



Babcock International Group PLC

half year results for the period ended 30 September 2019

20 November 2019

Delivering against expectations and confirming full year guidance

Financial results

	Underlying		Statutory	
	30 September 2019 IFRS 16 basis*	30 September 2018 Pre-IFRS 16 basis*	30 September 2019 IFRS 16 basis*	30 September 2018 Pre-IFRS 16 basis*
Revenue ¹	£2,457.8m	£2,576.9m	£2,194.8m	£2,254.8m
<i>Revenue excl. step downs**</i>	<i>£2,457.8m</i>	<i>£2,457.5m</i>		
Operating profit ²	£250.6m	£279.6m	£168.7m	£49.3m
<i>Operating profit pre-IFRS 16 and excl. step downs**</i>	<i>£237.9m</i>	<i>£242.6m</i>		
Profit before tax ³	£202.5m	£245.5m	£152.5m	£65.1m
Basic earnings per share ⁴	32.5p	39.9p	25.6p	11.5p
Operating cash flow (post net capex)	£77.8m	£180.2m		
Free cash flow (post pension payments) ⁵	£6.8m	£118.8m		
Net debt (excl. IFRS 16 debt of £616.2m at 30 Sept 2019)	£(1,138.0)m	£(1,131.9)m		
Net debt/EBITDA (covenant basis ⁶)	1.9x	1.8x		
Interim dividend	7.2p	7.1p		

* Results for this half year are reported under IFRS 16 (Leases) without prior year restatement. The adoption of IFRS 16 increases operating profit by £12.7 million. The impact on other metrics in this table is not material.

** Results for this half year include the impact of previously communicated step downs⁷. The revenue step down in the first half was £119 million and the operating profit step down was £37 million. To aid understanding, the impact of these step downs has been included in the table above as an adjustment to the prior period. Details by sector are included on page 10.

Financial highlights

- Results in line with our expectations for the phasing of this financial year
- **Underlying revenue** of £2,458 million is flat after the impact of the step downs
- **Underlying operating profit** of £251 million on the new IFRS 16 basis. On a pre-IFRS 16 basis underlying operating profit was £238 million, reflecting the phasing of the step downs
- **Statutory revenue** down 2.7%. **Statutory operating profit** of £168.7 million is higher than last year which included £120 million of exceptional charges
- **Underlying basic EPS** of 32.5p
- **Free cash flow** of £6.8 million reflects the expected phasing of operating cash flow. The reduction in free cash flow compared to last year mostly relates to the benefit of Fomedec working capital in the prior year
- **Net debt** (pre-IFRS 16 basis) of £1,138 million; net debt (IFRS 16 basis) of £1,754 million
- **Interim dividend** increased to 7.2p

Operational highlights

- **Combined order book and pipeline** up 10% since March 2019 at £34 billion, its highest ever level
- **Order book** of £18 billion as of 20 November (March 2019: £17 billion) following the signing of the Type 31 contract
- **Pipeline** of £16 billion as of 20 November (March 2019: £14 billion) with significant new Defence opportunities added in both UK and international markets
- **Contract wins c.£3.5 billion** including Type 31 frigate programme
- **New c.£300m contract for Met Police training** announced today
- **Increasing international presence:** Aviation operations started in Norway and Canada
- **Refinanced** Group's borrowings

Outlook for the year ending 31 March 2020 unchanged

- Our outlook for the year is unchanged:
 - We expect underlying revenue to be **around £4.9 billion**
 - We expect underlying operating profit (on an IFRS 16 basis) to be in the **range of £540 million to £560 million**, consistent with the previously communicated range of £515 million to £535 million which was on a pre-IFRS 16 basis
 - Our margin expectations remain unchanged except for the effect of the adoption of IFRS 16
 - We expect free cash flow (post pension payments) to be **over £250 million** and expect to continue to **reduce net debt**
- Outlooks by sector are included in this report. Stronger than expected trading in our Marine and Land sectors is expected to offset weaker than expected trading in our Aviation sector

Chief Executive Archie Bethel said:

"Today's results show we are doing what we said we would do. Our delivery in the first half is in line with our expectations, with good performance across most of the Group. In particular, strong performance from our Marine business has offset some weakness in the Aviation sector.

"If we exclude the step downs resulting from big projects like the aircraft carriers coming to an end, and from the impact of procuring planes last year for the French Fomedec contract, our underlying revenue grew by 3.6%. This momentum, combined with the second half phasing of margin and cash flow that we expect, means I am pleased to confirm that the full year guidance we gave in May remains unchanged.

"Our strategy is delivering – we have increased our order book to over £18 billion as a result of significant contract wins in our core markets, including building the Type 31 warship for the UK's Royal Navy and providing training to London's Metropolitan Police Service. We have continued to expand our international footprint, with new Aviation operations in Norway and Canada and the start of our support of the Australian Navy's amphibious assault ships. And our pipeline of opportunities has increased to £16 billion as a result of increased bidding activity across our markets. Our combined order book and pipeline of over £34 billion is at its highest level ever.

"I am pleased with the progress we've made so far this year and we look forward to continuing to deliver our strategy through this year and over the medium term."

Archie Bethel

Chief Executive CBE

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Analysts and investors:

A meeting for investors and analysts will be held on 20 November 2019 at 9.00 am at FTI Consulting, London.

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

Notes

The adjustments described below, collectively, are made to derive the underlying results of the Group. The underlying figures provide a consistent measure of business performance year-to-year, thereby enabling comparison and understanding of Group financial performance. A reconciliation from statutory to underlying is provided within the financial review on page 9.

1. Underlying revenue includes the Group's share of joint ventures and associates revenues.
2. Underlying operating profit includes IFRIC 12 investment income and joint ventures' and associates' operating profit but is before amortisation of acquired intangibles and exceptional items.
3. Underlying profit before tax is inclusive of pre-tax joint ventures and associates income but before amortisation of acquired intangibles and exceptional items.
4. Underlying basic earnings per share is before amortisation of acquired intangibles, and exceptional items, before the related tax effects and before the effect of corporate tax rate changes.
5. Includes pension payments in excess of income statement of £37 million.
6. Group net debt (excluding non-recourse JV debt and IFRS 16 leases) divided by underlying Group EBITDA (pre-IFRS 16) and JV dividends received.
7. For the full year, step downs are expected to be around £390 million for revenue and around £63 million for operating profit.

Overview

Our strategy

We outlined our strategy at our Capital Markets Day in June 2019. Our leadership positions in our focus markets of Defence, Emergency Services and Civil Nuclear are built on our core strengths: our technology and expertise, owned infrastructure and assets and a successful operating model. Our strategy is to build on these positions to deliver for our customers, employees and shareholders over the medium term.

We will:

- Focus on three markets with strong leadership positions: Defence, Emergency Services and Civil Nuclear
- Grow revenue from these markets from around 75% of Group revenue today to over 85%
- Develop and operate our adjacent businesses for value
- Grow international revenue from 30% of Group revenue today to over 40%
- Develop multi-sector, multi-market opportunities in Australia, Canada, France and Spain
- Embed technology as a core growth driver across all four sectors
- Maintain our historical business win rates

This will deliver our medium term financial targets:

- Earnings growth of 3% to 4% CAGR
- Sustain margins at around 11%
- Increase cash flows each year in line with earnings
- Generate around £1.4 billion of free cash flow over the next five years
- Continue to reduce net debt and increase flexibility
- Improve ROIC from FY20
- Sustainable dividend

Progress on our strategy

We are making good progress in delivering this strategy, supporting the delivery of our medium term targets:

- Significant contract wins in our focus markets including the build of Type 31 frigates in Defence, Met Police training in Emergency Services and the MEH Alliance for new build in Nuclear
- A growing order book and pipeline with increased bidding activity across sectors
- Progress in running adjacent markets for value with revenue growth in our Marine and Land adjacent markets
- Increasing international presence: operations started in Norway, aerial emergency services in Canada. International markets represented 31% of underlying revenue in the first half
- Progress in expanding multi-sector opportunities in our target countries including a growing pipeline
- Technology leading higher growth in Marine and crucial in winning the Type 31 frigate bid
- Business win rates in line with historical levels

Our focus markets

We operate across our focus markets of Defence, Emergency Services and Civil Nuclear as well as a range of adjacent markets.

UK Defence: the market has been busy in the period and we continue to work closely with our customers as part of the Strategic Partnering Programme to continue to deliver on some of the most critical programmes for the Ministry of Defence. Activity levels have increased across surface ship and submarine support as we help with the increasing needs of the Royal Navy, and in the period we were selected to build five new Type 31 frigates. In Land, we are working with the customer on a programme of Warrior vehicle overhauls over the next four to five years which are scheduled to start in 2020. In Aviation, we are working with the customer on the next stages of pilot training.

International Defence: the market opportunity remains significant for the Group in expanding our offerings to new countries. In the period we started to maintain Australia's fleet of amphibious landing ships and in France our Fomedec flying training contract is performing well. The pipeline of Group bids includes many opportunities across defence in Australia, Canada, France and South Korea.

Emergency Services: the market for aerial emergency services across Southern Europe has been challenging in the period with some contract delays in Italy and Spain and lower levels of firefighting activity. However, demand for increasingly complex and technical services continues to grow across the world and our level of bidding activity has increased further. In the period we started Aviation operations in Norway and Canada. In Land, we won a c.£300 million contract to provide training for the Metropolitan Police Service in London.

Civil Nuclear: the market in the UK continues to see lower levels of customer spending. The long term growth opportunities remain significant as ageing power stations come offline and new power stations are built. During the period we won a significant piece of work on Hinkley Point C as part of the MEH Alliance.

Highlights across our **adjacent markets** included improvements in trading conditions in our South African business and the successful start of our CP6/7 contract in Rail.

Order book and pipeline

Our business is supported by a significant order book, based on signed contracts for work. This order book provides a base level of revenue for the years ahead which is then added to with new business wins, contract growth and short cycle work. The Group's order book was £17 billion as at 30 September 2019 (March 2019: £17 billion) with an order book intake of £2.5 billion in the period replenishing £2.5 billion of revenue. The order book has since increased to over £18 billion following the signing of the Type 31 contract in November 2019.

The Group's pipeline represents those bids formally in process, following our rigorous governance process. The Group's pipeline increased to £17 billion as at 30 September 2019 (March 2019: £14 billion) following large additions from Defence opportunities in the UK and internationally as well as an increase to recognise the full value of the Type 31 opportunity. The pipeline has since decreased to £16 billion as the Type 31 contract transferred to our order book.

Refinancing

During the period, both Standard & Poor's and DBRS confirmed the Group's credit rating of BBB following their annual credit reviews. We renewed our five-year revolving credit facility of up to £775 million and issued €550 million (c.£500 million) of eight-year bonds expiring in 2027 which, after being swapped into sterling, have an effective interest rate of around 3%.

Capital allocation

We have redefined our net debt to EBITDA measure to the covenant basis, used for our refinanced credit facilities. This gearing measure compares net debt to Group EBITDA (excluding our share of JV's EBITDA) plus joint venture dividends. We do not include our proportion of net debt held in joint ventures of £282 million (31 March 2019: £311 million) as this is non-recourse to the Group. Around 85% of JV net debt relates to the AirTanker joint venture, which is performing very well. This PFI contract has five shareholders and multiple layers of protection over financing risk.

We target a net debt to EBITDA range of 1.0 times to 1.5 times. This enables us to organically invest in the business, fund our pension schemes and continue our sustainable ordinary dividend while providing scope for additional opportunities as we continue to de-gear. Our gearing at 30 September was 1.9 times and is expected to be around 1.6 times by the end of the year and lower in the next financial year.

Financial performance

		30 September 2019 IFRS 16 basis*	30 September 2018 pre-IFRS 16 basis*
Underlying revenue**	Group	£2,194.8m	£2,254.8m
	JV	£263.0m	£322.1m
	Total	£2,457.8m	£2,576.9m
Underlying operating profit**	Group	£209.6m	£220.4m
	JV	£41.0m	£59.2m
	Total	£250.6m	£279.6m
Underlying operating margin**	Group	9.5 %	9.8 %
	JV	15.6 %	18.4 %
	Total	10.2 %	10.9 %

* The adoption of IFRS 16 increases Group operating profit by £12.7 million in the period.

** Results for this half year include the impact of previously communicated step downs. The revenue step down in the first half was £119 million and the operating profit step down was £37 million.

Underlying revenue of £2,458 million was broadly flat after including the impact of £119 million of step downs related to the end of our QEC and Magnox contracts and exits and disposals of businesses made last year. Last year benefited from around £90 million of revenue from asset sales on our Fomedec contract in Aviation. Excluding this and the step downs, revenue for the Group this year grew by 3.6%. This growth is expected to continue and strengthen in the second half.

Our underlying operating profit of £250.6 million includes a £12.7 million benefit from the adoption of IFRS 16. Excluding this, underlying operating profit was £237.9 million, down £41.7 million on last year. This reduction includes a £37 million impact of step downs related to the end of our QEC and Magnox contract, the impact of exits and disposals, Brexit-related costs in Aviation and the normalisation of profits in our Holdfast (RSME) joint venture. Excluding these step downs and the impact of IFRS 16, underlying operating profit was down by 1.9%, mainly reflecting the profit contribution of the Fomedec asset sales last year.

Margin of 10.2% was broadly flat excluding the impact of IFRS 16, which had a positive 0.5 percentage point impact, and step downs, which had a negative 1.0 percentage point impact. Margin is expected to increase in the second half given business mix and a broadly neutral impact of step downs.

As expected, cash generation in the period was not as strong as last year which included a significant contribution of over £50 million of working capital inflows related to our Fomedec contract. Working capital inflows for the Group are typically weighted to the second half as contract receivables are reduced over the financial year and trade payables are seasonally higher at the end of the year. In addition to this usual phasing, working capital this half year has been impacted by higher inventory balances due to further Brexit preparations, increased activity in our South Africa business and the start-up of Aviation operations in Norway, Canada and France. In addition, we saw higher contract balances from the start of new contracts in Norway and Canada.

Excluding IFRS 16, net capital expenditure was £71.1 million in the period (2018: £83.9 million) comprised of gross capital expenditure of £95.5 million (2018: £103.2 million) and asset disposals, mainly related to the sale and leaseback of new aircraft, of £24.4 million (2018: £19.3 million). As expected, net capital expenditure was lower in the period but it remained at 1.4 times depreciation. This will be lower in the second half and net capital expenditure for the full year is expected to be around 1.0 times depreciation. In addition, the Group entered into £52.7 million of additional operating leases in the period.

Underlying free cash flow was £7 million (2018: £119 million) after pension payments in excess of the income statement of £37 million (2018: £21 million) and including dividends from joint ventures of £37 million (2018: £20 million). The reduction compared to last year mainly reflects last year's benefit of over £50 million of working capital inflows related to our Fomedec contract. The period end receivables and payables are similar to the last year and a second half improvement is expected as in previous years.

The net cash out flow in the period was £144 million, reflecting the free cash flow, dividends paid of £116 million and £31 million of exceptional cash costs related to the exceptional costs incurred in the last financial year. Net debt (pre-IFRS 16) of £1,138 million also includes a negative impact of £18 million from foreign exchange translation against March 2019.

Marine

		30 September 2019 IFRS 16 basis*	30 September 2018 pre-IFRS 16 basis*
Underlying revenue	Group	£546.0m	£515.4m
	JV	£18.4m	£10.5m
	Total	£564.4m	£525.9m
Underlying operating profit	Group*	£70.5m	£73.4m
	JV	£2.0m	£2.7m
	Total*	£72.5m	£76.1m
Underlying operating margin	Group	12.9%	14.2%
	JV	10.9%	25.7%
	Total	12.8%	14.5%

*The adoption of IFRS 16 increases operating profit by £0.6 million in the period

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

Financial review

The Marine sector's underlying revenue grew despite a £9 million step down in revenue from the QEC programme. This strong revenue growth was led by increased activity across our UK warship support business and strong orders across our technology businesses. Our International markets also contributed with Australia benefiting from the start of our LHD support contract.

Underlying operating profit of £72.5 million includes a small benefit from the adoption of IFRS 16. Excluding this, operating profit declined by £4.2 million. This reflects the expected phasing of profit in the year and comparison to some contract outperformances last year.

Operational review

UK Defence

Revenue related to serving the UK defence market was higher in the period with growth in UK warship support and our technology businesses offsetting the impact of the QEC step down and the end of our Irish OPV contract, which was completed a year ago.

The Queen Elizabeth Class (QEC) programme is nearing completion with HMS Prince of Wales leaving Rosyth for sea trials in the period. In addition to this, HMS Queen Elizabeth completed her first docking period in May with all contracted work completed at our Rosyth facility.

The Type 23 frigate life-extension programme at our Devonport facilities continues at pace with multiple ships undergoing deep maintenance and structural upgrading work. In the period, our Type 23 iFrigate connected platform was trialled successfully on HMS Sutherland.

We saw strong revenue growth across our defence technology businesses with increased activity on weapons handling systems and higher volumes on our MSSP contract after last year's slow start.

The US/UK Common Missile Compartment programme has continued well and in the period additional orders were received to take our total contract to supply missile launch tube assemblies to over £230 million with further orders expected over the next twelve months.

In the period, we were awarded the contract for the Type 31 general-purpose frigate programme, which will provide the UK with a fleet of five new warships. The ships will be assembled at Babcock's Rosyth facility, and involve supply chains throughout the UK. Work started immediately following contract award with manufacturing commencing in 2021 and the programme concluding in 2028.

International Defence

We continued to make good progress on our submarine and surface ship sustainment programmes in Australia and Canada and completed a package of work for the US Navy in Oman alongside our first UK Royal Navy ship.

In Australia, our Naval Ship Management joint venture started work in July on the contract to sustain and support the largest vessels in the Royal Australian Navy: two flagship Canberra Class Landing Helicopter Docks (LHD) and their 12 associated amphibious landing craft.

Our weapons handling systems business continued to progress on supplying the UK Astute and Dreadnought classes plus the Jangbogo III Class in South Korea. In addition to this, we are well positioned to provide our weapons handling systems for the new Attack-class submarine for the Australian Navy, work we expect to be worth around £1 billion over the lifetime of the programme.

Adjacent markets: Energy and Marine

Revenue growth was strong across our Energy and Marine businesses led by higher sales of our ecoSMRT gas handling system. The order book for our LPG and ecoSMRT systems now exceeds £100 million. In April, our jointly owned ship MV Kairos (the world's largest LNG bunker supply vessel) conducted its first ship-to-ship transfer.

Outlook for the year ending 31 March 2020

Revenue growth is expected to be stronger than originally expected for the sector. We expect strong underlying revenue growth excluding the impact of the end of the QEC contract (expected to be around £80 million). Our outlook for margin remains unchanged, with a slightly lower margin than last year reflecting contract mix and phasing.

Nuclear

		30 September 2019 IFRS 16 basis*	30 September 2018 pre-IFRS 16 basis*
Underlying revenue	Group	£419.8m	£405.8m
	JV	£168.2m	£231.3m
	Total	£588.0m	£637.1m
Underlying operating profit	Group*	£50.2m	£44.1m
	JV	£7.4m	£18.0m
	Total*	£57.6m	£62.1m
Underlying operating margin	Group	12.0 %	10.9 %
	JV	4.4 %	7.8 %
	Total	9.8 %	9.7 %

*The adoption of IFRS 16 increases operating profit by £0.5 million in the period
JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue

Financial review

Underlying revenue was down on last year given the £56 million revenue step down in Magnox. Excluding this, revenue grew by 1.1% with good growth across the UK defence business offsetting a small decline in Civil Nuclear.

Underlying operating profit of £57.6 million includes a small uplift from the adoption of IFRS 16. Excluding this, underlying operating profit was £5.0 million lower than last year, with a £10 million step down in Magnox offset by a strong performance in Defence.

Operational review

Defence

Revenue grew across our UK defence business reflecting higher levels of activity in submarine support and design for new submarine infrastructure in Devonport.

Our performance on our key contract, the Maritime Support Delivery Framework (MSDF) remains in line with expectations, with efficiencies and cost reductions being delivered. During the period, our customer confirmed the agreement will now continue until the replacement Future Maritime Support Programme (FMSP) contract is developed and implemented. Both the continuation of MSDF and FMSP will be within our Terms of Business Agreement (TOBA) that runs to 2025.

We support the UK's submarine fleet at both HMNB Clyde and HMNB Devonport. Activity levels in Clyde have been higher in the period as we work closely with the customer across three submarine classes. In Devonport, we continue to work on the Revalidation Assisted Maintenance Period (RAMP) programmes for the Trafalgar Class and the first life extension of the Vanguard Class.

Work has started on the infrastructure design for the deep maintenance of the Astute Class of submarines in Devonport in the mid-2020s and we are engaging with the customer on infrastructure upgrades at HMNB Clyde.

Civil Nuclear

Excluding Magnox, revenue was slightly lower reflecting lower levels of customer activity, including unplanned outages with one of our customers.

In decommissioning, all Magnox sites were handed back to the customer as planned at the end of August while work at Dounreay continues to deliver on its revised scope.

We saw lower levels of activity in our nuclear services business in the period with lower levels of customer funding and some project delays at Sellafield. The last half year also benefited from projects completing.

Work on new build nuclear power stations continues to be a small but strategically significant part of our business. In August, the MEH Alliance (a joint venture with three other operators) was launched. This alliance will work across the Hinkley Point C site to integrate and coordinate the delivery of all the main MEH (Mechanical, Electrical and HVAC) activity. Our share of this work will be around £300 million over a five to six year period starting in 2022.

We continue to explore and develop international markets for Civil Nuclear. We have won our first small orders in Canada for consultancy work for nuclear waste management and decommissioning and are exploring opportunities to expand this further. Developments in Japan, where we opened an office last year, continue but progress is slower than expected with customer project delays.

Outlook for the year ending 31 March 2020

We continue to expect slight underlying revenue growth excluding the impact of the end of the Magnox contract (now expected to be around £240 million). Our outlook for margin remains unchanged, adjusting for the sector realignment announced in June 2019. We expect the underlying margin to be similar to last year. The operating profit step down for Magnox is expected to be around £25 million.

Land

		30 September 2019 IFRS 16 basis*	30 September 2018 pre-IFRS 16 basis*
Underlying revenue	Group	£781.2m	£782.6m
	JV	£9.2m	£15.5m
	Total	£790.4m	£798.1m
Underlying operating profit	Group*	£50.5m	£46.8m
	JV	£7.3m	£16.5m
	Total*	£57.8m	£63.3m
Underlying operating margin	Group	6.5%	6.0%
	JV	79.3%	106.5%
	Total	7.3%	7.9%

* The adoption of IFRS 16 increases operating profit by £2.2 million in the period

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

Financial review

Underlying revenue was slightly lower in the period due to the impact of exits and disposals and a lower contribution from joint ventures following the end of our ABC joint venture. Excluding exits and disposals, underlying revenue grew by 6.3% with stronger trading in South Africa and higher defence procurement revenues.

Underlying operating profit of £57.8 million includes a small uplift from the adoption of IFRS 16. Excluding this, underlying operating profit was £7.7 million lower than last year. This is ahead of our expectations as business growth and performance partially offset the impact of exits and disposals and a £13 million step down in profit contribution from our Holdfast (RSME) joint venture.

Operational review

Defence

Revenue related to UK defence was higher in the period, mainly reflecting higher levels of procurement spend.

We have been working closely with the customer to refocus the Defence Support Group (DSG) Inventory and Repair Management service which provides around 285,000 lines of spares in support of the British Army's vehicle fleet and we are investing in a new ERP system to drive further efficiencies in our vehicle maintenance and spares procurement activities. We are also working with the customer on a programme of Warrior vehicle overhauls over the next four to five years which are scheduled to start in 2020.

Our ALC JV continues to perform well. Phoenix II, the contract to deliver over 16,000 administrative vehicles to the MOD, is performing well with significant reductions in vehicle numbers achieved through efficiency measures including increased use of telematics.

Across defence training we support the British Army in delivering training to around 20,000 service personnel. In the period we were awarded a three-year extension worth around £30 million for the Training Maintenance and Support Services contract. Our Holdfast (RSME) joint venture, which provides training to the Royal School of Military Engineering, continues to drive savings programmes. We are engaging closely with our customer as they develop their Collective Training Transformation Programme.

Emergency Services

Trading across our Emergency Services businesses was solid in the period on all our contracts across the Metropolitan Police Service and London Fire Brigade.

During the period we won a new contract worth around £300 million to act as the Met Police's learning partner. The partnership to support the UK's largest police service with its new training recruits will last at least eight years and will start in the next financial year.

Adjacent markets

The Land sector operates a range of contracts across markets adjacent to our key markets, all benefiting from our engineering capabilities.

In **Rail**, we successfully completed the transition to the new 10-year CP6/7 contract for track works in Scotland worth up to £1 billion over the contract life which is now fully operational. We were also awarded a signals and telecoms contract by Network Rail worth £65 million over the next 5 years.

We made good progress across our **Airports** business with growth in existing contracts and we successfully rebid our Schiphol baggage maintenance contract for another five years.

As expected, we have also seen an improvement in our **South African business** with strong revenue growth helped by scheduled power outages at Eskom.

Outlook for the year ending 31 March 2020

We now expect underlying revenue growth excluding the c.£60 million impact of exits and disposals. Underlying margin is still expected to be maintained excluding the normalisation of the Holdfast (RSME) joint venture profit contribution.

Aviation

		30 September 2019 IFRS 16 basis*	30 September 2018 pre-IFRS 16 basis*
Underlying revenue	Group	£447.8m	£551.0m
	JV	£67.2m	£64.8m
	Total	£515.0m	£615.8m
Underlying operating profit	Group*	£41.7m	£59.6m
	JV	£24.3m	£22.0m
	Total*	£66.0m	£81.6m
Underlying operating margin	Group	9.3 %	10.8 %
	JV	36.2 %	34.0 %
	Total	12.8 %	13.3 %

*The adoption of IFRS 16 increases operating profit by £9.2 million in the period
JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue

Financial review

Underlying revenue of £515 million was £101 million lower than last year, which included around £90 million of assets sales in our Fomedec contract, plus revenue from the Helidax joint venture which was disposed of in March 2019. Excluding Fomedec and Helidax, revenue for the sector was slightly lower despite contributions from new operations in Norway and Canada.

Underlying operating profit of £66.0 million includes a £9.2 million benefit from the adoption of IFRS 16. Excluding this, operating profit is £24.8 million lower than last year. The lower operating profit and margin reflects the lower revenue, the c.£5 million impact of Brexit-related costs flagged last year and the comparison to some contract outperformances last year. Furthermore, we have seen some contract award delays in aerial emergency services in Italy and Spain as well as ongoing pressures in oil and gas. The profit contribution from joint ventures was slightly higher with improved contract performances in AirTanker and Ascent offsetting the end of contributions from Helidax.

Operational review

Defence

As expected, revenue in our Defence business was down on last year given the impact of Fomedec equipment sales last year.

We have made continued progress across our military businesses. Our HADES contract, which provides technical support at 17 RAF air bases, has now been fully operational for a year. Our Ascent joint venture performed well in the period with key milestones met.

In France, our Fomedec contract is fully operational with 17 PC-21 aircraft available on the flight line for Armée de l'Air Française. All associated infrastructure and maintenance facilities are in place as this contract has moved to full scale operations.

Expanding our services across international defence markets remains a key part of our strategy and reflects a significant part of our pipeline, including defence flying training opportunities in Canada and France.

Aerial Emergency Services

Revenue grew across aerial emergency services with the start of operations in Norway and Canada, combined with higher flying hours in Italy emergency services, offsetting lower activity in Spain and lower than expected activity in our firefighting operations across Europe.

We have seen some delays in the award of new contracts, particularly in Italy and Spain. These delays were a mix of rebids and new regions and were caused by customer decisions and appeals from other bidders. The first of these, a c.£50 million Italian emergency services contract, has now been re-won.

We entered two new countries in the period. The Norwegian fixed wing contract began operations in July with 11 aircraft providing aerial medical emergency services. Operations in Manitoba, Canada started in April. We manage, maintain and operate Manitoba's fleet of seven firefighting amphibious aircraft and provide three of our own aircraft.

We expect to make progress in the second half with our fleet optimisation programme in order to maximise cash returns.

Adjacent markets: Oil and Gas

Our Oil and Gas business continues to face challenging market conditions. Revenue was slightly lower in the period reflecting the loss of two contracts on price competition at the end of the last financial year.

Outlook for the year ending 31 March 2020

With the delays to bids in aerial emergency services and market conditions in Oil and Gas, we now expect revenue for the Aviation sector to be lower for the full year. The pressures identified above on operating profit are expected to continue and we expect the underlying margin to be flat compared to last year, including the impact of the adoption of IFRS 16.

Financial review

Headline underlying results:

	30 September 2019 IFRS 16 basis*	30 September 2018 pre-IFRS 16 basis*
Group underlying revenue	£2,194.8m	£2,254.8m
Joint venture underlying revenue	£263.0m	£322.1m
Total underlying revenue	£2,457.8m	£2,576.9m
<i>Underlying revenue excl. step downs**</i>	<i>£2,457.8m</i>	<i>£2,457.5m</i>
Group underlying operating profit	£209.6m	£220.4m
Joint venture underlying operating profit	£41.0m	£59.2m
Total underlying operating profit	£250.6m	£279.6m
<i>Underlying operating profit pre-IFRS 16 excl. step downs**</i>	<i>£237.9m</i>	<i>£242.6m</i>
Net finance cost – Group	£(36.3)m	£(22.5)m
Net finance cost – JV	£(11.7)m	£(11.8)m
IAS 19 pension credit/(charge)	£(0.1)m	£0.2m
Total net interest	£(48.1)m	£(34.1)m
Underlying profit before tax	£202.5m	£245.5m
Tax	£(36.4)m	£(44.2)m
Underlying profit after tax	£166.1m	£201.3m
Minorities	£(1.7)m	–
Underlying basic EPS	32.5p	39.9p

* Results for this half year are reported under IFRS 16 (Leases) without prior year restatement. The adoption of IFRS 16 increases operating profit by £12.7 million.

** Results for this half year include the impact of previously communicated step downs. The revenue step down in the first half was £119 million and the operating profit step down was £37 million. The impact of these has been included in the table above to aid understanding.

Statutory to underlying reconciliation

	Statutory £m	Joint ventures and associates				IFRIC 12 income £m	Amortisation of acquired intangibles £m	Exceptional items £m	Underlying £m
		Revenue and operating profit £m	Finance costs £m	Tax £m					
30 September 2019									
Revenue	2,194.8	263.0							2,457.8
Operating profit	168.7	27.9			13.7	40.3			250.6
Share of profit from JV	19.6	(27.9)	11.7	6.8	(13.1)	2.9			–
Investment income	0.6				(0.6)				–
Net finance costs	(36.4)		(11.7)						(48.1)
Profit before tax	152.5	–	–	6.8	–	43.2	–	–	202.5
Tax	(21.4)			(6.8)		(8.2)			(36.4)
Profit after tax	131.1	–	–	–	–	35.0	–	–	166.1
Return on revenue	7.7%								10.2%
30 September 2018									
Revenue	2,254.8	322.1							2,576.9
Operating profit	49.3	45.1			14.8	50.0	120.4		279.6
Share of profit from JV	37.4	(45.1)	11.8	7.1	(14.1)	2.9			–
Investment income	0.7				(0.7)				–
Net finance costs	(22.3)		(11.8)						(34.1)
Profit before tax	65.1	–	–	7.1	–	52.9	120.4		245.5
Tax	(6.9)			(7.1)		(10.4)	(19.8)		(44.2)
Profit after tax	58.2	–	–	–	–	42.5	100.6		201.3
Return on revenue	2.2%								10.9%

Income statement

Statutory performance

Statutory revenue was £2,194.8 million (2018: £2,254.8 million) and reflects the step downs in our QEC contract as well the impact of exits and disposals in the last financial year. There was a statutory operating profit of £168.7 million (2018: £49.3 million) and a statutory profit before tax

of £152.5 million (2018: £65.1 million), with the increase primarily reflecting the exceptional charges in the prior year of £120.4 million. Basic earnings per share, as defined by IAS 33, was 25.6 pence (2018: 11.5 pence) per share.

Underlying revenue performance

Underlying revenue for the first half was £2,457.8 million (2018: £2,576.9 million), down £119.1 million. This reduction mainly reflects the impact of £119 million of step downs related to the end of our QEC and Magnox contracts and exits and disposals of businesses made last year. Excluding these, revenue was flat year on year. Last year benefited from around £90 million of revenue from asset sales on our Fomedec contract in Aviation. Excluding this and step downs, revenue for the group grew by 3.6%.

Underlying operating profit performance

Underlying operating profit includes a £12.7 million benefit from the adoption of IFRS 16. Excluding this, underlying operating profit of £237.9 million is down £41.7 million on last year. This reduction includes a £37 million impact of step downs related to the end of our QEC and Magnox contract, the impact of exits and disposals, Brexit-related costs in Aviation and the normalisation of profits in our Holdfast (RSME) joint venture. Excluding these step downs, underlying operating profit was down by 1.6% at constant exchange rates (pre-IFRS 16), mainly reflecting the comparison to the profit contribution of the Fomedec asset sales last year.

Underlying organic growth

	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Underlying revenue						
30 September 2018	525.9	637.1	798.1	615.8	-	2,576.9
Exchange adjustment	2.4	-	(7.9)	-	-	(5.5)
Disposals	-	-	(30.9)	(4.3)	-	(35.2)
Step downs excl. disposals	(9.1)	(56.0)	(19.1)	-	-	(84.2)
Organic growth excl. step downs	45.2	6.9	50.2	(96.5)	-	5.8
30 September 2019	564.4	588.0	790.4	515.0	-	2,457.8
Reported revenue growth	7.3 %	-7.7 %	-1.0 %	-16.4 %	-	-4.6 %
Organic growth at constant exchange rates	6.9 %	-7.7 %	3.9 %	-15.7 %	-	-3.0 %
Organic growth excl. step downs at constant exchange rates	8.6 %	1.1 %	6.3 %	-15.7 %	-	0.2 %
Underlying operating profit						
30 September 2018	76.1	62.1	63.3	81.6	(3.5)	279.6
IFRS 16 impact	0.6	0.5	2.2	9.2	0.2	12.7
Exchange adjustment	0.2	-	(0.5)	0.1	-	(0.2)
Disposals	-	-	(5.1)	(1.5)	-	(6.6)
Step downs excl. disposals	(1.0)	(9.9)	(14.5)	(5.0)	-	(30.4)
Organic growth excl. step downs	(3.4)	4.9	12.4	(18.4)	-	(4.5)
30 September 2019	72.5	57.6	57.8	66.0	(3.3)	250.6
Reported operating profit growth (pre-IFRS 16)	-5.5 %	-8.1 %	-12.2 %	-30.4 %	-	-14.9 %
Organic growth at constant exchange rates (pre-IFRS 16)	-5.8 %	-8.1 %	-3.3 %	-28.7 %	-	-12.5 %
Organic growth excl. step downs at constant exchange rates (pre-IFRS 16)	-4.5 %	7.9 %	19.6 %	-22.5 %	-	-1.6 %

Finance costs

Total net finance costs increased to £48.1 million (2018: £34.1 million), mainly reflecting the impact of the adoption of IFRS 16. Excluding this, net finance costs are slightly higher, reflecting around one month's impact of our refinanced borrowings, a higher UK base interest rate in the period and lower interest income in our South Africa business.

The Group net finance costs increased to £36.4 million (2018: £22.3 million). The Group's share of joint venture net interest expense remained flat at £11.7 million (2018: £11.8 million) as increased activity in Ascent offset the sale of Helidax. The IAS 19 pension finance charge was £0.1 million (2018: £0.2 million credit).

Underlying profit before tax

Underlying profit before tax decreased to £202.5 million (2018: £245.5 million), primarily reflecting the underlying operating profit step downs.

Tax charge

The underlying tax charge, including the Group's share of joint venture tax of £6.8 million (2018: £7.1 million), totalled £36.3 million (2018: £44.2 million), representing an effective underlying rate of tax of 18.0% (2018: 18.0%). The effective tax rate is calculated by using the Group's underlying profit before tax and therefore excludes the tax effect of amortisation of acquired intangibles, together with the tax credit in respect of exceptional items. The underlying effective rate is based on the estimated effective rate of tax of 18.0% for the full year ended 31 March 2020.

Amortisation of acquired intangibles

Amortisation of acquired intangibles was £40.3 million (2018: £50.0 million). This represents the amortisation of the value attributed on business acquisitions to customer relationships (both contractual and non-contractual) and acquired brands.

Exchange rates

The impact of foreign currency movements over the year resulted in a decrease in underlying revenue of £5.5 million and a corresponding £0.2 million decrease in underlying operating profit. The main currencies that impact our results are the Euro, the South African Rand and the Canadian Dollar:

- A 10% movement in the Euro against Sterling would affect half year underlying revenue by around £22 million and underlying operating profit by around £3 million
- A 10% movement in the South African Rand against Sterling would affect half year underlying revenue by around £17 million and underlying operating profit by around £2 million
- A 10% movement in the Canadian Dollar against Sterling would affect half year revenue by around £7 million and operating profit by around £1 million

Earnings per share

Underlying earnings per share for the period was 32.5 pence (2018: 39.9 pence), reflecting the step downs in operating profit. Basic continuing earnings per share, as defined by IAS 33, was 25.6 pence (2018: 11.5 pence).

Cash flow and net debt

	2019			2018
	Underlying £m	Exceptional items £m	Statutory £m	Underlying £m
Operating profit before amortisation of acquired intangibles	209.0	–	209.0	219.7
Amortisation, depreciation and impairments	51.4	–	51.4	52.9
Depreciation of right of use asset – IFRS 16	59.4	–	59.4	–
Other non-cash items	2.8	–	2.8	2.0
Working capital (excluding excess retirement benefits)	(106.9)	(0.1)	(107.0)	10.4
Provisions	(14.1)	(10.3)	(24.4)	(20.9)
Operating cash flow	201.6	(10.4)	191.2	264.1
Cash conversion %	96 %	–	91 %	120 %
Capital expenditure (net)	(71.1)	–	(71.1)	(83.9)
Capital expenditure – IFRS 16	(52.7)	(7.3)	(60.0)	–
Operating cash flow after capital expenditure	77.8	(17.7)	60.1	180.2
Cash conversion % – after capital expenditure	37 %	–	29 %	82 %
Interest paid (net)	(15.5)	–	(15.5)	(14.0)
Interest paid – IFRS 16	(12.4)	–	(12.4)	–
Taxation	(43.0)	(9.8)	(52.8)	(46.7)
Dividends from joint ventures	37.3	–	37.3	20.0
Free cash flow before pension contribution in excess of income statement	44.2	(27.5)	16.7	139.5
Retirement benefit contributions in excess of income statement	(37.4)	(3.3)	(40.7)	(20.7)
Free cash flow after pension contribution in excess of income statement	6.8	(30.8)	(24.0)	118.8
Acquisitions and disposals net of cash/debt acquired	(0.3)	–	(0.3)	(0.6)
Investments in joint ventures	(0.2)	–	(0.2)	–
Movement in own shares	(2.9)	–	(2.9)	–
Dividends paid	(116.3)	–	(116.3)	(115.5)
Other	0.2	–	0.2	1.8
Exceptional cash movement	(30.8)	30.8	–	(5.3)
Net cash outflow	(143.5)	–	(143.5)	(0.8)
Net debt reconciliation				
Opening net debt			(957.7)	(1,115.0)
IFRS 16 transition			(617.5)	–
Net cash outflow			(143.5)	(0.8)
Exchange difference			(35.5)	(16.1)
Closing net debt			(1,754.2)	(1,131.9)

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

	2019			2018
	Underlying £m	Exceptional items £m	Statutory £m	Underlying £m
Cash generated from operations	164.2	(13.7)	150.5	243.4
Retirement benefit contributions in excess of income statement	37.4	3.3	40.7	20.7
Operating cash flow	201.6	(10.4)	191.2	264.1

IFRS 16 impact

The main impact on the cash flow of IFRS 16 was an additional £12.7m of operating profit, a £59.4 million depreciation charge of the right of use assets, £52.7 million additional capital expenditure relating to additional operating leases in the period, and £12.4 million interest on the lease liabilities. The total IFRS 16 impact was an additional £7 million to free cash flow (post-pensions).

Operating cash flow

Underlying operating cash flow in the period was £201.6 million, compared to £264.1 million last year which included a significant contribution from working capital inflows related to our Fomedec contract of over £50 million.

Working capital

Total working capital cash outflows for the period, excluding excess retirement benefits, were £106.9 million compared to a £10.4 million inflow in the first half of last year, which benefited from the Fomedec working capital unwind.

Working capital for the Group is typically weighted to the second half as contract receivables are reduced over the financial year and trade payables are seasonally higher at the end of the year. In addition to this usual phasing, working capital this half year has been impacted by higher inventory balances due to further Brexit preparations, increased activity in our South Africa business and the start-up of Aviation operations in Norway, Canada and France. In addition, we saw higher contract balances from the start of new contracts in Norway and Canada. Working capital for the Group is at a similar level to last September with the exception of inventory and we expect an improvement in the second half, consistent with the typical phasing for the Group within financial years.

The Group factors trade receivables in its Southern European Aviation operations. The level of factoring is typically higher in September than in March reflecting the customer payment profile. At 30 September 2019, the level of receivables factoring was around £100 million, broadly in line with the level at September 2018.

Provisions

The cash outflow includes £14.1 million of underlying provision movements (2018: £20.9 million) relating to contracts, onerous leases, personnel (taxation and reorganisation) and property. During the period £0.4 million of provisions were charged to the income statement.

Capital expenditure

Excluding IFRS 16, net capital expenditure was £71.1 million in the period (2018: £83.9 million) comprised of gross capital expenditure of £95.5 million (2018: £103.2 million) and asset disposals, mainly related to the sale and leaseback of new aircraft, of £24.4 million (2018: £19.3 million).

As expected, net capital expenditure was lower in the period but it remained at 1.4 times depreciation. This will be lower in the second half and net capital expenditure for the full year is expected to be around 1.0 times depreciation.

In addition, the Group entered into £52.7 million of additional operating leases in the period. These IFRS 16 additions are shown as additional capital spend in the period, making the total net capital spend £123.8 million.

Cash interest paid

Net Group cash interest paid, excluding that paid by joint ventures, was £27.9 million (2018: £14.0 million), with £12.4 million of the increase due to IFRS 16.

Taxation

Underlying cash taxation payments of £43.0 million (2018: £46.7 million) decreased due to lower operating profit.

Pensions

Pension cash outflows in excess of income statement charge were £37.4 million (2018: £20.7 million). We expect to pay the funding deficit of around £400 million over the next six years. The phasing of these payments may not be evenly spread.

Dividends

During the period the Group received £37.3 million in dividends from its joint ventures (2018: £20.0 million). Cash dividends (including to minorities of £0.6 million) paid out in the year totalled £116.3 million (2018: £115.5 million). The Group expects dividends from its joint ventures to remain stable at around £45 million in 2019/20 and for the next two years before stepping down.

Free cash flow

Underlying free cash flow post pension payments was £6.8 million (2018: £118.8 million) with the reduction on last year mainly due to Fomedec working capital.

Full year expectations

We expect underlying free cash flow post pension payments for the full year to be over £250 million. Cash generation in the second half will be helped by the expected working capital inflow, lower net capital expenditure and lower second half pension and provision outflows than last year. We expect cash conversion for underlying operating cash flow post capital expenditure for the full year to be around 90%, in line with our target.

Exceptional cash movement

There was a cash outflow of £30.8 million in the year related to exceptional charges in the prior year with some acceleration of lease payments into the first half as assets are returned.

Net debt

The Group's net cash outflow was £143.5 million (2018: £0.8 million). Net debt at 30 September 2019 was £1,754.2 million, including £616.2 million of IFRS 16 leases. The movement in exchange rates in the period added £36 million to net debt compared to March 2019. The net debt to EBITDA ratio on the covenant basis was 1.9 times (2018: 1.8 times).

Net debt to EBITDA

We have redefined our net debt to EBITDA measure to the covenant basis, used for our refinanced credit facilities. This gearing measure compares net debt to Group EBITDA (excluding our share of JV's EBITDA) plus joint venture dividends.

Pre IFRS 16:

	30 September 2019 Last 12 months £m	30 September 2018 Last 12 months £m
Underlying operating profit excl. JVs (pre-IFRS 16)	429.1	467.1
Depreciation (pre-IFRS 16)	91.8	92.2
Amortisation of software and development costs	15.3	14.4
Non-controlling interests	(2.1)	(0.1)
Group IFRIC 12 income	1.2	1.6
EBITDA*	535.3	575.2
JV dividends	61.9	47.8
EBITDA + JV dividends	597.2	623.0
Net debt	1,138.0	1,131.9
Net debt / EBITDA	1.9x	1.8x

*EBITDA in H1 '20 of £246.6 million and H2 '19 of £288.7 million

Post-IFRS 16:

	30 September 2019 Last 12 months £m
EBITDA + JV dividends (pre-IFRS 16)	597.2
IFRS 16 EBITDA adjustment	157.8
EBITDA + JV dividends (post-IFRS 16)	755.0
Net debt (pre-IFRS 16)	1,138.0
IFRS 16 lease liabilities	616.2
Net debt (post-IFRS 16)	1,754.2
Net debt / EBITDA	2.3x

Pensions

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,907.2 million in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,922.6 million. The total accounting deficit, pre-tax, of the Group's combined defined benefit pension schemes was £15.4 million (30 September 2018: £26.3 million surplus). As at 30 September 2019, the key assumptions used in valuing pension liabilities were:

Discount rate	1.8% (30 September 2018: 2.7%)
Inflation rate (RPI)	3.0% (30 September 2018: 3.2%)

Contingent liabilities

The Group's contingent liabilities are set out in Note 19.

In February 2019, the Italian Competition Authority (the ICA) notified Babcock Mission Critical Services Italia SpA (BMCS Italia) of its decision to fine a number of companies for anti-trust violations. These companies provide helicopter services in Italy and are members of the Italian Helicopter Association (the Association). The ICA found that a number of companies, but not BMCS Italia, had engaged in bid-rigging activities in the aerial rotary wing fire-fighting sector, a sector in which BMCS Italia does not operate. At the same time, the ICA, after investigation, found that there was no bid-rigging in the helicopter emergency medical services sector, the sector in which BMCS Italia does operate. However, during the course of its investigation, the ICA became aware of a publicly available "tariff list" produced by the Association since 2001 and, on the basis of the list, decided to fine the members of the Association, including BMCS Italia. The fine for BMCS Italia was €51 million.

BMCS Italia has appealed the ICA's decision and has reasonable grounds to believe the court will either overturn the fine all together or substantially reduce it. Accordingly, no provision for settlement has been made as 30 September 2019 as the directors do not believe any settlement will be material. This is consistent with the position adopted at 31 March 2019.

Group income statement

Year ended 31 March 2019 £m	Note	Six months ended 30 September 2019		Six months ended 30 September 2018	
		£m	Total £m	£m	Total £m
4,474.8	2		2,194.8		2,254.8
(3,928.3)			(1,889.3)		(2,015.0)
546.5			305.5		239.8
(11.9)			(5.0)		(5.8)
(338.1)			(131.8)		(184.7)
196.5	2		168.7		49.3
83.8	2, 8		19.6		37.4
Group and joint ventures and associates					
559.3			236.9		264.8
29.1			13.7		14.8
588.4	2		250.6		279.6
(101.0)	3		(43.2)		(52.9)
(160.8)	3		-		(120.4)
(1.3)			(0.6)		(0.7)
(24.1)			(11.7)		(11.8)
(20.9)			(6.8)		(7.1)
280.3			188.3		86.7
Finance costs					
1.3			0.6		0.7
0.3	15		(0.1)		0.2
(62.7)	4		(42.4)		(30.4)
16.0	4		6.1		7.9
(45.1)			(35.8)		(21.6)
235.2	2		152.5		65.1
(35.4)	5		(21.4)		(6.9)
199.8			131.1		58.2
Attributable to:					
199.4			129.4		58.2
0.4			1.7		-
199.8			131.1		58.2
Earnings per share					
39.5p	6		25.6p		11.5p
39.4p			25.6p		11.5p

1. Revenue does not include the Group's share of revenue from joint ventures and associates of £263.0 million (2018: £322.1 million and 31 March 2019: £685.8 million).

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

Group statement of comprehensive income

Year ended 31 March 2019 £m	Note	Six months ended 30 September 2019 £m	Six month ended 30 September 2018 £m
199.8 Profit for the year		131.1	58.2
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
(31.0) Currency translation differences		25.1	0.1
(0.5) Fair value adjustment of interest rate and foreign exchange hedges		(13.6)	4.6
0.4 Tax on fair value adjustment of interest rate and foreign exchange hedges		2.6	(0.9)
(1.3) Hedging gains reclassified to profit or loss		-	-
1.8 Fair value adjustment of joint ventures and associates derivatives	8	(20.0)	(0.7)
Tax, including rate change impact, on fair value adjustment of joint ventures and associates derivatives	8	3.1	0.1
(0.3) derivatives			
Items that will not be subsequently reclassified to income statement			
(58.4) Remeasurement of retirement benefit obligations		(28.0)	10.6
10.4 Tax on remeasurement of retirement benefit obligations		4.5	(2.2)
(0.4) Impact of change in UK tax rates		-	0.7
(79.3) Other comprehensive income, net of tax		(26.3)	12.3
120.5 Total comprehensive income		104.8	70.5
Total comprehensive income attributable to:			
122.3 Owners of the parent		102.9	72.4
(1.8) Non-controlling interest		1.9	(1.9)
120.5 Total comprehensive income		104.8	70.5

Group statement of changes in equity

	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Owners of the parent £m	Non-controlling interest £m	Total equity £m
At 1 April 2018	303.4	873.0	768.8	30.6	994.9	(74.5)	(3.3)	2,892.9	18.1	2,911.0
Total comprehensive income/(loss)	-	-	-	-	67.2	3.1	2.1	72.4	(1.9)	70.5
Dividends	-	-	-	-	(114.4)	-	-	(114.4)	(1.1)	(115.5)
Share-based payments	-	-	-	-	2.9	-	-	2.9	-	2.9
Tax on share-based payments	-	-	-	-	3.5	-	-	3.5	-	3.5
Transactions with non-controlling interests	-	-	-	-	(0.2)	-	-	(0.2)	2.1	1.9
Net movement in equity	-	-	-	-	(41.0)	3.1	2.1	(35.8)	(0.9)	(36.7)
At 30 September 2018	303.4	873.0	768.8	30.6	953.9	(71.4)	(1.2)	2,857.1	17.2	2,874.3
At 1 April 2019	303.4	873.0	768.8	30.6	998.2	(74.4)	(32.1)	2,867.5	17.4	2,884.9
Total comprehensive income/(loss)	-	-	-	-	105.9	(27.9)	24.9	102.9	1.9	104.8
Dividends	-	-	-	-	(115.7)	-	-	(115.7)	(0.6)	(116.3)
Share-based payments	-	-	-	-	1.9	-	-	1.9	-	1.9
Tax on share-based payments	-	-	-	-	2.1	-	-	2.1	-	2.1
Own shares	-	-	-	-	(2.9)	-	-	(2.9)	-	(2.9)
Transition to IFRS 16	-	-	-	-	(19.6)	-	-	(19.6)	-	(19.6)
Net movement in equity	-	-	-	-	(28.3)	(27.9)	24.9	(31.3)	1.3	(30.0)
At 30 September 2019	303.4	873.0	768.8	30.6	969.9	(102.3)	(7.2)	2,836.2	18.7	2,854.9

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

Group balance sheet

As at 31 March 2019 £m	Note	As at 30 September 2019 £m	As At 30 September 2018 £m
Assets			
Non-current assets			
2,584.2		2,601.3	2,604.1
448.9		420.3	494.0
1,014.3		1,035.2	1,024.7
–			
	16	578.5	–
153.2	8	119.0	136.6
42.5	8, 14	51.4	32.1
226.9	15	256.1	231.8
9.3	9	8.8	7.1
15.5		14.2	17.3
93.8	11	139.4	92.6
150.9		154.1	125.0
4,739.5		5,378.3	4,765.3
Current assets			
196.5		211.4	167.6
907.8	9	963.0	976.3
11.1		22.5	12.2
48.0	11	36.7	222.6
275.2	14	458.6	247.1
1,438.6		1,692.2	1,625.8
6,178.1		7,070.5	6,391.1
Equity and liabilities			
Equity attributable to owners of the parent			
303.4		303.4	303.4
873.0		873.0	873.0
692.9		689.9	726.8
998.2		969.9	953.9
2,867.5		2,836.2	2,857.1
17.4		18.7	17.2
2,884.9		2,854.9	2,874.3
Non-current liabilities			
1,357.6	14	1,739.8	1,636.3
–	16	465.2	–
2.0	10	2.0	2.1
103.2		93.3	106.0
9.3	11	34.6	4.9
254.9	15	271.5	205.5
40.5	12	28.7	70.5
1,767.5		2,635.1	2,025.3
Current liabilities			
53.9	14	53.1	38.8
–	16	151.0	–
1,381.4	10	1,337.9	1,338.4
22.1		1.5	6.0
4.9	11	7.1	48.5
63.4	12	29.9	59.8
1,525.7		1,580.5	1,491.5
3,293.2		4,215.6	3,516.8
6,178.1		7,070.5	6,391.1

Group cash flow statement

Year ended 31 March 2019 £m	Note	Six months ended 30 September 2019 £m	Six month ended 30 September 2018 £m
Cash flows from operating activities			
452.5		209.0	219.7
(256.0)	3	(40.3)	(170.4)
196.5	2	168.7	49.3
123.1		43.9	73.9
– Depreciation of right of use assets		59.4	–
110.0		47.8	57.0
1.3	2	0.6	0.7
2.4		1.9	2.9
(14.8)	17	–	(15.2)
(5.4)		0.3	(1.6)
0.3		–	–
413.4		322.6	167.0
(34.0)		(12.5)	(1.0)
138.8		(39.6)	77.3
4.1		(54.9)	(46.4)
10.7		(24.4)	35.8
(25.1)		(40.7)	(20.7)
507.9		150.5	212.0
(74.0)		(52.8)	(46.7)
(63.1)		(34.5)	(22.1)
15.6		6.6	8.1
386.4		69.8	151.3
Cash flows from investing activities			
29.5	17	(0.3)	25.5
44.6		37.3	20.0
78.5		24.4	19.3
(194.3)		(79.8)	(84.0)
(32.7)		(15.8)	(19.2)
(14.6)	8	(9.1)	(4.3)
(89.0)		(43.3)	(42.7)
Cash flows from financing activities			
(150.5)		(115.7)	(114.4)
(26.4)		(5.9)	(10.5)
– IFRS 16 lease payments		(78.7)	–
(19.4)		10.6	8.7
(103.4)		(139.8)	(30.2)
– Loans raised		487.8	–
(2.8)		(0.6)	(1.1)
(0.5)		–	1.9
– Movement on own shares		(2.9)	–
(303.0)		154.8	(145.6)
(5.6)	14	181.3	(37.0)
286.3		275.2	286.3
(5.5)		2.1	(2.2)
275.2	14	458.6	247.1

1. Basis of preparation and significant accounting policies

The consolidated half year financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority, the Listing Rules and IAS 34, 'Interim financial reporting' as adopted by the European Union (EU). They should be read in conjunction with the Annual Report for the year ended 31 March 2019 (the 'Annual Report'), which has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accounting policies used and presentation of these consolidated half year financial statements are consistent with those in the Annual Report except as noted below and to comply with amendments to IFRS.

Standards and interpretations that have been adopted by the Group and had a material impact on the half year report:

- IFRS 16, 'Leases', effective from 1 January 2019 and endorsed by the EU. Operating leases have now been recognised on the balance sheet; the impact of this standard has been to recognise a lease liability and right of use asset on the Group's balance sheet in relation to almost all leases formerly classified as operating leases. The change has resulted in an improvement in operating profit, with the depreciation of the right of use asset being less than the operating lease charge under IAS 17. This has however been offset by an increase in interest charge with an immaterial net impact on profit before tax resulting from the Group's maturity of leases on adoption. Please refer to Note 16 and below for further details.

Standards and interpretations that have been adopted by the Group but had no material impact on the half year report:

- IAS 19, 'Employee Benefits', amended effective from 1 January 2019. The amendment related to treatment of plan amendments, curtailments and settlements.
- Annual improvement 2015-2017 Cycle, effective from 1 January 2019. This included clarifications on IFRS 3, IFRS 11, IAS 12 and IAS 23.
- IFRS 9, 'Financial Instruments', amended effective from 1 January 2019.

Standards, amendments and interpretations that are not yet effective and where the impact on the Group's operations is not expected to be material.

- IFRS 3, 'Business Combinations', amended effective from 1 January 2020. The amendment related to the definition of a business on a combination.
- IAS 1, 'Presentation of Financial Statements', and IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', amended effective from 1 January 2020 related to the definition of material.
- IFRS 17, 'Insurance Contracts', effective 1 January 2021.

IFRS 16, 'Leases'

IFRS 16 has become effective from 1 January 2019 and replaces IAS 17, 'Leases' as the definitive accounting standard for the recognition, measurement and disclosure of leases. The Group has adopted the standard from 1 April 2019.

Under the new standard, the Group has now recognised almost all leases, where the Group is a lessee, on the balance sheet as the distinction between finance leases and operating leases has been removed. Both short-term leases and low-value leases are exempt from IFRS 16, and instead their lease payments continue to be recognised as expenses on a straight-line basis. The approach for lessors has remained largely unchanged.

Transition

The Group has adopted the modified retrospective transition approach, with the right-of-use assets measured at the amount of the lease liability on the date of transition for the majority of leases. The lease liability was calculated as the present value of the minimum lease payments on the date of transition. For a number of high value property and aircraft leases however, the right-of-use assets have been calculated as if the leases had always existed and their value on the date of transition is measured as the present value of the minimum lease payments at the inception date less accrued depreciation and any impairments. The difference between the right-of-use assets and lease liabilities on the date of transition is taken to retained earnings. Comparative figures have not been restated for the six months ended 30 September 2018.

The following practical expedients have been adopted on transition:

- Single discount rates have been applied to portfolios of leases with similar characteristics
- IFRS 16 has only been applied to contracts that were previously classified as leases
- For leases with onerous lease provisions recognised against them immediately prior to the date of transition, the provisions have been utilised and offset against the right-of-use assets on the date of transition
- Initial direct costs have been excluded from the measurement of right-of-use assets on the date of transition
- The lease term has been determined with the use of hindsight where the contract contains options to extend the lease

Subsequent measurement

Right-of-use asset are held at cost less accumulated depreciation and impairment. Any impairments are determined in line with IAS 36, "Impairment of Assets". Depreciation is charged on a straight-line basis over the full length of the lease.

Lease liabilities decrease over time by the net of lease payments made and the interest accrued. Interest is charged to the income statement as the effect of discounting the future lease payments is unwound.

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

The half year report for the six months ended 30 September 2019 was approved by the Directors on 19 November 2019. The half year report has not been audited or reviewed by auditors.

2. Segmental information

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

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

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

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

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

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

On 1 April 2019 a single Nuclear segment was created by combining our Civil Nuclear and UK Naval Nuclear businesses. The results for 30 September 2018 have been restated accordingly.

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

* Before amortisation of acquired intangibles.

2. Segmental information (continued)

30 September 2018	Marine (restated) £m	Nuclear (restated) £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	525.9	637.1	798.1	615.8	–	2,576.9
Less: joint venture and associate revenue	10.5	231.3	15.5	64.8	–	322.1
Revenue	515.4	405.8	782.6	551.0	–	2,254.8
Operating profit/(loss) before share of results of joint ventures and associates	53.6	38.2	15.3	(51.9)	(5.9)	49.3
Exceptional items	17.4	5.4	7.1	88.1	2.4	120.4
Acquired intangible amortisation	2.2	0.5	23.9	23.4	–	50.0
Operating profit*	73.2	44.1	46.3	59.6	(3.5)	219.7
IFRIC 12 investment income – Group	0.2	–	0.5	–	–	0.7
Share of operating profit – joint ventures and associates	2.7	18.0	15.8	8.6	–	45.1
Share of IFRIC 12 investment income – joint ventures and associates	–	–	0.7	13.4	–	14.1
Underlying operating profit	76.1	62.1	63.3	81.6	(3.5)	279.6
Share of finance costs – joint ventures and associates	–	–	(0.3)	(11.5)	–	(11.8)
Share of tax – joint ventures and associates	(0.9)	(3.4)	(1.2)	(1.6)	–	(7.1)
Acquired intangible amortisation – Group	(2.3)	(0.4)	(23.9)	(23.4)	–	(50.0)
Share of acquired intangible amortisation – joint ventures and associates	–	–	(1.0)	(1.9)	–	(2.9)
Net finance costs – Group	–	–	–	–	(22.3)	(22.3)
Exceptional items	(17.4)	(5.4)	(7.1)	(88.1)	(2.4)	(120.4)
Profit before tax	55.5	52.9	29.8	(44.9)	(28.2)	65.1

* Before amortisation of acquired intangibles and exceptional items.

The analysis of revenue for the six months ended 30 September 2019 is as follows:

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m
Sale of goods – transferred at a point in time	290.8	269.5
Sale of goods – transferred over time	44.9	29.5
Sale of Goods	335.7	299.0
Provision of services – transferred over time	1,854.8	1,951.5
Rental income	4.3	4.3
Revenue	2,194.8	2,254.8

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

The geographic analysis of revenue by origin of customer for the six months ended 30 September 2019 and at 30 September 2018 is as follows:

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m
United Kingdom	1,454.5	1,445.2
Rest of Europe	277.3	373.2
Africa	187.5	176.3
North America	88.9	92.1
Australasia	101.7	97.8
Rest of World	84.9	70.2
Revenue	2,194.8	2,254.8

3. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates			Total
	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m
Oil and Gas ¹						
– Asset impairment	–	38.2	–	–	–	38.2
– Onerous lease provisions	–	42.1	–	–	–	42.1
Oil and Gas – total	–	80.3	–	–	–	80.3
Capacity restructuring ²	–	39.6	–	–	–	39.6
Exit ³	–	15.7	–	–	–	15.7
Profit on disposal of subsidiaries and businesses (note 17)	–	(15.2)	–	–	–	(15.2)
Exceptional items⁴	–	120.4	–	–	–	120.4
Exceptional tax items and tax on exceptional items	–	(19.8)	–	–	–	(19.8)
Exceptional items – net of tax	–	100.6	–	–	–	100.6
Acquired intangible amortisation	40.3	50.0	2.9	2.9	43.2	52.9
Tax on acquired intangibles amortisation	(7.6)	(9.8)	(0.6)	(0.6)	(8.2)	(10.4)
Acquired intangible amortisation – net of tax	32.7	40.2	2.3	2.3	35.0	42.5

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

There were no exceptional items during the current period, but during the prior period the following exceptional items were recorded:

- During the prior period the Oil and Gas business was reshaped to reflect the current market and to allow for the resultant business to optimise future cashflows. Assets and leases were marked to current market value to allow for sale, sub lease or alternate use. The total exceptional charge was £80.3 million and the cash costs are expected to be offset by tax effects and proceeds from the disposal of assets.
- Capacity reduction and restructuring costs reflect the rightsizing, restructuring and closure of businesses across the Sectors including Appledore, Rail and Magnox.
- The Group continued with its strategy of exiting small low margin businesses. The costs of exiting renewables, North American mining and construction, scaling down powerlines (South Africa), mobile telecoms, infrastructure and cabling are reflected within exit costs. Refer to note 9 for related asset write downs.
- In the prior period £81.3 million of the exceptional charge was charged through cost of revenue and the balance of £39.1 million through administration expenses.

4. Net finance costs

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	22.6	21.3
IFRS 16 lease interest	12.4	–
Finance leases	2.2	2.5
Amortisation of issue costs of bank loan	0.9	0.7
Other	4.3	5.9
Total finance costs	42.4	30.4
Finance income		
Bank deposits, loans and finance leases	6.1	7.9
Total finance income	6.1	7.9
Net finance costs	36.3	22.5

5. Income tax expense

The charge for taxation is after a tax credit of £nil million (2018: £19.8 million) relating to exceptional items, a tax credit of £8.2 million (2018: £10.4 million) relating to acquired intangible amortisation, of which £0.6 million (2018: £0.6 million) is included in share of profits from joint ventures and associates. The charge for taxation gives an underlying effective rate of 18.0% (2018: 18.0%), which is based on the estimated effective rate of tax for the full year ended 31 March 2020, and before the credits in respect of exceptionals and amortisation of acquired intangibles. The Group is monitoring ongoing developments following the European Commission's decision on UK Finance Company Partial Exemption rules, from which the Group has benefited. The Group does not expect that there will be any material impact on it arising from this decision.

6. Earnings per share

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

	Six months ended 30 September 2019 Number	Six months ended 30 September 2018 Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	505,227,109	504,994,752
Effect of dilutive potential ordinary shares: share options	986,826	694,830
Weighted average number of ordinary shares for the purpose of diluted EPS	506,213,935	505,689,582

Earnings

	Six months ended 30 September 2019			Six months ended 30 September 2018		
	Earnings £m	Basic per share Pence	Diluted per share Pence	Earnings £m	Basic per share Pence	Diluted per share Pence
Earnings from continuing operations	129.4	25.6	25.6	58.2	11.5	11.5
Add back:						
Amortisation of acquired intangible assets, net of tax	35.0	6.9	6.9	42.5	8.4	8.4
Exceptional items, net of tax	–	–	–	100.6	20.0	19.9
Earnings before amortisation, exceptional items and other	164.4	32.5	32.5	201.3	39.9	39.8

7. Dividends

An interim dividend of 7.2p per 60p ordinary share (2018: 7.1p per 60p ordinary share) was declared after the balance sheet date and it will be paid on 17 January 2020 to shareholders registered on 6 December 2019.

8. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total
	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Six months ended 30 September 2018 £m
At 1 April	153.2	119.3	42.5	27.8	195.7
Investment in joint ventures and associates	0.2	–	–	–	–
Share of profits	19.6	37.4	–	–	19.6
Amounts capitalised	–	–	10.0	4.6	10.0
Interest received	–	–	(1.1)	(0.3)	(1.1)
Dividends received	(37.3)	(20.0)	–	–	(37.3)
Fair value adjustment of derivatives	(20.0)	(0.7)	–	–	(20.0)
Tax on fair value adjustment of derivatives	3.1	0.1	–	–	3.1
Foreign exchange	0.2	0.5	–	–	0.2
At 31 March	119.0	136.6	51.4	32.1	170.4

Included within investment in joint ventures and associates is goodwill of £1.2 million (2018: £1.2 million).

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

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m
Marine	6.6	6.4
Nuclear	23.8	34.1
Land	82.0	59.0
Aviation	58.0	69.2
Net book value	170.4	168.7

9. Trade and other receivables

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m
Current assets		
Trade receivables	247.8	225.7
Contract assets	485.6	551.8
Other debtors	229.6	198.8
Total current trade and other receivables	963.0	976.3
Non-current assets		
Non-current trade and other receivables	8.8	7.1

Trade and other receivables are stated at amortised cost.

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

	30 September 2019 £m	30 September 2018 £m
31 March	462.1	581.3
Transfers from contract assets recognised at the beginning of the year to receivables	(317.2)	(375.3)
Increase due to work done not transferred from contract assets	323.6	353.3
Amounts capitalised	20.0	9.7
Amortisation of contract assets	(6.5)	(4.2)
Write down of contract assets*	–	(15.6)
Exchange adjustment	3.6	2.6
30 September	485.6	551.8

*As discussed in note 3, in the previous period, amounts due from customer were written down in relation to the exit of small low margin businesses and capitalised contract costs were written down as a result of the reshaping of our Oil and Gas business. Further to this, minor amounts in other debtors were written down in relation to both the reshaping of our Oil and Gas business and the exit of small low margin businesses.

10. Trade and other payables

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m
Current liabilities		
Trade creditors	460.9	475.9
Contract liabilities	419.0	421.8
Other creditors	458.0	440.7
Total current trade and other payables	1,337.9	1,338.4
Non-current liabilities		
Other trade and other payables	2.0	2.1

Included in creditors is £12.5 million (2018: £10.8 million and 31 March 2019: £19.5 million) relating to capital expenditure which has therefore not been included in working capital movements within the cashflow.

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

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m
31 March	421.3	413.3
Revenue recognised that was included in the contract liability balance at the beginning of the year	(134.3)	(139.1)
Increase due to cash received, excluding amounts recognised as revenue	133.5	140.6
Amounts accrued	142.8	157.0
Amounts utilised	(146.0)	(140.2)
Disposals	–	(8.1)
Exchange adjustment	1.7	(1.7)
30 September	419.0	421.8

11. Other financial assets and liabilities

	Fair value			
	Assets		Liabilities	
	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m
Non-current				
US private placement – currency and interest rate swaps	107.5	72.0	–	–
Eurobond – currency and interest rate swaps	–	–	19.9	–
Interest rate hedge	–	2.7	0.9	1.0
Other currency hedges	12.4	2.4	13.8	3.9
Financial derivatives	119.9	77.1	34.6	4.9
Finance leases granted	19.5	15.5	–	–
Total non-current other financial assets and liabilities	139.4	92.6	34.6	4.9
Current				
Interest rate hedge	–	–	0.1	0.2
Finance instruments	–	42.1	–	42.1
Other currency hedge	4.2	4.0	7.0	6.2
Financial derivatives	4.2	46.1	7.1	48.5
Finance leases granted	32.5	176.5	–	–
Total current other financial assets and liabilities	36.7	222.6	7.1	48.5

The Group enters into forward foreign currency contracts to hedge the currency exposures that arise on sales, purchases, deposits and borrowings denominated in foreign currencies, as the transactions occur. There is no material ineffectiveness on any of the Group's hedging activities.

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

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

12. Provisions for other liabilities

	Insurance provisions (a) £m	Contract/ warranty (b) £m	Employee benefits and business reorganisation costs (c) £m	Property and other (d) £m	Expected credit losses £m	Total provisions £m
At 1 April 2019	0.5	8.8	65.3	29.0	0.3	103.9
IFRS 16 transition	–	–	(17.2)	(4.2)	–	(21.4)
(Released)/charged to income statement	–	0.2	(1.5)	1.3	0.4	0.4
Utilised in year	0.1	(0.5)	(23.1)	(1.4)	–	(24.9)
Foreign exchange	–	–	0.3	0.3	–	0.6
At 30 September 2019	0.6	8.5	23.8	25.0	0.7	58.6

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

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m
Current	29.9	59.8
Non-current	28.7	70.5
	58.6	130.3

(a) The insurance provisions arise in the Group's captive insurance companies.

12. Provisions for other liabilities (continued)

- (b) The contract/warranty provisions relate to onerous contracts and warranty obligations on completed contracts and disposals.
- (c) The employee benefits and reorganisation costs arise mainly in relation to acquired businesses, personnel related costs and payroll taxes.
- (d) Property and other in the main relate to provisions for dilapidation costs and contractual obligations in respect of infrastructure. Onerous lease provisions have been moved to right of use assets as part of the IFRS 16 transition (refer to note 16).

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

13. Movement in net debt

Year ended 31 March 2019 £m	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m
(5.6) Increase / (decrease) in cash in the period	181.3	(37.0)
(27.4) Cash flow from the increase in debt and lease financing	(297.9)	(124.8)
(33.0) Change in net funds resulting from cash flows	(116.6)	(161.8)
– Additional lease obligations	(60.0)	–
176.6 Finance leases – granted	24.2	156.7
14.7 Movement in joint ventures and associates loans	8.9	4.3
(1.0) Foreign currency translation differences	(35.5)	(16.1)
– Transition to IFRS 16	(617.5)	–
157.3 Movement in net debt in the period	(796.5)	(16.9)
(1,115.0) Net debt at the beginning of the period	(957.7)	(1,115.0)
(957.7) Net debt at the end of the period	(1,754.2)	(1,131.9)

14. Changes in net debt

	31 March 2019 £m	Cash flow £m	Disposal of subsidiaries £m	Additional leases £m	Transition to IFRS 16 £m	Exchange movement £m	30 September 2019 £m
Cash and bank balances	275.2	181.6	(0.3)	–	–	2.1	458.6
Bank overdrafts	–	–	–	–	–	–	–
Cash, cash equivalents and bank overdrafts	275.2	181.6	(0.3)	–	–	2.1	458.6
Debt	(1,345.7)	(348.0)	–	–	–	(37.8)	(1,731.5)
Leases – received	(65.8)	84.9	–	(60.0)	(617.5)	(19.2)	(677.6)
Finance leases – granted	60.9	(34.8)	–	24.2	–	1.7	52.0
	(1,350.6)	(297.9)	–	(35.8)	(617.5)	(55.3)	(2,357.1)
Net debt before derivatives and joint ventures and associates loans	(1,075.4)	(116.3)	(0.3)	(35.8)	(617.5)	(53.2)	(1,898.5)
Net debt derivative	75.2	–	–	–	–	17.7	92.9
Joint ventures and associates loans	42.5	8.9	–	–	–	–	51.4
Net debt	(957.7)	(107.4)	(0.3)	(35.8)	(617.5)	(35.5)	(1,754.2)

15. Retirement benefits and liabilities

Analysis of movement in the Group balance sheet

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m
Fair value of plan assets (including reimbursement rights)		
At 1 April	4,582.2	4,734.9
Interest on assets	52.4	57.8
Actuarial gain on assets	437.0	85.1
Employer contributions	60.5	41.8
Employee contributions	0.1	0.3
Benefits paid	(144.7)	(193.7)
Settlements	(80.3)	(73.7)
At 30 September	4,907.2	4,652.5
Present value of benefit obligations		
At 1 April	4,610.2	4,739.7
Service cost	18.0	20.7
Incurred expenses	1.9	1.9
Interest cost	52.6	57.6
Employee contributions	0.1	0.3
Experience losses	3.5	29.5
Actuarial gain – demographics	–	–
Actuarial loss – financial	461.3	43.7
Benefits paid (including transfers)	(144.7)	(193.7)
Settlements	(80.3)	(73.7)
At 30 September	4,922.6	4,626.0
Present value of unfunded obligations	–	(0.2)
Net (deficit)/surplus at 30 September	(15.4)	26.3

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

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m
Current service cost	18.0	20.7
Incurred expenses	1.9	1.9
Total included within operating profit	19.9	22.6
Net interest cost/(credit)	0.1	(0.2)
Total included within income statement	20.0	22.4

As at 30 September 2019 the key assumptions used in valuing pension liabilities were:

Discount rate	1.8% (30 September 2018: 2.7%)
Inflation rate (RPI)	3.0% (30 September 2018: 3.2%)

16. IFRS 16, 'Leases'

IFRS 16, 'Leases' became effective from 1 January 2019 and replaced IAS 17, 'Leases' as the definitive accounting standard for the recognition, measurement and disclosure of leases. The Group has adopted the standard from 1 April 2019.

Under the new standard, lessees recognise almost all leases on the balance sheet as the distinction between finance leases and operating leases is removed. Both short-term leases and low-value leases are exempt from IFRS 16, and instead their lease payments can be recognised as expenses on a straight-line basis. The approach for lessors remains largely unchanged.

The Group adopted the modified retrospective transition approach, with the right-of-use assets measured at the amount of the lease liability on the date of transition for the majority of leases. The lease liability was calculated as the present value of the minimum lease payments on the date of transition. For a number of high value property and aircraft leases however, the right-of-use assets have been calculated as if the leases had always existed and their value on the date of transition was measured as the present value of the minimum lease payments at the inception date less accrued depreciation and any impairments. The difference between the right-of-use assets and lease liabilities on the date of transition was taken to retained earnings. Comparative figures have not been restated for the six months ended 30 September 2018.

The adoption of IFRS 16, 'Leases' does not impact the covenants of the Group's existing borrowing facilities as they are all based on IAS17, 'Leases'. The impact on the Group balance sheet at 1 April 2019 and 30 September 2019 is reflected below:

	As at 30 September 2019 £m	As At 1 April 2019 £m
Assets		
Non-current assets		
Right-of-use assets	578.5	571.5
Deferred tax asset	5.0	5.0
	583.5	576.5
Current assets		
Trade and other receivables	(11.5)	–
Total assets	572.0	576.5
Equity and liabilities		
Equity attributable to owners of the parent		
Retained earnings	(19.6)	(19.6)
Capital redemption and other reserves	(10.9)	–
Total equity	(30.5)	(19.6)
Non-current liabilities		
Lease liabilities	465.2	510.4
Provisions	(6.3)	(6.7)
Total non-current liabilities	458.9	503.7
Current liabilities		
Lease liabilities	151.0	107.1
Provisions	(7.4)	(14.7)
Total current liabilities	143.6	92.4
Total equity and liabilities	572.0	576.5

Following a detailed review of the new IFRS 16 transition balances an adjustment has been made to both right-of-use assets and lease liabilities to the balances previously disclosed.

17 Disposals of subsidiaries, businesses and joint ventures and associates

During the previous period the Group disposed of its media business for £29.5 million, which resulted in a profit of £15.2 million. Final completion accounts adjusted these amounts to £28.7 million and £14.0 million respectively during the second half of last year.

During both the current and the previous period the Group paid certain accrued costs on previously disposed of businesses of £0.3 million (2018: £0.6 million).

	2019		Babcock Media Services £m	Previously disposed of business £m	2018 Total £m
	Previously disposed of business £m	Total £m			
Goodwill	–	–	7.1	–	7.1
Property, plant and equipment	–	–	1.4	–	1.4
Inventory	–	–	7.4	–	7.4
Current assets	–	–	4.0	–	4.0
Cash, cash equivalents and bank overdrafts	–	–	2.6	–	2.6
Current liabilities	–	–	(9.6)	–	(9.6)
Net assets disposed	–	–	12.9	–	12.9
Disposal costs	–	–	1.4	–	1.4
Profit on disposal of subsidiary	–	–	15.2	–	15.2
Sale proceeds	–	–	29.5	–	29.5
Sale proceeds less cash disposed of	–	–	26.9	–	26.9
Less costs paid in the period	(0.3)	(0.3)	(0.8)	(0.6)	(1.4)
Net cash inflow/(outflow)	(0.3)	(0.3)	26.1	(0.6)	25.5

18. Related party transactions

Related party transactions for the six months to 30 September 2019 are: sales to joint ventures and associates of £70.6 million (2018: £104.4 million) and purchases from joint ventures and associates of £0.1 million (2018: £0.2 million).

For annualised key management compensation, please refer to note 7 and the Remuneration Report in the Annual Report for the year ended 31 March 2019.

For transactions with Group defined benefit pension schemes, please refer to note 15 above and note 25 in the Annual Report for the year ended 31 March 2019.

19. Contingent liabilities

In the normal course of business the Group is subject to certain claims and litigation against it. Other than elsewhere disclosed, as at 30 September 2019, the Group is not subject to any litigation that the directors believe may result in a material loss. Certain aspects of specific issues are set out below:

- (a) In February 2019, the Italian Competition Authority (the ICA) notified Babcock Mission Critical Services Italia SpA (BMCS Italia) of its decision to fine a number of companies for anti-trust violations. These companies provide helicopter services in Italy and are members of the Italian Helicopter Association (the Association).

The ICA found that a number of companies, but not BMCS Italia, had engaged in bid-rigging activities in the aerial rotary wing fire-fighting sector, a sector in which BMCS Italia does not operate. At the same time, the ICA, after investigation, found that there was no bid-rigging in the helicopter emergency medical services sector, the sector in which BMCS Italia does operate.

However, during the course of its investigation, the ICA became aware of a publicly available “tariff list” produced by the Association since 2001 and, on the basis of the list, decided to fine the members of the Association, including BMCS Italia. The fine for BMCS Italia was €51 million.

BMCS Italia has appealed the ICA’s decision and has reasonable grounds to believe the court will either overturn the fine altogether or substantially reduce it. Accordingly, no provision for settlement has been made as at 30 September 2019 as the directors do not believe any likely settlement will be material. This is consistent with the position adopted at 31 March 2019.

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

20. Financial information

The financial information in this half year report does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ending 31 March 2019 were approved by the Board on 21 May 2019 and have been delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498(2) or (3) of the Companies Act 2006.

Risks and uncertainties

The Directors consider that the principal risks and uncertainties affecting the Group remain unchanged from those described in the 2019 Annual Report, and are those arising from: our customer profile: reliance on winning and retaining large contracts with a relatively limited number of major clients (particularly the UK MOD), including clients affected by political and public spending reviews and decisions, which exposes the Group to political and public spending risks and which could be impacted by Brexit; the nature of our contracts, bid processes and our markets: bidding is a time consuming and expensive process; public procurement rules apply in many cases and bring the risk of challenge to award decisions; large contract opportunities by their nature tend not to arise on a regular or frequent basis; failure to win rebids of large contracts that we already hold could represent a major loss of business and the failure to win new bids for large contract opportunities can represent a major missed opportunity and either loss can affect our strategic development; long-term contracts carry risk- transfer and potential pricing risks for our businesses and our contracts typically contain strict key performance indicators, failure to meet them can result in adverse financial consequences or loss of contract; reputational risks: our reputation is a fundamental business asset given the nature of our business, markets and customers – its loss for any reason (for example, poor contract performance or a high profile safety incident) could have a major adverse impact as could damage the reputation of outsourcing businesses generally (and thus outsourcing itself); regulatory and compliance burden: our major businesses depend on being able to meet and continue to comply with applicable customer or industry specific requirements and regulations, wherever we do business, which can change; compliance with some regulatory requirements is a pre-condition to being able to carry on a business activity at all (for example, parts of our Aviation business are subject to ownership and control requirements in the EU); the cost of compliance can be high; failure to meet the requirements could result in loss of existing business or future business opportunities; health, safety and environmental risks; some of our businesses entail the potential risk of significant harm to people, property or the environment if not properly managed and a serious incident could seriously damage our reputation (which could lead to loss of existing or future business) as well as expose us to fines and damages claims not all of which may or can be covered by insurance; people risks: the Group's ability to deliver its existing business, future growth and strategy is dependent on being able to attract, develop, train and retain experienced senior management, business development teams and suitably qualified and skilled employees – the competition for whom is strong; pension risks: we have a number of significant defined benefit pension schemes that carry cost and funding risks and the risk of accounting volatility; IT and security risks: we depend heavily on our ability to be able to maintain IT and information security and assurance to preserve our reputation and the confidentiality of our customers' and our own valuable information; currency exchange rates: as we expand outside the UK we are increasingly exposed to the impact of foreign currency exchange rates; acquisitions: we have grown and expect to continue to grow through acquisitions as well as organically but the financial benefits of acquisitions may not be realised as quickly and as efficiently as expected.

The risks summarised above, and mitigating actions taken in respect of them, are explained and described in more detail on pages 70 to 81 of the 2019 Annual Report, a copy of which is available at www.babcockinternational.com. This half year report also includes comments on the outlook for the Group for the remaining six months of the financial year.

Forward-looking statements

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

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

Statement of Directors' responsibilities

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

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

The names and functions of each of the Directors of Babcock International Group PLC are as listed in its 2019 Annual Report. A copy of the Annual Report can be found, and a list of current Directors is maintained, on the Group's website www.babcockinternational.com.

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

Archie Bethel
Chief Executive

Franco Martinelli
Group Finance Director

19 November 2019