babcock™

Babcock International Group PLC
Half year results for the six months ended 30 September 2023

14 November 2023

Strong start to the year, full year expectations unchanged

Statutory results

	30 September 2023	30 September 2022
Revenue	£2,177.0m	£2,144.0m
Operating profit	£144.2m	£72.8m
Basic earnings per share	20.4p	6.8p
Cash generated from operations	£163.2m	£75.2m

Underlying results (ii)

	30 September 2023	30 September 2022
Contract backlog (i)	£9.6bn	£9.9bn
Underlying operating profit	£154.4m	£121.7m
Underlying operating margin	7.1%	5.7%
Underlying basic earnings per share	20.6p	15.8p
Dividend per share	1.7p	-
Underlying free cash flow	£67.2m	£(24.7)m
Net debt	£(492.5)m	£(1,039.4)m
Net debt excluding operating leases	£(287.8)m	£(629.3)m
Net debt/EBITDA (covenant basis)	1.1x	1.9x

David Lockwood, Chief Executive Officer, said:

"We have made a strong start to the year, as we continue to build on the exciting momentum we see across the Group. We are delivering for our customers, reducing risk and positioning for growth through a number of significant new global teaming agreements.

"We have a clear capital allocation policy, which is providing the Group with the flexibility it needs to capture the growing number of value creation opportunities we see ahead. We are reinstating our dividend following a four-year hiatus, reflecting our confidence in the future, and our expectations for the full year remain unchanged."

Financial highlights

- **Contract backlog** £9.6 billion, down year-on-year due to the impact of disposals, up slightly since year end
- **Revenue** up 2% to £2,177 million. Organic growth of 18%, including major infrastructure programme growth, offset FY23 disposals
- **Underlying operating profit** up 27% to £154 million, ahead of expectations, primarily due to earlier than anticipated receipt of licence income from the Polish frigate programme
- **Underlying operating margin** increased 140 basis points to 7.1%, boosted by the licence income
- **Underlying basic earnings per share** up 30% to 20.6p
- **Underlying free cash flow** of £67 million, driven by 82% underlying operating cash conversion
- **Net debt to EBITDA** reduced to 1.1x on a covenant basis (FY23: 1.5x). Net debt reduced by £72 million to £493 million
- **Dividend reinstated** following a four-year hiatus. The interim dividend of 1.7 pence per share is expected to be around a third of the full year dividend

Outlook

The Board's expectations for another year of organic revenue growth, underlying operating margin expansion and positive cash flow generation are unchanged, and we continue to build momentum to achieve the medium-term guidance set out within our FY23 results.

Strategic highlights

- Strategic cooperation agreement with Saab, including the development of an advanced naval corvette design
- Collaboration agreement with Huntington Ingalls Industries (HII) for US and UK naval and civil nuclear opportunities
- Teaming partnership with HII to collaborate on nuclear-powered submarine capabilities to support the AUKUS endeavour
- Babcock Skills Academy launched in Devonport to develop submarine support capabilities in our growing workforce
- Babcock General Logistics Vehicle (GLV) launched to target the upcoming UK Army Land Rover replacement programme
- Established partnership with Zero Petroleum to explore the use of synthetic fuels across air defence platforms

Operational highlights

Marine

- Type 31: HMS Venturer (ship 1) superstructure progressing, keel laid for HMS Active (ship 2)
- Critical Design Review completed for the UK Royal Navy's next-generation Maritime Electronic Warfare Programme
- Cut steel on first MIECZNIK Class frigate for the Polish Navy. Three Arrowhead 140 licences delivered

Nuclear

- Major Infrastructure Programme (MIP) continuing to ramp up across Devonport Dockyard – revenue more than doubled to £218 million. Further contract (£750 million over four years) signed in November 2023
- Commenced deep maintenance and LIFEX on the second of the UK's Vanguard Class nuclear submarines, HMS Victorious
- Five-year contract with the UK MOD to collaborate on the Ship Submersible Nuclear AUKUS (SSN-A) submarine detailed design

Land

- Awarded second land defence contract to manage and maintain ground support equipment at military bases across France
- Babcock's contract to support UK-gifted platforms to Ukraine now operating at full capability
- Secured rebid on the six-year Royal Electro-Mechanical Engineers (REME) contract

Aviation

- Two additional H160 helicopters modified and delivered to the French Navy as part of a 10-year contract
- Secured a four-year contract extension with the South Australian Government for aerial emergency services
- Awarded a four-year support contract for H145 aircraft with French Securité Civile, partnered with Airbus

Notes to statutory and underlying results on page 1

(i) Contract backlog: The £9.6 billion contract backlog represents amounts of future revenue under contract. This measure does not include £3.0 billion of work expected to be done by Babcock as part of framework agreements (HY23: £3.4 billion). Contract backlog and framework definitions can be found in the Financial Glossary on page 25.

(ii) Alternative Performance Measures (APMs):
The Group provides APMs, including underlying operating profit, underlying operating margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, and net debt to EBITDA to enable users to have a more consistent view of 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 APMs 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 APMs are consistent with the year ended 31 March 2023. The Group has defined and outlined the purpose of its APMs in the Financial Glossary on page 25.

Results presentation:
A webcast presentation for investors and analysts will be held on 14 November 2023 at 09:00 am (UK time). The presentation will be webcast live and 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.

For further information:

Andrew Gollan, Babcock Director of Investor Relations	+44 (0)7936 039 004
Kate Hill, Babcock Group Director of Communications	+44 (0)20 7355 5312
Olivia Peters / Harry Cameron, Teneo	+44 (0)20 7353 4200

CEO STATEMENT

The first half of FY24 has been another period of progress for the Group, both operationally and financially, as we continued to build on the good momentum with which we entered the financial year. We have delivered 18% organic revenue growth, 140 basis points of underlying operating margin$_{(1)}$ expansion and 82% underlying operating cash conversion$_{(1)}$, boosted by the receipt of licence fee income. Beyond the strong financial performance in the half, we have also made excellent operational and strategic progress, delivering on existing contract milestones and entering into some significant long-term partnerships, such as our wide-ranging Strategic Cooperation Agreement with Saab, which includes the development of an advanced corvette design and an agreement with HII to collaborate in naval and nuclear opportunities in the UK, US and Australia.

Equally critical, given that our people are paramount to our success, is the progress we have made in enhancing and strengthening our corporate culture. We were delighted with the increased levels of engagement and satisfaction we saw reflected in our recent Group wide employee survey and were proud to have been named in *The Engineer's* 'Top Ten Employers 2023' list in October. We enter the second half of the year with a strong order book and continue to be excited by the positive underlying trends and expanding opportunity set for the Group, which make us more confident than ever in the prospects for the business across the short, medium and long term.

HY24 results

We delivered strong financial results for the first six months of the financial year. Group revenue of £2,177 million was slightly up on the prior year. Organic revenue growth of 18%, including double-digit growth in three of our four sectors, more than offset the impact of disposals. Underlying operating margin$_{(1)}$ of 7.1% (HY23: 5.7%) and underlying free cash flow$_{(1)}$ of £67 million were both ahead of expectations, albeit largely due to earlier than expected licence receipts on the Polish MIECZNIK frigate programme. While the licences are one-off in nature, they demonstrate further progress on a key naval programme and, more broadly, the attractiveness to international markets of the modular Arrowhead 140 frigate design and our flexible acquisition model.

In April 2023, the Board stated its intention to reinstate a dividend in FY24, underpinned by our strengthened balance sheet and cash outlook. The Board has declared an interim dividend of 1.7 pence per share payable on 19 January 2024.

Increasing momentum and reducing risk

The global threat environment and geopolitical situation remains unstable, meaning that the services and products we provide across our diverse international footprint have never been more important, as reflected by the good operating and financial momentum across the Group. Our contract backlog of £9.6 billion was £0.3 billion lower than a year ago due to the impact of disposals. However, contract backlog increased slightly in H1 compared to the end of March, despite the trading of long-term contracts, reflecting multiple new contract awards and agreements that will help drive future growth.

We play a critical role in support of the UK's nuclear deterrent, which lies at the heart of the nation's defence. We have now completed the highly complex, multi-year life-extension (LIFEX) programme on the first Vanguard Class submarine, HMS Vanguard, representing a major reduction in fixed price contract risk. In July, we signed an initial contract with the MOD for the second Vanguard boat, HMS Victorious, enabling deep maintenance of the complex submarine to begin at our Devonport dockyard. We expect the full cost recovery agreement to be replaced with a contract covering the entire programme on similar terms in the coming months.

The Vanguard Class submarines will begin to transition to the UK's next generation nuclear deterrent submarine, the Dreadnought Class, in the early 2030s. Babcock is playing an important role in the Dreadnought programme, specifically in support of the design and future support solutions. In the period, we also won a contract to deliver weapons handling launch systems (WHLS) and specialist equipment for these future submarines.

In October 2023, we also signed a five-year contract with the MOD to provide input in the detailed design for the new Ship Submersible Nuclear AUKUS (SSN-A) submarine, which will replace the Astute Class in the UK Royal Navy and is planned to be the design on which the Australian Navy builds its future fleet. Ensuring that future support is properly considered at the design stage is expected to result in increased availability throughout the life of the submarine.

The Major Infrastructure Programme (MIP), to modernise submarine infrastructure across Devonport, ramped up further during the period, driving strong revenue growth. In November 2023, we signed a four-year £750 million contract to secure the capability required to support and sustain the UK's submarines for decades to come. The upgraded dockyard facilities will support all current and future UK submarine classes as the fleet progresses through a multi-year class transition, including commencement of deep maintenance of the Astute Class in the next few years. In the period, the first Astute boat to undergo in-dock maintenance at Devonport arrived for surveying works ahead of its programme of work.

In Poland, we finalised the design licence agreement with the PGZ-MIECZNIK consortium, which allows for the build of three frigates for the Polish Navy. First steel-cut for MIECZNIK ship one was held at the PGZ shipyard in Gdynia in August. We also signed a framework agreement as the next step to a potential joint venture which could see Babcock support MIECZNIK through the complete design and build programme. The agreement further strengthens our strategic partnership with the Polish Armaments Group PGZ SA, one of the largest defence groups in Europe, supporting ambitions for wider international naval and defence opportunities.

Multiple new international contracts are driving growth in the Land sector. Ramp up of the Australian Defence High Frequency Communication System (DHFC) programme almost doubled our Australian Land revenues compared to HY23. In France, we were awarded a second Land contract to provide in-service support to airfield support equipment throughout France's national and international military bases for seven years. In July, we were awarded an initial 12-month contract from the MOD to support UK-gifted platforms to Ukraine, covering the provision of operational support to armoured vehicles, training of Ukrainian personnel and management of vital equipment, supply chains and spares. After the period end, we opened an office in-country where a dedicated team will focus on supporting Ukraine and our industry partners.

Positioning for the longer-term growth – the right capabilities in a supportive market

Our long-term growth strategy is to leverage our technical capability to grow our defence business, both internationally and in the UK. We have made excellent progress in the period, establishing a number of strategic relationships that position the Group for longer-term opportunities.

In Marine, we signed a wide-ranging strategic cooperation agreement with Saab, including the development of an advanced naval corvette design. The joint development will benefit from Babcock's expertise in platform design and integration, to create a new class-leading capability, and Saab's expertise in naval combat management systems and composite structures.

In Nuclear, discussions continue with the UK Submarine Delivery Agency (SDA) and the Royal Navy with the intention to finalise a long-term strategic partnership to ensure the stable, safe, effective and efficient delivery of deep and base maintenance of submarines. We expect to replace current commercial arrangements, currently under the Future Maritime Support Programme (FMSP), by March 2025.

In recognition of increasing long-term capacity requirements in the Nuclear sector, we launched the Babcock Skills Academy at Devonport to enhance our growing workforce's capabilities. Focusing on submarine support and critical nuclear expertise, the Skills Academy's training facilities enable learning of the complex requirements to perform submarine deep maintenance. More than 2,000 people are expected to pass through the Academy in its first three years and a further 10,000 over the following five years.

We have entered into a strategic agreement with US-based HII to collaborate on naval and civil nuclear decommissioning and construction opportunities in the UK and US. Under a memorandum of understanding both companies will apply their complementary capabilities to existing nuclear decommissioning contracts for US ships and UK submarines, as well as explore opportunities for cooperation in civil nuclear, including power plant and component design, fabrication and construction in North America and the UK.

We have already built on the HII agreement above, with a further agreement to combine forces in Australia to develop the optimal models for submarine capability to support the long-term ambitions of the AUKUS programme, including infrastructure, sustainment and the necessary skills development to support the future programme.

The Land sector is leading the strategy to strengthen our data capabilities in defence with a new data platform aimed at transforming, capturing, integrating, modelling and building data-driven solutions across all areas of our defence business. For example, in our Land DSG support contract, we are combining this smart data approach with our deep engineering expertise to improve fleet availability and real time identification of any issues throughout the asset lifecycle.

In Aviation, Babcock France announced an MOU with light jet company AERALIS to explore the operation of a flexible aircraft 'as a service' in support of March's UK France Joint Leaders Declaration on Anglo-French interoperability of future air systems.

Underpinned by enhanced execution and risk reduction

We made further progress in the period improving operational delivery, which was underpinned by a strengthened corporate culture. In October, our second Group-wide people survey since we began our turnaround saw increased levels of engagement and satisfaction. Following the first survey in 2022 we have been developing and implementing action plans to transform the employee experience, including the launch of a framework to standardise role categorisation and open development pathways and career opportunities across the Group.

There is still much to do, but I believe we are creating a more integrated, unified and aligned workforce with common purpose and common processes that will support significant value creation in the future.

We continue to see improved operational delivery across existing contracts, for example the 10-year DSG contract to support the British Army land vehicles fleet, where an overhaul of operations over the last few years has further improved contract delivery and operating margin. Following formal notification by our UK MOD customer of its intention to exercise up to five option years, we continue to negotiate contract terms that will contribute to better outcomes for all stakeholders.

There was no material change in the period in the impact of onerous contracts, which will diminish over the coming years as they trade out. We continue to focus on replacing them with higher quality orders through our enhanced bidding and programme risk management processes, as highlighted by the new initial submarine deep maintenance support contract for the second Vanguard Class nuclear submarine.

We continue to meet production milestones on the Type 31 programme with the first in class ship, HMS Venturer, progressing through construction and assembly, and the keel laid on ship two, HMS Active, in September. The dispute resolution process (DRP) relating to the Type 31 contract has been paused following customer discussions. Both parties are currently working towards a collaborative solution.

During the period we were pleased to announce the appointment to the Board of Sir Kevin Smith CBE as a Non-Executive Director. In addition, Paul Armstrong was appointed CEO of our Marine business and Harry Holt was appointed CEO of our Nuclear business.

Capital allocation - dividend reinstated

In our FY23 results, we set out a refreshed capital allocation framework underpinned by a commitment to maintain a strong balance sheet and investment grade credit rating, with a target leverage of 1.0x to 2.0x net debt to EBITDA. The framework is aligned with our strategy to maximise value for our shareholders while balancing near-term performance and long-term growth objectives.

As part of our capital allocation strategy, in April 2023, the Board stated its intention to reinstate a dividend in FY24, with the return to the dividend payers' list an important milestone in the turnaround of Babcock. As such, the Board has declared an interim dividend of 1.7 pence per share, with the interim dividend expected to be around one third of the full year dividend.

The Group's aim is to deliver long-term dividend growth via a progressive dividend. The level at which the dividend has been reinstated also reflects a desire for there to be ongoing strengthening of the balance sheet and for prioritisation to be given to investment for organic growth in the business.

Outlook

With over 90% of FY24 forecast revenue under contract at the end of September, we enter the second half of the year with good momentum. The Board's expectations for another year of organic revenue growth, further underlying operating margin expansion and positive cash flow generation are unchanged, and we continue to build momentum to achieve the medium term guidance set out within our FY23 results.

David Lockwood OBE
Chief Executive

Notes to CEO Statement

(1) A defined Alternative Performance Measure (APM) as set out in the Financial Glossary on pages 25 to 27.

OTHER INFORMATION

Dividend

An interim dividend of 1.7 pence per ordinary share (HY23: nil) is payable on 19 January 2024 to shareholders whose names appear on the register at the close of business on 24 November 2023. Shareholders may participate in the dividend re-investment plan and elections must be made by 28 December 2023. Details of the dividend re-investment plan can be found, and shareholders can make elections, at www.babcock-shares.com.

FINANCIAL REVIEW

As described in the Financial Glossary on page 25, the Group provides Alternative Performance Measures (APMs), including underlying operating profit, underlying operating margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, and net debt to EBITDA, 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. The reconciliation from the IFRS statutory income statement to underlying income statement is shown below.

Income statement

	30 September 2023			30 September 2022		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Revenue	2,177.0	-	2,177.0	2,144.0	–	2,144.0
Operating profit	154.4	(10.2)	144.2	121.7	(48.9)	72.8
Share of results of joint ventures and associates	6.0	–	6.0	6.6	–	6.6
Net finance costs	(20.0)	5.9	(14.1)	(22.7)	(5.5)	(28.2)
Profit before tax	140.4	(4.3)	136.1	105.6	(54.4)	51.2
Income tax expense	(35.3)	3.3	(32.0)	(23.1)	8.9	(14.2)
Profit after tax for the period	105.1	(1.0)	104.1	82.5	(45.5)	37.0
Attributable to non-controlling interests	1.6	-	1.6	2.4	-	2.4
Profit after tax attributable to shareholders	103.5	(1.0)	102.5	80.1	(45.5)	34.6
Basic EPS	20.6p	(0.2)p	20.4p	15.8p	(9.0)p	6.8p
Diluted EPS	20.1p	(0.2)p	19.9p	15.5p	(8.8)p	6.7p

A full statutory income statement can be found on page 30.

Statutory operating profit includes specific adjusting items (SAIs) that are not included in underlying operating profit, which is a key APM for the Group. A reconciliation of statutory operating profit to underlying operating profit is shown in the table below and in note 2 of the interim financial statements.

Reconciliation of statutory to underlying operating profit

	30 September 2023 £m	30 September 2022 £m
Operating profit	144.2	72.8
Amortisation of acquired intangibles	5.6	8.1
Business acquisition, merger and divestment related items	0.2	12.1
Fair value loss on forward rate contracts to be settled in future periods	4.4	28.7
Specific adjusting items impacting operating profit	10.2	48.9
Underlying operating profit	154.4	121.7

Revenue increased by 2% to £2,177 million, up 18% on an organic basis, offset by the impact of disposals in the prior year. We delivered double digit organic growth in Marine, Nuclear and Land (see sector performance tables on page 15).

Statutory operating profit increased to £144.2 million (HY23: £72.8 million). The key drivers were strong underlying operating profit and lower specific adjusting items.

Underlying operating profit: Underlying operating profit increased by 27% to £154.4 million (33% on an organic basis), reflecting revenue growth, including high margin licence fees associated with the Polish MIECZNIK frigate programme, improved performance on a number of contracts and non-recurrence of a £6 million programme write-off in Nuclear in HY23.

Underlying operating margin increased by 140 basis points to 7.1% (HY23: 5.7%), boosted by the MIECZNIK licences. Further analysis of our revenue and underlying operating profit performance is included in each sector's operational review on pages 16 to 24.

Joint ventures and associates: The Group's share of results of joint ventures and associates reduced slightly from the prior year to a profit after tax of £6.0 million (HY23: £6.6 million).

Net finance costs decreased to £20.0 million on an underlying basis (HY23: £22.7 million) driven by lower net debt and interest charge on leases, partly offset by a £4.0 million change in IAS 19 retirement benefit interest. The decrease in reported net finance costs to £14.1 million (HY23: £28.2 million) also reflects changes in derivative fair value movements.

Taxation: The Group tax charge was £32.0 million. Tax on underlying profits was £35.3 million representing an underlying effective tax rate of 26%, in line with our assumption for this financial year.

Earnings per share: Basic earnings per share, on a statutory basis, increased to 20.4 pence (HY23: 6.8 pence). Underlying earnings per share increased 30% to 20.6 pence (HY23: 15.8 pence).

Dividend: An interim dividend of 1.7 pence per ordinary share (HY23: nil) is payable on 19 January 2024 to shareholders whose names appear on the register at the close of business on 24 November 2023. Shareholders may participate in the dividend re-investment plan and elections must be made by 28 December 2023. Details of the dividend re-investment plan can be found, and shareholders can make elections, at www.babcock-shares.com.

Exchange rates

The translation impact of foreign currency movements resulted in a decrease in revenue of £44.0 million and a decrease in underlying operating profit of £4.4 million. The main currencies that have impacted our results are the South African Rand, Australian Dollar and Canadian Dollar. Following disposal of the European AES businesses, the currencies with the greatest potential to impact results are the South African Rand and the Australian and Canadian Dollar:

- A 10% movement in the South African Rand against Sterling would affect revenue by around £31 million and underlying operating profit by around £2 million per annum
- A 10% movement in the Australian Dollar against Sterling would affect revenue by around £34 million and underlying operating profit by around £2 million per annum
- A 10% movement in the Canadian Dollar against Sterling would affect revenue by around £14 million and underlying operating profit by around £1 million per annum

Cash flow and net debt

Underlying cash flow and net debt

Underlying cash flows are used by the Group to measure operating performance as they provide a more consistent measure of business performance from year to year.

	30 September 2023 £m	30 September 2022 £m
Operating profit	**144.2**	72.8
Add back: specific adjusting items	10.2	48.9
Underlying operating profit	**154.4**	121.7
Right of use asset depreciation	18.9	52.5
Other depreciation & amortisation	30.1	45.7
Non-cash items	7.2	(2.2)
Working capital movements	(5.6)	(48.8)
Provisions	(2.0)	(0.8)
Net capital expenditure	(51.9)	(36.9)
Lease principal payments	(24.5)	(54.2)
Underlying operating cash flow	**126.6**	77.0
Cash conversion %	82%	*63%*
Pension contributions in excess of income statement	(39.6)	(76.2)
Interest paid (net)	(13.5)	(14.1)
Tax paid	(12.9)	(12.2)
Dividends from joint ventures and associates	6.8	5.1
Cash flows related to exceptional items	(0.2)	(4.3)
Underlying free cash flow	**67.2**	(24.7)
Net acquisitions and disposals of subsidiaries	-	(12.1)
Purchase of own shares	(7.5)	-
Lease principal payments	24.5	54.2
Net new lease arrangements	(16.4)	(37.0)
Other non-cash debt movements	(1.8)	(0.8)
Clarification of net debt definition	-	(36.1)
Fair value movement in debt and related derivatives	1.7	31.7
Exchange movements	4.2	(45.9)
Movement in net debt	**71.9**	(70.7)
Opening net debt	(564.4)	(968.7)
Closing net debt	**(492.5)**	(1,039.4)
Add back: operating leases	204.7	410.1
Closing net debt excluding operating leases	**(287.8)**	(629.3)

A full statutory cash flow statement can be found on page 34 and a reconciliation to net debt on page 12.

Reconciliation of underlying operating cash flow to statutory net cash flows from operating activities

	30 September 2023 £m	30 September 2022 £m
Underlying operating cash flow	126.6	77.0
Add: net capex	51.9	36.9
Add: capital element of lease payments	24.5	54.2
Less: pension contributions in excess of income statement	(39.6)	(76.2)
Non-operating cash items (excluded from underlying cash flow)	(0.2)	(16.7)
Cash generated from operations	163.2	75.2
Tax paid	(12.9)	(12.2)
Net interest paid	(13.5)	(14.1)
Net cash flows from operating activities	136.8	48.9

Underlying operating cash flow

Underlying operating cash flow (after capital expenditure) increased to £126.6 million (HY23: £77.0 million), a conversion ratio to underlying operating profit of 82% (HY23: 63%). The higher conversion ratio mainly reflects improved working capital performance described below, offset by an increase in net capex.

- Working capital outflow of £5.6 million reduced from a £48.8 million outflow in HY23. This reflects our continued focus on cash flow as a performance measure and phasing of programmes, including c.£35 million net inflow on the H160 contract from the sale of receivables relating to aircraft delivered and accepted by the customer. The prior year working capital performance was also negatively impacted by completion of payments associated with the unwind of the past practice of period-end management of working capital.

- Capital expenditure: Net capital expenditure increased to £51.9 million (HY23: £36.9 million). The increase reflects higher investment in intangible assets, including our SAP roll-out, and lower receipts from asset disposals (£9.8 million verses HY23: £22.7 million), primarily linked to aircraft sales in our Aviation sector. We still expect FY24 gross capital expenditure to be in the £120-£150 million range as we continue to invest in our submarine infrastructure in Devonport and roll-out of improved systems.

- Lease principal payments, representing the capital element of payments on lease obligations, reduced to £24.5 million (HY23: £54.2 million) following divestments in our Aviation business. This is reversed out below underlying free cash flow as the payment reduces our lease liability (i.e. no net effect on net debt).

Underlying free cash flow

Underlying free cash inflow of £67.2 million compares to an outflow of £24.7 million in the prior year, reflecting higher underlying operating cash flow and lower pension deficit payments.

- Pension cash contribution in excess of the income statement charge reduced to £39.6 million (HY23: £76.2 million), as expected. We continue to expect the FY24 pension cash outflow in excess of the income statement charge to be around £65 million.

- Interest: Net interest paid, excluding that paid by JVs and associates, reduced to £13.5 million (HY23: £14.1 million), reflecting lower net debt and lower interest on leases.

- Taxation: Tax paid in the period was £12.9 million (HY23 £12.2 million). We expect a cash tax outflow in the current financial year of approximately £30 million.

- Dividends received from joint ventures and associates increased slightly to £6.8 million (HY23: £5.1 million). We continue to expect dividends from JVs and associates to be broadly stable in FY24.

New lease arrangements

In addition to net capital expenditure, and not included in underlying free cash flow, £16.4 million (HY23: £37.0 million) of additional leases were entered into in the period. These represent new lease obligations and so are included in our net debt figure but do not involve any cash outflows at inception.

Net debt

Net debt at 30 September 2023 was £492.5 million, representing a reduction of £71.9 million compared to the beginning of the financial year. This reduction was driven by positive cash flow. The reconciliation of net cash flow to net debt is shown in the table below.

Excluding operating leases, net debt was £287.8 million, representing a reduction of £58.4 million compared to the beginning of the year.

Movement in net debt – reconciliation of statutory cash flows to net debt

	30 September 2023 £m	30 September 2022 £m
Net cash flows from operating activities	**136.8**	**48.9**
Net cash flows from investing activities	(38.0)	(29.8)
Net cash flows from financing activities	(45.0)	38.4
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	**53.8**	**57.5**
Cash flows from the (increase)/decrease in debt	8.4	(54.4)
Change in net funds resulting from cash flows	**62.2**	**3.1**
Additional lease obligations	(10.4)	(37.0)
New leases granted	16.0	14.3
Other non-cash movements and changes in fair value	(0.1)	30.9
Clarification of net debt definition	-	(36.1)
Foreign currency translation differences	4.2	(45.9)
Movement in net debt in the period	**71.9**	**(70.7)**
Opening net debt	(564.4)	(968.7)
Closing net debt	**(492.5)**	**(1,039.4)**

Funding and liquidity

As of 30 September 2023, the Group had access to a total of £1.9 billion of borrowings and facilities of mostly long-term maturities. These comprised:

- £300 million revolving cash facility (RCF), cancelled by Babcock on 24 October 2023
- £775 million RCF, with £45 million maturing on 28 August 2025 and £730 million extended to 28 August 2026
- £300 million bond maturing on 5 October 2026
- €550 million bond, hedged at £493 million, maturing on 13 September 2027
- Two committed overdraft facilities totalling £100 million

At 30 September 2023, the Group's net cash balance was £480 million. This, combined with the undrawn amounts under our committed RCFs and overdraft facilities, gave us liquidity headroom of around £1.7 billion.

Net debt to EBITDA (covenant basis)

This measure is used in the covenant in our RCF facilities and includes several 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 1.1x times for HY24, within our medium-term target of between 1.0x and 2.0x.

	30 September 2023 £m Last twelve months	30 September 2022 £m Last twelve months
Underlying operating profit	210.8	244.1
Depreciation and amortisation	69.3	80.2
Covenant adjustments[1]	(5.9)	16.4
EBITDA (covenant basis)	274.2	340.7
JV and associate dividends	10.4	22.0
EBITDA (covenant basis) + JV and associate dividends	284.6	362.7
Net debt (excluding operating leases)	(287.8)	(629.3)
Covenant adjustments[2]	(33.9)	(56.4)
Net debt (covenant basis)	(321.7)	(685.7)
Net debt/EBITDA	1.1x	1.9x

[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 facilities, with a covenant level of 4.0 times.

	30 September 2023 £m Last twelve months	30 September 2022 £m Last twelve months
EBITDA (covenant basis) + JV and associate dividends	284.6	362.7
Net finance costs	(34.5)	(66.6)
Covenant adjustments[3]	8.9	15.7
Net finance costs (covenant basis)	(25.6)	(50.9)
Interest cover	11.1x	7.1x

[3]Various adjustments made to reflect accounting standards at the time of inception of the original RCF agreement, including lease and retirement benefit interest.

Return on invested capital, pre-tax (ROIC)

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

	30 September 2023 £m Last twelve months	30 September 2022 £m Last twelve months
Underlying operating profit	210.8	244.1
Share of results of joint ventures and associates	8.8	17.1
Underlying operating profit plus share of JV PAT	219.5	261.2
Net debt excluding operating leases	287.8	629.3
Operating leases	204.7	410.1
Shareholder funds	370.8	662.5
Retirement deficit/(surplus)	154.9	(147.4)
Invested capital	1,018.2	1,554.5
ROIC	21.6%	16.8%

Pensions

The Group has a number of defined benefit pension schemes. The principal defined benefit pension schemes in the UK are the Devonport Royal Dockyard Pension Scheme, the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme (the Principal schemes).

IAS 19

At 30 September 2023, the IAS 19 valuation for accounting purposes was a net deficit of £154.9 million (FY23: £61.4 million), reflecting plan assets of £2,871.0m (FY23: £3,188.0m) and defined benefit obligations of £3,025.9m (FY23: £3,249.4m). Liabilities have decreased by £223.5m, primarily due to the increase in the discount rate from 4.8% at March 23 to 5.5-5.7% at September 23. Assets have decreased by £317.0m, a greater amount despite contributions of £51.2m in the period. The net actuarial loss of £132.7m reflects the different bases of valuing assets (fair value) and liabilities (discounted based on corporate bond yields). The fair value of the assets and liabilities of the Group pension schemes at 30 September 2023 and the key assumptions used in the IAS 19 valuation of our schemes are set out in Note 13 of the interim financial statements.

	30 September 2023 £m	30 March 2023 £m
Fair value of plan assets	2,871.0	3,188.0
Present value of benefit obligations	(3,025.9)	(3,249.4)
Net deficit	(154.9)	(61.4)

As at 31 March 2023 the key assumptions used in valuing pension liabilities for the three largest schemes were:

- Discount rate: 30 September 2023: 5.5%-5.7% (31 March 2023: 4.8%)
- Inflation rate (RPI): 30 September 2023: 3.2%-3.4% after year 1 (31 March 2023: 3.3% after year 1)

Income statement charge

The charge included within underlying operating profit in HY24 was £11.6 million (HY23: £16.5 million), of which £7.4 million (HY23: £13.1 million) related to current service costs and £4.2 million (HY23: £3.4 million) related to expenses. In addition to this, there was a pension interest charge of £0.4 million (HY23: credit of £3.6 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, as at HY24 was approximately £300 million (FY23: c.£400 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 2023 for each of the three main schemes.

Actuarial valuations are carried out every three years to determine the Group's cash contributions to the schemes. The valuation dates of the three largest schemes are set so that only one scheme is undertaking its valuation in any one year, to spread the financial impact of market conditions. The valuation of the Rosyth Royal Dockyard Pension Scheme at 31 March 2021 was completed in FY22, the valuation of the Babcock International Group Pension Scheme at 31 March 2022 has been completed since the last year end, and work has commenced on the valuation of the Devonport Royal Dockyard Pension Scheme at 31 March 2023.

Cash contributions

Cash contributions made by the Group into the defined benefit pension schemes, excluding expenses and salary sacrifice contributions, during the last financial year are set out in the table below.

	31 March 2024e £m	30 September 2023 £m	30 September 2022 £m
Future service contributions	18.0	9.7	10.1
Deficit recovery	47.8	26.9	67.4
Longevity swap	15.2	7.6	8.0
Total cash contributions	81.0	44.2	85.5

SEGMENTAL ANALYSIS

The Group reports its performance through four reporting sectors.

30 September 2023	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
Revenue	750.1	710.8	545.6	170.5	**2,177.0**
Operating profit	55.1	45.2	37.3	6.6	**144.2**
Operating profit margin	7.3%	6.4%	6.8%	3.9%	**6.6%**
Underlying operating profit	63.0	45.2	37.5	8.7	**154.4**
Underlying operating margin	8.4%	6.4%	6.9%	5.1%	**7.1%**
Contract backlog	2,929	2,400	2,734	1,573	**9,636**

30 September 2022	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
Revenue	666.4	558.2	478.2	441.2	**2,144.0**
Operating profit	4.4	30.2	37.1	1.1	**72.8**
Operating profit margin	0.7%	5.4%	7.8%	0.2%	**3.4%**
Underlying operating profit	47.3	30.1	38.0	6.3	**121.7**
Underlying operating margin	7.1%	5.4%	7.9%	1.4%	**5.7%**
Contract backlog	2,426	2,547	2,429	2,450	**9,852**

30 September 2022 Retained business post disposals	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
Revenue	666.4	558.2	456.8	215.0	**1,896.4**
Operating profit	4.4	30.2	37.4	15.9	**87.9**
Operating profit margin	0.7%	5.4%	8.2%	7.4%	**4.6%**
Underlying operating profit	47.3	30.1	36.5	6.8	**120.7**
Underlying operating margin	7.1%	5.4%	8.0%	3.2%	**6.4%**
Contract backlog	2,426	2,547	2,421	1,358	**8,752**

OPERATIONAL REVIEWS

Marine

Operational highlights

- Type 31: HMS Venturer superstructure progressing, laid the keel for HMS Active
- Steel cut on first MIECZNIK-Class frigate for the Polish Navy. Three Arrowhead 140 licences delivered
- Strategic cooperation agreement signed with Saab to develop an advanced naval corvette design
- Started the Regional Maintenance Provider West contract to deliver ship support for the Royal Australian Navy
- QEC aircraft carrier HMS Prince of Wales, departed Rosyth ready for operations
- Achieved Critical Design Review for the UK Royal Navy's next-generation Maritime Electronic Warfare Programme
- Extended Canadian submarine support contract, Victoria Class In-Service Support (VISSC) to 2027

Financial review

	30 September 2022 £m	FX impact £m	Acquisitions & disposals £m	Organic £m	30 September 2023 £m
Contract backlog*	2,426				2,929
Revenue	666.4	(12.7)	-	96.4	750.1
Underlying operating profit*	47.3	(1.0)	-	16.7	63.0
Underlying operating margin*	7.1%				8.4%

*Alternative Performance Measures are defined in the Financial Glossary on page 25

Revenue increased by 13% to £750.1 million, up 15% on an organic basis. Growth was driven by licences associated with the Polish MIECZNIK frigate programme, phasing of the UK Type 31 programme and support of the UK Royal Navy's Queen Elizabeth Class (QEC) aircraft carrier docking. This was partly offset by lower contract volume in our LGE business, which is expected to recover over the coming months, and phasing of the South Korean submarine programme.

Underlying operating profit increased to £63.0 million (HY23: £47.3 million), up 36% on an organic basis, representing an underlying operating margin of 8.4% (HY23: 7.1%). The increase was driven mainly by the Polish licence fee, offsetting the impact of lower LGE volume and phasing of the South Korean submarine programme, completion of a high margin Mission Systems contract in the prior year and further investment in strengthening our control environment.

Contract backlog was up 21% compared to the prior year to £2,929 million (HY23: £2,426 million). A four-year extension of the Canadian VISSC submarine support contract and strong order intake in our LGE business at the end of the period, offset trading of long-term contracts.

Operational review

UK defence

We continue to deliver on the Type 31 Inspiration Class frigate programme. HMS Venturer is progressing through construction and assembly with the complete hull now in place and the superstructure taking shape. Main engines, gear boxes and diesel generators are installed with supporting systems being fitted around them. The next major milestone will be float-off, expected in the first half of 2024. The keel has now been laid on ship two, HMS Active, with first double bottom blocks in the build cradle.

Following award of the 10-year warship support contract for the UK Royal Navy's QEC aircraft carriers, HMS Prince of Wales departed our Rosyth dockyard in August following a docking period to repair shaft lines, as well as undertaking planned activities on other underwater equipment and systems.

In Devonport, the Type 23 frigate life-extension (LIFEX) programme continues to progress with HMS Iron Duke achieving Ready for Sea date and HMS Argyll achieving her undock date ahead of schedule. HMS Argyll is the first Type 23 to undergo a post-LIFEX upkeep under Project RENOWN, tasked with reducing the amount of time in dock. Also in the period, we completed repairs and unscheduled docking activity on HMS Somerset, and commenced the use of new survey technology to complete hull and structure material state understanding on HMS Richmond.

We continue to prepare for the arrival of the first Type 26 frigate, establishing the first remote office at BAE's Scotstoun shipyard to support the transition of the Type 26 Class to in-service support, with the new fleet of frigates base-ported at our Devonport dockyard.

We completed the regeneration of Sandown Class Mine Counter Measure Vessels (MCMVs) at our Rosyth dockyard for onward sale from the Royal Navy to new international customers. Two of the vessels have been successfully handed over to the Ukrainian Navy and the remaining two have been sold to the Romanian Navy. Babcock will continue to assist both navies with practical and technical support.

In Mission Systems, we have provided support for the Royal Navy's Phalanx Close-In Weapon System since 2006. During the period, we were awarded a three-year extension to continue our critical support for up to 41 systems including nine overhauls and upgrades.

On the Skynet programme, we continue the mobilisation phase work closely with our customer, culminating in a recent design definition review event which was a positive step towards operational service commencement in 2024.

We achieved the Critical Design Review in the delivery of the UK Royal Navy's next-generation Maritime Electronic Warfare Systems Integrated Capability (MEWSIC) to install cutting edge radar and electronic command and control systems across the new Type 31 and Type 26 frigates, Type 45 air-defence destroyers and QEC aircraft carriers.

Babcock is now on contract to deliver major systems modules for all four Dreadnought Class submarines with a contract uplift for the remaining boats. We continue to explore additional opportunities on the programme. During the period, we demonstrated our complex new submarine Weapons Stowage Equipment (WSE) which will also be installed on the next-generation Dreadnought Class submarines.

The US-UK common missile compartment tube assembly programme continues successfully with regular deliveries to our customer General Dynamics Electric Boat in the US, supporting both the UK Dreadnought and US Columbia submarine programmes. Deployment of advanced manufacturing technology continues to underpin our market leading role in submarine missile tube assembly, with installation of robotics and additional machining capability at our Rosyth dockyard. Our ongoing engagement with the US Navy in examining support and logistics solutions at Rosyth continues.

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 Poland, the design licence agreement with the PGZ-MIECZNIK consortium was finalised, which allows for the build of three frigates for the Polish Navy. The steel-cut for MIECZNIK ship one was held at the PGZ shipyard in Gdynia, where we recently opened a new Babcock office. At this milestone event, together with PGZ, Babcock entered into a framework agreement with the intention of forming a joint venture that will further strengthen our strategic partnership. Combining our shipbuilding and equipment support capabilities, Babcock will work more closely with PGZ to deliver the MIECZNIK frigate programme.

In Indonesia, with our customer PT PAL, we attended the keel laying ceremony for the first of the two new frigates for the Indonesian Navy, which are based on our Arrowhead 140 design.

In Oman, delivered through our global sustainment and support arrangements, we completed fleet time support for a Type 23 frigate at Duqm Naval Dockyard for the UK Royal Navy. We continue to grow our support offering in the Middle East and are awaiting outcomes of tenders submitted to the US and Royal Navy of Oman.

In Brazil, our in-country project team continue to support the Marinha do Brasil's flagship vessel. Through our engineering expertise, we are training the NAM Atlantico staff in maintenance, repair and operation of key systems and equipment. Working with the customer, our team is preparing for the upkeep work package in readiness for docking in August 2024.

In Canada, Babcock continues to deliver on its Victoria Class submarine in service support contract. Babcock is currently undertaking HMCS Victoria's Extended Docking Work Period.

In South Korea, our WHLS team is delivering hardware for boat four of the nine-boat Jangbogo-III Class submarine programme. Babcock is working with the Republic of Korea Navy and Hanwha Ocean to develop an in-service support strategy for the Class.

In Australia, Babcock commenced the Regional Maintenance Provider (RMP) West contract in June 2023, to provide support and sustainment of Royal Australian Navy ships in Western Australia over the next five years. External maintenance periods will commence in the second half of FY24.

In August 2023, we commenced construction of an integrated manufacturing, warehouse and office facility in Adelaide that will underpin support and delivery to land and naval defence programs, including the in-service support for the Collins Class submarine fleet.

In New Zealand, the Marine Fleet Sustainment Services (MFSS) contract – providing support to the entire Royal New Zealand Navy fleet – has entered the second phase (1 July 2023 – 30 June 2024) of a total of eight relevant periods. In addition, in April 2023, Babcock completed the regeneration and modification of two decommissioned Royal New Zealand Navy inshore patrol vessels for handover to the Irish Naval Service.

Energy and Marine

Our Liquid Gas Engineering business (LGE) marked two significant milestones for our ecoSMRT® programme, securing over 100 orders since the product was launched four years ago, with 50 systems now manufactured and delivered for installation on Liquefied Natural Gas (LNG) carriers for a range of global shipowners.

We were also awarded a cutting-edge ecoCO2® cargo handling system contract for two 22,000m³ liquefied CO2 (LCO2) carriers, a first for our South Korean customer.

During the period, contracts were secured for 15 Very Large Ethane Carriers (VLECs) at Jiangnan Shipyard for shipowners Tianjin Southwest and Pacific Gas. Our LGE business also signed an Agreement in Principle from classification society Lloyd's Register for its multi-fuel gas supply and CO2 carrier designs.

Also at Rosyth dockyard, we welcomed two of the UK's fleet of scientific research vessels for planned maintenance. RRS Discovery and RRS Sir David Attenborough spent a total of 16 weeks at Rosyth undergoing through-life support. All three scientific research vessels will return to Rosyth in 2024.

Nuclear

Operational highlights

- Significant ramp up on the Major Infrastructure Programme continuing across Devonport Dockyard. Further contract (£750 million over four years) signed in November 2023.
- Commenced deep maintenance and LIFEX on the second of the UK's Vanguard Class nuclear submarines, HMS Victorious
- Launched the Babcock Skills Academy, to meet evolving capability requirements for our growing workforce
- Awarded contract from UK MOD to collaborate on support requirements for the future Dreadnought Class submarines
- Awarded a five-year contract from UK MOD to collaborate on the detailed design for the Ship Submersible Nuclear AUKUS
- Awarded a five-year civil nuclear Magnox decommissioning project at Hinkley Point A
- Entered into a strategic agreement with HII to collaborate on naval and civil nuclear opportunities in the UK and US
- Teaming partnership with HII to collaborate on nuclear-powered submarine capability to support the AUKUS endeavour

Financial review

	30 September 2022	FX impact	Acquisitions & disposals	Organic	30 September 2023
	£m	£m	£m	£m	£m
Contract backlog*	2,547				2,400
Revenue	558.2	-	-	152.6	710.8
Underlying operating profit*	30.1	-	-	15.1	45.2
Underlying operating margin*	5.4%				6.4%

*Alternative Performance Measures are defined in the Financial Glossary on page 25

Revenue grew by 27% to £710.8 million, driven principally by the further ramp up of the Major Infrastructure Programme (MIP) at Devonport dockyard, as well as increased submarine support activity at the Faslane naval base and continued growth in our civil nuclear business. MIP revenue more than doubled in the period to £218 million (HY23: £105 million).

Underlying operating profit increased to £45.2 million from £30.1 million in HY23, which included a £6 million programme provision. The increase over the prior period was also driven by a higher contribution from MIP revenue (which is lower margin) and increased civil nuclear activity, which more than offset the impact of future inflation assumptions on programmes. As a result, operating margin increased to 6.4% (HY23: 5.4%).

Contract backlog decreased 6% year on year to £2,400 million (HY23: £2,547 million) due to the trading of long-term contracts, specifically our Future Maritime Support Programme (FMSP) contract. In November 2023, we signed a further contract with the UK MOD's Submarine Delivery Agency (SDA) worth £750 million over four years for the delivery of infrastructure in Devonport to support future submarine maintenance.

Operational review

Defence

The UK is going through a phase of class transition for nuclear submarines. Astute Class submarines are currently replacing the Trafalgar Class and the future Dreadnought Class will replace the Vanguard Class. Good progress has been made in the period in meeting the current and future requirements of the MOD. We are working closely with the MOD to jointly develop long-term strategies for people, infrastructure and transformation, to meet the evolving requirements for the future of the Royal Navy.

At Devonport, we are ensuring the future capability requirements of the Royal Navy and the submarine enterprise are met for decades to come with the MIP. During the period, we completed enabling works on the site-wide upgrade programme to ensure the right foundations are in place for the construction works to be delivered at pace.

The programme has entered the formal construction phase, which will deliver a new dock, berth, logistics and production support facilities, and underpins the wider role Babcock performs in sustaining the entirety of the UK submarine fleet. The MIP will enable the delivery of base maintenance periods (BMP) and deep maintenance periods (DMP) at Devonport, including nuclear defuel of current and future classes, and life-extension programmes (LIFEX), crucial to the UK submarine programme.

We are continuing to deliver good performance and ongoing improvements against our FMSP contract. This includes demonstrating to our customer how the positive impact will be maintained for the remainder of the contract and beyond, an example of which is the significant increase in productive utilisation being delivered at Clyde. Deep maintenance and life-extension on the second of the UK's

Vanguard Class nuclear submarines, HMS Victorious, is now underway at Babcock's facility at Devonport. This follows the completion this year of HMS Vanguard, which left Devonport after the most complex life-extension programme that has ever been delivered within the submarine enterprise. The first Astute Class submarine has also been received in Devonport and is currently undergoing surveys and work ahead of an in-dock maintenance period.

At Clyde, we are continuing to deliver a strong performance on several important submarine base maintenance periods for our customer. This includes ongoing work on high priority vessels, some of which support the Continuous At Sea Deterrent (CASD).

Building on the support we are providing to the Dreadnought Class submarines that will replace the Vanguard Class in the early 2030s, we have now signed a contract with the UK MOD to provide input into the support requirements for this Class. This involves drawing on our historical expertise and technical experience of in-service support and maintenance to advise on the transition into service.

The value of our expertise in submarine design and support has also been recognised in the signing of a five-year contract with the UK MOD to provide input into the detailed design for the new Ship Submersible Nuclear AUKUS (SSN-A) submarines, which will replace the Astute Class from the late 2030s.

Babcock continues to support the Submarine Delivery Agency (SDA) on the Submarine Dismantling Project (SDP). Babcock and the SDA achieved a disposal milestone as HMS Swiftsure was dry-docked in Rosyth to begin preparations for final dismantling. It will be the first UK nuclear-powered submarine to be fully dismantled by the end of 2026.

During the period, we entered into a strategic Memorandum of Understanding (MOU) with HII to collaborate on naval and civil nuclear decommissioning and construction opportunities in the UK and US. The MOU also identifies opportunities for cooperation in civil nuclear power plant and component design, fabrication and construction in North America and the UK. In addition, in September 2023, we announced a teaming partnership with HII to collaborate on the optimal models for nuclear-powered submarine capability, including infrastructure, sustainment and the necessary skills development to support the AUKUS endeavour.

During the summer, we launched the Babcock Skills Academy, which uses a hybrid teaching model that combines cutting-edge digital resources and hands on training, to rapidly equip our people to deliver the critical capabilities our customers need – now and in the future. Operating in partnership with local education establishments and complementing our award-winning early careers programmes, this has been launched initially at our Devonport dockyard, with a focus on submarine support and critical nuclear skills to enable learning of complex skills required to perform submarine deep maintenance. More than 2,000 people will pass through the Skills Academy in its first three years, and a further 10,000 over the following five years. By focusing on targeted learning, the Skills Academy will accelerate time to competence, compared to traditional training methods.

Civil Nuclear

In decommissioning, we have now signed a contract for the Magnox Hinkley Point A Vault Retrievals Phase 2 project. Over this five-year contract we will provide the design and delivery of an automated solution to safely retrieve, process and package waste from the site's vaults, ready for safe storage.

Sellafield engineers have used new equipment, designed and installed by our civil nuclear business, Cavendish Nuclear, and partners, to retrieve waste from the UK's oldest waste storage building, the Pile Fuel Cladding Silo, a programme which represents one of the most complex and challenging decommissioning projects in the world and one of the highest priorities for Sellafield and the Nuclear Decommissioning Authority (NDA).

In the US, our Cavendish Nuclear business, and joint venture partners Amentum and Fluor, have been awarded a 10-year Portsmouth Gaseous Diffusion Plant Decontamination and Decommissioning Contract in Piketon, Ohio. In addition to demolishing and disposing of gaseous diffusion plant facilities, the team will deploy proven technologies to address water treatment and soil remediation.

In Japan, work is now underway to deliver the 10-year contract we secured earlier in the year with Japan Atomic Energy Agency (JAEA), to provide specialist capability in support of the decommissioning of the Monju Prototype Fast Reactor (PFR) in Fukui Prefecture, Japan.

In nuclear support, we continue to support EDF with Large Gigawatt Reactor delivery at Hinkley Point C and Sizewell C, and X-energy as their UK Advanced Modular Reactor (AMR) deployment partner. We are also supporting Rolls Royce and GE-Hitachi, two of the six Small Modular Reactor (SMR) vendors whose designs have recently advanced to the next phase of the UK's SMR competition, a fast-track measure that could result in a Government contract as part of a strategy to deliver operational SMRs by the mid-2030s.

Work continues on delivering the Process, Plant and Equipment (PP&E) contract, with Babcock leading the design, installation and commissioning of complex plant and equipment engineering, enabling the customer to safely process and deliver their production line. We continue to see the framework contract ramp up in FY24 and the programme remains a key enabler for further opportunities across the wider facility as site capabilities are updated to meet future demands.

Land

Operational highlights

- Discussions with UK MOD for five option years on the DSG contract out to 2030 continue to progress
- Launched Babcock General Logistics Vehicle targeting an upcoming UK MOD tender to replace the Army Land Rover fleet
- Secured the rebid on the six-year Royal Electro-Mechanical Engineers apprenticeships contract
- Awarded second land defence contract to manage and maintain ground support equipment at military bases across France
- Awarded a three-year extension for our Australian sustainment and acquisition C-CBRNE capabilities contract

Financial review

	30 September 2022 £m	FX impact £m	Acquisitions & disposals £m	Organic £m	30 September 2023 £m
Contract backlog*	2,429				2,734
Revenue	478.2	(25.4)	(21.4)	114.2	545.6
Underlying operating profit*	38.0	(3.0)	(1.5)	4.0	37.5
Underlying operating margin*	7.9%				6.9%

*Alternative Performance Measures are defined in the Financial Glossary on page 25

Revenue increased to £545.6 million, up 26% on an organic basis. The key drivers were strong growth in our South African business, driven by continued demand for mining equipment and aftermarket sales, further ramp-up of the Australian Defence High Frequency Communication (DHFC) system contract and higher contract volumes in Rail, vehicle engineering and military training. Reported revenue growth of 14% was adversely impacted by FX translation (5%) from the weakening of the South African Rand against the British Pound, and disposal of the Civil Training business in FY23 (4%).

Underlying operating profit was flat compared to HY23, which included a £3.0 million one off profit adjustment. Underlying operating profit increased 12% organically, which was offset by FX and the impact of the Civil Training disposal in FY23. Organic growth was driven by strong sales in South Africa and profit generated from increased volume and improved performance across a number of our Land contracts. Higher revenue and flat profit resulted in an underlying operating margin of 6.9% (HY23: 7.9%), which also reflected increased investment in strengthening our control environment and bidding activity.

Contract backlog increased 13% to £2,734 million (HY23: £2,429 million) driven by the Australian DHFC system in H2 23 and a number of smaller orders in the period.

Operational review

Defence

Performance in our Defence Equipment business continues to go from strength to strength. Investment in new data capabilities is aimed at transforming, capturing, integrating, modelling and building data-driven solutions across all areas of our defence business. For example, in our DSG support contract, we are combining this smart data approach with our deep engineering expertise to improve fleet availability and real time identification of any issues throughout the asset lifecycle. Discussions with the UK MOD regarding the execution of five option-years on the DSG contract are progressing well and we anticipate them to be executed in line with the agreed timetable.

We continue to develop leading edge capabilities. Most notably we were recently able to announce an Enterprise Agreement with Palantir Technologies UK. The agreement is strengthening Babcock's integrated planning function by enhancing our digital capabilities across the Sector.

In response to growing obsolescence of critical parts and the increased commercial strains within the defence supply chain, our advanced manufacturing capability is now well established, and we have the ability to fully re-engineer and manufacture obsolete material across all domains.

During the period, our contract to manage the UK MOD's 'white fleet' vehicles through the Phoenix II contract has successfully converted 25% of the fleet to electric vehicles, in alignment with the schedule. This programme is creating greater fuel efficiencies and supporting the MOD's sustainability goals.

We have reached full operational capability ahead of schedule in our support of the UK's gifted platforms to Ukraine. Through our existing contract, we contributed to the British Army's support to Ukraine's Armed Forces, through equipment refurbishment and regeneration along with training support for Ukrainian nationals in a range of domains.

Our ambition to develop a portfolio of product-based offerings remains on track. In February 2023, we were awarded a contract from the UK MOD, in collaboration with Devon-based Supacat, to deliver an order of 70 High Mobility Transporters (HMT 400 series). The contract mobilisation is well underway, with a new production line established to manufacture the platforms within the free port of Devonport. Discussions are underway with the UK MOD for a follow-on order for a further 80 HMTs.

The Babcock General Logistics Vehicle (GLV) was launched at the UK's Defence Security and Equipment International conference (DSEI) in September 2023. The GLV is designed to target the upcoming UK MOD tender to replace the current British Army Land Rover fleet. The successful launch event also initiated additional opportunities worldwide. The ground-breaking GLV is built around the proven Toyota Land Cruiser 70 series platform which is used by militaries and aid agencies around the world.

In our Vehicle Engineering business, we have secured all competed UK Government contracts to procure Toyota LC300 Civilian Armoured Vehicles.

Our Defence Training business performed well across all contracts. We secured the rebid on the six-year long Royal Electro-Mechanical Engineering Apprenticeships contract (REME) out to August 2029. We were also awarded an additional six-month extension of our Training Maintenance And Support Services (TMASS) contract while we continue to await the outcome of the Armour Support Centre contract. We continue to have positive engagement with the customer as part of the bid process as they develop their Army Collective Training System.

During the period, we have been awarded a three-year contract, in support of Mabway, for the provision of support to the design, preparation and delivery of training exercises, expected to replace our current Hannibal contract.

In France, we have successfully completed the transition of the ground support equipment contract for assets and equipment across the French Army, Navy and Air Force through a 10-year contract. Programme performance after six months is good and remains in line with customer expectations, delivering support activities from 22 sites across mainland France. In addition, we have been awarded a second contract, to provide in-service support to airfield support equipment throughout the military bases in France's mainland and overseas bases for seven years. The contract will see the Group investing in key systems, infrastructure, and people across France, supported by capability transfer from our UK businesses, which will reinforce our in-country growth strategy.

In Australia, the Defence High Frequency Communication (DHFC) System, to support the Australian armed forces over the next 10 years, successfully achieved the operational date in June 2023, on schedule. Babcock is prime contractor for the operation and support of the customer's existing capability, in addition to delivering a comprehensive technology upgrade programme. The initial system design milestone for the enhanced capability was achieved during the period.

In September, we signed a three-year contract extension with the Australian Department of Defence, streamlining sustainment and acquisition processes for Counter – Chemical, Biological, Radiological, Nuclear and Explosive (C-CBRNE) capability using Babcock's industry-leading asset management systems.

In June 2023, Babcock submitted a tender response to the Commonwealth of Australia for the delivery of sustainment management services for a wide range of defence assets and fleets.

Emergency Services

Both the London Fire Brigade (LFB) and London Metropolitan Police Service (MPS) Training contracts have performed well in the period. We have however seen a decline in volumes across the MPS contract as the customer seeks to meet challenging recruitment targets.

South Africa

Performance was better than expected supported by high commodity prices in the mining sector driving increased equipment volumes and aftermarket activity. Results for the Engineering and Plant businesses were in line with forecast. Work continues with ongoing improvements through operational excellence initiatives combined with enhancing our people performance, experience, development and capability throughout the Africa business.

Other civil markets

Our Rail business performed well during the period with further work in our Translink framework. We continue to focus on delivery in our two key regions of Scotland and Northern Ireland.

Aviation

- Two additional H160 military helicopters modified and delivered to the French Navy as part of a 10-year contract
- Awarded a four-year extension with the South Australian Government for aerial emergency services
- Signed the Defence Aviation Net Zero Charter to demonstrate our commitment to sustainability
- Partnered with Zero Petroleum to explore the use of synthetic fuels across air defence platforms
- Awarded a four-year contract for support of H145 aircraft with French Securité Civile, partnered with Airbus

Financial review

	30 September 2022 £m	FX impact £m	Acquisitions & disposals £m	Organic £m	30 September 2023 £m
Contract backlog*	2,450				1,573
Revenue	441.2	(5.9)	(226.2)	(38.6)	170.5
Underlying operating profit*	6.3	(0.4)	0.5	2.3	8.7
Underlying operating margin*	1.4%				5.1%

*Alternative Performance Measures are defined in the Financial Glossary on page 25

Revenue decreased to £170.5 million (HY23: 441.2 million) reflecting the impact of the European Aerial Emergency Services (AES) disposal completed in February 2023. On an organic basis, revenue declined 18% primarily due to the sales mix of our French defence contracts, particularly Mentor, between aircraft delivery and service phases.

Underlying operating profit increased to £8.7 million (HY23: £6.3 million), up 36% on an organic basis, representing an underlying operating margin of 5.1% (HY23: 1.4%). The improved margin performance was driven by mix (lower aircraft delivery revenue), a one-off inflationary impact relating to a military contract and lower bid costs on a large tender that has ended.

Contract backlog decreased to £1,573 million (HY23: £2,450 million), mainly due to the impact of the European AES disposal (c.£1,100 million). The retained business contract backlog grew by 16%, predominantly driven by new AES contracts (Australia and Canada), and renewals and extensions of long-term defence contracts (UK Hawk and Light Aircraft Flying Task) in H2 23.

Operational review

Defence

Performance on the RAF HADES engineering support contract remains strong against a background of customer site laydown and base closures. We have successfully transitioned into the extension period and have commenced discussions with our customer regarding a further extension to the service. Despite fleet challenges, operations on the RAF Light Aircraft Flying contract (LAFT2), have now successfully resumed, following a period of technical issues on the fleet. Babcock has also adapted support through its Light Aircraft training service to meet then UK's commitment to support the training of Ukrainian pilots.

We have signed the Defence Aviation Net Zero Charter, setting out our commitment to help UK Defence meet the challenges of climate change and partnered with Zero Petroleum to advance the testing of synthetic fuels in the military environment across air defence platforms.

Additionally, we continue to work with the RAF's Rapid Capability Office on Project MONET, a two-year research and development project to explore the application of emerging technologies that could minimise the environmental impact of light aircraft flying training. Collaborating with UK SMEs, we are engaged in exploring Defence utilisation of synthetic net zero fuels and materials circularity in Defence.

We continue to develop our partnership with the Airbus H175M Task Force – a UK-based industry team created to supply and support the British-produced H175M helicopter for the UK's new medium helicopter requirement.

In France, following delivery of aircraft, support activity continues to ramp up on the Mentor contract and flying hours are above expectations. We are now managing a total of 26 PC21 aircraft delivering training to French Air Force fighter pilots. On the FOMEDEC contract, an additional simulator has been set up to deliver an additional 1,500 hours of training to the customer.

During the first half of the year, two additional Airbus H160 helicopters were delivered and accepted by the French Navy as part of our contract with the French MOD. The aircraft will be deployed on demanding search and rescue missions. We've also opened the first H160 site for search and rescue operations in the world, located in Cherbourg.

Bidding activity on defence tenders remains buoyant as we bid for Mentor II, a contract for the outsourcing of initial training of French military pilots and another contract for the outsourcing of French Air Force tactical and combat training.

In Canada, during the period, we learned that Babcock Leonardo Canadian Aircrew Training joint venture was not selected to deliver the Future Aircrew Training (FAcT) programme. Babcock continues to explore opportunities to support the Royal Canadian Air Force in the future.

Aerial emergency services

Following completion of the sale of certain of our European AES businesses to Ancala Partners on 28 February 2023, Babcock has retained its AES businesses in its focus countries of the UK, France, Canada and Australia, where the Group also operates defence businesses.

In Australia, we were awarded a four-year extension in October 2023 for the delivery of emergency medical services, search and rescue and airborne law enforcement services for the South Australian State Rescue Helicopter Service (SRHS). The existing fleet of three Bell 412 helicopters will be strengthened by an additional Airbus H145 helicopter to be utilised by the South Australian Police, expected to be in service by mid-2024.

The State Government is continuing the process to replace the SRHS contract under a new State Police, Ambulance and Rescue Aviation service (SPARAS) contract, bringing together three existing services that deliver rescue helicopter services, South Australian Police's fixed wing services and the South Australian Ambulance Service's fixed wing emergency aero-medical retrieval services. Babcock remains actively involved in the SPARAS procurement process having submitted a formal response in September 2023.

In France, we've seen an increase in our helicopter emergency services activity. Additional maintenance work has been delivered to French Customs as part of the seven-year service contract. Flying activity is also above expectations.

In Canada, Babcock Canada has successfully completed the 2023 aerial firefighting season. This year Canada experienced an unprecedented number of wildfires, which saw Babcock Canada deliver over 1,500 flight hours in support of firefighting efforts across Manitoba and in surrounding provinces and territories.

In FY23, Babcock Canada won a c.£200m contract, as a subcontractor to Ascent Helicopters, for helicopter emergency medical services (HEMS). We are nearing the completion of the design process for the five HEMS facilities across Vancouver, Prince Rupert, Prince George, Parksville, and Kamloops. We expect to begin construction in FY24/25.

Financial Glossary – Alternative Performance Measures

The Group provides Alternative Performance Measures (APMs), including underlying operating profit, underlying operating margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, and net debt to EBITDA to enable users to have a more consistent view of 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 APMs 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 APMs are consistent with the year ended 31 March 2023. Further information on the Group's specific adjusting items, which is a critical accounting judgement, can be found in Note 2 of the interim financial statements.

Measure	Closest equivalent IFRS measure	Definition and purpose	Adjustments to reconcile to IFRS measure (and reference to reconciliation)
Revenue measures			
Organic revenue 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	Transaction price under IFRS 15 on customer contracts allocated to unsatisfied / partially satisfied performance obligations	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	Contract backlog is based on the full contract term whereas the IFRS measure may be based on shorter periods where the customer has the ability to exit contracts early
Framework agreements	No direct equivalent	Funded and unfunded unexecuted customer contracts. Unfunded orders include the elements of contracts for which funding has not been authorised by the customer	
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 8 - See Note 2
Underlying organic profit growth	Operating profit 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 underlying operating profit - It is a good indicator of profit growth	FX, contribution of acquisitions and disposals in the current and prior period
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 specific adjusting items[1] - To provide an alternative measure of 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 8
Underlying profit before tax	Profit before tax	Profit before tax adjusted for - The summation of the impact of all specific adjusting items on profit before tax	Specific adjusting items[1] - See table on page 8

Measure	Closest equivalent IFRS measure	Definition and purpose	Adjustments to reconcile to IFRS measure (and reference to reconciliation)
Profit measures continued			
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 8
Underlying basic earnings per share	Basic earnings per share	Based on the Group's underlying profit before tax and underlying effective tax rate	Specific adjusting items[1] - See table on page 8
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 13
Balance sheet			
Net debt	No direct equivalent	Loans, including the interest rate and foreign exchange derivatives which hedge the loans, bank overdrafts, cash and cash equivalents, loans to joint ventures and associates, lease receivables and lease obligations - Used as a general measure of the progress in generating cash and strengthening of the Group's balance sheet position	- See table on page 10
Net debt (excluding operating leases)	No direct equivalent	Net debt (defined above) excluding operating lease liabilities as previously defined by IAS 17. - 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 10
Net debt (covenant basis)	No direct equivalent	Net debt (excluding operating leases), excluding loans to joint ventures and associates and finance lease receivables - Used for covenants over Revolving Credit Facility - Used by credit agencies	- See table on page 13
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 13
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 (excluding operating leases), shareholders' funds and retirement benefit 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 13

Measure	Closest equivalent IFRS measure	Definition and purpose	Adjustments to reconcile to IFRS measure (and reference to reconciliation)
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 - Included in 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 10

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 2023, 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 2023 in full. The Group's principal risks and uncertainties are:

Contract and project performance: We execute large contracts, which often require us to price for the long term and for risk transfer. Our contracts can include fixed prices. Risk Appetite: Medium. This reflects the complex nature of the work within the defence and emergency services sectors. Whilst we aim to ensure our contracts only accept risk that can be managed, risk remains in the contract or project delivery.

Existing & new markets: We rely on winning and retaining large contracts in both existing and new markets both of which are often characterised by a relatively small number of major customers many of whom are owned, controlled, or funded by local or national government. Risk Appetite: Medium. This reflects that, whilst the maintenance of a secure and assured pipeline is essential for continued growth, we may choose to embrace the risks that we can confidently and securely manage.

IT & 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. Risk Appetite: Low. IT and Cyber Security are fundamental components to Babcock's operations, we continually review the emergence of cyber threats, in an effort to eradicate and mitigate the risk as far as possible.

Pensions: The Group has significant defined benefit pension schemes in the UK, which provide for a specified level of pension benefits to scheme members. Risk Appetite: Low. Babcock utilise engagement with the Pensions schemes trustees and a balanced pension management approach that looks to mitigate and reduce the risks associated with pensions over the journey to settling the pension obligations.

Supply chain management: The Group is exposed to several risks within its supply chain, and these can typically be the following. Macroeconomic condition such as high inflation and Brexit. Disruption events to established supply chains such as natural disasters, wars, and strikes. Supplier specific challenges as we have seen increasing disruption from cyber-attacks on suppliers i.e., financial failure of suppliers. Part availability for aged customer assets for maintenance of customer assets that are so old that it is not possible to source key parts or components, or the cost of minimum quantities becomes cost or lead-time prohibitive. Risk Appetite: Low. Babcock recognises the adverse effects of the financial resilience risk on our balance sheet and investments, our aim being to eliminate the risk where possible.

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 alignment 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. Risk Appetite: Low. Given the materially adverse nature of the risk to Operational Resilience, Babcock looks to recognise and eradicate the emergence of risks to operations where possible, hence risk appetite being set as low.

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 and credit risks). Risk Appetite: Low. Babcock recognises the adverse effects of the financial resilience risk on our balance sheet and actively manages this risk via its capital allocation policy, substantial committed debt facilities and maintaining an investment grade credit rating allowing access to debt capital markets. However, this risk cannot be entirely eliminated and will aways require management.

Health and safety: Our operations entail the potential risk of significant harm to people and property, wherever we operate across the world. Risk Appetite: Low. For both moral, financial and reputational reasons we would wish to keep the risk as low as possible. Through the eyes of the HSE and high hazard regulators we are legally mandated to keep the risk as low as reasonably practicable.

Climate and sustainability: Sustainability is an integral part of our corporate strategy, and our global business employs short, medium, and long terms control measures to manage climate risks. Risk Appetite: Low. Our probability and impact scorings for the risks related to Climate and Sustainability are based on a scenario-based methodology. We determined that the most significant transition risk is labour, which is expected to rise, however our risk appetite allocation remains low as this situation is likely to materialise in the medium and long term and gives us time to implement activities to mitigate.

Technological disruption: We have identified three main attributes to potential technological disruption that potentially effects Babcock. The digital change agenda both within our customers and internal to Babcock, our approach to data management and finally the disruption of new technology offerings. Risk Appetite: Low. Given the materially adverse nature of digital and data risks, Babcock look to recognise and eradicate the emergence of risks to operations where possible, hence risk appetite being set at low. Exploiting new technology in an appropriate manner can open new markets. However, Babcock does survey the market for new technology to develop into new opportunities. These are assessed for benefit individually and if deemed of interest, integrated into our research and development programme and managed with project management.

Regulatory & compliance: Our businesses are subject to the laws, regulations and restrictions of the many jurisdictions in which they operate. Risk Appetite: Low. Babcock always endeavours to act in line with best practices and regulatory requirements. Babcock has zero tolerance for regulatory risk around risks such as anti-bribery and corruption and modern slavery, the risk appetite allocation is therefore set at low

Talent management, retention and upskilling: We operate in many specialised engineering and technical domains, which require appropriate skills and experience. Risk Appetite: Medium. Avoidance of the risk would increase costs and necessitate over-resourcing resulting in potential negative workforce engagement and retention. Some risk is accepted given by sharing capability across our business and compensating for skills shortages in particular areas.

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. Risk Appetite: Medium. Babcock will continue to review potential opportunities within the market in a considered and measured way, M&A activity continues to be inherently high risk, future M&A activity will be undertaken only where it is possible to reduce inherent risk to its lowest level balanced against potential rewards and opportunity.

The risks listed above, together with their potential impacts and mitigating actions we have taken in respect of them, have not changed since FY23 and are explained and described in more detail in the 2023 Annual Report, a copy of which will be available at www.babcockinternational.com

Group income statement (unaudited)

	Note	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Revenue	2,3	2,177.0	2,144.0
Operating costs		(2,032.8)	(2,071.2)
Operating profit	2,3	144.2	72.8
Share of results of joint ventures and associates	2,3	6.0	6.6
Finance income	4	10.2	10.1
Finance costs	4	(24.3)	(38.3)
Profit before tax	2,3	136.1	51.2
Income tax expense	2,5	(32.0)	(14.2)
Profit for the period	2	104.1	37.0
Attributable to:			
Owners of the parent	2	102.5	34.6
Non-controlling interest	2	1.6	2.4
		104.1	37.0
Earnings per share			
Basic	2	20.4p	6.8p
Diluted	2	19.9p	6.7p

Condensed consolidated statement of comprehensive income (unaudited)

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Profit for the period	104.1	37.0
Other comprehensive loss		
Items that may be subsequently reclassified to income statement		
Currency translation differences	(5.4)	7.7
Fair value adjustment of interest rate and foreign exchange hedges	3.1	–
Hedging (losses)/gains reclassified to profit and loss	(1.1)	2.9
Share of other comprehensive income of joint ventures and associates	0.4	3.1
Tax on items that may be subsequently reclassified to income statement	(1.5)	–
Items that will not be subsequently reclassified to income statement		
Remeasurement of retirement benefit obligations (note 13)	(132.7)	(124.0)
Tax, including rate change impact, on remeasurement of retirement benefit obligations	33.2	31.0
Other comprehensive loss, net of tax	(104.0)	(79.3)
Total comprehensive income/(loss)	0.1	(42.3)
Total comprehensive income/(loss) attributable to:		
Owners of the parent	(0.8)	(44.0)
Non-controlling interest	0.9	1.7
Total comprehensive income/(loss)	0.1	(42.3)

Condensed consolidated statement of comprehensive income (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 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
At 1 April 2023	303.4	873.0	768.8	30.6	(1,568.8)	3.0	(56.1)	353.9	17.0	370.9
Profit for the period	–	–	–	–	102.5	–	–	102.5	1.6	104.1
Other comprehensive (loss)/income	–	–	–	–	(99.5)	2.0	(5.8)	(103.3)	(0.7)	(104.0)
Total comprehensive income	–	–	–	–	3.0	2.0	(5.8)	(0.8)	0.9	0.1
Purchase of own shares	–	–	–	–	(7.5)	–	–	(7.5)	–	(7.5)
Share-based payments	–	–	–	–	5.2	–	–	5.2	–	5.2
Tax on shared-based payments	–	–	–	–	2.1	–	–	2.1	–	2.1
Net movement in equity	–	–	–	–	2.8	2.0	(5.8)	(1.0)	0.9	(0.1)
At 30 September 2023	303.4	873.0	768.8	30.6	(1,566.0)	5.0	(61.9)	352.9	17.9	370.8

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 2023 £m	As at 31 March 2023 £m
Assets			
Non-current assets			
Goodwill	6	780.7	781.4
Other intangible assets		145.2	140.8
Property, plant and equipment		487.3	478.5
Right of use assets		150.4	159.1
Investment in joint ventures and associates		57.0	57.4
Loans to joint ventures and associates		2.0	9.5
Retirement benefit surpluses	13	43.5	94.8
Other financial assets		6.7	7.3
Lease receivables		18.3	22.2
Derivatives		0.9	2.6
Deferred tax asset		129.5	112.2
Trade and other receivables	8	6.2	6.4
		1,827.7	1,872.2
Current assets			
Inventories		128.5	126.8
Trade and other receivables	8	542.0	506.9
Contract assets	8	340.0	322.5
Income tax receivable		3.2	7.7
Lease receivables		11.8	16.4
Assets held for sale		2.9	–
Other financial assets		1.0	1.4
Derivatives		3.8	4.3
Cash and cash equivalents	12	480.5	451.7
		1,513.7	1,437.7
Total assets		3,341.4	3,309.9
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		742.5	746.3
Retained losses		(1,566.0)	(1,568.8)
Total equity attributable to owners of the parent		352.9	353.9
Non-controlling interest		17.9	17.0
Total equity		370.8	370.9
Non-current liabilities			
Bank and other borrowings		746.7	768.4
Lease liabilities		170.6	178.9
Trade and other payables	9	0.9	0.9
Deferred tax liabilities		6.8	7.0
Derivatives		52.0	53.3
Retirement benefit deficits	13	198.4	156.2
Provisions for other liabilities	11	86.0	80.8
		1,261.4	1,245.5
Current liabilities			
Bank and other borrowings		0.1	19.6
Lease liabilities		42.4	49.9
Trade and other payables	9	966.9	911.1
Contract liabilities	9	609.6	616.4
Income tax payable		13.9	15.8
Derivatives		15.2	12.8
Provisions for other liabilities	11	61.1	67.9
		1,709.2	1,693.5
Total liabilities		2,970.6	2,939.0
Total equity and liabilities		3,341.4	3,309.9

Condensed consolidated cash flow statement (unaudited)

	Note	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Cash flows from operating activities			
Profit for the period	2	104.1	37.0
Share of results of joint ventures and associates	2,3	(6.0)	(6.6)
Income tax expense	5	32.0	14.2
Finance income	4	(10.2)	(10.1)
Finance costs	4	24.3	38.3
Depreciation and impairment of property, plant and equipment		25.2	37.2
Depreciation and impairment of right of use assets		18.9	52.5
Amortisation and impairment of intangible assets		10.5	16.6
Equity share-based payments		5.2	4.0
Net derivative fair value and currency movement through profit or loss		6.7	23.2
Profit on disposal of property, plant and equipment		(0.1)	(0.6)
Profit on disposal of right of use assets		(0.2)	(0.1)
Cash generated from operations before movement in working capital and retirement benefit payments		210.4	205.6
(Increase)/decrease in inventories		(4.6)	1.1
Increase in receivables		(31.9)	(8.7)
Increase in contract assets		(19.4)	(100.6)
Increase in payables		55.3	85.4
Decrease in contract liabilities		(5.0)	(26.3)
Decrease in provisions		(2.0)	(5.1)
Retirement benefit payments in excess of income statement charge		(39.6)	(76.2)
Cash generated from operations		163.2	75.2
Income tax paid		(12.9)	(12.2)
Interest paid		(24.6)	(20.9)
Interest received		11.1	6.8
Net cash flows from operating activities		136.8	48.9
Cash flows from investing activities			
Dividends received from joint ventures and associates		6.8	5.1
Proceeds on disposal of property, plant and equipment		9.8	22.7
Purchases of property, plant and equipment		(47.4)	(52.8)
Purchases of intangible assets		(14.3)	(6.8)
Loans repaid by joint ventures and associates		7.1	2.0
Net cash flows from investing activities		(38.0)	(29.8)
Cash flows from financing activities			
Lease principal payments	12	(24.5)	(54.2)
Bank loans repaid	12	(13.0)	(60.7)
Purchase of own shares		(7.5)	–
Loans raised and facilities drawn down		–	153.3
Net cash flows from financing activities		(45.0)	38.4
Net increase in cash, cash equivalents and bank overdrafts	12	53.8	57.5
Cash, cash equivalents and bank overdrafts at beginning of period	12	429.5	756.5
Effects of exchange rate fluctuations	12	(2.9)	1.1
Cash, cash equivalents and bank overdrafts at end of period	12	480.4	815.1

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 2023, which were prepared in accordance with IFRS and the applicable legal requirements of the Companies Act 2006. These condensed consolidated half year 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 2023 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 2023 was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis of matter 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 2023, and comply with amendments to IFRS effective since that date.

The half year report for the six months ended 30 September 2023 was approved by the Directors on 13 November 2023.

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 condensed consolidated half year financial statements. 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 approval of these consolidated half year financial statements. The Directors reviewed the resources available to the Group in the form of cash and committed facilities. As of 30 September 2023, the Group's committed facilities and bonds totalling £1.75 billion were the £300 million revolving credit facility (RCF), the £775 million five-year multi-currency RCF, and two tranches of notes (£300m million 1.875% notes and €550 million 1.375% notes) issued under the Group's Eurobond programme. In October 2023, the Group has closed the £300 million RCF reducing available facilities to £1.45 billion. The going concern assessment, and forecasting of covenants below, reflected this change in financing.

The £775 million RCF is the only remaining facility containing financial covenants. The key covenant ratios are (i) net debt to EBITDA (gearing ratio) and (ii) EBITDA to net interest (interest cover) with tests set to less than 3.5x and greater than 4.0x respectively. 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 assess the level of performance deterioration against the base case budget (in both EBITDA and net debt) required to challenge covenant levels. Of the remaining measurement points within the five-year period approved by the Board, the smallest required reduction in forecast EBITDA to reach the covenant level was 65% and the smallest net debt increase was 230%. Given the mitigating actions that are available and within management's control, such adverse 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 2023. On an annual basis, budgets 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. This annual process comprises the budget for the coming financial year and a 5-year plan.

Between annual budget cycles, the Group prepares rolling forecasts on a monthly basis covering an updated assessment of the remainder of the current financial year. The impacts of current economic conditions, including inflation, are incorporated into the annual budget process and the rolling forecasts. Where changes in economic conditions are significant, these would also be incorporated into the 5-year plan for the purpose of the going concern assessment.

The Directors have performed sensitivity analyses on the latest Group rolling forecast for the duration of the assessment period. These involve a range of downside events both individually and in combination under a range of severe, but plausible downside scenarios. Such sensitivities include a reduction in bid pipeline closure (business winning), a deterioration in large programme performance across the Group (including further inflation cost increases, or related failures in supplier resilience, as per our principal risks), a deterioration in the Group's working capital position and a regulatory risk relating to a reduction in access to R&D tax incentive credits.

If such a severe downturn were to occur in the Group's performance, the Board would take mitigation measures to protect the Group in the short term as described in the going concern assessment on page 104 of the annual report and financial statements for the year ended 31 March 2023. Despite the severity of the combined severe, but plausible scenarios, these sensitivities did not give rise to any material uncertainties in relation to the Group's ability to continue as a going concern. Based on our review, the Directors have a reasonable expectation that the Group has adequate resources to continue as a going concern for at least 12 months from the date of these condensed consolidated half year financial statements. As such, these financial statements have been prepared on the going concern basis. 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 2023. The following represent the notable assumptions impacting upon revenue and profit recognition as a result of the Group's contracts with customers:

- Stage of completion & costs to complete – The Group's revenue recognition policies require an estimate of the cost to complete long-term contracts. Outturn costs are estimated on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel. Estimates of cost to complete include the 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 with adjustments made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn. The most significant estimate of contract outturn relates to the Type 31 programme as outlined below.
- Variable consideration – the Group's contracts are often subject to variable consideration including performance-based penalties and incentives, gain/pain share arrangements and other items. Variable consideration is added to the transaction price only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised once the underlying uncertainty is resolved.
- 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 revenue and cost of contract delivery to differ from previous estimates. The Group's contracts are exposed to inflation due to rising employment costs, as well as increased costs of raw materials. The Group endeavours to include cost recovery mechanisms or index-linked pricing within its contracts with customers in order to mitigate any inflation risk arising from increasing employment and raw material costs. In the most significant contract where there is no mechanism to recover an increase in costs due to inflation, revenue and profit in the year would be impacted by £4 million for each 1% change in personnel costs.

Type 31 Programme estimates

A £100m loss was recorded during the year ended 31 March 2023, primarily by reducing revenue and creating an onerous contract provision. Determining the contract outturn, and therefore revenue and onerous contract provision recognised, requires assumptions and complex judgements to be made about future performance of the contract. The level of uncertainty in the estimates made in assessing the outturn is linked to the complexity of the underlying contract. The key sources of estimates in assessing the outturn are:

- The results of the dispute resolution process, and any reimbursements agreed with the customer;
- The build costs over the production schedule and estimate of efficiencies arising from the 'learner' effect through performing work over multiple ships;
- The ability to maintain or improve operational performance through process efficiencies and improvements over the five ships;
- The impact of inflation on the build cost; and
- The achievement of the build schedule to completion and final acceptance.

These estimates are inter-related. The range of possible future outcomes in respect of assumptions made to determine the contract outturn could result in a material increase or decrease in revenue and the value of the onerous contract provision, and hence on the Group's profitability, in the current and next financial year. With c£1bn of estimated costs to go over the life of the contract, if actual recoveries or costs were to differ from those assumed by 5-10%, the potential impact on the contract outturn could be £50-£100m. To mitigate this, comparisons of actual contract performance and previous forecasts used to assess the contract outturn are performed regularly, with consideration given to whether any revisions to assumptions are required. In the next financial year, design activities will be finalised and the construction of the first ship will be substantially complete. This will reduce the uncertainty over the contract outturn, but a significant element will remain due to the substantial activity which extends over a further 4 years. In a major ship build programme of this nature, it is inherently possible that there may be changes in circumstances which cannot reasonably be foreseen at the present time.

Defined benefit pension schemes obligation: The Group's defined benefit pension schemes are assessed annually in accordance with IAS 19. 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 judgment 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 2023, note 26 provided a sensitivity analysis of the impact of assumptions used in the Group's defined benefit pension schemes.

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

Key sources of estimation uncertainty (continued)

The carrying value of goodwill: Goodwill is tested annually for impairment, in accordance with IAS 36, Impairment of Assets ('IAS 36'). The impairment assessment is based on assumptions in relation to the cash flows expected to be generated by cash generating units ("CGUs"), together with appropriate discounting of the cash flows. The assessment of the carrying value of goodwill in the Aviation CGU 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. The assessment of the recoverable value of goodwill in other CGUs is not considered a critical accounting estimate as a result of the headroom within these CGUs.

The key assumptions in estimating the carrying value of goodwill are discount rate, long-term growth rate and growth in the short-term cash flows. Inflation rates are incorporated into the impairment assessment through their inclusion within the growth rates in cash inflows and outflows and through the methodology by which discount rates are determined. Were inflation to impact upon all cash flows equally, the impairment assessment should be neutral to the impact of inflation. The Group has a number of protections and exposures to the impact of inflation across its portfolio of revenue arrangements and supply chain agreements resulting in an indirect impact of inflation on the impairment outturn.

In the annual report and financial statements for the year ended 31 March 2023, note 10 provided a sensitivity analysis regarding the impairment of goodwill.

Critical accounting judgements

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

Acting as a principal or agent: 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 over 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 operating costs.

Determining the Group's cash generating units: Management exercises judgement in determining the Group's cash generating units for the goodwill impairment assessment. This determination is generally straightforward and factual, but in some cases, judgement is required. For example, it was determined that Africa is a separate cash generating unit, whilst operations of the Group in other territories do not represent separate cash generating units. There have been no changes to the operating segments in the current period.

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 have a more consistent view of the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from period to period. 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 those used in the year ended 31 March 2023.

Underlying operating profit

In any given period, the statutory measure of operating profit includes a number of items which the Group considers to either be one-off in nature or otherwise not reflective of underlying performance (Specific Adjusting Items"). Underlying operating profit therefore adjusts statutory operating profit to provide readers with a measure of business performance which the Group considers more consistently analyses the underlying performance of the Group by removing these one-off items that otherwise add volatility to performance.

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, large, infrequent restructuring programmes and fair value movements on derivatives. Transactions such as these may happen regularly and could significantly impact the statutory result in any given period. Adjustments to underlying operating profit may include both income and expenditure items.

2. Adjustments between statutory and underlying information (continued)

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.

Income statement including underlying results

	Six months ended 30 September 2023			Six months ended 30 September 2022		
	Underlying £m	Specific Adjusting Items £m	Statutory £m	Underlying £m	Specific Adjusting Items £m	Statutory £m
Revenue	2,177.0	–	2,177.0	2,144.0	–	2,144.0
Operating profit	154.4	(10.2)	144.2	121.7	(48.9)	72.8
Share of results of joint ventures and associates	6.0	–	6.0	6.6	–	6.6
Net finance costs	(20.0)	5.9	(14.1)	(22.7)	(5.5)	(28.2)
Profit before tax	140.4	(4.3)	136.1	105.6	(54.4)	51.2
Income tax expense	(35.3)	3.3	(32.0)	(23.1)	8.9	(14.2)
Profit after tax for the period	105.1	(1.0)	104.1	82.5	(45.5)	37.0

Earnings per share including underlying measures

	Six months ended 30 September 2023			Six months ended 30 September 2022		
	Underlying £m	Specific Adjusting items £m	Statutory £m	Underlying £m	Specific Adjusting items £m	Statutory £m
Profit/(loss) after tax for the period	105.1	(1.0)	104.1	82.5	(45.5)	37.0
Amount attributable to owners of the parent	103.5	(1.0)	102.5	80.1	(45.5)	34.6
Amount attributable to non-controlling interests	1.6	–	1.6	2.4	–	2.4
Weighted average number of shares (m)	503.5		503.5	505.3		505.3
Effect of dilutive securities (m)	12.7		12.7	9.9		9.9
Diluted weighted average number of shares (m)	516.2		516.2	515.2		515.2
Basic EPS	20.6p	(0.2)p	20.4p	15.8p	(9.0)p	6.8p
Diluted EPS	20.1p	(0.2)p	19.9p	15.5p	(8.8)p	6.7p

2. Adjustments between statutory and underlying information (continued)

Details of Specific Adjusting Items

The impact of Specific Adjusting Items is set out below:

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Amortisation of acquired intangibles	(5.6)	(8.1)
Business acquisition, merger and divestment related items	(0.2)	(12.1)
Fair value movement on derivatives and related items	(4.4)	(28.7)
Adjusting items impacting operating profit	(10.2)	(48.9)
Fair value movement on derivatives and related items	5.9	(5.5)
Adjusting items impacting profit before tax	(4.3)	(54.4)
Adjusting items impacting income tax expense		
Amortisation of acquired intangibles	1.6	2.1
Business acquisition, merger and divestment related items	–	1.7
Fair value movement on derivatives and related items	(0.4)	5.1
Income tax effect of adjusting items impacting profit before tax	1.2	8.9
Income tax specific adjusting items	2.1	–
Total adjusting items impacting income tax	3.3	8.9
Adjusting items impacting profit after tax	(1.0)	(45.5)

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 movement on derivatives and related items

Movements within operating profit arise from 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. These arrangements are considered to provide an economic hedge, but hedge accounting under IFRS is not applied. 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 remove the risk to profitability).

Hedge ineffectiveness on debt and debt-related derivatives that are designated in a hedge relationship under IFRS 15 are also presented as a specific adjusting item in finance costs. This is presented as a specific adjusting item as the ineffectiveness is caused by the off-market designation at inception, although overall the transactions are considered to represent an economic hedge.

The fair value movement on lease-related derivatives and foreign exchange movements on lease liabilities are also presented as a specific adjusting item in finance costs. These arrangements are considered to provide an economic hedge, but hedge accounting under IFRS is not applied.

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 £0.2 million. This represents legal and warranty related costs additional to those initially recorded in the prior period in respect of divestments.

The prior period included a total net loss relating to business acquisition, merger and divestment related items of £12.1 million. This comprised professional fees and related costs in respect of the disposal activity completed in the year ending 31 March 2023 – notably the disposal of the Group's European Aerial Emergency Services business.

Income tax specific adjusting items

During the period the Group revised its estimates for certain tax-related provisions, relating to matters arising from previous divestments and business reorganisations.

3. 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 operational 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 2023	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	750.1	710.8	545.6	170.5	–	2,177.0
Underlying operating profit	63.0	45.2	37.5	8.7	–	154.4
Specific Adjusting Items						
Amortisation of acquired intangibles	(3.8)	–	–	(1.8)	–	(5.6)
Business acquisition, merger and divestment related items	–	–	(0.2)	–	–	(0.2)
Fair value loss on forward rate contracts	(4.1)	–	–	(0.3)	–	(4.4)
Operating profit	55.1	45.2	37.3	6.6	–	144.2
Share of results of joint ventures and associates	0.3	–	–	5.7	–	6.0
Net finance costs	–	–	0.3	–	(14.4)	(14.1)
Profit/(loss) before tax	55.4	45.2	37.6	12.3	(14.4)	136.1

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

Geographic analysis of revenue

The geographic analysis of revenue by origin of customer for the periods ended 30 September 2023 and 30 September 2022 is as follows:

	Revenue	
Geographic analysis	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
United Kingdom	1,507.2	1,259.8
Rest of Europe	112.0	335.7
Africa	179.7	169.4
North America	93.9	77.6
Australasia	170.5	163.4
Rest of World	105.7	138.1
Group total	2,177.0	2,144.0

3. Segmental information (continued)

The analysis of revenue for the periods ended 30 September 2023 and 30 September 2022 is as follows:

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Sale of goods – transferred at a point in time	181.4	163.6
Sale of goods – transferred over time	117.1	130.2
Sale of goods	298.5	293.8
Provision of services – transferred over time	1,872.5	1,823.0
Rental income	6.0	27.2
Revenue	2,177.0	2,144.0

4. Net finance costs

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	15.0	22.5
Lease interest and associated hedges	5.3	13.1
Amortisation of issue costs of bank loan	1.5	1.7
Retirement benefit interest	0.4	–
Other	2.1	1.0
Total finance costs	24.3	38.3
Finance income		
Bank deposits, loans and leases	9.9	6.1
IFRIC 12 investment income	0.3	0.4
Retirement benefit interest	–	3.6
Total finance income	10.2	10.1
Net finance costs	14.1	28.2

5. Income tax expense

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Income tax expense	(32.0)	(14.2)
Calculation of underlying effective tax rate		
Profit before tax	136.1	51.2
Deduct: Share of results of joint ventures and associates (note 2)	(6.0)	(6.6)
Add back: specific adjusting items (note 2)	4.3	54.4
Adjusted profit before tax	134.4	99.0
Tax charge	32.0	14.2
Exclude adjusting items impacting income tax (note 2)	3.3	8.9
Adjusted tax charge	35.3	23.1
Underlying effective tax rate	26.3%	23.3%

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 2024 to the half year pre-tax profit in each jurisdiction in which it operates.

6. Goodwill

	30 September 2023 £m	31 March 2023 £m
Cost		
At 1 April	1,823.3	2,312.7
On disposal of subsidiaries	–	(488.0)
Exchange adjustments	(0.7)	(1.4)
At 30 September/ 31 March	1,822.6	1,823.3
Accumulated impairment		
At 1 April	1,041.9	1,529.3
On disposal of subsidiaries	–	(487.4)
At 30 September/ 31 March	1,041.9	1,041.9
Net book value at 30 September / 31 March	780.7	781.4

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

	30 September 2023 £m	31 March 2023 £m
Marine	296.0	296.6
Nuclear	233.1	233.1
Land	218.0	218.0
Aviation	32.0	32.0
Africa	1.6	1.7
	780.7	781.4

Goodwill is stated at cost less any provision for impairment. The recoverable value of each cash generating unit was assessed at 31 March 2023 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 2023 since the published annual report and financial statements for the year ending 31 March 2023. The key assumptions can be found in note 10 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 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 at the year end.

7. Non-current assets

In the six months ended 30 September 2023 the Group made the following significant additions to non-current assets:

- £48.2 million of additions to property plant and equipment including £25.4 million of site improvements at Devonport Royal Dockyard;
- £15.0 million of additions to intangible assets; and
- £14.0 million of additions to right of use assets representing new aircraft and property lease arrangements.

8. Trade and other receivables and contract assets

	30 September 2023 £m	31 March 2023 £m
Non-current assets		
Costs to obtain a contract	2.6	2.8
Costs to fulfil a contract	1.0	1.4
Other debtors	2.6	2.2
Non-current trade and other receivables	6.2	6.4
Current assets		
Trade receivables	296.4	307.3
Less: provision for impairment of receivables	(8.3)	(7.3)
Trade receivables – net	288.1	300.0
Retentions	4.3	6.0
Amounts due from related parties (note 15)	2.6	2.1
Other debtors	145.3	129.4
Prepayments	95.5	63.7
Costs to obtain a contract	0.6	0.6
Costs to fulfil a contract	5.6	5.1
Trade and other receivables	542.0	506.9
Contract assets	340.0	322.5
Current trade and other receivables and contract assets	882.0	829.4

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

9. Trade and other payables and contract liabilities

	30 September 2023 £m	31 March 2023 £m
Current liabilities		
Trade creditors	264.7	239.1
Amounts due to related parties (note 15)	0.3	0.8
Other creditors	59.8	41.6
Other taxes and social security	74.7	75.5
Accruals	567.4	554.1
Trade and other payables	966.9	911.1
Contract liabilities	609.6	616.4
Trade and other payables and contract liabilities	1,576.5	1,527.5
Non-current liabilities		
Other creditors	0.9	0.9

Included in creditors is £14.3 million (31 March 2023: £12.9 million) relating to capital expenditure which has therefore not been included in working capital movements within the cash flow statement.

10. Financial instruments

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

30 September 2023 (£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						
Loans to joint ventures and associates	–	2.0	–	–	2.0	2.0
Other financial assets	–	6.7	–	–	6.7	6.7
Lease receivables	–	18.3	–	–	18.3	18.3
Derivatives	0.9	–	–	–	0.9	0.9
Current financial assets						
Trade and other receivables *	1.5	322.5	–	–	324.0	324.0
Other financial assets	–	1.0	–	–	1.0	1.0
Lease receivables	–	11.8	–	–	11.8	11.8
Derivatives	3.8	–	–	–	3.8	3.8
Cash and cash equivalents	–	480.5	–	–	480.5	480.5
Non-current financial liabilities						
Bank and other borrowings	–	–	–	(746.7)	(746.7)	(659.3)
Trade and other payables *	–	–	–	(0.6)	(0.6)	(0.6)
Derivatives	–	–	(52.0)	–	(52.0)	(52.0)
Current financial liabilities						
Bank and other borrowings	–	–	–	(0.1)	(0.1)	(0.1)
Trade and other payables *	–	–	–	(538.2)	(538.2)	(538.2)
Derivatives	–	–	(15.2)	–	(15.2)	(15.2)
Net financial assets / (financial liabilities)	6.2	842.8	(67.2)	(1,285.6)	(503.8)	(416.4)

31 March 2023 (£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						
Loans to joint ventures and associates	–	9.5	–	–	9.5	9.5
Other financial assets	–	7.3	–	–	7.3	7.3
Lease receivables	–	22.2	–	–	22.2	22.2
Derivatives	2.6	–	–	–	2.6	2.6
Current financial assets						
Trade and other receivables *	1.5	345.1	–	–	346.6	346.6
Other financial assets	–	1.4	–	–	1.4	1.4
Lease receivables	–	16.4	–	–	16.4	16.4
Derivatives	4.3	–	–	–	4.3	4.3
Cash and cash equivalents	–	451.7	–	–	451.7	451.7
Non-current financial liabilities						
Bank and other borrowings	–	–	–	(768.4)	(768.4)	(670.3)
Derivatives	–	–	(53.3)	–	(53.3)	(53.3)
Current financial liabilities						
Bank and other borrowings	–	–	–	(19.6)	(19.6)	(19.6)
Trade and other payables *	–	–	–	(511.1)	(511.1)	(511.1)
Derivatives	–	–	(12.8)	–	(12.8)	(12.8)
Net financial assets / (financial liabilities)	8.4	853.6	(66.1)	(1,299.1)	(503.2)	(405.1)

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

The fair values of financial instruments held at fair value have been determined based on available market information at the period end date, and the valuation methodologies listed below:

- The fair values of forward foreign exchange contracts are calculated by discounting the contracted forward values and translating at the appropriate period end rates; and
- The fair values of cross-currency interest rate swaps are calculated by discounting expected future principal and interest cash flows and translating at the appropriate period end rates.

11. Provisions for other liabilities

	Contract/ warranty (a) £m	Employee benefits and business reorganisation (b) £m	Property (c) £m	Other (d) £m	Total £m
At 31 March 2023	100.4	30.5	15.1	2.7	148.7
Net charge to income statement	10.7	3.3	3.9	0.1	18.0
Utilised in the period	(16.9)	(2.5)	(0.5)	(0.1)	(20.0)
Unwinding of discount	1.1	0.1	–	–	1.2
Foreign exchange	(0.4)	(0.4)	(0.3)	0.3	(0.8)
At 30 September 2023	94.9	31.0	18.2	3.0	147.1

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

	30 September 2023 £m	31 March 2023 £m
Current	61.1	67.9
Non-current	86.0	80.8
	147.1	148.7

(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) Employee benefits and business reorganisation costs relate to long term employee benefits such as long-term sickness and long-term leave, and business restructuring activities including announced redundancies.

© Property and other provisions primarily relate to dilapidation costs in respect of leased buildings and contractual obligations in respect of infrastructure.

(d) Other provisions include provisions for insurance claims arising within the Group's captive insurance company, Chepstow Insurance Limited. Provisions relate to specific claims assessed in accordance with the advice of independent actuaries.

Included within provisions is £6.8 million expected to be utilised over approximately ten years (31 March 2023: £6.9 million). Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

12. Changes in net debt

	31 March 2023 £m	Cash flow £m	Additional leases £m	Other non-cash movement £m	Changes in fair value £m	Exchange movement £m	30 September 2023 £m
Cash and bank balances	451.7	31.7	–	–	–	(2.9)	480.5
Bank overdrafts	(22.2)	22.1	–	–	–	–	(0.1)
Cash, cash equivalents and bank overdrafts	429.5	53.8	–	–	–	(2.9)	480.4
Debt	(765.8)	13.0	–	(1.4)	(0.4)	7.9	(746.7)
Derivatives hedging debt	(47.4)	–	–	–	2.1	–	(45.3)
Lease liabilities	(228.8)	24.5	(10.4)	–	–	1.7	(213.0)
Changes in liabilities from financing arrangements	(1,042.0)	37.5	(10.4)	(1.4)	1.7	9.6	(1,005.0)
Lease receivables	38.6	(22.0)	16.0	–	–	(2.5)	30.1
Loans to joint ventures and associates	9.5	(7.1)	–	(0.4)	–	–	2.0
Net debt	(564.4)	62.2	5.6	(1.8)	1.7	4.2	(492.5)

13. Retirement benefits and liabilities

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

	30 September 2023 £m	31 March 2023 £m
Fair value of plan assets		
Growth assets		
Equities	89.9	34.1
Property funds	285.0	307.8
High yield bonds/emerging market debt	0.4	0.4
Absolute return and multi-strategy funds	154.5	171.5
Low-risk assets		
Bonds	1,355.2	1,368.3
Matching assets*	1,199.2	1,547.8
Longevity swaps	(213.2)	(241.9)
Fair value of assets	2,871.0	3,188.0
Percentage of assets quoted	73%	80%
Percentage of assets unquoted	27%	20%
Present value of defined benefit obligations		
Active members	461.6	518.1
Deferred pensioners	707.1	786.6
Pensioners	1,857.2	1,944.7
Total defined benefit obligations	3,025.9	3,249.4
Net liabilities recognised in the statement of financial position	(154.9)	(61.4)

* Matching assets primarily comprise a "Liability Driven Investment" portfolio, which invests in gilts, Network Rail bonds, gilt repurchase agreements, interest rate and inflation swaps, asset swaps and cash, on a segregated basis. For certain schemes, there are also investments in investment grade credit, via both segregated portfolios and pooled investment vehicles. The various segregated portfolios and pooled investment vehicle each utilise derivative contracts. The Trustee has 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 is gilt repurchase agreements, interest rate and inflation swaps in the matching portfolios and total return swaps in the return seeking portfolios. These derivatives are included within the matching assets and equities classifications. Repurchase agreements are entered into with counterparties to better offset the scheme's exposures to interest and inflation rates, whilst remaining invested in assets of a similar risk profile.

An analysis of the movement in the Group statement of financial position is set out below.

	30 September 2023 £m	31 March 2023 £m
Fair value of plan assets (including reimbursement rights)		
At 1 April	3,188.0	4,733.1
Interest on assets	75.6	126.1
Actuarial loss on assets	(349.0)	(1,533.1)
Employer contributions	51.2	174.5
Employee contributions	0.1	0.1
Benefits paid	(94.9)	(256.6)
Settlements	–	(56.1)
As at period end	2,871.0	3,188.0
Present value of benefit obligations		
At 1 April	3,249.4	4,541.5
Service cost	7.4	25.8
Incurred expenses	4.2	6.8
Interest cost	76.0	118.6
Employee contributions	0.1	0.1
Experience losses	36.3	162.9
Actuarial gain – demographics	(0.4)	(43.5)
Actuarial gain – financial	(252.2)	(1,250.1)
Benefits paid (including transfers)	(94.9)	(256.6)
Settlements	–	(56.1)
As at period end	3,025.9	3,249.4
Net asset liability at period end	(154.9)	(61.4)

13. Retirement benefits and liabilities (continued)

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

	30 September 2023 £m	30 September 2022 £m
Current service cost	7.4	13.1
Incurred expenses	4.2	3.4
Total included within operating profit	11.6	16.5
Net interest cost / (credit) – note 4	0.4	(3.6)
Total included within income statement	12.0	12.9

As at 30 September 2023 the key assumptions used in valuing pension liabilities were:

Discount rate	5.5% - 5.7% (31 March 2023: 4.8%)
Inflation rate (RPI)	8.6% for one year and long-term rates of 3.2% - 3.4% (31 March 2023: 6.9% for one year and long-term rates of 3.3%)
Inflation rate (CPI)	Inflation rate (RPI) – 0.5%

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

On 19 July 2022, the Group announced it had entered into a sale and purchase agreement to dispose of part of its Aerial Emergency Services business in Europe. The disposal group was part of the Aviation sector and provided aerial emergency services, including medical, firefighting and search & rescue to customers and communities in Italy, Spain, Portugal, Norway, Sweden and Finland. The disposal completed on 28 February 2023. The Group received consideration of £187.1 million.

On 1 September 2022, the Group entered into a sale and purchase agreement to dispose of its Civil Training business. The disposal group was part of the Land sector and the disposal completed on 1 February 2023. The Group received consideration of £5.5 million.

Details of the disposal balance sheet and loss on disposal is included in Note 28 of the annual report and financial statements for the year ended 31 March 2023.

15. Related party transactions

Related party transactions for the six months ended 30 September 2023 represent sales to joint ventures and associates of £31.1 million (six months ended 30 September 2022: £18.8 million) and purchases from joint ventures and associates of £nil (six months ended 30 September 2022: £nil).

Key management compensation for the year ended 31 March 2023 is set out in the Remuneration Report and note 6 in the annual report and financial statements for the year ended 31 March 2023.

For transactions with Group defined benefit pension schemes, please refer to note 13 above and note 26 in the annual report and financial statements for the year ended 31 March 2023.

15. Related party transactions (continued)

30 September 2023	Revenue to (£m)	Purchases from (£m)	Period end receivables balance (£m)	Period end payables balance (£m)
Alert Communications Limited	3.5	–	0.9	–
AirTanker Services Limited	13.7	–	0.1	–
Advanced Jet Training Limited	1.3	–	0.2	–
Rear Crew Training Limited	0.7	–	–	–
Ascent Flight Training (Management) Limited	0.5	–	0.3	–
Ascent Flight Training (Holdings) Limited	–	–	0.2	–
Fixed Wing Training Limited	3.1	–	–	–
Rotary Wing Training Limited	4.1	–	–	–
First Swietelsky Operation and Maintenance	4.1	–	0.8	(0.3)
DUQM Naval Dockyard SAOC	0.1	–	0.1	–
	31.1	–	2.6	(0.3)

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	–
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)

16. Contingent liabilities

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, or 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, as described below.

The nature of the Group's long-term contracts is such 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 for 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.

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 does not 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.

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, for which a provision has not been recorded, is unlikely to have a material effect on the Group's financial position.

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 position and performance.

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.

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

13 November 2023