £112.8 million (2016: £100.4 million). Total net cash outflow was £85.6 million (2016: inflow of £2.5 million), which resulted in total net debt at the end of the first half of £1,291.1 million (2016: £1,291.2 million; 31 March 2017: £1,173.5 million) with £32 million related to movements in foreign exchange rates since the end of the 2016/17 financial year. This gives a net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) ratio of 1.9 times (2016: 2.0 times); 1.8 times excluding FOMEDEC and currency movements. As previously indicated we expect the net debt to EBITDA ratio at the end of the financial year to be around 1.7 times at current foreign exchange levels, assuming no bolt-on acquisitions. Net debt to EBITDA ratio is expected to be around 1.3 times in full year 2019, depending on currency movements, partly reflecting the reversal of FOMEDEC.

Net debt to EBITDA

	March 2017 £m	September 2016 £m	September 2017 £m	September 2017 annual £m
Underlying operating profit	574.8	269.7	275.8	580.9
Depreciation	82.4	42.2	45.0	85.2
Amortisation of software and development costs	7.6	3.7	5.6	9.5
Non-controlling interests	(3.8)	(1.4)	(1.3)	(3.7)
EBITDA	661.0	314.2	325.1	671.9
Net debt	1,173.5			1,291.1
Net debt/EBITDA	1.8x			1.9x

Annual September EBITDA is calculated by subtracting September 2016 numbers from March 2017 and adding September 2017, and equates to EBITDA for the 12 months to 30 September 2017.

Pensions

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,593.2 million in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,708.9 million. The total accounting deficit, pre-tax, of the Group's combined defined benefit pension schemes showed a slight increase to £115.7 million (30 September 2016: £261.1 million; 31 March 2017 £104.5 million). The increase of £5 million in pension costs in the first half has reduced operating profits, primarily in Marine. Market conditions at 31 March 2018 will determine the pension service cost for 2018/19. Phased increases have been agreed to the level of members' contributions payable to the Rosyth and the Babcock International pension schemes from 1 October 2017 which will help to limit the employer costs. In addition, the Group has made a significant investment in providing educational information for members of the main defined benefit schemes who may wish to consider making use of the pension freedoms. As at 30 September 2017, the key assumptions used in valuing pension liabilities were:

Discount rate	2.7% (31 March 2017: 2.6%)
Inflation rate (RPI)	3.2% (31 March 2017: 3.2%)

Operational review

Marine

		30 Sept 2017	30 Sept 2016	Change +/–
Underlying revenue	group	£873.0 m	£885.8 m	–1.4 %
	jv	£10.3 m	£16.9 m	–39.1 %
	total	£883.3 m	£902.7 m	–2.1 %
Underlying operating profit	group	£114.0 m	£103.5 m	+10.1 %
	jv	£1.6 m	£4.7 m	–66.0 %
	total	£115.6 m	£108.2 m	+6.8 %
Underlying operating margin	group	13.1 %	11.7 %	
	jv	15.5 %	27.8 %	
	total	13.1 %	12.0 %	

Financial review

Excluding the impact of the planned reduction in QEC volumes following the completion of the first ship, revenue grew by £9 million, including growth of over 5% in UK defence revenues. Including QEC, underlying revenue decreased by £19.5 million to £883.3 million (2016: £902.7 million). Operating profit in the first half increased by 6.8%, reflecting an improvement in margins to 13.1% (2016: 12.0%), driven by contract performance across the business and the reduction in low margin QEC revenue.

Operational review

The sector continues to experience growth across its markets. Our focus remains on delivering under long-term arrangements with the UK's Ministry of Defence (MoD) and industry partners, and on reducing costs whilst maximising asset availability for our customers.

Our provision of services at Her Majesty's Naval Base (HMNB) Clyde and Devonport under the £2.6 billion Maritime Support Delivery Framework (MSDF) is progressing well, with improved efficiencies and cost reductions on the agreed programme of work. Our warship and submarine refit contracts continue to perform to programme, with amphibious assault ship HMS Albion and Type 23 (T23) Frigate HMS Montrose returning to service on schedule. Work is currently underway on HMS Northumberland and HMS Richmond, and we continue to provide in-service support to the MoD in Europe, North America and the Middle East.

We continue in our strategically important role within the Aircraft Carrier Alliance. The first carrier HMS Queen Elizabeth left Rosyth in June 2017 to embark on sea trials and is currently operating from her base port of Portsmouth from which Mission Systems Sea Trials and preparations for Vessel Acceptance will continue through to the end of the year. The second carrier, named HMS Prince of Wales at our Rosyth facility in September 2017, is now structurally complete and undergoing outfitting. The volume of activity on the prestigious QEC programme will continue to step down as we work to complete the second carrier, with an expected reduction in revenue of £140 million for the full financial year 2017/18 and a further £80 million in financial year 2018/19.

Our submarine dismantling project facilities at No. 2 dock in Rosyth have now been successfully installed and we have begun the physical works to remove low level waste from the reactor compartment of HMS Swiftsure.

Our Sea Training business has delivered strong operational performance across all its main contracts. The UK's Royal Navy has extended our Fleet Outsourced Activities Project (Training) contract for more than three years to 31 March 2020. At Rosyth, we have begun to manufacture a further 22 assemblies awarded to us by General Dynamics Electric Boat as part of the second phase of the common missile compartment project for the joint UK Dreadnought and US Columbia Class submarine programmes. Our work to deliver a fourth Offshore Patrol Vessel (OPV) for the Irish Naval Service continues at our facilities in Appledore, and we won a contract to provide the platform engineering design for the US Coast Guard's new OPV. In Australia, work in the Warship Asset Management Agreement Alliance supporting the eight ANZAC warships is on track. We have also signed an initial three year contract, with an option for a further two years, for the sustainment of equipment on the Collins Class submarines. Our contract to support the Royal Canadian Navy is performing well. In addition to the refit of HMCS Corner Brook, we have now begun to provide fleet-time maintenance for the rest of the Canadian submarine fleet. In Oman we have successfully completed our first two projects on schedule and on budget for the US Military Sealift Command (USMSC) through our joint venture at Duqm Naval Dockyard and are now engaging in discussions with a number of other prospective naval customers.

Our LGE joint venture with Bernhard Schulte Ship Management has completed the design development of a Gas Supply Vessel for the LNG fuelling of ships and shore-based gas consumers in the Baltic Sea region, and we are progressing our emissions control technology as planned. We recently signed a contract to design and supply our market leading cargo handling system for what will be the sixth and seventh LPG carriers with Babcock equipment to be delivered at Jiangnan Shipyard in Shanghai, China.

In May our Technology business was awarded all four elements of a £360 million technical authority and equipment support contract from the MOD for the QEC aircraft carriers and Type 45 Destroyers. Work continues at pace on the Dreadnought Submarine Class following the award of a new contract to complete the design and full manufacture of the first of class Weapons Handling and Launch System and the Submerged Signal Ejector.

The business has also secured a seven-year contract for the design, production and delivery of weapons handling and launch equipment for the South Korean Jangbogo III submarine, the third of a potentially multi-boat programme. Our cyber security business continues to grow, and includes a partnership with Renault Formula One to provide world-class protective monitoring services to safeguard the data flow in and out of the Renault Sport Racing's Enstone site. We also supported the International Association of Athletics Federation after it suffered a cyberattack in 2017.

Outlook

The sector continues to have excellent visibility of future revenue streams in our core UK naval marine business where maximising availability whilst providing value for money continues to be a priority for the customer. We see opportunities to grow our presence in overseas defence markets, and the recent publication of the UK Government's National Shipbuilding Strategy, and the competition for a new T31e frigate, provides further potential for growth. We expect to continue to make good progress during the financial year, largely offsetting the expected step down of QEC volumes.

Land

		30 Sept 2017	30 Sept 2016	Change + / –
Underlying revenue	group	£892.3 m	£790.0 m	+12.9 %
	jv	£42.1 m	£57.1 m	–26.3 %
	total	£934.4 m	£847.1 m	+10.3 %
Underlying operating profit	group	£42.4 m	£45.4 m	–6.6 %
	jv	£14.1 m	£8.3 m	+69.9 %
	total	£56.5 m	£53.7 m	+5.2 %
Underlying operating margin	group	4.8 %	5.7 %	
	jv	33.5 %	14.5 %	
	total	6.0 %	6.3 %	

Financial review

Land's underlying revenue grew strongly in the first half, up 10.3% to £934.4 million (2016: £847.1 million. This was driven by higher procurement volumes in the Defence Support Group (DSG) and a strong performance from South Africa which benefited from increased market growth from improved commodity pricing and increased volumes in the generation business. Underlying operating profit grew by 2.8 million to £56.5 million, with margins at 6.0% (2017: 6.3%). The joint venture margin increase was as a result of a contract catch-up in the Holdfast joint venture in its tenth year, whilst the reduction in Group margin reflects the increase in low-margin procurement revenue in DSG.

Operational review

The Land Sector continues to perform well across its main markets. In our Defence business, military fleet management, equipment support and training contracts continue to deliver substantial savings to our customers. We have mobilised an equipment availability service for the training vehicle fleet at the Defence School of Transport at Leconfield and are increasing the use of technology in DSG through the development of decision support analysis that links asset management data with live usage information from the Army's fleet. The UK's National Security Capability Review is now expected to delay the introduction of large programmes to upgrade and life extend the Warrior and Challenger II fleets until 2019/20, although this may result in an increased need for fleet maintenance. Internationally, we have been named preferred bidder for a contract to support the Australian Defence Force's Ground Support Equipment.

Our contract for the MoD construction vehicles through our ALC joint venture continues to provide high levels of equipment availability and has experienced higher volumes, reflecting ongoing training requirements and the support for a number of operations, including the recent hurricane relief work in the Caribbean.

Within our Land Defence Training business we have delivered over 20,000 training days to the British Army. Our long-term Holdfast training and infrastructure support joint venture at the Royal School of Military Engineering (RSME) is proving to be an exemplar for individual soldier training. We continue to drive innovation, and have introduced a new training programme with practical technology insertions to enable a more realistic and engaging learning environment. We have developed a new programme for Protected Mobility Vehicle Fleet training for the Royal Electrical and Mechanical Engineers at Lyneham which has reduced the length of the course by 35%. This builds on the successful change programme in moving the services to Lyneham. Our contract for the Defence Infrastructure Organisation which supports around 5,500 assets for British Forces and NATO personnel in Germany has been extended to March 2020. We are working with the customer to support the establishment of a new service beyond the current extension period.

In Australia, work on the support of Qantas' Ground Support Fleet is progressing well. Our Airports business has helped Heathrow to maintain its record performance in baggage operations, and this has been supported by increased levels of baggage projects across a number of airports. The last six months have been a challenging time for London's emergency services and our fleet management teams have been at the forefront of supporting the Metropolitan Police and London Fire Brigade, performing well across all our contracts. We have now signed a 12 month extension with the Metropolitan Police Service fleet management contract and are continuing discussions on extending our support activities further. We continue to evaluate our heavy mobile equipment fleet management contracts in North America in light of the current challenging environment.

Although our Rail business experienced a slowdown in track renewals activity since the start of the financial year, the team has successfully delivered works on the Edinburgh to Glasgow Electrification programme and Network Rail's Highland Enhancement Project and we are continuing to develop opportunities under our eight-year signalling framework agreed with Translink in Northern Ireland. We expect the volumes of track renewal work to continue to slow in the second half as we approach the final year of Network Rail's Control Period. However the latest Network Rail Statement of Funds Available, published by the Department for Transport, shows an increased renewals' spend in Control Period 6, and we would hope to benefit from that from April 2019

In our Skills and Learning business, the introduction of the UK's Apprenticeship Levy has generated significant turbulence in the marketplace. Overall we believe it provides opportunities for us to expand our delivery, but it is expected to reduce volumes in the short term as employers pause to determine how best to utilise their levy accounts.

We have successfully completed the divestment of our Civil Infrastructure facilities management business to Kier Group plc. Our Media Services business has been selected by Perform's DAZN live sports streaming service to support the expansion of its live sports offering across Canada, bringing the total number of DAZN channels we support to 40, across Europe, Japan and Canada.

In South Africa, the coal price has increased along with other commodities and our relative strength in open cast mining combined with new products released by Volvo has enabled us to make significant market share gains. South Africa's export market for coal has not been economically constrained and we expect demand to continue. Increased requirement for power station maintenance, coupled with high pressure piping orders on the new Kusile power station under construction by Eskom, has driven growth in our power generation business unit. Our DAF truck business has been successful in growing market share and, after a difficult start, is now making good progress.

Outlook

We continue to make good progress across our core business providing vehicle support and training services to our defence and civil customers and continue to see opportunities in the UK and internationally. However we expect volumes in Rail and DSG procurement will slow in the second half of financial year 2017/18. The ongoing UK government spending review is expected to delay the start of large new vehicle programmes to financial year 2019/20, with a resultant impact on growth in 2018/19. In South Africa, the need for further power station maintenance and the demand for production construction equipment have resulted in a full order book for the second half of this financial year.

Aviation

		30 Sept 2017	30 Sept 2016	Change +/–
Underlying revenue	group	£453.2 m	£397.4 m	+14.0 %
	jv	£45.2 m	£41.0 m	+10.2 %
	total	£498.4 m	£438.4 m	+13.7 %
Underlying operating profit	group	£57.5 m	£65.0 m	–11.5 %
	jv	£21.0 m	£19.6 m	+7.1 %
	total	£78.5 m	£84.6 m	–7.2 %
Underlying operating margin	group	12.7 %	16.4 %	
	jv	46.5 %	47.8 %	
	total	15.8 %	19.3 %	

Financial review

The Aviation sector showed strong growth compared to the same period in the previous year, with underlying revenue up 13.7% to £498.4 million (2016: £438.4 million). This was a result of achieving progress in the long term UK Military Flying Training System (UKMFTS) Fixed and Rotary Wing sub-contracts and the Ascent joint venture, and additional activity in our aerial firefighting operations in Southern Europe, albeit with increased flying hours at lower margins. Underlying operating profit was £78.5 million, down £6 million compared to the prior year (2016: £84.6 million) which benefited from UK military air contract close, combined with conservative profit take on new contract start. We continue to experience margin pressures in the oil and gas market, together with the impact of the industry-wide grounding of the H225 helicopter type.

Operational review

Our UK Military Air business delivered good performance during the first half of the year. Our UKMFTS projects are on schedule and meeting the Ready-For-Training-Use milestones, enabling world class training facilities for all future RAF pilots. Through our AirTanker joint venture, the Voyager fleet has flown nearly 1,800 missions supporting RAF operations around the world and our aircraft support business has directly enabled around 30,000 flying hours covering the entire UK military fixed-wing training fleet. In November 2018, we were delighted to be awarded all three elements of the programme to provide technical support services to 17 RAF stations across the UK. The contract, worth up to £220 million for an initial five years plus two further option years, cements our position as a key support partner to the UK's air force.

Our European Military Air business is now established to develop and grow capability in Europe, building on our two existing contracts in France, Helidax and FOMEDEC. Helidax is a mature joint venture which delivers rotary wing training to the French Army and we are now mobilising to deliver FOMEDEC which will provide infrastructure and support to deliver fixed wing training to the French Air Force, establishing us as a key support partner. The 11-year FOMEDEC contract includes the provision of new Pilatus 21 training aircraft and related simulators for the training of fighter jet crews, which will have a short-term impact on the Group's working capital of around £70 million in 2018/19. The European Military Air business has a strong pipeline of bidding opportunities in a number of countries which we are actively pursuing.

Our civil aviation business has continued to strengthen and expand its customer base by securing over 20 contracts and extensions in the period with an estimated total value of approximately £600 million. Our aerial Emergency Medical Services (EMS) business continues to maintain leading positions in existing territories, and we are expanding the geographic footprint of this vital service to new regions. Earlier this year we were awarded a new contract by the Norwegian Government to provide high-specification fixed-wing air ambulance services across Norway. Initially for six years, with options to extend by a further five years, the contract value is around £500 million for the full 11 years. In Spain, Babcock successfully renewed six EMS contracts, most recently including a new service covering the Canary Islands. In Italy, Babcock enhanced its already world-leading service by introducing additional technologies paired with night vision and performance-based navigation, delivering a higher quality night EMS services throughout Italy.

Our aerial Fire-Fighting services have provided a vital flexible support to local and regional governments during a particularly difficult summer. The volume of flying hour activities in Europe increased materially compared to previous years due to the high intensity of wildfires experienced in many Mediterranean countries. During the period we have also successfully renewed a number of contracts for nationwide and regional services in Spain.

Our Oil and Gas Services business continues to be impacted by challenging industry conditions, including but not limited to the grounding of the Airbus H225 helicopter. Although the European Aviation Safety Agency, and recently the UK Civil Aviation Authority, has now lifted the prohibition on flight for the aircraft, we continue to assess the feasibility of a return to service for the aircraft through our work as a founding member of HeliOffshore, the global safety-focused association for the offshore helicopter industry.

Outlook

We continue to see future growth opportunities for the aviation business, and are optimistic about the potential to increase our provision of aerial Emergency Medical Services and Fire Fighting, benefiting from our experience, scale and technical expertise. We also see increasing interest from a number of European military customers for potential private sector involvement in flying training support. Babcock is well positioned as it matches our UK military capability with territories where we have a footprint through our civil aviation business. However whilst our assumption is that the H225 helicopters will be flying in financial year 2018/19, the oil and gas market is expected to remain challenging in the short term, which together with our conservative low profit recognition at the start of the long-term FOMEDEC contract will result in a reduction in sector margins in 2018/19.

Cavendish Nuclear

		30 Sept 2017	30 Sept 2016	Change +/-
Underlying revenue	group	£98.2 m	£99.9 m	–1.7 %
	jv	£224.6 m	£204.7 m	+9.7 %
	total	£322.8 m	£304.6 m	+6.0 %
Underlying operating profit	group	£12.2 m	£13.3 m	–8.3 %
	jv	£16.8 m	£15.1 m	+11.3 %
	total	£29.0 m	£28.4 m	+2.1 %
Underlying operating margin	group	12.4 %	13.3 %	
	jv	7.5 %	7.4 %	
	total	9.0 %	9.3 %	

Financial review

Nuclear underlying revenue grew by £18.2 million in the period to £322.8 million (2016: £304.6 million), primarily due to the volume increase in the Magnox and Dounreay decommissioning joint ventures. New build activity at Hinkley Point C and our International revenue also grew as design programmes accelerated. Underlying operating profit grew by 2.1% to £29.0 million (2016: £28.4 million). The margin remained at around 9.0%, reflecting the increasing maturity of the decommissioning contracts, partially offset by costs relating to additional bidding activity from an increasing sales pipeline as new opportunities came to market.

Operational review

Overall the Sector's long term contracts continue to perform well with the decommissioning joint ventures continuing to deliver to plan. Since April a number of new contract wins including full lifecycle decommissioning solutions for Magnox sites, major design contracts & waste package flasks for Sellafield, additional maintenance projects for the EDF AGR fleet and new packages of work from Hinkley Point C.

On the Magnox contract, our joint venture with Fluor, we have reached agreement with the NDA on the commercial arrangements for the period until contract completion in August 2019. Performance at the twelve sites continues strongly with milestones achieved in line with expectations and a continued focus on delivering cost effective solutions to the decommissioning programme. The NDA's intended operational arrangements for Magnox beyond August 2019 are still to be determined, but we believe our continued strong operational performance and experience put us in a good position to benefit from any new opportunities.

The Dounreay joint venture contract, is delivering to the revised scope associated with the exotics waste removal project. The site operations team have also removed fuel elements from the Fast Reactor, the first time that this has been completed in several decades representing a significant milestone for the contract. The restructure is on track, including a reduction in headcount in order that costs and skillsets match the requirements of the future decommissioning programme.

Our Projects performance remains strong and we have achieved multiple critical milestones either on or ahead of target across the business.

At Sellafield,we continue to deliver exemplary performance preparing the aging facility for waste retrieval, the creation of the six access penetrations in the facility is on target for completion in November some four months ahead of schedule. Furthermore the strong performance in the design frameworks at Sellafield continues to be rewarded with additional new scope. We continue to provide for the EDF generating fleet providing critical reactor core analysis allowing the plant life extension of the AGR reactors.

Cavendish Nuclear now has an established presence in Japan with interest shown in how to support Japanese decommissioning projects. The sector is part of the Hitachi-GE Nuclear Energy team developing a Fuel Debris retrieval solution for the Fukushima site.

At the beginning of May we entered into an Early Works Contract covering supply chain engagement for long lead time materials, design work and preparations for site mobilisation for the new build work on the Balance of Nuclear Island mechanical installation for Hinkley Point C. The Sector also continues to provide a range of engineering and design support for Horizon Nuclear Power's Wylfa Newydd project, including support to Menter Newydd for the design of the Radiation Waste facilities, under contract to Menter Newydd's partner JGC.

To support growth and to improve operating efficiency there has been additional investment in technology, infrastructure and capability including the provision of an integrated digital engineering platform with an aligned operating model and structure and a new consolidated office in the North West of England.

Within the oil and gas decommissioning market, which presents a new market opportunity, we made good progress during the period, securing a contract with Centrica Limited to plan for decommissioning of the Rough 47/8A platforms and infrastructure in the southern North Sea.

Outlook

The overall nuclear market remains stable with the impact of budget cuts in EDF due to low energy prices and budgetary pressures from Central Government being offset by opportunities from large capital projects and initial growth from the New Build project at Hinkley Point C. Our decommissioning business is expected to remain stable for the remainder of the financial year, with a step down in our work at Magnox of around £60 million in 2018/19 as the first phase of the decommissioning work comes to an end.

Group income statement

For the six months ended 30 September 2017

Year ended 31 March 2017 £m		Note	Six months ended 30 September 2017 £m	Six months ended 30 September 2017 £m	Six month ended 30 September 2016 £m	Six month ended 30 September 2016 £m
4,547.1	Revenue[1]	2		2,316.7		2,173.1
(3,883.0)	Cost of revenue			(1,989.4)		(1,846.4)
664.1	Gross profit			327.3		326.7
(13.0)	Distribution expenses			(6.1)		(5.4)
(291.5)	Administration expenses			(149.0)		(155.7)
359.6	Operating profit before share of results of joint ventures and associates	2		172.2		165.6
56.7	Share of results of joint ventures and associates			32.8		25.6
	Group and joint ventures and associates					
545.1	Operating profit before amortisation of acquired intangibles		260.5		254.2	
29.7	Investment income		15.3		15.5	
574.8	Underlying operating profit[2]	2	275.8		269.7	
(118.5)	Amortisation of acquired intangibles		(52.0)		(58.8)	
(1.2)	Group investment income		(1.0)		(0.5)	
(24.6)	Joint ventures and associates finance costs		(12.2)		(13.1)	
(14.2)	Joint ventures and associates income tax expense		(5.6)		(6.1)	
416.3	Operating profit			205.0		191.2
	Finance costs					
1.2	Investment income		1.0		0.5	
(6.4)	Retirement benefit interest		(1.1)		(3.2)	
(60.4)	Finance costs		(29.5)		(30.7)	
11.4	Finance income		6.5		5.7	
(54.2)				(23.1)		(27.7)
362.1	Profit before tax	2		181.9		163.5
(46.5)	Income tax expense	3		(26.6)		(19.4)
315.6	Profit for the period			155.3		144.1
	Attributable to:					
311.8	Owners of the parent			154.0		142.7
3.8	Non-controlling interest			1.3		1.4
315.6				155.3		144.1
	Earnings per share	4				
61.8	Basic			30.5p		28.3p
61.7	Diluted			30.5p		28.3p

1. Revenue does not include the Group's share of revenue from joint ventures and associates of £322.2 million (2016: £319.7 million and March 2017: £669.5 million).
2. Including IFRIC 12 investment income but before exceptional items and amortisation of acquired intangibles.

Group statement of comprehensive income

For the six months ended 30 September 2017

Year ended 31 March 2017 £m		Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m
315.6	Profit for the period	155.3	144.1
	Other comprehensive income		
	Items that may be subsequently reclassified to income statement		
88.8	Currency translation differences	(9.3)	78.9
4.3	Fair value adjustment of interest rate and foreign exchange hedges	(4.2)	4.0
(0.9)	Tax on fair value adjustment of interest rate and foreign exchange hedges	0.9	(0.8)
2.6	Fair value adjustment of joint venture and associates derivatives	3.4	(17.4)
(0.5)	Tax on fair value adjustment of joint venture and associates derivatives	(1.7)	3.2
	Items that will not be subsequently reclassified to income statement		
66.8	Remeasurement of retirement benefit obligations	(21.4)	(55.5)
(13.3)	Tax on remeasurement of retirement benefit obligations	4.2	10.3
1.1	Impact of change in UK tax rates	(0.4)	(3.9)
148.9	Other comprehensive loss, net of tax	(28.5)	18.8
464.5	Total comprehensive income	126.8	162.9
	Total comprehensive income attributable to:		
458.0	Owners of the parent	126.6	159.6
6.5	Non-controlling interest	0.2	3.3
464.5	Total comprehensive income	126.8	162.9

Group statement of changes in equity

For the six months ended 30 September 2017

	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 2016	302.5	873.0	768.8	30.6	519.2	(92.0)	(63.6)	2,338.5	17.8	2,356.3
Total comprehensive income/(loss)	–	–	–	–	93.6	(11.0)	77.0	159.6	3.3	162.9
Shares issued in period	0.9	–	–	–	–	–	–	0.9	–	0.9
Dividends	–	–	–	–	(99.7)	–	–	(99.7)	(0.7)	(100.4)
Share-based payments	–	–	–	–	8.3	–	–	8.3	–	8.3
Tax on shared-based payments	–	–	–	–	2.9	–	–	2.9	–	2.9
Own shares and other	–	–	–	–	(0.2)	–	–	(0.2)	–	(0.2)
Net movement in equity	0.9	–	–	–	4.9	(11.0)	77.0	71.8	2.6	74.4
At 30 September 2016	303.4	873.0	768.8	30.6	524.1	(103.0)	13.4	2,410.3	20.4	2,430.7
At 1 April 2017	303.4	873.0	768.8	30.6	757.9	(86.5)	22.6	2,669.8	22.4	2,692.2
Total comprehensive income/(loss)	–	–	–	–	136.5	(1.6)	(8.3)	126.6	0.2	126.8
Dividends	–	–	–	–	(109.4)	–	–	(109.4)	(3.4)	(112.8)
Share-based payments	–	–	–	–	5.1	–	–	5.1	–	5.1
Tax on shared-based payments	–	–	–	–	3.0	–	–	3.0	–	3.0
Net movement in equity	–	–	–	–	35.2	(1.6)	(8.3)	25.3	(3.2)	22.1
At 30 September 2017	303.4	873.0	768.8	30.6	793.1	(88.1)	14.3	2,695.1	19.2	2,714.3

Group balance sheet

For the six months ended 30 September 2017

As at 31 March 2017 £m		Note	As at 30 September 2017 £m	As at 30 September 2016 £m
	Assets			
	Non-current assets			
2,608.8	Goodwill		2,615.5	2,610.2
608.0	Other intangible assets		567.8	653.2
1036.9	Property, plant and equipment		1,053.9	1,016.2
71.9	Investment in joint ventures and associates	6	95.9	41.7
32.3	Loan to joint ventures and associates	6	30.1	32.8
193.5	Retirement benefits	11	151.0	63.2
29.4	Trade and other receivables		25.6	28.3
20.0	IFRIC12 financial assets		19.4	16.7
152.6	Other financial assets	7	116.5	131.4
113.1	Deferred tax asset		120.9	134.9
4,866.5			4,796.6	4,728.6
	Current assets			
159.2	Inventories		166.6	169.9
885.4	Trade and other receivables		966.5	778.7
16.5	Income tax recoverable		16.4	24.8
11.9	Other financial assets	7	17.6	21.4
191.4	Cash and cash equivalents	10	209.3	152.6
1,264.4			1,376.4	1,147.4
6,130.9	**Total assets**		6,173.0	5,876.0
	Equity and liabilities			
	Equity attributable to owners of the parent			
303.4	Share capital		303.4	303.4
873.0	Share premium		873.0	873.0
735.5	Capital redemption and other reserves		725.6	709.8
757.9	Retained earnings		793.1	524.1
2,669.8			2,695.1	2,410.3
22.4	Non-controlling interest		19.2	20.4
2,692.2	**Total equity**		2,714.3	2,430.7
	Non-current liabilities			
1,398.1	Bank and other borrowings	10	1,494.8	1,590.3
3.7	Trade and other payables		3.2	4.9
134.6	Deferred tax liabilities		125.4	141.0
9.7	Other financial liabilities	7	7.5	5.2
298.0	Retirement liabilities	11	266.7	324.3
90.3	Provisions for other liabilities		74.9	108.2
1,934.4			1,972.5	2,173.9
	Current liabilities			
154.3	Bank and other borrowings	10	160.2	24.8
1,297.6	Trade and other payables		1,256.8	1,183.4
11.1	Income tax payable		16.7	13.8
4.3	Other financial liabilities	7	12.5	14.3
37.0	Provisions for other liabilities		40.0	35.1
1,504.3			1,486.2	1,271.4
3,438.7	**Total liabilities**		3,458.7	3,445.3
6,130.9	**Total equity and liabilities**		6,173.0	5,876.0

Group cash flow statement

For the six months ended 30 September 2017

Year ended 31 March 2017 £m		Note	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m
	Cash flows from operating activities			
504.0	Cash generated from operations	8	141.8	237.6
(61.5)	Income tax paid		(43.6)	(33.2)
(63.0)	Interest paid		(23.7)	(29.1)
11.4	Interest received		6.5	5.7
390.9	Net cash flows from operating activities		81.0	181.0
	Cash flows from investing activities			
(0.6)	Disposal of subsidiaries and joint ventures and associates, net of cash disposed	13	(1.7)	(0.2)
26.7	Dividends received from joint ventures and associates		15.1	10.4
71.9	Proceeds on disposal of property, plant and equipment		14.8	67.9
(175.9)	Purchases of property, plant and equipment		(66.8)	(118.4)
(30.9)	Purchases of intangible assets		(11.1)	(13.4)
2.4	Investment in, loans to and interest received from joint ventures and associates		(1.9)	0.4
(24.7)	Acquisition of subsidiaries net of cash acquired	12	–	(20.5)
(131.1)	Net cash flows from investing activities		(51.6)	(73.8)
	Cash flows from financing activities			
(132.5)	Dividends paid		(109.4)	(99.7)
(26.4)	Finance lease principal payments		(16.8)	(15.4)
5.2	Finance lease assets repaid		7.1	1.9
(334.7)	Bank loans repaid		–	(16.2)
250.0	Loans raised		121.0	–
(1.3)	Dividends paid to non-controlling interest		(3.4)	(0.7)
0.9	Net proceeds on issue of shares		–	0.9
(2.1)	Transactions with non-controlling interests		–	–
(7.8)	Movement on own shares		–	(0.2)
(248.7)	Net cash flows from financing activities		(1.5)	(129.4)
11.1	Net increase/(decrease) in cash, cash equivalents and bank overdrafts		27.9	(22.2)
168.8	Cash, cash equivalents and bank overdrafts at beginning of period		185.6	168.8
5.7	Effects of exchange rate fluctuations		(5.1)	5.6
185.6	Cash, cash equivalents and bank overdrafts at end of period	10	208.4	152.2

Notes to the consolidated financial statements

For the six months ended 30 September 2017

1. Basis of preparation and significant accounting policies

The consolidated half year financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority, the Listing Rules and with IAS 34, 'Interim financial reporting' as adopted by the European Union. They should be read in conjunction with the Annual Report for the year ended 31 March 2017 (the 'Annual Report'), which has been prepared in accordance with IFRSs as adopted by the European Union. The accounting policies used and presentation of these consolidated half year financial statements are consistent with those in the Annual Report except to comply with amendments to IFRS, none of which had a material impact on the consolidated results, financial position or cash flows of the Group.

The following standards and interpretations are not yet effective and the impact on the Group's operations is currently being assessed:

- IFRS 9, 'Financial instruments', effective from 1 January 2018 and endorsed by the EU. The impact on the Group's operations is currently being assessed but is not expected to be significant;
- IFRS 15, 'Revenue from contracts with customers', effective from 1 January 2018 and endorsed by the EU identifies performance obligations in contracts with customers, allocates the transaction price to the performance obligations and recognises revenue as performance obligations are satisfied. The standard additionally requires more detailed disclosures. We have completed a detailed review of all material contracts, including consideration of all types of contracts undertaken by the Group and the results of our review confirm that IFRS 15 will not result in any material change to the timing of revenue or profit recognition on service provision contracts or long-term service contracts. This assessment reflects that the Group's contracting arrangements, which are predominantly long term service contracts, meet the requirements set out in IFRS 15 to satisfy performance obligations and recognise revenue over time. The review also indicates that the new standard is not expected to introduce any significant change to the Group's revenue recognition policy in relation to revenue from the sale of goods not under service provision contracts or long-term service contracts;
- IFRS 16, 'Leases', effective 1 January 2019 and endorsed by the EU. Currently, operating leases are not recognised on the balance sheet and the impact of this standard will be to recognise a lease liability and corresponding asset on the Group's balance sheet in relation to most leases currently classified as operating leases. The change will result in an improvement in operating profit, with the amortisation of the asset being less than the current operating lease charge, this will however be offset by an increase in interest charge with the net position dependent on the average lease length on adoption.

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

The half year report for the six months ended 30 September 2017 was approved by the Directors on 21 November 2017. The half year report has not been audited or reviewed by auditors.

2. Segmental information

The segments reflect the accounting information reviewed by the Executive Committee which is the Chief Operating Decision Maker (CODM). Please refer to page 6 of the Annual Report and Accounts 2017 for details of the move to sector-based reporting.

30 September 2017	Marine £m	Land £m	Aviation £m	Cavendish Nuclear £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	883.3	934.4	498.4	322.8	–	2,638.9
Less: joint venture and associate revenue	10.3	42.1	45.2	224.6	–	322.2
Revenue	873.0	892.3	453.2	98.2	–	2,316.7
Operating profit before share of results of joint ventures and associates	111.2	17.8	35.3	11.7	(3.8)	172.2
Acquired intangible amortisation	2.6	23.8	22.2	0.5	–	49.1
Operating profit*	113.8	41.6	57.5	12.2	(3.8)	221.3
IFRIC 12 investment income – Group	0.2	0.8	–	–	–	1.0
Share of operating profit – joint ventures and associates	1.6	13.4	7.4	16.8	–	39.2
Share of IFRIC 12 investment income – joint ventures and associates	–	0.7	13.6	–	–	14.3
Underlying operating profit	115.6	56.5	78.5	29.0	(3.8)	275.8
Share of finance costs – joint ventures and associates	–	(0.6)	(11.6)	–	–	(12.2)
Share of tax – joint ventures and associates	(0.5)	(0.7)	(1.4)	(3.0)	–	(5.6)
Acquired intangible amortisation – Group	(2.6)	(23.8)	(22.2)	(0.5)	–	(49.1)
Share of acquired intangible amortisation – joint ventures and associates	–	(1.0)	(1.9)	–	–	(2.9)
Net finance costs – Group	–	–	–	–	(24.1)	(24.1)
Profit before tax	112.5	30.4	41.4	25.5	(27.9)	181.9

* Before amortisation of acquired intangibles and exceptional items.

2. Segmental information (continued)

30 September 2016	Marine £m	Land £m	Aviation £m	Cavendish Nuclear £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	902.7	847.1	438.4	304.6	–	2,492.8
Less: joint venture and associate revenue	16.9	57.1	41.0	204.7	–	319.7
Revenue	885.8	790.0	397.4	99.9	–	2,173.1
Operating profit before share of results of joint ventures and associates	98.2	22.1	37.9	12.6	(5.2)	165.6
Acquired intangible amortisation	5.0	23.1	27.1	0.7	–	55.9
Operating profit*	103.2	45.2	65.0	13.3	(5.2)	221.5
IFRIC 12 investment income – Group	0.3	0.2	–	–	–	0.5
Share of operating profit – joint ventures and associates	4.7	7.6	5.3	15.1	–	32.7
Share of IFRIC 12 investment income – joint ventures and associates	–	0.7	14.3	–	–	15.0
Underlying operating profit	108.2	53.7	84.6	28.4	(5.2)	269.7
Share of finance costs – joint ventures and associates	–	(0.7)	(12.4)	–	–	(13.1)
Share of tax – joint ventures and associates	(1.4)	(1.0)	(0.8)	(2.9)	–	(6.1)
Acquired intangible amortisation – Group	(5.0)	(23.1)	(27.1)	(0.7)	–	(55.9)
Share of acquired intangible amortisation – joint ventures and associates	–	(1.0)	(1.9)	–	–	(2.9)
Net finance costs – Group	–	–	–	–	(28.2)	(28.2)
Profit before tax	101.8	27.9	42.4	24.8	(33.4)	163.5

* Before amortisation of acquired intangibles and exceptional items

Exceptional items are those items which are exceptional in nature or size. These include material acquisition costs and reorganisation costs. There were no exceptional costs in the period nor in the previous period.

3. Income tax expense

The charge for taxation is after a tax credit of £11.2m, relating to acquired intangible amortisation (2016: £13.1 million), of which £0.6 million (2016: £0.6 million) is included in a share of profit from joint ventures and associates, and a tax charge of £0.2 million (2016: credit £0.9) relating to rate changes. The charge for taxation gives an underlying effective rate of 18% (2016: 17.3%), which is based on the estimated effective rate of tax for the full year ended 31 March 2018, together with any prior year credit, and before the credits in respect of amortisation of acquired intangibles and rate changes.

4. Earnings per share

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

	Six months ended 30 September 2017	Six months ended 30 September 2016
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	504,744,045	504,502,788
Effect of dilutive potential ordinary shares: share options	190,567	254,371
Weighted average number of ordinary shares for the purpose of diluted EPS	504,934,612	504,757,159

Earnings

	Six months ended 30 September 2017			Six months ended 30 September 2016		
	Earnings £m	Basic per share Pence	Diluted per share Pence	Earnings £m	Basic per share Pence	Diluted per share Pence
Earnings from continuing operations	154.0	30.5	30.5	142.7	28.3	28.3
Add back:						
Amortisation of acquired intangible assets, net of tax	41.3	8.2	8.2	45.7	9.1	9.0
Impact of change in statutory tax rates	(0.2)	–	–	(0.9)	(0.2)	(0.2)
Earnings before amortisation, exceptional items and other	195.1	38.7	38.7	187.5	37.2	37.1

5. Dividends

An interim dividend of 6.85p per 60p ordinary share (2016: 6.50p per 60p ordinary share) was declared after the balance sheet date and will be paid on 16 January 2018 to shareholders registered on 8 December 2017.

6. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m
At 1 April	71.9	39.9	32.3	32.6	104.2	72.5
Loans to/(repayments from) joint ventures and associates	–	–	(2.2)	–	(2.2)	–
Investment in joint ventures and associates	4.6	–	–	–	4.6	–
Share of profits	32.8	25.6	–	–	32.8	25.6
Interest accrued	–	–	0.5	0.6	0.5	0.6
Interest received	–	–	(0.5)	(0.4)	(0.5)	(0.4)
Dividend received	(15.1)	(10.4)	–	–	(15.1)	(10.4)
Fair value adjustment of derivatives	3.4	(17.4)	–	–	3.4	(17.4)
Tax on fair value adjustment of derivatives	(1.7)	3.2	–	–	(1.7)	3.2
Foreign exchange	–	0.8	–	–	–	0.8
Total	95.9	41.7	30.1	32.8	126.0	74.5

7. Other financial assets and liabilities

	Fair value			
	Assets		Liabilities	
	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m
Non-current				
US private placement – currency and interest rate swaps	92.6	120.3	–	–
Interest rate hedges	3.5	–	1.1	–
Other currency hedges	1.3	–	1.1	–
Non-controlling interest put option	–	–	5.3	5.2
Financial instruments	97.4	120.3	7.5	5.2
Finance leases granted	19.1	11.1	–	–
Total non-current other financial assets and liabilities	116.5	131.4	7.5	5.2
Current				
Interest rate hedges	–	–	0.2	–
Other currency hedges	4.9	14.4	12.3	14.3
Financial instruments	4.9	14.4	12.5	14.3
Finance leases granted	12.7	7.0	–	–
Total current other financial assets and liabilities	17.6	21.4	12.5	14.3

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

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

The fair values of the financial instruments, excluding the non-controlling interest put option, are based on valuation techniques (level 2).

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

In South Africa the Group operates its own finance company to facilitate the sale of DAF vehicles. It obtains external borrowings and sells vehicles on finance leases to external customers. At the period end the present value of the minimum lease receivable amounted to £31.8 million (2016: £18.1 million), these were split as £12.7 million (2016: £7.0 million) due within one year and £19.1 million (2016: £11.1 million) between one and five years.

8. Reconciliation of operating profit to cash generated from operations

Year ended 31 March 2017 £m		Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m
	Cash flows from operating activities		
472.3	Operating profit before amortisation of acquired intangible and exceptional items	221.3	221.5
(112.7)	Amortisation of acquired intangible and exceptional items	(49.1)	(55.9)
359.6	Group operating profit	172.2	165.6
82.4	Depreciation of property, plant and equipment	45.0	42.2
122.6	Amortisation of intangible assets	54.8	59.5
1.2	Investment income	1.0	0.5
15.0	Equity share-based payments	5.1	8.3
0.3	Loss on disposal of intangible assets	–	0.1
(2.8)	(Loss)/profit on disposal of property, plant and equipment	0.5	(2.3)
578.3	Operating cash flows before movement in working capital	278.6	273.9
(0.4)	(Increase)/decrease in inventories	(12.1)	(16.4)
(78.3)	(Increase)/decrease in receivables	(63.0)	23.8
71.0	(Decrease)/increase in payables	(40.0)	(26.4)
(28.4)	Decrease in provisions	(10.4)	(16.6)
(38.2)	Retirement benefit payments in excess of income statement	(11.3)	(0.7)
504.0	Cash generated from operations	141.8	237.6

9. Movement in net debt

Year ended 31 March 2017 £m		Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m
11.1	Increase/(decrease) in cash in the period	27.9	(22.2)
91.0	Cash flow from the (increase)/decrease in debt and lease financing	(125.1)	26.5
102.1	Change in net funds resulting from cash flows	(97.2)	4.3
(5.2)	Loans and finance leases acquired with subsidiaries	–	(5.2)
14.8	New finance leases – granted	13.8	3.2
(0.3)	Movement in joint venture and associates loans	(2.2)	0.2
(56.4)	Foreign currency translation differences and other	(32.0)	(65.2)
55.0	Movement in net debt in the period	(117.6)	(62.7)
(1,228.5)	Net debt at the beginning of the period	(1,173.5)	(1,228.5)
(1,173.5)	Net debt at the end of the period	(1,291.1)	(1,291.2)

10. Changes in net debt

	At 1 April 2017 £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange/other movement £m	30 Sept 2017 £m
Cash and bank balances	191.4	23.1	–	–	(5.2)	209.3
Bank overdrafts	(5.8)	4.8	–	–	0.1	(0.9)
Cash, cash equivalents and bank overdrafts	185.6	27.9	–	–	(5.1)	208.4
Debt	(1,428.4)	(134.8)	–	–	11.6	(1,551.6)
Finance leases – received	(118.2)	16.8	–	–	(1.0)	(102.4)
Finance leases – granted	27.6	(7.1)	–	13.8	(2.5)	31.8
	(1,519.0)	(125.1)	–	13.8	8.1	(1,622.2)
Net debt before derivatives and joint venture and associate loans	(1,333.4)	(97.2)	–	13.8	3.0	(1,413.8)
Net debt derivative	127.6	–	–	–	(35.0)	92.6
Joint venture and associate loans	32.3	(2.2)	–	–	–	30.1
Net debt	(1,173.5)	(99.4)	–	13.8	(32.0)	(1,291.1)

11. Retirement benefits and liabilities

Analysis of movement in the Group balance sheet

	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m
Fair value of plan assets (including reimbursement rights)		
At 1 April	4,676.2	3,824.8
Interest on assets	58.0	65.5
Actuarial (loss)/gain on assets	(79.9)	859.3
Change in reimbursement rights	–	(39.5)
Employer contributions	37.0	16.7
Employee contributions	0.4	0.7
Benefits paid	(98.5)	(90.0)
At 30 Sept	4,593.2	4,637.5
Present value of benefit obligations		
At 1 April	4,780.5	4,027.7
Service cost	23.2	17.9
Incurred expenses	2.0	1.9
Interest cost	59.1	66.8
Employee contributions	0.4	0.7
Experience losses /(gain)	8.7	(27.0)
Actuarial gain – demographics	–	–
Actuarial (gain)/loss – financial	(66.7)	900.4
Benefits paid	(98.5)	(90.0)
At 30 Sept	4,708.7	4,898.4
Present value of unfunded obligations	0.2	0.2
Net deficit at 30 Sept	115.7	261.1

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

	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m
Current service cost	23.2	17.9
Incurred expenses	2.0	1.9
Total included within operating profit	25.2	19.8
Net interest cost	1.1	3.2
Total included within income statement	26.3	23.0

As at 30 September 2017 the key assumptions used in valuing pension liabilities were:

Discount rate	2.7% (30 September 2016: 2.4%)
Inflation rate (RPI)	3.2% (30 September 2016: 3.1%)

12. Acquisitions

There were no acquisitions in the current period.

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

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

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

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

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

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

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

Cash outflow to acquire businesses net of cash acquired:

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

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

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

13. Disposals

There have been no disposals during the period.

During both the current and the previous period the Group paid certain accrued costs on previously disposed of businesses of £1.7 million (2016: £0.2 million).

14. Related party transactions

Related party transactions in the half year to 30 September 2017 are: sales to joint ventures and associates of £86.8 million (2016: £85.7 million) and purchases from joint ventures and associates of £0.8 million (2016: £0.9 million).

For annualised key management compensation, please refer to note 6 and the Remuneration report in Annual Report for the year ended 31 March 2017.

For transactions with Group defined benefit pension schemes, please refer to note 11 above and note 24 in the Annual Report for the year ended 31 March 2017.

15. Financial information

The financial information in this half year report does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2017 were approved by the Board on 23 May 2017 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

Risks and uncertainties

The Directors consider that the principal risks and uncertainties affecting the Group remain unchanged from those described in the 2017 Annual Report, and are those arising from: **our customer profile :**reliance on winning and retaining large contracts with a relatively limited number of major clients (particularly the UK MoD), including clients affected by political and public spending reviews and decisions, which exposes the Group to political and public spending risks and which could be impacted by Brexit; **the nature of our contracts, bid processes and our major markets:** bidding is a time consuming and expensive process; public procurement rules apply in many cases and bring the risk of challenge to award decisions; large contract opportunities by their nature tend not to arise on a regular or frequent basis; failure to win rebids of large contracts that we already hold could represent a major loss of business and the failure to win new bids for large contract opportunities can represent a major missed opportunity and either loss can affect our strategic development; long-term contracts carry risk-transfer and potential pricing risks for our businesses and our contracts typically contain strict key performance indicators, failure to meet them can result in adverse financial consequences or loss of contract; **reputational risks:** our reputation is a fundamental business asset given the nature of our business, markets and customers – its loss for any reason (for example, poor contract performance or a high profile safety incident) could have a major adverse impact as could damage to the reputation of outsourcing businesses generally (and thus outsourcing itself); **regulatory and compliance burden:** our major businesses depend on being able to meet and continue to comply with applicable customer or industry specific requirements and regulations, wherever we do business, which can change; compliance with some regulatory requirements is a pre-condition for being able to carry on a business activity at all (for example, our Mission Critical Services business is subject to ownership and control requirements in the EU); the cost of compliance can be high; failure to meet the requirements could result in loss of existing business or future business opportunities; **health, safety and environmental risks;** some of our businesses entail the potential risk of significant harm to people, property or the environment if not properly managed and a serious incident could seriously damage our reputation (which could lead to loss of existing or future business) as well as expose us to fines and damages claims not all of which may or can be covered by insurance; **people risks:** the Group's ability to deliver its existing business, future growth and strategy is dependent on being able to attract, develop, train and retain experienced senior management, business development teams and suitably qualified and skilled employees – the competition for whom is strong; pension risks: we have a number significant defined benefit pension schemes that carry cost and funding risks and the risk of accounting volatility; **IT and Security risks;** we depend heavily on our ability to be able to maintain IT and information security and assurance to preserve our reputation and the confidentiality of our customers' and our own valuable information; **currency exchange rates:** as we expand outside the UK we are increasingly exposed to the impact of foreign currency exchange rates; **acquisitions:** we have grown and expect to continue to grow through acquisitions as well as organically but the financial benefits of acquisitions may not be realised as quickly and as efficiently as expected.

The risks summarised above, and mitigating actions taken in respect of them, are explained and described in more detail on pages 71 to 79 of the 2017 Annual Report, a copy of which is available at www.babcockinternational.com. This half year report also includes comments on the outlook for the Group for the remaining six months of the financial year.

Forward-looking statements

Certain statements in this announcement are forward-looking statements. Such statements may relate to Babcock's business, strategy and plans. Statements that are not historical facts, including statements about Babcock's or its management's beliefs and expectations, are forward-looking statements. Words such as 'believe', 'anticipate', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', and variations of these words and similar future or conditional expressions are intended to identify forward-looking statements but are not the exclusive means of doing so. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions, some known and some unknown, many of which are beyond Babcock's control, that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Nor are they indicative of future performance and Babcock's actual results of operations and financial condition and the development of the industry and markets in which Babcock operates may differ materially from those made in or suggested by the forward-looking statements. You should not place undue reliance on forward-looking statements because such statements relate to events and depend on circumstances that may or may not occur in the future. Except as required by law, Babcock is under no obligation to update (and will not) or keep current the forward-looking statements contained herein or to correct any inaccuracies which may become apparent in such forward-looking statements.

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

Statement of Directors' responsibilities

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

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

The names and functions of each of the Directors of Babcock International Group PLC are as listed in its 2017 Annual Report. A copy of the Annual Report can be found, and a list of current Directors is maintained, on the Group's website www.babcockinternational.com.

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

Archie Bethel
Chief Executive

Franco Martinelli
Group Finance Director

21 November 2017