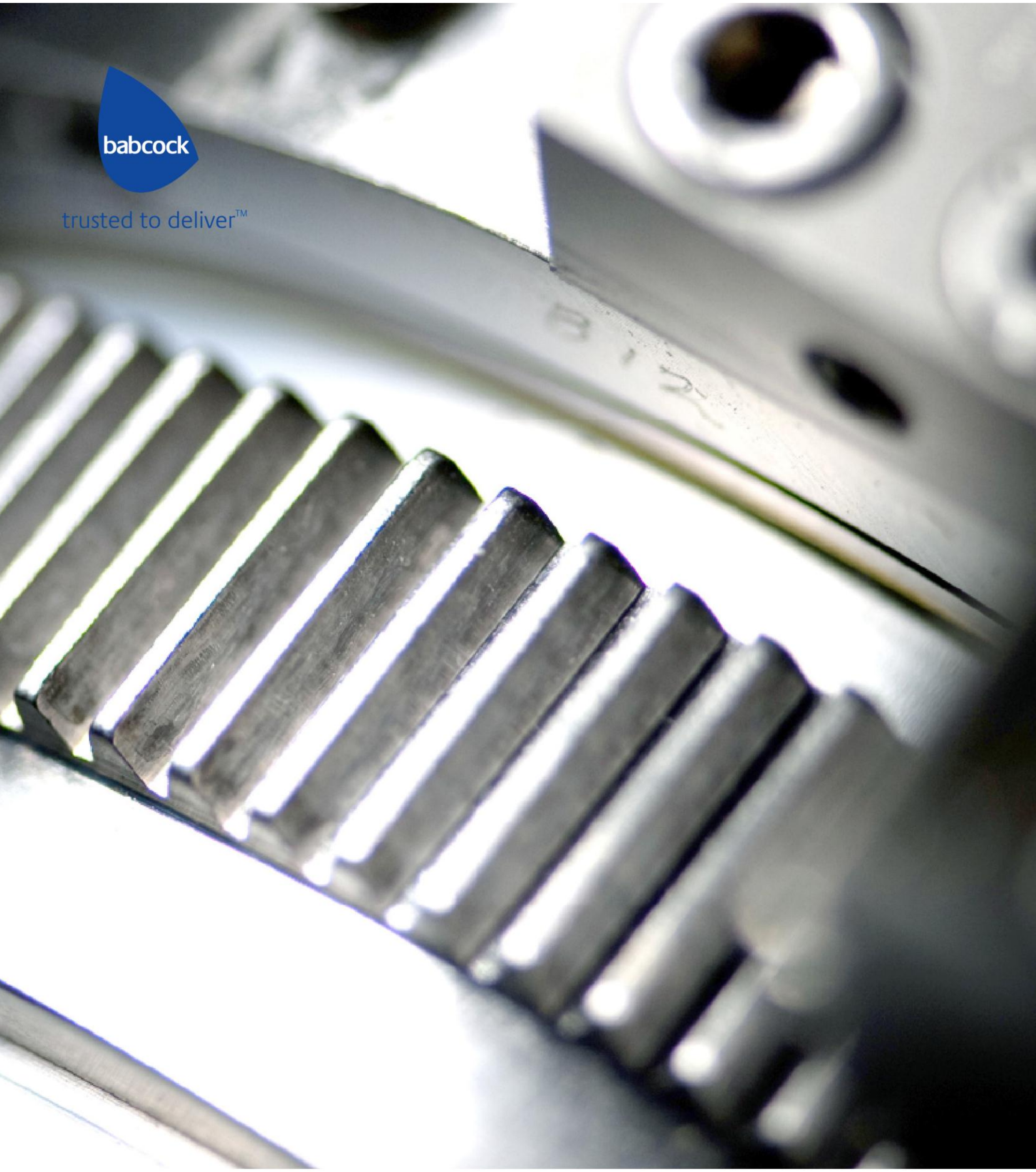

BABCOCK INTERNATIONAL GROUP PLC

Half year report

For the six months ended 30 September 2014

Babcock International Group PLC
Half year report
for six months ended 30 September 2014

20 November 2014

Continued good growth from core businesses enhanced by strong performance from Avincis

Financial highlights

Continuing operations - underlying	September 2014	September 2013	Change
Revenue*	£2,103.2m	£1,700.6m	+24%
Operating profit**	£239.5m	£172.8m	+39%
Profit before tax***	£187.0m	£141.7m	+32%
Basic earnings per share****†	31.0p	27.9p	+11%
Continuing operations - statutory			
Revenue	£1,941.4m	£1,583.6m	+23%
Operating profit	£162.6m	£113.3m	+44%
Profit before tax	£137.0m	£105.9m	+29%
Basic earnings per share†	23.7p	22.6p	+5%
Net debt	£1,284.9m	£521.2m	
Net debt/ebitda annualised (including jvs)	2.3 x	1.3 x	
Half year dividend†	5.5p	5.0p	+10%
Order book	£18.5bn	£12.0bn	+54%

**Underlying revenue includes the Group's share of joint venture and associates revenue. **Underlying operating profit includes IFRIC 12 investment income and joint venture and associates operating profit but is before amortisation of acquired intangibles and operating profit exceptional items. ***Underlying profit before tax is inclusive of pre-tax joint venture and associates income but before amortisation of acquired intangibles exceptional items. ****Underlying basic earnings per share is before amortisation of acquired intangibles and exceptional items and before the related tax effects and before the effect of UK tax rate changes. † The comparative 2013 eps and dividend numbers have been restated to take into account the effect of the rights issue in relation to the acquisition of Avincis.*

Operational highlights

- Revenue growth
    - +24% total Group
    - +10% excluding Avincis (at constant exchange rates)
- Operating profit growth
    - +39% total Group
    - +10% excluding Avincis (at constant exchange rates)
- Avincis performing well - in line with our expectations at time of acquisition
    - Integration progressing smoothly, already benefiting from being part of wider Group
- Order book increased to £18.5 billion increasing future visibility of revenue
    - 94% of anticipated FY15 revenue in the order book
- Announced as preferred bidder for acquisition of Defence Support Group
- Further significant opportunities for growth in £13.5 billion bid pipeline
- Robust financial position maintained
    - Avincis substantially refinanced
    - Successful launch of €550 million bond
    - Cash conversion representing 115% of operating profit
- Continued focus on creating value for shareholders

Peter Rogers, Chief Executive commented

"In the first half, Babcock further strengthened its position as Britain's leading engineering services group while strengthening its international position with the acquisition of Avincis.

"We achieved strong organic growth in both revenue and profit, with all our existing core businesses continuing to move forward. Avincis made an excellent start under our ownership and has fulfilled our expectations at the time of acquisition.

"Our markets remain buoyant and our increased dividend reflects the Board's confidence that we will continue to make strong progress this year and deliver results in line with our expectations."

Contact

Babcock International Group PLC

Franco Martinelli, Group Finance Director — Tel: 020 7355 5300
Terri Wright, Head of Investor Relations

FTI Consulting

Andrew Lorenz — Tel: 020 3727 1340
Nick Hasell

A presentation for investors and analysts will be given today, 20 November 2014, at 9:00 am at RBS, 250 Bishopsgate, London EC2M 4AA. The presentation will be webcast live at www.babcockinternational.com and subsequently available on demand from mid-afternoon on 20 November 2014.

To dial in to the presentation call +44 20 3059 8125 - please allow 15 minutes to register for both the webcast and the call.

Overview

Introduction

The financial results for the first half of the 2014/15 financial year once again reflect the strength and stability of Babcock's operations and business activities. The Group has delivered further strong growth in revenue, operating profit and earnings per share. The integration of Avincis into the Group has continued to progress well and in addition to delivering financial results for the first half in line with our expectations at the time of acquisition, the business is using expertise from within the wider Babcock Group to put plans in place to support and strengthen its future growth opportunities and financial returns.

The Group has maintained its robust financial position and cash generation has remained a key priority for the business. Cash generated from operations was £216.8 million (2013: £146.9 million) which represents a cash conversion rate of 115% (2013: 106%). Good progress was made during the first half to refinance the Avincis debt at improved rates and in October the Group issued a €550 million bond as part of this restructuring. Net debt to ebitda at the end of the first half increased, as expected, to 2.3 times.

We believe the Group's markets remain positive as customers continue to rely on our knowledge and experience to deliver their critical services. We have a proven track record of being able to integrate and deliver technically complex programmes to drive financial and operational efficiencies. Recent contract wins will, the Board believes, continue to support and strengthen the leading positions we have in our markets and create further opportunities to grow and strengthen existing customer relationships. They also provide unique reference points for future business development opportunities not only in the UK but also in overseas markets.

Interim dividend

As the Group continues to make strong progress and with visibility remaining excellent, the Board's confidence is reflected in a 10% increase in the half year dividend to 5.5 pence per share (2013: 5.0 pence per share restated to reflect rights issue). This will be paid on 14 January 2015 to shareholders on the register at 12 December 2014.

Order book and bid pipeline

The total order book for the Group has increased by c £5 billion to £18.5 billion from the £13.5 billion announced at the time of the Group's IMS on 21 July 2014 (2013: £12 billion), reflecting the significant contract wins announced at the end of the last financial year and during the first half, notably Magnox nuclear decommissioning, London Fire Brigade fleet management and Rail electrification and track renewal contracts. This also includes the Avincis order book which stood at c £2.0 billion at the end of September. Following signature of the Maritime Support Delivery Framework (MSDF) and the resulting new contracting arrangements with the Ministry of Defence (MoD), the order book now also includes c £2 billion for work to be carried out under our Terms of Business Agreement (ToBA) which would previously only have been brought into the order book on signature of separate contracts. At the end of September, the order book provides the Group with visibility of 94% of contracted revenue for 2014/15 and 59% for the 2015/16 financial year.

During the first half the Group achieved a win rate on new contracts of 40% and on rebids of 89% (excluding the Next Generation Estates Contracts).

With c £3 billion of preferred bidder contracts moving into the order book during the first half, the total bid pipeline currently stands at c £13.5 billion compared with £16.0 billion at the time of the IMS in July (2013: c £15.5 billion). This includes the Avincis bid pipeline of c £1.0 billion at the end of September. New bids make up 81% of the opportunities in the pipeline with rebids and extensions comprising only 10%.

The bid pipeline is supported by a number of significant opportunities in the tracking pipeline which have not yet come to market totalling in excess of £16 billion, which will deliver growth in the medium to long-term.

Outlook

Our markets, in both the UK and overseas, remain positive as customers seek financial and operational efficiencies and improvements. Against this backdrop, our business model, the scale of our operations, the depth and breadth of our experience and our successful track record are creating medium and long-term opportunities for our businesses, in existing as well as new markets and geographies.

The integration of Avincis is progressing smoothly and the business is performing in line with our expectations. Plans have been put in place to ensure the business maximises the opportunities created by being part of the larger Babcock Group.

The Group's strong order book provides excellent visibility and we continue to see significant prospects for growth as we progress bids in the pipeline and opportunities being tracked that have yet to come to market.

The Board therefore remains confident the Group will continue to make strong progress during this year and that the results for the 2014/15 financial year will be in line with its expectations.

Financial review

Underlying *- In this review, unless otherwise stated, revenue, operating profit, operating margin, net finance costs, profit before tax and earnings per share refer to results before amortisation of acquired intangibles and exceptional items. Revenue, operating profit, operating margins and net finance costs also include the Group's share of equity accounted joint ventures and associates (jv). Operating profit and operating margin include investment income arising under IFRIC12 (Accounting for Service Concession Arrangements) which is presented as financial income in the income statement. Collectively these adjustments are made to derive the underlying operating results of the business. All numbers are stated before the effect of tax rate changes.*

A reconciliation of statutory to underlying results is set out below. We feel that the underlying figures provide a consistent measure of business performance year to year thereby enabling comparison and understanding of Group financial performance.

Statutory to underlying reconciliation

		Joint venture and associates						
	Continuing operations - statutory £m	Revenue and operating profit £m	Finance cost £m	Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Change in UK tax rate £m	Continuing operations - underlying £m
30 September 2014								
Revenue	1,941.4	161.8						2,103.2
Operating profit	162.6	14.6			19.4	42.9		239.5
Share of profit from jv	10.6	(14.6)	15.6	4.0	(18.7)	3.1		-
Investment income	0.7				(0.7)			-
Net finance costs	(36.9)		(15.6)					(52.5)
Profit before tax	137.0	–	–	4.0	–	46.0	–	187.0
Tax	(19.1)			(4.0)		(10.6)		(33.7)
Profit after tax	117.9	–	–	–	–	35.4	–	153.3
30 September 2013								
Revenue	1,583.6	117.0						1,700.6
Operating profit	113.3	11.2			19.4	28.9		172.8
Share of profit from jv	10.2	(11.2)	12.7	3.8	(18.6)	3.1		-
Investment income	0.8				(0.8)			-
Net finance costs	(18.4)		(12.7)					(31.1)
Profit before tax	105.9	–	–	3.8	–	32.0	–	141.7
Tax	(11.6)			(3.8)		(7.4)	(2.7)	(25.5)
Profit after tax	94.3	–	–	–	–	24.6	(2.7)	116.2

Income statement

Total revenue for the first half increased by 24% to £2,103.2 million (2013: £1,700.6 million), which includes £263.6 million of revenue from Avincis from 16 May 2014. The Babcock businesses excluding Avincis, delivered strong revenue growth for the first half of 10% at a constant exchange rate, slightly ahead of the 9% growth achieved in same period last year.

The main contributor to this growth was the Support Services division which reported a 13% increase in revenue benefiting from increased activity at its subsidiary Cavendish Nuclear as well as from its fleet support activities and a full period contribution from the Conbras business in Brazil. The Marine and Technology division also continued to progress well delivering 11% growth in revenue mainly as a result of increased warship refit activities, including the Queen Elizabeth class (QEC) aircraft carrier programme, and growing commercial activities. Despite strong growth in Support Services and Marine and Technology, the Group's revenue growth was offset by ongoing weakness in the South African Rand. Within the International division, the South African business achieved a 11% increase in revenue in local currency, although this translated into a 7% reduction in revenue in Sterling terms.

Total underlying operating profit for the Group increased by 39% to £239.5 million (2013: £172.8 million). Excluding Avincis, operating profit increased by 10% on a constant exchange rate basis. The Defence and Security division achieved a 6% increase in operating profit, benefiting in particular from achieving milestones within the FSTA programme. For the Support Services division, despite strong growth in revenue, profits were diluted by low margin take in the early stages of new contracts, particularly within Cavendish Nuclear and the Critical Services business.

The Group operating margin increased to 11.4%, benefiting from strong operating margins in the Avincis business of 19.9%, which benefited from firefighting activities during the summer months. Excluding Avincis, the operating margin for the Babcock business remained stable at 10.2% (2013: 10.2%).

Total net finance costs were £52.5 million (2013: £31.1 million) reflecting the increase in total Group debt following the acquisition of Avincis. This includes Group finance costs, including Avincis costs, of £31.4 million (2013: £13.0 million). jv interest costs increased to £15.6 million due to fair value movements on interest rate swaps (2013: £12.7 million) and retirement benefit interest remained broadly in line with last year at £5.5 million (2013: £5.4 million). During the first half, following completion of the acquisition, we made good progress refinancing Avincis' debt. We repaid and cancelled two revolving credit facilities for €145 million and £25 million as well as the €470 million and £260 million high yield notes. We successfully issued a €550 million bond, the proceeds from which were used to pay off part of the £900 million bridge facility with the remainder expected to be repaid before the year end. These actions achieved the £35 million of interest synergies targeted at the time of acquisition.

Total profit before tax increased by 32% to £187.0 million (2013: £141.7 million). Taxation charges, including the Group's share of jv tax, were £33.7 million (2013: £25.5 million) representing an effective underlying tax rate in line with last year of 18% (2013: 18%).

Earnings per share

In order to finance the acquisition of the Avincis Group and to ensure the Group maintains sufficient financial headroom for growth opportunities, the Group undertook a rights issue of 139,259,204 new ordinary shares which raised £1,077.4 million and was completed on 6 May 2014. To provide an appropriate comparison, earnings per share for 2013 have been restated to take into account the increase in the number of shares and the bonus issue of shares.

Underlying earnings per share for the first half was 31.0 pence (2013: 27.9 pence) an increase of 11%. Basic continuing earnings per share, as defined by IAS 33, was 23.7 pence (2013: 22.6 pence).

Acquisitions and disposals

On 16 May 2014 the Group completed the acquisition of the Avincis Group (Avincis), a leading provider of emergency, mission-critical helicopter and fixed-wing services for £1,759.2 million.

We acquired the Avincis business because of its significant growth potential and excellent strategic fit with Babcock. The acquisition creates not only an exciting new opportunity for the Group to move into a new market but, we believe, also creates significant growth opportunities for the Avincis business as well as the enlarged Group. Integration of the Avincis business into Babcock has progressed well as a result of the high levels of co-operation and detailed planning activities that were undertaken prior to completion. Actions are in hand to ensure we maximise the medium and long-term opportunities for the Group created by the acquisition. As part of the integration process we are also undertaking a detailed review of Avincis' future fleet requirements to optimise fleet cost and efficiency going forward.

On 29 June 2014, we completed the acquisition of 84.6% of Scandinavian AirAmbulance (SAA) for £66.1 million. SAA provides emergency medical services from bases across Sweden and Finland and will form part of the Avincis business.

Cash flow and net debt

	30 September 2014 £m	30 September 2013 £m
Operating profit	205.5	142.2
Non-cash items	48.2	30.0
Exceptionals/pensions	(20.2)	(4.5)
Working capital	(16.7)	(20.8)
Cash generated from operations	216.8	146.9
Capital expenditure (net)	(87.2)	(34.9)
Interest paid (net)	(45.9)	(16.5)
Taxation	(26.2)	(30.6)
Free cash flow	57.5	64.9
Acquisitions /disposals/jv	(1,819.6)	(15.9)
Issue of shares	1,077.4	–
Investment/dividend received from joint ventures	8.5	3.2
Own shares	(4.1)	0.7
Dividends paid	(86.8)	(73.6)
Exchange difference / other	15.9	(1.0)
Net cash inflow	(751.2)	(21.7)
Opening net debt	(533.7)	(499.5)
Closing net debt	(1,284.9)	(521.2)

Exceptional cash items in the first half relate to acquisition costs of £(14.0) million (2013: £nil) and pension payments in excess of the income statement of £(6.2) million (2013: £(4.5) million). Working capital cash flows during the period were £(16.7) million (2013: £(20.8) million) . Cash generated from operations, after working capital movement, was £216.8 million (2013: £146.9 million) resulting in a conversion rate of underlying operating profit to cash of 115% (2013: 106%).

Net capital expenditure (including new finance leases) during the first half was £87.2 million (2013: £34.9 million) or around 2.2 times depreciation. This increase related mainly to capital expenditure at Avincis in addition to investment in dockyard facilities for the Marine and Technology division. During the second half we will convert £25 million of Avincis first half capital expenditure into operating leases and therefore adjusting for this capital expenditure would have been £62.2 million or 1.6 times depreciation. We expect capital expenditure for the full year to be c £120 million.

As identified at the time of acquisition, the Group has a number of initiatives in place to achieve a return on invested capital ahead of the Group's weighted average cost of capital by 2017. These actions focus on the following areas

- Driving growth – existing opportunities plus maximising benefits of enlarged Group giving operational gearing
- Pricing – increased demand for new technology and improved safety
- Operating costs – overhead and procurement efficiencies, fleet rationalisation
- Financing – optimise leasing versus ownership, improve lease terms and refinance debt

Net cash interest paid, excluding that paid by joint ventures, was £45.9 million (2013: £16.5 million). After taxation payments of £26.2 million (2013: £30.6 million), free cash flow was £57.5 million (2013: £64.9 million).

Free cash flow was £57.5 million (2013: £64.9 million), or £82.5 million after adjustments in capital expenditure referred to above, which gave an adjusted free cash flow yield, after interest and tax, of 2.6%.

Acquisitions and disposals of £(1,819.6) million (2013: £(15.9) million), relate to the acquisition of the Avincis Group completed on 16 May 2014 and Scandinavian AirAmbulance completed on 30 June 2014.

Dividend payments during the first half totalled £86.8 million (2013: £73.6 million). Total net cash outflow was £751.2 million (2013: £21.7 million) which resulted in total net debt at the end of the first half of £1,284.9 million (30 September 2013: £521.2 million; 31 March 2014: £533.7 million). This gives a net debt to earnings before interest, tax, depreciation and amortisation (ebitda) ratio of 2.3 times (30 September 2013: 1.3 times) after adjusting for pro forma acquisition ebitda for the non-owned period. As indicated at the time of the Avincis acquisition, we expect the net debt to ebitda ratio at 31 March 2015 to be c 2.2 times allowing for the acquisition of the Defence Support Group (DSG).

Pension

Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £3,462.6 million in comparison to a valuation of the liabilities based on AA corporate bond yields of £3,733.2 million. The total accounting deficit, pre-tax, of the Group's combined defined benefit pension schemes was £270.7 million (30 September 2013: £382.2 million; 31 March 2014 £267.7) million. The continued hedging of inflation and interest rate changes has helped to mitigate volatility in the value of assets and liabilities. The Babcock International Group Scheme benefits have been adjusted from 1 October 2014 to reduce future costs and in addition employee contribution rates are increasing by 2% per annum to 6.0% over the next three years. Further action will reduce the ongoing deficit contribution by £6 million per annum in addition to the above.

As at 30 September 2014, the key assumptions used in valuing pension liabilities were

Discount rate	4.1% (31 March 2014: 4.5%)
Inflation rate (RPI)	3.2% (31 March 2014: 3.3%)

Cash contributions

As a result of agreeing lower deficit payments with the Trustees of the main Babcock International Group Scheme as well as revised benefit arrangements in this scheme, the Group expects to pay £82 million into the defined benefit pension schemes in 2014/15. Of this £29.7 million was paid during the first half of the year (2013: £29.5 million).

Operational review

Marine and Technology

		30 Sept 2014	30 Sept 2013	Change +/-
Revenue	group	£716.2m	£645.9m	+11%
	jv	£8.9m	£8.1m	+10%
	total	£725.1m	£654.0m	+11%
Operating profit	group	£76.5m	£69.0m	+11%
	jv	£1.2m	£0.6m	+100%
	total	£77.7m	£69.6	+12%
Operating margin	group	10.7%	10.7%	
	jv	13.5%	7.4%	
	total	10.7%	10.6%	

Financial review

The Marine and Technology division had a successful first half, reporting a total increase in revenue of 11% . This is a result of a continued increase in activities on the Queen Elizabeth class (QEC) aircraft carrier programme and other warship support activities as well as increased commercial activities including the BP Quad 204 programme, higher throughput in the LGE business and the 'walk to work' contract for Total. These increases offset some reduction in volumes as a result of timing of activities on the Canadian submarine programme. Operating profit increased in line with revenue by 12% and operating margins therefore remained broadly stable on the same period last year at 10.7%.

Operational review

The Marine and Technology division has seen its key UK, commercial and international markets remain very stable during the first half. The division continued to deliver in-service support and deep maintenance to the Royal Navy's fleet of submarines and warships and maintain its role as the MoD's strategic partner at Her Majesty's Naval Bases (HMNB) Devonport and Clyde. These activities are all carried out under the framework of the Terms of Business Agreement (ToBA) with the MoD, which runs until 2025. Through the long-term programmes and alliances we have with the MoD, we have been able to maximise availability of the fleet whilst remaining focused on the delivery of cost reductions.

At the end of the first half we concluded discussions with the MoD and signed the Maritime Support Delivery Framework (MSDF) contract. Working within the ToBA, MSDF confirms the continuation of our contract to deliver services at HMNB Devonport and Clyde through to 2020, replacing the previous Warship Support Modernisation Initiative (WSMI) contracts. MSDF will also cover a number of surface ship projects which will be delivered in conjunction with the Surface Ship Support Alliance (SSSA). The contract is valued at a total of £2.6 billion, of which £600 million is already included within the Group's order book as part of nominated roles under the ToBA. The new contract enables Babcock to provide continuity and development of the range of activities and services delivered to the MoD and Royal Navy as well as deliver improved efficiencies and a further £250 million of cost reductions on the agreed programme of work.

All current warship and submarine refit contracts are performing in line with our own financial expectations and are aligned with the customers' programme milestones and KPIs. We also continue to plan and prepare for the Vanguard life extension programme to ensure there is no disruption to the UK's ability to meet Continuous At Sea Deterrence.

Our warship activities continue to include the delivery of the Queen Elizabeth Class (QEC) aircraft carriers through the Aircraft Carrier Alliance (ACA). Assembly of HMS Queen Elizabeth is complete and she successfully floated out of the dock and into the basin at our facilities in Rosyth during July. Activities are now focused on the fitting out of the vessel and installation of vital electrical and mechanical systems. Work is now progressing on the assembly of the second QEC carrier, HMS Prince of Wales.

Through the Technology business we are progressing activities to support the design phase, through-life support, planning and the key tactical weapons launch systems for the Successor future submarine programme which remains on schedule for Main Gate approval by the MoD in 2016. We continue to deliver weapons handling and launch systems to support the current Astute, Type 26 and QEC class build programmes in the UK, as well as the submarine builds in Spain and South Korea.

Equipment support activities, which include the provision of engineering and logistical support for a range of key UK defence assets, continue to perform in line with our expectations and meet or exceed our customer's operational KPIs. During the first half we have been successful in winning a number of additional contracts in these areas totalling c £65 million with further pipeline opportunities of over £200 million to be bid over the next 12 months.

In the commercial oil and gas markets, the former LGE business is making good progress on a number of liquid gas system projects having won orders worth £300 million since acquisition. The Total 'walk to work' engineering support programme is nearing completion and has achieved high availability at the platform. The BP Quad 204 contract continues to successfully deliver modules and structures to BP and we expect to have completed the contract on schedule early in the next financial year. The business continues to discuss opportunities with other energy and oil and gas companies as well as working to support Cavendish Nuclear in its position in the civil nuclear new build market.

Our contracts to support the Australian, New Zealand and Canadian navies all continue to perform well, achieving excellent KPI performance and delivering improved availability and efficiencies for our customers. In Canada, HMCS Chicoutimi has started sea trials and we have commenced the refit of the next submarine, HMCS Corner Brook. Following the successful completion of the refit of the first of the Canadian Coast Guard's heavy ice breaker Louis S St-Laurent, work has now begun on the medium ice breaker, CCGS Des Grosseilliers. In New Zealand we have signed an agreement with the New Zealand Defence Force to extend our dockyard management contract for a further five years with an option to extend for an additional two years. The new contract is worth approximately NZ$300 million for the full seven years and provides an opportunity for us to broaden our responsibilities for naval engineering and to be part of a defence transformation process providing improved levels of performance and capability. The new contract will start on 1 March 2015.

In our export markets, we have progressed our contract for weapons handling and launch systems for the South Korean KSS-III class submarines with design and manufacturing continuing to schedule. Construction of the second patrol vessel for the Irish navy is progressing well and we have started to cut steel for the third vessel.

Marine and Technology outlook

In the UK, as a result of our market positions and involvement in long-term alliances and agreements, the Marine and Technology division continues to have excellent visibility of its future revenue streams. Our unrivalled expertise and ability to work alongside the customer to maximise availability of assets and achieve value for money is creating further opportunities in the UK and also enabling us to grow our presence in international naval support markets as well as in the commercial marine and energy markets.

We therefore believe the outlook for the Marine and Technology division remains positive with significant opportunities in the bidding and tracking pipeline to support long-term growth in the UK and overseas.

Defence and Security

		30 Sept 2014	30 Sept 2013	Change +/-
Revenue	group	£353.5m	£338.3m	+ 4%
	jv	£60.9m	£62.7m	– 3%
	total	£414.4m	£401.0m	+ 3%
Operating profit	group	£35.4m	£33.7m	+ 5%
	jv	£23.1m	£21.6m	+ 7%
	total	£58.5m	£55.3m	+ 6%
Operating margin	group	10.0%	10.0%	
	jv	37.9%	34.4%	
	total	14.1%	13.8%	

Financial review

The Defence and Security division's total revenue increased by 3%, benefiting from additional scope and project work in its Regional Prime contracts as these move towards completion and the achievement of milestones within the Future Strategic Tanker Aircraft (FSTA) programme. These increases were offset by phasing of infrastructure activities at RSME.

Operating profit, including the division's share of joint venture profit, increased by 6% benefiting from strong contract performance on both the Regional Prime contracts and the Future Strategic Tanker Aircraft (FSTA) programme. As a result, the division's operating margin increased to 14.1% (2013: 13.8%).

Operational review

During the past six months, the markets in which the Defence and Security division operates have seen little change. The division's main customers, the MoD and the Armed Forces, remain committed to driving further efficiencies and savings through competitive outsourcing programmes. The division continues to ensure its capabilities match the developing requirements of its customers.

During the first half, we learnt that the Infrastructure business had been unsuccessful in its bids for the Defence Infrastructure Organisation's (DIO) Next Generation Estates contracts (NGEC). Whilst it is disappointing not to play a significant role in the future management of the MoD's built infrastructure, we recognise that the changes to the customer requirements in this market sector mean it is no longer suited to the Babcock business model and the delivery of complex and critical support.

The existing East and South West Regional Prime contracts are expected to run through until the end of January 2015 and demobilisation activities are progressing well. We are working closely with our customer to ensure we maintain the highest operational standards across the estate through to completion of the contracts and as a result during the first half we have undertaken a number of additional projects. Operations to support and manage the British Forces estate in Germany have been progressing as planned and the contract continues to perform in line with our expectations.

Our Air business provides essential maintenance and operational support to the Royal Air Force and supports military flying training at all levels. The business continues to perform well and all contracts are performing in line with our financial expectations as well as meeting or exceeding contract KPIs. Our major long-term joint venture projects, UKMFTS and FSTA, are in operational phases having achieved the initial major delivery milestones.

Operational review continued

In the Land business, the vehicle and fleet support contracts for the MoD are performing well, and in our training contracts we continue to deliver high standards of services for our customers whilst achieving financial efficiencies ahead of their expectations. During the first half we were successful in our rebid to provide training and training support at the Defence College of Technical Training. The new contract will include the integration of the schools at Bordon and Arborfield at Lyneham, Wiltshire, and is expected to be worth up to £180 million over five years with two single year extensions. Planning is already underway for the move to Lyneham to ensure the first training activities can start there by November 2015.

In addition to ensuring our existing operational contracts are performing strongly, during the first half the division has been progressing bids for two significant new outsourcing programmes, Logistics, Commodities and Services Transformation (LCST) and the Defence Support Group (DSG). On 19 November 2014, Babcock was selected by the MoD as preferred bidder for the acquisition of DSG. The acquisition agreement, once placed, will include a contract to provide services for the MoD for 10 years, with an option to extend for a further five years. The final bid for LCST was submitted in August and since then we have responded to clarification questions from the customer and await a decision before the end of this calendar year. The division is also preparing for rebids anticipated to start over the next few years including the white vehicle fleet contract, Phoenix II and the Training Maintenance and Support Services (TMASS) contract at Bovington. We await clarification of timetables but expect these bids to be submitted during 2015 for contract start dates in 2016.

The division also continues to track a number of other significant equipment support and training opportunities in both the UK and overseas. In the UK, these include the Defence Fire and Rescue Project and the potential appointment of an Army Training Development Programme partner to help the Army transform military training and equipment support to both the Regular and Reserve Forces. In support of our strategy to develop our business activities overseas we have established an International business unit to pursue longer-term opportunities in Australia, Canada and the Middle East, markets where we believe we can build on our capabilities and experience in the UK.

Defence and Security outlook

The Defence and Security division has an excellent track record of delivering operational and financial efficiencies through its existing contracts. We are well positioned to meet the current and future demands and expectations of our main UK military customers. This is reflected in our pipeline of major new outsourcing programmes that are being progressed by the MoD. However, we are looking at longer term opportunities for the division and are establishing a presence in key international markets where we believe we can build on our UK expertise and capabilities.

Support Services

		30 Sept 2014	30 Sept 2013	Change +/-
Revenue	group	£469.9m	£448.0m	+5%
	jv	£89.2m	£46.2m	+93%
	total	£559.1m	£494.2m	+13%
Operating profit	group	£33.0m	£31.7m	+4%
	jv	£7.7m	£7.6m	+1%
	total	£40.7m	£39.3m	+4%
Operating margin	group	7.0%	7.1%	
	jv	8.6%	16.5%	
	total	7.3%	8.0%	

Financial review

The Support Services division has continued to deliver strong growth in revenue, mainly as a result of growth achieved by Cavendish Nuclear, in particular the start of the Magnox contract from 1 September 2014 and growth in the Critical Services business activities as well as the benefit of a full period of Conbras in Brazil and growth from the NTI and Skills2Learn acquisitions. This offset lower volumes in the Network Engineering business and in the service sector apprenticeship business. Total organic growth for the division was 9%.

As anticipated and as a result of the number of new, long-term contracts the division has started over the past 18 months, operating profit, including jvs, has risen by 4% and the operating margin has reduced to 7.3%. In addition, the division has continued to make significant investment in bidding activities to support further growth.

Operational review

The markets served by the Support Services division remain attractive. Customers, both existing and potential, continue to seek to reduce costs whilst maximising service levels which is driving demand for outsourcing solutions. To ensure the increasing financial pressures on our customers are managed effectively, the division is able to use the expertise within its business units to develop innovative solutions and increase the scope of services offered.

One of the key growth areas for the division during the period was our subsidiary Cavendish Nuclear, which reported a 26% increase in revenue. Decommissioning activities have been a major part of this with its contract at Dounreay progressing well with key milestones being achieved on schedule. Additional scope is also being introduced into the programme to deal with a change in strategy for nuclear materials. The formal award of the Magnox and Research sites decommissioning contract to the Cavendish Fluor Partnership (where Cavendish Nuclear is the lead partner) took place, as planned, on 1 September 2014. Prior to contract signature detailed planning and mobilisation activities had been undertaken to ensure a smooth and efficient start to the contract. At Sellafield, Cavendish Nuclear's existing projects have been performing well and it has successfully rebid its Environmental Laboratories contract worth c £45 million over the next ten years and with its jv partner Balfour Beatty, has been awarded a £160 million contract to deliver phase 3 of the Silos' Maintenance Facility.

In the nuclear new build sector, Cavendish Nuclear continues to develop opportunities and relationships. It has submitted a bid to EDF for the Balance of Nuclear Island contract at the new Hinkley Point C power station and we expect EDF to announce its decision shortly. Cavendish Nuclear has continued to provide support to Hitachi for the Generic Design Assessment of its reactors for the Horizon programme and is seeking to use its expertise and knowledge of the UK regulatory regime along with its proven track record of major project delivery to establish a position as a Tier 1 Delivery Partner for the programme.

The Critical Services business has continued to perform in line with our expectations, meeting or exceeding operational and availability KPIs across all its contracts as well as achieving financial efficiencies. Good revenue growth has also been achieved when compared with the same period last year, benefiting in particular from increases in the scope of the Heathrow Airport Limited baggage handling contract and the British Airways ground fleet support contract. The Mining and Construction business has also seen steady growth in its contracts to support Lafarge and Aggregate Industries and during September was announced as preferred bidder for the Lafarge Tarmac HME fleet of 700 vehicles over 208 sites in the UK, a contract expected to be worth c £8 million per annum. Implementation plans are being undertaken for a contract start date during January 2015. Discussions with Lafarge Poland are also progressing well and we expect to take over responsibility for its HME fleet during the second half of the financial year.

The 21 year contract to support the London Fire Brigade's (LFB) fleet of 500 vehicles and 50,000 pieces of equipment has started well and we are continuing to drive improved availability of the fleet and are making investment in new servicing facilities to improve both operational efficiency and the LFB's operational resilience. Contracts for the Metropolitan Police and Highways Agency, as well as the New Dimensions contract have also performed well and building on this success, the business is pursuing a number of new opportunities in this market. Training activities for the London Fire Brigade are progressing well. We are now using the two new purpose built Babcock fire training centres in Beckton, east London, and in Park Royal, west London to deliver world-class training for the LFB. This contract is generating significant interest from other emergency service organisations looking at the capabilities and facilities we are providing for the LFB.

Although there has been some reduction in service sector apprentice training activities, other training contracts for automotive and engineering apprentice training are performing well. In Oman, NTI is training at full capacity in Muscat and has opened a new facility to train BP technicians to support field operations for the Khazzan gas project. During the first half we also successfully renewed the contract with Surrey County Council for school improvement services for around 400 schools. This is the third time we have successfully renewed this contract.

In Brazil, the Conbras business is performing well with current contracts all performing as expected. The business has a number of new opportunities that it is currently pursuing in its existing markets as well as in new sectors, for example, in vehicle fleet management, where the division or the Group has wider expertise.

For the Network Engineering business, revenue is 4% below the same period last year. For the Rail business this has been a result of the transition to the Control Period 5 regulatory framework and for the Power business there has been continued slowdown in demand from National Grid, although this has been largely offset by demand from other network operators. During the first half the Rail business has been engaged in significant demobilisation and mobilisation activities following the award of framework contracts for conventional plain line track works in new geographic regions as well as new electrification framework programmes. These are all progressing as planned and we expect a smooth transition as work starts under the new arrangements.

Support Services outlook

In both the UK and overseas, customers in our civil markets are increasingly seeking to reduce costs whilst protecting or enhancing service levels. The division has achieved significant growth in the first half building on its track record of delivering complex projects and strengthening the depth of technical knowledge and experience within its operations. We believe the division is therefore well placed to pursue the significant opportunities in the UK and overseas to meet its growth ambitions.

Operational review continued

International

		30 Sept 2014	30 Sept 2013	Change +/-
Revenue	Avincis including jv	£263.6m	–	
	other	£141.0m	£151.4m	−7%
	total	£404.6m	£151.4m	+167%
Operating profit	Avincis including jv	£52.5m	–	
	other	£11.6m	£11.9m	−3%
	jv	£1.3m	–	
	total	£64.1m	£11.9m	+439%
Operating margin	Avincis including jv	19.9%	–	
	other	8.2%	7.9%	
	total	15.8%	7.9%	

Financial review

The significant growth in revenue, operating profit and margin for the International division as a whole, has come from the inclusion of the Avincis business unit which was acquired on 16 May 2014.

The South African operations have continued to make good progress achieving an 11% increase in revenue in local currency although weakness in the South African Rand has resulted in revenue 7% below last year in Sterling terms. This has been driven by strong equipment sales, including improving sales of DAF Trucks, and Powerline activity. Tight management of overheads has ensured operating profit during the period in local currency increased by 16%, which translated to flat profit in Sterling terms.

The Avincis business has delivered a strong performance since its acquisition with revenue of £263.6 million in line with expectations for the full year growth of c 20%. Although revenue from the firefighting business was less buoyant than expected due to weather conditions in continental Europe, growth in oil and gas services has been strong. Operating profit of £52.5 million and the operating margin of 19.9% are ahead of expectations reflecting firefighting activities during the summer months which will not be repeated in the second half. Working capital for the business continues to improve, on the back of positive trends in the payment terms of our Southern European customers.

Operational review

South Africa

There has been strong demand for equipment in South Africa and Mozambique with only a limited impact from strikes in the mining sector. Growth has been supported by increasing demand for the Volvo Chinese value brand products introduced last year. DAF truck sales have also improved through our dealerships across South Africa and we continue to develop relationships with fleet operators.

Growth in the Rentals business has been steady although demand for cranes has been held back slightly by delays to maintenance activities by one of our major energy customers.

During the first half, Eskom have postponed a number of scheduled outages as they try to balance maintenance activities with the increasing demand for electricity. Although this has resulted in reduced activity for the generation support business during the period it continues to work with Eskom to develop more efficient working practices for both planned and unscheduled outages to support the demands on their generating capacity. The business also continues to pursue opportunities in the new build power station market and is currently bidding for steam pipe work on the new power station at Kusile.

There has been increasing demand for the Powerlines business as investment into new transmission lines continues. The business has been working at near full capacity delivering contracts won at the end of the last financial year and continues to bid on a number of new lines that are coming out to tender.

Avincis

Since its acquisition, Avincis has continued to perform in line with our expectations, with all contracts meeting or exceeding our customers' requirements and with no change to expected financial performance.

Over the past six months the business has maintained a high contract win rate (including rebids) of c 70% and has won 28 contracts and extensions with a total value of c £375 million. The Australian business is in the process of mobilising for the start of a new 10 year contract to provide air ambulance services awarded by the Victoria Government and Ambulance Victoria. The agreement sees the supply of six new AW139 twin-engine helicopters and includes a dedicated back-up aircraft to maintain services when heavy aircraft maintenance is required. The new helicopters will be operational from January 2016 and will be located at bases in Essendon, Warrnambool, the Latrobe Valley and Bendigo. The company currently operates two helicopters for Ambulance Victoria and has supplied the service for the past five years. With the addition of the new contract, we are the largest operator of helicopter emergency medical services (HEMS) in Australia.

In Oil and Gas, we have increased our geographic footprint with a strategic, customer-led entry into Cyprus. Inaer Aviation Italia has been awarded a two year contract to provide offshore transportation and medical evacuation services to ENI Cyprus in support of its offshore hydrocarbon exploration. This builds on our existing relationship with ENI in Italy and demonstrates their trust in our ability to deliver in other territories. Elsewhere, Bond Helicopters Australia has begun to operate services for ConocoPhillips in support of its offshore activities and plans are in hand to leverage the existing oil and gas expertise and customer relationships within the wider Group.

In Emergency Services, awards include a further four-year contract, with a potential two-year extension, to provide HEMS in Spain's Galicia region, following a competitive tender. Inaer Spain has operated this service for the Public Foundation of Health Emergencies since 1990. We have also won a number of contracts to provide regional HEMS in France, including a six year contract to provide helicopters for medical transfer for Nantes, Angers, La Roche-sur-Yon, Brest and St Brieuc in Western France. This contract forms part of the French Ministry of Health's new process of placing regional contracts. In the UK, Bond Aviation has been awarded a multi-million pound contract to install the next generation of missions system equipment into the National Police Air Service (NPAS) fleet. The existing communications systems will be replaced by new integrated technologies, giving enhanced capability to relay crime-fighting information to Police Officers in the sky and on the ground at their headquarters. The work, described by NPAS as an entire mission systems upgrade, will be carried out at Bond's facilities in Staverton.

Bond Air Services continues to operate for air ambulance charities in the UK, with two seven-year contracts for Thames Valley and Chiltern Air Ambulance, and for Hampshire and Isle of Wight Air Ambulance announced in September. The contracts extend existing relationships, enabling the charities to provide a full service during the hours of darkness as well as during the day. Bond also continues to work with Police Scotland, including the provision of an additional helicopter to provide support during the Commonwealth Games in Glasgow.

In addition, we continue to progress bids for a number of significant outsourcing programmes in our core areas of emergency medical services, environmental protection and oil and gas support. We are progressing a number of potential opportunities in Africa, benefiting from Babcock's established presence in the region.

On 30 June 2014 the acquisition of Scandinavian AirAmbulance (SAA) was completed. SAA has 22 aircraft with bases across Sweden and Finland and is one of Scandinavia's largest air ambulance companies. The business has a strong management team and integration is progressing well. SAA has performed in line with our expectations since acquisition.

We are currently working to capture the benefits of the systems and expertise of the wider Group through collaboration in a number of areas; including training, information systems, safety management, improved asset management capability and access to a much broader pool of expertise and resource across the business.

We now have significantly greater abilities to lease and finance aircraft at lower cost, our pipeline of opportunities remains stable and robust and we are utilising Babcock's industry-leading experience to optimise our bid management systems. We are working together to capture economies of scale and additional savings, particularly within procurement, fleet rationalisation and engineering.

We continue to work with other Babcock divisions to help facilitate their growth through our existing strong customer relationships, operational credibility and administration in the geographies in which we operate.

International outlook

For the South African business the primary focus remains the growth of our market share in the automotive and construction equipment market in South Africa, and expansion in our export markets. Continuing strong demand is expected for the Powerlines business as well as the extension of our support operations in the power generation market.

Across our International business units we are making good progress with a number of new opportunities where we can develop our business further by building on expertise across the Group.

We continue to expect strong growth across the Avincis business and are using our access to the wider Group's expertise and our international presence to develop Babcock's opportunities in Continental Europe. We are also leveraging the Group's existing presence to expand our mission-critical services, including developing a number of opportunities in new geographies such as Africa. Work will continue to capture the benefits, both financial and operational, of being a part of a much bigger Group.

Income statement

For the six months ended 30 September 2014

Year ended 31 March 2014 (restated) £m		Note	£m	Six months ended 30 September 2014 £m	£m	Six months ended 30 September 2013 (restated) £m
3,547.6	Total revenue	2	2,103.2		1,700.6	
226.6	Less: joint venture and associate revenue		161.8		117.0	
3,321.0	Group revenue			1,941.4		1,583.6
	Group					
317.2	Operating profit before amortisation of acquired intangibles and exceptional items	2	205.5		142.2	
(59.2)	Amortisation of acquired intangibles	3	(42.9)		(28.9)	
(24.9)	Exceptional items	3	-		–	
233.1	Group operating profit			162.6		113.3
	Joint ventures and associates					
21.9	Share of operating profit		14.6		11.2	
37.3	Investment income		18.7		18.6	
(6.2)	Amortisation of acquired intangibles	3	(3.1)		(3.1)	
(25.1)	Finance costs		(15.6)		(12.7)	
(7.0)	Income tax (expense)/credit		(4.0)		(3.8)	
20.9	Share of results of joint ventures and associates			10.6		10.2
	Group and joint ventures and associates					
339.1	Operating profit before amortisation of acquired intangibles and exceptional items		220.1		153.4	
38.8	Investment income		19.4		19.4	
377.9	Underlying operating profit*	2	239.5		172.8	
(65.4)	Amortisation of acquired intangibles		(46.0)		(32.0)	
(24.9)	Exceptional items		-		–	
(1.5)	Group investment income		(0.7)		(0.8)	
(25.1)	Joint venture and associate finance costs		(15.6)		(12.7)	
(7.0)	Joint venture and associate income tax expense		(4.0)		(3.8)	
254.0	Group operating profit plus share of joint ventures and associates			173.2		123.5
	Finance costs					
1.5	Investment income		0.7		0.8	
(10.9)	Retirement benefits interest		(5.5)		(5.4)	
(35.2)	Finance costs		(35.9)		(17.7)	
9.4	Finance income		4.5		4.7	
(35.2)				(36.2)		(17.6)
218.8	Profit before tax	2		137.0		105.9
(30.8)	Income tax expense	4		(19.1)		(11.6)
188.0	Profit for the period			117.9		94.3
	Attributable to:					
180.5	Owners of the parent			114.1		91.6
7.5	Non-controlling interest			3.8		2.7
188.0				117.9		94.3
	Earnings per share	5				
44.3p	– Basic			23.7p		22.6p
43.9p	– Diluted			23.6p		22.4p

*Including IFRIC 12 investment income, but before exceptional items and amortisation of acquired intangibles

Statement of comprehensive income

For the six months ended 30 September 2014

Year ended 31 March 2014 £m		Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m
188.0	Profit for the period	117.9	94.3
	Other comprehensive income		
	Items that may be subsequently reclassified to Income Statement		
(19.5)	Currency translation differences	(35.5)	(12.4)
(2.2)	Fair value adjustment of interest rate and foreign exchange hedges	(6.8)	(1.3)
0.5	Tax on fair value adjustment of interest rate and foreign exchange hedges	1.4	0.3
23.1	Fair value adjustment of joint venture and associate derivatives	(12.2)	21.6
(5.3)	Tax on fair value adjustment of joint venture and associate derivatives	(1.0)	(5.0)
	Items that will not be reclassified to Income Statement		
(43.0)	Net actuarial gain/(loss) in respect of pensions	(3.7)	(120.2)
9.9	Tax on net actuarial (gain)/loss in respect of pensions	0.7	27.7
(9.5)	Impact of change in UK tax rates	-	(12.5)
(46.0)	Other comprehensive loss, net of tax	(57.1)	(101.8)
142.0	Total comprehensive income/(loss)	60.8	(7.5)
	Total comprehensive income attributable to:		
137.8	Owners of the parent	57.6	(7.9)
4.2	Non-controlling interest	3.2	0.4
142.0	Total comprehensive income/(loss)	60.8	(7.5)

Statement of changes in equity

For the six months ended 30 September 2014

	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Owners of parent £m	Non-controlling interest £m	Total equity £m
At 1 April 2013	217.2	873.0	-	30.6	(110.7)	(58.5)	(4.5)	947.1	21.8	968.9
Total comprehensive income	–	–	–	–	(13.4)	15.6	(10.1)	(7.9)	0.4	(7.5)
Dividends	–	–	–	–	(71.8)	–	–	(71.8)	(1.8)	(73.6)
Share-based payments	–	–	–	–	7.2	–	–	7.2	–	7.2
Tax on share-based payments	–	–	–	–	1.2	–	–	1.2	–	1.2
Own shares and other	–	–	–	–	0.7	–	–	0.7	–	0.7
Net movement in equity	–	–	–	–	(76.1)	15.6	(10.1)	(70.6)	(1.4)	(72.0)
At 30 September 2013	217.2	873.0	-	30.6	(186.8)	(42.9)	(14.6)	876.5	20.4	896.9
At 1 April 2014	217.2	873.0	-	30.6	(53.3)	(42.4)	(20.7)	1,004.4	21.7	1,026.1
Total comprehensive income	–	–	–	–	111.1	(18.6)	(34.9)	57.6	3.2	60.8
Shares issued in the period	84.1	–	993.3	–	–	–	–	1,077.4	–	1,077.4
Dividends	–	–	–	–	(82.2)	–	–	(82.2)	(4.6)	(86.8)
Share-based payments	–	–	–	–	8.0	–	–	8.0	–	8.0
Tax on share-based payments	–	–	–	–	3.7	–	–	3.7	–	3.7
Acquisition of non-controlling interest	–	–	–	–	–	–	–	–	(0.4)	(0.4)
Transactions with non-controlling interest	–	–	–	–	5.5	–	–	5.5	(2.1)	3.4
Own shares and other	–	–	–	–	(4.1)	–	–	(4.1)	–	(4.1)
Net movement in equity	84.1	–	993.3	–	42.0	(18.6)	(34.9)	1,065.9	(3.9)	1,062.0
At 30 September 2014	301.3	873.0	993.3	30.6	(11.3)	(61.0)	(55.6)	2,070.3	17.8	2,088.1

Balance sheet

As at 30 September 2014

As at 31 March 2014 £m		Note	As at 30 September 2014 £m	As at 30 September 2013 £m
	Assets			
	Non-current assets			
1,609.6	Goodwill		2,507.0	1,576.8
275.8	Other intangible assets		651.6	284.3
252.1	Property, plant and equipment		892.6	249.1
52.3	Investments in joint ventures and associates	7	51.4	44.4
50.6	Loans to joint ventures and associates	7 & 11	48.9	51.0
15.2	Retirement benefits	12	15.2	12.4
1.2	Trade and other receivables		11.6	1.1
20.5	IFRIC 12 financial assets		19.8	21.6
–	Other financial assets	8 & 11	8.7	9.4
46.6	Deferred tax asset		-	59.9
2,323.9			4,206.8	2,310.0
	Current assets			
105.9	Inventories		119.2	97.9
577.5	Trade and other receivables		727.4	527.2
28.0	Income tax recoverable		30.1	22.2
9.6	Other financial assets	8	7.4	6.2
86.3	Cash and cash equivalents	11	167.3	105.3
807.3			1,051.4	758.8
3,131.2	**Total assets**		5,258.2	3,068.8
	Equity and liabilities			
	Equity attributable to equity holders of the parent			
217.2	Share capital		301.3	217.2
873.0	Share premium		873.0	873.0
(32.5)	Capital redemption and other reserves		907.3	(26.9)
(53.3)	Retained earnings		(11.3)	(186.8)
1,004.4			2,070.3	876.5
21.7	Non-controlling interest		17.8	20.4
1,026.1	**Total equity**		2,088.1	896.9
	Non-current liabilities			
649.4	Bank and other borrowings	11	1,494.1	674.2
9.2	Trade and other payables		13.0	8.1
2.4	Deferred tax liabilities		9.0	–
12.3	Other financial liabilities	8	10.7	8.9
282.9	Retirement liabilities	12	285.9	394.6
95.0	Provisions for other liabilities		151.9	103.8
1,051.2			1,964.6	1,189.6
	Current liabilities			
17.7	Bank and other borrowings	11	15.7	12.7
974.4	Trade and other payables		1,120.3	924.6
–	Income tax payable		9.2	–
11.7	Other financial liabilities	8	17.7	9.7
50.1	Provisions for other liabilities		42.6	35.3
1,053.9			1,205.5	982.3
2,105.1	**Total liabilities**		3,170.1	2,171.9
3,131.2	**Total equity and liabilities**		5,258.2	3,068.8

Cash flow statement

For the six months ended 30 September 2014

Year ended 31 March 2014 £m		Note	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m
	Cash flows from operating activities			
279.5	Cash generated from operations	9	216.8	146.9
(55.8)	Income tax paid		(26.2)	(30.6)
(36.5)	Interest paid		(48.0)	(18.8)
4.7	Interest received		2.1	2.3
191.9	Net cash flows from operating activities		144.7	99.8
	Cash flows from investing activities			
0.7	Disposal of subsidiaries, joint ventures and associates, net of cash disposed	14	(1.6)	2.3
4.8	Dividends received from joint ventures and associates		6.2	0.9
4.2	Proceeds on disposal of property, plant and equipment		2.5	2.6
(37.4)	Purchases of property, plant and equipment		(52.0)	(12.4)
(16.1)	Purchases of intangible assets		(4.2)	(8.5)
5.2	Investment in and loans to joint ventures and associates		4.0	2.4
–	Transactions with non-controlling interest	15	(4.3)	–
(62.5)	Acquisition of subsidiaries net of cash acquired	13	(841.5)	(16.9)
(101.1)	Net cash flows from investing activities		(890.9)	(29.6)
	Cash flows from financing activities			
(96.7)	Dividends paid		(82.2)	(71.8)
(3.5)	Finance lease principal payments		(9.1)	(1.6)
(1.0)	Bank loans repaid		(858.3)	–
–	Loans raised		716.2	14.9
(4.3)	Dividends paid to non-controlling interests		(4.6)	(1.8)
–	Net proceeds on issue of shares		1,077.4	–
0.7	Movement on own shares		(4.1)	0.7
(104.8)	Net cash flows from financing activities		835.3	(59.6)
(14.0)	Net increase/(decrease) in cash, cash equivalents and bank overdrafts		89.1	10.6
90.6	Cash, cash equivalents and bank overdrafts at start of period		71.2	90.6
(5.4)	Effects of exchange rate fluctuations		(3.3)	(2.1)
71.2	Cash, cash equivalents and bank overdrafts at end of period	11	157.0	99.1

Notes to the consolidated half year financial statements

For the six months ended 30 September 2014

1. Basis of preparation and restatement

The consolidated half year financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority, the Listing Rules and with IAS 34, 'Interim financial reporting' as adopted by the European Union. They should be read in conjunction with the Annual Report for the year ended 31 March 2014 (the 'Annual Report'), which has been prepared in accordance with IFRSs as adopted by the European Union. The accounting policies used and presentation of these consolidated half year financial statements are consistent with those in the Annual Report except to comply with amendments to IFRS, none of which had a material impact on the consolidated results, financial position or cash flows of the Group.

The consolidated half-yearly financial information has been prepared on a going concern basis. The Directors of the Group have a reasonable expectation that, on the basis of current financial projections and borrowing facilities available, the Group is well positioned to meet its commitments and obligations for the next 12 months from the date of this report and will remain in operational existence for the foreseeable future.

Following the rights issue in May 2014 of 5 new ordinary shares at 790 pence each for every 15 existing ordinary shares, the earnings per share have been restated for 2013 for the bonus element and dividends per share have been restated for the shares issued.

The half year report for the six months ended 30 September 2014 was approved by the Directors on 19 November 2014. The half year report has not been audited or reviewed by auditors.

2. Segmental analysis

The segments reflect the accounting information reviewed by the Executive Committee which is the Chief Operating Decision Maker (CODM).

2014	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total continuing operations £m
Continuing operations						
Total revenue	725.1	414.4	559.1	404.6	-	2,103.2
Joint venture and associate revenue	8.9	60.9	89.2	2.8	-	161.8
Group revenue	716.2	353.5	469.9	401.8	-	1,941.4
Operating profit – Group	76.5	35.0	32.7	62.8	(1.5)	205.5
IFRIC 12 investment income – Group	-	0.4	0.3	-	-	0.7
Share of operating profit – joint ventures and associates	1.2	8.5	3.6	1.3	-	14.6
Share of IFRIC 12 investment income – joint ventures and associates	-	14.6	4.1	-	-	18.7
Underlying operating profit	77.7	58.5	40.7	64.1	(1.5)	239.5
Share of interest - joint ventures and associates	-	(11.2)	(3.9)	(0.5)	-	(15.6)
Share of tax - joint ventures and associates	(0.4)	(2.6)	(0.7)	(0.3)	-	(4.0)
Acquired intangible amortisation – Group	(5.6)	(4.7)	(16.6)	(16.0)	-	(42.9)
Share of acquired intangible amortisation – joint ventures and associates	-	(2.9)	(0.2)	-	-	(3.1)
Net finance costs – Group	-	-	-	-	(36.9)	(36.9)
Exceptional items	-	-	-	-	-	-
Group profit before tax	71.7	37.1	19.3	47.3	(38.4)	137.0

2. Segmental analysis (continued)

2013	Marine and Technology) £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total continuing operations £m
Continuing operations						
Total revenue	654.0	401.0	494.2	151.4	–	1,700.6
Joint venture and associate revenue	8.1	62.7	46.2	–	–	117.0
Group revenue	645.9	338.3	448.0	151.4	–	1,583.6
Operating profit – Group	69.0	33.3	31.3	11.9	(3.3)	142.2
IFRIC 12 investment income – Group	–	0.4	0.4	–	–	0.8
Share of operating profit – joint ventures and associates	0.6	7.3	3.3	–	–	11.2
Share of IFRIC 12 investment income – joint ventures and associates	–	14.3	4.3	–	–	18.6
Underlying operating profit	69.6	55.3	39.3	11.9	(3.3)	172.8
Share of interest - joint ventures and associates	–	(8.4)	(4.3)	–	–	(12.7)
Share of tax - joint ventures and associates	(0.2)	(3.0)	(0.6)	–	–	(3.8)
Acquired intangible amortisation – Group	(6.1)	(5.3)	(17.5)	–	–	(28.9)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.9)	(0.2)	–	–	(3.1)
Net finance costs – Group	–	–	–	–	(18.4)	(18.4)
Group profit before tax	63.3	35.7	16.7	11.9	(21.7)	105.9

3. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m
Continuing operations						
Reorganisation and rationalisation costs	-	–	-	–	-	–
Exceptional items	-	–	-	–	-	–
Acquired intangible amortisation	42.9	28.9	3.1	3.1	46.0	32.0
Continuing operations	42.9	28.9	3.1	3.1	46.0	32.0

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

In addition to the above in 2013, a £2.7 million exceptional tax credit arose on the change in UK tax rates.

4. Income taxes

The charge for taxation has been based on the estimated effective tax rate of 19.9% before amortisation of acquired intangibles and exceptional items for the full year ended 31 March 2014, together with a prior year credit of £3.5 million to give an effective underlying tax rate of 18%. (For September 2013, the charge for tax was based on an estimated effective tax rate of 18% for the full year ended 31 March 2014). An additional tax credit of £10.6 million relates to acquired intangible amortisation of which £0.6 million is included in share of profit from joint ventures and associates.

Notes to the consolidated half year financial statements continued

5. Earnings per share

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

Number of shares	Six months ended 30 September 2014	Six months ended 30 September 2013
Pre adjustment for rights issue		
Weighted average number of ordinary shares for the purpose of basic EPS	472,612,415	359,567,567
Effect of dilutive potential ordinary shares: share options	2,164,032	2,005,062
Weighted average number of ordinary shares for the purpose of diluted EPS	474,776,447	361,572,629
Adjustment for rights issue		
Weighted average number of ordinary shares for the purpose of basic EPS	9,681,120	47,703,823
Effect of dilutive potential ordinary shares: share options	59,647	266,012
Weighted average number of ordinary shares for the purpose of diluted EPS	9,740,767	47,969,835
Restated for rights issue		
Weighted average number of ordinary shares for the purpose of basic EPS	482,293,535	407,271,390
Effect of dilutive potential ordinary shares: share options	2,223,679	2,271,074
Weighted average number of ordinary shares for the purpose of diluted EPS	484,517,214	409,542,464

Earnings

	Six months ended 30 September 2014			Six months ended 30 September 2013 (Restated)		
	Earnings £m	Basic per share pence	Diluted per share pence	Earnings £m	Basic per share pence	Diluted per share pence
Earnings from continuing operations	114.1	23.7	23.6	91.6	22.6	22.4
Add back:						
Amortisation of acquired intangible assets, net of tax	35.4	7.3	7.3	24.6	6.0	6.0
Exceptional items and other, net of tax	-	-	-			
Impact of change in UK tax rate	-	-	-	(2.7)	(0.7)	(0.7)
Earnings before amortisation, exceptional items and other	149.5	31.0	30.9	113.5	27.9	27.7

6. Dividends

An interim dividend of 5.5 pence per 60 pence ordinary share (2013: 5.0 pence per 60 pence ordinary share, restated for rights issue) was declared after the balance sheet date and will be paid on 14 January 2015 to shareholders registered on 12 December 2014.

Notes to the consolidated half year financial statements continued

7. Investments 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 2014 £m	Six months ended 30 September 2013 £m	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m
At 1 April	52.3	18.6	50.6	51.1	102.9	69.7
Acquisition of joint ventures and associates	8.3	–	-	–	8.3	–
Loans to/(repayments from) joint ventures and associates	-	–	(2.3)	(0.6)	(2.3)	(0.6)
Share of profits	10.6	10.2	-	–	10.6	10.2
Dividends received	(6.2)	(0.9)	-	–	(6.2)	(0.9)
Interest accrued	-	–	2.4	2.3	2.4	2.3
Interest received	-	–	(1.8)	(1.8)	(1.8)	(1.8)
Fair value adjustment of derivatives	(12.2)	21.6	-	–	(12.2)	21.6
Tax on fair value adjustment of derivative	(1.0)	(5.0)	-	–	(1.0)	(5.0)
Foreign exchange	(0.4)	(0.1)	-	–	(0.4)	(0.1)
Total	51.4	44.4	48.9	51.0	100.3	95.4

8. Other financial instruments

	Assets		Liabilities	
	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m
Non-current				
US private placement – currency and interest rate swaps	8.7	9.4	-	–
Non-controlling interest put options	-	–	10.7	8.9
	8.7	9.4	10.7	8.9
Current				
Interest rate hedge	-	–	1.6	2.2
Cross currency swaps	-	–	3.5	4.1
Other currency hedges	7.4	6.2	12.6	3.4
	7.4	6.2	17.7	9.7

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

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

The fair values of the financial instruments, excluding the non-controlling interest put option, are based on valuation techniques (level 2) using underlying market data and discounted cash flows.

The fair value of the non-controlling interest put options are based on valuation techniques (level 3) using discounted cash flows. Future cash flows are derived from approved budgets using a discount rate of 8%.

Notes to the consolidated half year financial statements continued

9. Reconciliation of operating profit to cash generated from operations

Year ended 31 March 2014 £m		Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m
	Cash flows from operating activities		
317.2	Operating profit before amortisation of acquired intangibles and exceptional items	205.5	142.2
(84.1)	Amortisation of acquired intangibles and exceptional items	(42.9)	(28.9)
233.1	**Group operating profit**	162.6	113.3
40.0	Depreciation of property, plant and equipment	33.8	19.2
66.7	Amortisation of intangible assets	48.8	32.0
1.5	Investment income	0.7	0.8
12.2	Share-based payments	8.0	7.2
0.3	Profit on disposal of property, plant and equipment	(0.2)	(0.3)
353.8	**Operating cash flows before movement in working capital**	253.7	172.2
(43.7)	Decrease/(Increase) in inventories	3.1	(31.8)
(67.6)	Increase in receivables	(22.6)	(16.9)
91.3	Increase in payables	19.1	46.6
(31.3)	Decrease in provisions	(16.3)	(18.7)
24.2	Exceptional items – acquisition costs	(14.0)	–
(47.2)	Retirement benefit payments in excess of income statement	(6.2)	(4.5)
279.5	**Cash generated from operations**	216.8	146.9

10. Movement in net debt

Year ended 31 March 2014 £m		Six months ended 30 September 2014 £m	Six months ended 30 September 2013 (restated*) £m
(14.0)	Increase/(decrease) in cash in the period	89.1	10.6
4.5	Cash flow from the (increase)/decrease in debt and lease financing	151.2	(13.3)
(9.5)	Change in net funds resulting from cash flows	240.3	(2.7)
(1.3)	Loans and finance leases acquired with subsidiaries	(976.5)	(1.3)
(19.0)	New finance leases	(33.5)	(16.6)
(0.5)	Movement in joint venture and associates loans	(1.7)	(0.1)
(3.9)	Foreign currency translation differences and other	20.2	(1.0)
(34.2)	Movement in net debt in the period	(751.2)	(21.7)
(499.5)	Net debt at the beginning of the period	(533.7)	(499.5)
(533.7)	Net debt at the end of the period	(1,284.9)	(521.2)

* restated to include loans to joint ventures and associates.

11. Changes in net debt

	At 1 April 2014 £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange movement /other £m	At 30 September 2014 £m
Cash and bank balances	86.3	10.2	74.4	–	(3.6)	167.3
Bank overdrafts	(15.1)	4.5	–	–	0.3	(10.3)
Cash, cash equivalents and bank overdrafts at end of period	71.2	14.7	74.4	–	(3.3)	157.0
Debt	(633.2)	142.1	(832.0)	–	3.8	(1,319.3)
Finance leases	(18.8)	9.1	(144.5)	(33.5)	7.5	(180.2)
	(652.0)	151.2	(976.5)	(33.5)	11.3	(1,499.5)
Net debt before derivatives	(580.8)	165.9	(902.1)	(33.5)	8.0	(1,342.5)
Net debt derivative	(3.5)	–	–	–	12.2	8.7
Joint venture and associate loans	50.6	(1.7)	–	–	–	48.9
Net debt including derivative	(533.7)	164.2	(902.1)	(33.5)	20.2	(1,284.9)

Notes to the consolidated half year financial statements continued

12. Pensions

Analysis of movement in the balance sheet

	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m
Fair value of plan assets		
At 1 April	3,220.1	3,204.8
(Settlements)/transfers in	–	(3.3)
Expected return	69.5	67.8
Actuarial gain/(loss)	230.1	(166.5)
Change in reimbursement rights	(11.5)	(5.9)
Employer contributions	29.7	29.5
Employee contributions	2.5	2.8
Benefits paid	(77.8)	(70.7)
At 30 September	3,462.6	3,058.5
Present value of benefit obligations		
At 1 April	3,487.7	3,465.8
(Settlements)/transfers in	-	(3.3)
Service cost	21.6	22.2
Incurred expenses	1.8	2.7
Interest cost	72.8	71.0
Employee contributions	2.5	2.8
Actuarial loss/(gains)	188.1	(67.8)
Experience losses	36.5	17.9
Benefits paid	(77.8)	(70.7)
At 30 September	3,733.2	3,440.6
Present value of unfunded obligations	(0.1)	(0.1)
IFRIC 14 adjustment	-	–
Net deficit at 30 September	(270.7)	(382.2)
Net deficit at 31 March 2014	(267.7)	(261.1)

Analysis of charge to Income Statement

	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m
Current service cost	21.6	22.2
Incurred expenses	1.8	2.7
Total included within operating profit	23.4	24.9
Net interest costs	5.5	5.4
Total included within profit before tax	28.9	30.3

As at 30 September 2014 the key assumptions used in valuing pension liabilities were:

Discount rate	4.1% (31 March 2014: 4.5%)
Inflation rate	3.2% (31 March 2014: 3.3%)

Notes to the consolidated half year financial statements continued

13a. Acquisition (current year)

On 16 May 2014 the Group acquired Avincis Mission Critical Services Topco Limited ("Avincis") for £899.5 million (€1,088.5 million). The Group also assumed the Avincis debt of £859.7 million . Avincis is a leading provider of helicopter and fixed wing services in mission critical operations such as medical, search and rescue, fire-fighting and civil protection in Europe and a leading supplier of critical offshore crew-change helicopter services to the oil and gas industry in the UK sector of the North Sea.

On 29 June 2014 the Group acquired 84.6% of Scandinavian AirAmbulance AB ("SAA") for £25.3 million (SEK290.3 million) including deferred consideration of £7.3 million (SEK 84.2 million). This company provides helicopter services in medical mission critical services in Sweden and Finland.

The goodwill arising on the acquisition derives from the market position of the entities involved.

Details of provisional assets acquired and the provisional goodwill are as follows:

	Avincis £m	SAA £m	Total £m
Cost of acquisition			
Cash paid	899.5	18.0	917.5
Deferred consideration	–	7.3	7.3
Purchase consideration	899.5	25.3	924.8
Fair value of assets acquired (see below)	(4.2)	(2.5)	(6.7)
Goodwill	903.7	27.8	931.5

The goodwill arises from the market position and future synergistic growth expectations.

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

	Avincis		SAA		Total	
	Book value of assets acquired £m	Provisional fair value acquired £m	Book value of assets acquired £m	Provisional fair value acquired £m	Book value of assets acquired £m	Provisional fair value acquired £m
Goodwill	163.9	-	-	-	163.9	-
Acquired intangibles*	11.6	413.5	-	15.5	11.6	429.0
Other intangible assets	7.1	4.9	-	-	7.1	4.9
Property, plant and equipment	699.7	575.5	57.0	41.4	756.7	616.9
Investments	8.3	8.3	-	-	8.3	8.3
Deferred tax	10.3	(66.1)	(2.9)	(1.4)	7.4	(67.5)
Income tax	1.4	(8.8)	0.7	0.7	2.1	(8.1)
Cash, cash equivalents and bank overdrafts	67.0	67.0	9.0	9.0	76.0	76.0
Bank loans	(761.1)	(808.1)	(23.9)	(23.9)	(785.0)	(832.0)
Finance leases	(118.6)	(118.6)	(25.9)	(25.9)	(144.5)	(144.5)
Inventory	20.0	20.0	0.1	0.1	20.1	20.1
Current assets	138.9	138.9	5.9	5.9	144.8	144.8
Current and non-current liabilities	(160.1)	(162.3)	(9.0)	(23.0)	(169.1)	(185.3)
Provisions	(22.8)	(68.4)	-	(1.3)	(22.8)	(69.7)
Non-controlling interests	-	-	-	0.4	-	0.4
Net assets acquired	65.6	(4.2)	11.0	(2.5)	76.6	(6.7)

* Acquired intangibles represents customer relationships which are in part contracted (order book) and in part non contracted and acquired brand values.

Cash outflow to acquire business net of cash acquired:

	Avincis £m	SAA £m	Total £m
Purchase consideration paid in cash	899.5	18.0	917.5
Cash, cash equivalents and bank overdrafts acquired	(67.0)	(9.0)	(76.0)
Cash outflow in period	832.5	9.0	841.5

Notes to the consolidated half year financial statements continued

13a. Acquisition (current year) (continued)

The revenue and operating profit of the acquired businesses since the date of acquisition and as if they had been acquired on 1 April 2014 are:

	Avincis		SAA	
	Since date of acquisition £m	For full six months £m	Since date of acquisition £m	For full six months £m
Group revenue	247.7	289.1	13.1	25.8
Total revenue (including share of joint ventures)	250.5	292.8	13.1	25.8
Group operating profit	33.9	33.7	1.8	3.8
Underlying operating profit	50.3	50.5	2.2	4.2

13b. Acquisition (prior year)

On 23 July 2013 the Group acquired Conbras Engenharia Ltda, a privately owned Brazilian company, for a consideration of £22.6 million (R$75 million), including a maximum £4.4 million (R$15 million) deferred consideration and earn out. Conbras operates in the facilities management sector, serving private and public customers across Brazil.

The goodwill arising on the acquisition derives from the market position of the entities involved.

Details of provisional assets acquired and the provisional goodwill are as follows:

	Conbras Engeharia Ltda £m
Cost of acquisition	
Cash paid	18.2
Deferred consideration	4.4
Purchase consideration	22.6
Fair value of assets acquired (see below)	6.5
Goodwill	16.1

The goodwill arises from the market position and future synergistic growth expectations.

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

	Conbras Engenharia Ltda	
	Book value of assets acquired £m	Provisional fair value acquired £m
Acquired intangibles*	0.1	9.3
Property, plant and equipment	0.3	0.3
Investments	0.1	-
Deferred tax	(0.7)	(2.7)
Income tax	0.2	0.2
Cash, cash equivalents and bank overdrafts	1.3	1.3
Bank loans	(1.3)	(1.3)
Current assets	9.1	8.9
Current and non-current liabilities	(6.1)	(6.8)
Provisions	-	(2.7)
Net assets acquired	3.0	6.5

* Acquired intangibles represents customer relationships which are in part contracted (order book) and in part non contracted.

Notes to the consolidated half year financial statements continued

13b. Acquisition (prior year) Continued

Cash outflow to acquire business net of cash acquired:

	Conbras Engenharia Ltda £m
Purchase consideration paid in cash	18.2
Cash, cash equivalents and bank overdrafts acquired	(1.3)
Cash outflow in period	16.9

The revenue and operating profit of Conbras Engenharia Ltda since the date of acquisition and as if they had been acquired on 1 April 2013 are:

	Since date of acquisition £m	For full six months £m
Revenue	6.7	22.6
Operating profit	0.6	2.9

14. Disposals

During the period the Group paid certain accrued costs on previously disposed of businesses. During the previous period the Group received the deferred consideration on the disposal of the UKAEA Pension Administration Office. Details of final assets disposed of are as follows:

	30 September 2014 £m	30 September 2013 £m
Deferred consideration received	-	4.2
Accrued costs on previously disposed of businesses	(1.6)	(1.9)
Net cash flow	(1.6)	2.3

15. Transactions with non-controlling interests

During the period part of the Target Cranes put option was exercised resulting in the non-controlling interest being reduced from 35.6% to 28%. In addition part of the put option lapsed on transfer of the balance to a third party.

The following were the transactions with non-controlling interests:

	Increase/ (decrease) in retained earnings £m	Increase/ (decrease) in non-controlling interests £m	Cash outflow/ (inflow) £m
During the period part of the put option in Target Cranes was exercised. As a result 7.6% of shares in Target Cranes were purchased, in cash, from the non-controlling interest for £4.3 million utilising the put option valuation within the balance sheet. This resulted in a transfer from non-controlling interest of £2.1 million.	2.1	(2.1)	4.3
Following the exercising of part of the put option the balance lapsed and was transferred to reserves. The Put Option liability was shown as non-current Other financial liabilities on the balance sheet.	3.4	-	-
Transactions with non-controlling interests	5.5	(2.1)	4.3

16. Related party transactions

Related party transactions in the half year to 30 September 2014 are; sales to joint ventures and associates amounting to £131.6 million (2013: £125.8 million), purchases from joint ventures and associates amounting to £0.4 million (2013: £0.2 million) and sales to companies with common directors amounting to £5.6 million (2013: £4.8 million). Purchases from companies with common directors amounted to £1.0 million (2013: £nil).

17. Contingent liability

The Group is monitoring the development of legal requirements around the calculation of holiday pay in the UK and should changes come into effect, the Group may face potential claims from employees.

18. Financial information

The financial information in this half year report does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2014 were approved by the Board on 19 May 2014 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

Risks and uncertainties

The Directors consider that, apart from the risks and uncertainties relating to the as then unknown outcome of the Scottish independence referendum, the principal risks and uncertainties affecting the Group remain unchanged from those described in the 2014 Annual Report and are those arising from: reliance on large contracts with a relatively limited number of major clients, including clients affected by political and public spending decisions, which exposes the Group to political risks, and damage to our reputation or the reputation of outsourcing businesses (and thus outsourcing itself) or our ceasing to meet customer or regulatory requirements for doing business can have serious adverse consequences; contracts carrying strict performance conditions with which Babcock must comply within the tendered price; failure to realise the pipeline of opportunities and secure rebids; operations carrying significant health, safety and environmental risks; the Group's business being dependent on their ability to attract, develop, train and retain experienced senior management, business development teams and highly skilled employees ; IT and security risks; the risk of exposure to significant defined benefit pension schemes and the risk attendant on the integration of new acquisitions, including Avincis, where the financial benefits of these acquisitions may not be realised as quickly and as efficiently as expected. These risks, and mitigating actions taken in respect of them, are explained and described in more detail on pages 67 to 71 of the 2014 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 half year report are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions 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 half year report regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. You should not place undue reliance on forward-looking statements, which speak only as of the date of this half year report. Except as required by law, Babcock is under no obligation to update or keep current the forward-looking statements contained in this half year report or to correct any inaccuracies which may become apparent in such forward-looking statements.

Statement of Directors' responsibilities

This half-year report is the responsibility of the Directors who confirm 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 the Directors of Babcock International Group PLC are as listed in its 2014 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 its behalf by

Peter Rogers
Group Chief Executive

Franco Martinelli
Group Finance Director

19 November 2014