Babcock International Group PLC
Half year report for the six months ended 30 September 2018

21 November 2018

Underlying results in line, taking actions to further strengthen Babcock

Financial results

	Statutory			Underlying			
	30 September 2018	30 September 2017	Change	30 September 2018	30 September 2017	Footnote	Change
Revenue	£2,254.8m	£2,316.7m	–2.7%	£2,576.9m	£2,638.9m	1	–2.3%
Operating profit	£49.3m	£172.2m	–71%	£279.6m	£275.8m	2	+1.4%
Profit before tax	£65.1m	£181.9m	–64%	£245.5m	£239.5m	3	+2.5%
Basic earnings per share	11.5p	30.5p	–62%	39.9p	38.7p	4	+3.1%

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.

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. Before pension payments in excess of income statement.

	30 September 2018	30 September 2017	Change
Free cash flow[5]	£139.5m	£44.3m	+215%
Net debt	£1,131.9m	£1,291.1m	–12%
Net debt/EBITDA	1.6x	1.9x	–16%
Combined order book and bid pipeline	£32bn	£31bn	+3%
Interim dividend	7.10p	6.85p	3.6%

Financial highlights

- Underlying operating profit up 1.4%, up 2.4% at constant exchange rates
- Group margin improving to 10.9%, partly as low margin businesses exited
- Underlying basic EPS up 3.1% to 39.9p
- Underlying revenue down 2.3%, impacted by exits and disposals
    - Organic revenue growth at constant exchange rates -1.1%
    - Excluding exits, organic revenue growth at constant exchange rates +0.5%
- Underlying operating cash flow of £264 million (120% cash conversion pre capex, 82% post) and free cash flow of £140 million
- £32 billion combined order book and bid pipeline, 92% of underlying revenue already secured for 2018/19
- Net debt £1,132 million, down £159 million year on year; represents 1.6x EBITDA and on track to reach 1.4x by March 2019
- Interim dividend up 3.6% to 7.1p, reflecting our confidence in the prospects for the Group and sustained cash generation

Exceptional charges

- Exceptional charges of £120 million (£101 million net of tax), related to reshaping our Oil and Gas business, our exits and disposals programme and rightsizing capacity across sectors, including exit of Appledore shipyard
- Total related net cash costs expected to be around £10 million after disposals and asset sales

Oil and Gas	£80.3m
Capacity reductions & restructuring	£39.6m
Exits (net of disposals)	£0.5m
Total charge	**£120.4m**
Net cash costs	c.£10m

Operational highlights

- Order book and pipeline unchanged since last update
- Signed 'Joint Ways of Working Charter' partnership agreement with the UK Government and MOD, confirming our consistent and enduring strategic relationship
- Total of around £650 million of MOD work added to our order book
- Continue to grow International businesses: renewed flagship Spanish search and rescue contract, mobilising for air ambulance work in Sweden, Finland and Norway, further international opportunities in Marine and Aviation expected shortly

Outlook for this year unchanged

- Low single digit underlying organic revenue growth at constant exchange rates with improved margins to last year

Magnox

- Our Magnox JV decommissioning contract comes to an end in August 2019. We are now updating our base modelling assumptions to assume that the Nuclear Decommissioning Authority (NDA) procurement strategy after August 2019 will be insufficiently advanced for us to assume any additional revenue
- On this basis, the step down in revenue for Magnox in 2019/20 is now expected to be around £250 million, compared to previous expectations of around £100 million. The associated step down in operating profit is expected to be around £20 million
- Our medium term view remains that there are significant opportunities for us to support the long term decommissioning of the Magnox sites

Chief Executive Archie Bethel said:

"We had a solid first half with underlying results in line with our expectations and we have confirmed guidance for the full year. We are taking decisive actions to further strengthen the Group which will deliver benefits next year and beyond.

"We increased earnings per share, achieved strong cash generation and maintained a strong balance sheet, having reduced net debt by £160 million over the last twelve months. We grew our combined order book and pipeline and continued our international expansion. Following this performance and reflecting our confidence in our prospects, we are maintaining our track record of increasing our dividend.

"Our solid underlying performance reflects our continuing market leadership in technology-based engineering services, founded on our close and deep-rooted relationships with all our customers and in particular with our largest single customer, the UK Ministry of Defence. We added around £650 million of MOD work to our order book in the period and we welcome the UK Government's commitment to defence, reflected in the recent Budget. Earlier this week we signed a strategic 'Joint Ways of Working Charter' partnership agreement with the UK Government and MOD as part of their strategic supplier programme, which confirmed the way we intend to work together consistently and on an enduring basis.

"We are taking actions necessary to further improve the quality of our earnings and our returns to shareholders. That is why we are exiting low-margin businesses, restructuring in areas and combating the overcapacity in our Oil and Gas helicopter services business. These actions, with minimal cash costs, will strengthen the business going forward. Additionally, as a result of the Nuclear Decommissioning Authority's timing, we are re-setting our expectations for Magnox.

"Our outlook for the full year remains unchanged. Revenue growth will resume in the second half and for the year as a whole, we continue to expect low single digit underlying organic revenue growth at constant currency with improved margins. We will continue to reduce net debt and focus on delivering value to our shareholders, partly through a growing and sustainable dividend. We have excellent opportunities both in the UK and internationally to build on our strengths and I am determined to build on them."

Archie Bethel
Chief Executive

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Analysts and investors:

A meeting for investors and analysts will be held on 21 November 2018 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. To dial into the presentation, please call +44 20 3059 5868 (from all locations)

Please allow 15 minutes to register for both the webcast and the call.

Overview

Trading environment

The markets we serve continue to offer significant long term growth potential but conditions this year and in the near term remain challenging in certain segments.

There is an increased need for efficiencies in **defence** markets across the world and we are a key player in delivering these. In the UK, we were again confirmed as the Ministry of Defence's (MOD) second largest supplier, providing critical assets and support across the UK's armed forces. We have further formalised our ongoing relationship, having signed a 'Joint Ways of Working Charter' agreement as part of the UK Government/MOD Strategic Partner Programme/Strategic Supplier Management Programme which outlines how we intend to work together, consistently and on an enduring basis. International markets remain a key growth opportunity for our Marine business and we continued to develop new opportunities in the period.

Demand for increasingly complex and technical **emergency services** continues to grow across our markets. Firefighting activity was lower this year compared to last year in our markets but remains a significant issue across the world. Firefighting in Europe is increasingly shared across countries and we were able to offer aircraft and assistance to fight fires in Sweden and Greece over the summer.

Nuclear remains a significant growth market, with many ageing power stations coming offline and new build activity increasing. The Magnox contract comes to an end in August 2019 and this will have a significant impact on our business. We will look to replace the current work with new contracted work with the NDA across Magnox and other major nuclear sites including the UK new build programme and expanding internationally over the medium term.

Financial performance

Performance in the first half of the year was in line with our expectations. Underlying group revenue declined by 2.3%, partly reflecting a £57 million impact from business disposals and exits from a number of low margin businesses and a £17 million impact from exchange rate movements. Revenue performance for the group is second half weighted as previously outlined. Underlying operating profit increased by 1.4% with group margin improving to 10.9% compared to 10.5% last year. The margin improvement reflects the exit of lower margin businesses and a strong performance in our Land sector. Highlights by sector:

- **Marine:** underlying revenue declined by 6.6%, mainly as a result of the continuing step down in QEC revenue and the impact of the exit of our renewables business. Organic revenue growth at constant exchange rates excluding this exit and QEC was 2.1%. Operating profit declined in line with revenue with margins held steady
- **Land:** underlying revenue declined by 14.6%, partly reflecting the impact of the exit of a number of businesses referred to above. Organic revenue growth excluding exits at constant exchange rates was -9.9%, reflecting lower defence procurement and Rail revenues. Operating profit benefited from improved contract performance in our businesses, cost savings, continuing performance in the Holdfast (RSME) joint venture and improved profitability in our South Africa equipment business
- **Aviation:** strong underlying revenue growth of 23.6% was driven by aircraft and simulator revenue related to our FOMEDEC training support contract with the French Air Force. Aviation's operating profit increased more slowly, reflecting the lower margin FOMEDEC procurement revenue and lower initial margins on new contracts
- **Cavendish Nuclear**: underlying revenue grew by 4.8% reflecting growth across our Nuclear Services business. Nuclear's operating profit grew slightly while margins remained broadly stable

Underlying revenue by sector	30 September 2018	30 September 2017	Reported growth	Organic growth at constant FX rates	Organic growth at constant FX rates excluding exits
Marine	£824.7m	£883.3m	–6.6%	–6.2%	–3.5%
Land	£798.1m	£934.4m	–14.6%	–11.9%	–9.9%
Aviation	£615.8m	£498.4m	23.6%	24.2%	24.2%
Cavendish Nuclear	£338.3m	£322.8m	4.8%	4.8%	4.8%
Total	**£2,576.9m**	**£2,638.9m**	**–2.3%**	**–1.1%**	**0.5%**

Underlying operating profit by sector	30 September 2018	30 September 2017	Reported growth	Organic growth at constant rates
Marine	£108.3m	£115.6m	–6.3%	–6.0%
Land	£63.3m	£56.5m	12.0%	15.6%
Aviation	£81.6m	£78.5m	3.9%	4.5%
Cavendish Nuclear	£29.9m	£29.0m	3.1%	3.1%
Unallocated	(£3.5m)	(£3.8m)	–	–
Total	**£279.6m**	**£275.8m**	**1.4%**	**2.4%**

The 1.4% increase in group underlying operating profit, combined with reduced finance costs and stable tax rates, resulted in 3.1% growth in underlying basic earnings per share.

On a statutory basis, revenue for the first half was £2,255 million, down 2.7%. The group made a statutory operating profit of £49 million reflecting the impact of exceptional charges of £120 million. Basic earnings per share (as defined by IAS 33) was 11.5 pence (2017: 30.5 pence) per share.

Our focus on cash generation continues to deliver with underlying operating cash flow of £264 million in the half, representing 120% cash conversion pre capex. Underlying free cash flow was £140 million before pension payments in excess of the income statement of £21 million.

As expected, our cash performance was helped by a working capital unwind from our FOMEDEC contract, with the contract now cash positive.

De-gearing remains on track with net debt remaining at 1.6x EBITDA after the payment of a £114 million final dividend in the first half. Net debt also includes £163 million of finance lease debtors related to the FOMEDEC contract, all of which will be turned into cash in the second half. As of November 2018, this finance lease debtor has reduced to £66 million. We continue to expect net debt to reduce to around 1.4 times EBITDA by the end of this financial year and around 1.1 times by March 2020.

Taking action to further strengthen Babcock

In 2017 we realigned our business into four sectors: Marine, Land, Aviation and Cavendish Nuclear. This realignment has intensified our concentration on core higher-margin strategic businesses and is increasing our focus on three core markets: defence, emergency services and nuclear. These markets already account for around three quarters of our revenue and offer sustainable growth opportunities, particularly internationally. As part of this realignment, we are exiting a number of non-strategic, small, low-margin businesses:

- Last year, we sold our civil infrastructure businesses and started to exit renewables
- In the period, we exited our North American mining and construction support business and the powerlines business in South Africa, and we sold our media services business for net proceeds of £26 million
- This process will continue in the second half of this year

In addition to exiting businesses, and following a detailed strategic review, we have taken action to improve the efficiency of our ongoing businesses:

- Reshaping our Oil and Gas business – recognising the overcapacity in our markets and resultant underutilisation of both owned and leased assets and to optimise future cash flows. We have taken an asset impairment charge of £38 million to reduce owned Oil and Gas assets to their market value and have recognised an onerous lease provision of £42 million against leased assets to reflect the cost of these commitments versus current market rates. The recent oil price improvement has not materially changed helicopter market values
- Capacity reductions and restructuring – we have made some significant changes to surplus capacity across some business areas. In Marine, we announced the exit from the Appledore shipyard following the completion of work on Irish offshore patrol vessels and we have rightsized capacity in other Marine facilities. In Land, we have reduced surplus capacity in our Rail business ahead of our bid for the new CP6 contract and in Nuclear we have restructured our business related to Magnox
- Exits and disposals – the business exits have associated costs. These costs relate to the exit of renewables, North American mining and construction support, media services and our powerlines business in South Africa. The costs of exits have been offset by the proceeds of the sale of our media services business

These actions are mainly focused on protecting profits going forward, with limited incremental benefit to operating profit. The total costs of £120 million (£101 million net of tax) have been recognised as an exceptional charge in our income statement.

	Income statement charge
Oil and Gas	
– Asset impairment	£38.2m
– Onerous lease provisions	£42.1m
Oil and Gas total	**£80.3m**
Capacity reductions & restructuring	£39.6m
Exits	£15.7m
Business disposal	(£15.2m)
Total	**£120.4m**
Tax	(£19.8m)
Net	**£100.6m**

The total related net cash costs of these actions is expected to be around £10 million. This is after tax, disposals and expected helicopter sales. The net cash cost in the first half was £5 million and we expect a net cash cost of around £10 million in the second half, with cash from expected asset sales giving net cash inflows in future years.

Operational performance

We have made significant progress and we are providing critical support to customers in a number of important long term contracts, including:

- In Marine, we secured a five year Maritime Training Systems Through-Life Availability & Support Service (MARTASS) contract with the MOD and signed a five year Ship Naval Design Partnering (NDP) contract with the MOD with options for extension
- In Land, we secured two additions to our Defence Support Group (DSG) contract worth around £120 million
- In Aviation, we signed the renewal of SASEMAR, our flagship search and rescue contract in Spain. Mobilisations for the air ambulance contracts in Gothenburg, Sweden and Norway are proceeding on schedule
- In Cavendish Nuclear, we have been selected as preferred bidder for the Dounreay Materials Test Reactor decommissioning contract and activity on UK new build continues to increase. We have opened an office in Japan to support opportunities for decommissioning work

Our combined order book and bid pipeline remains strong at around £32 billion (March 2018: c.£31 billion), consisting of c.£18 billion order book and c.£14 billion pipeline. New opportunities were added in the period, including: Marine training, UK defence fleet vehicles, new Eskom boiler maintenance work in South Africa and aerial emergency services in Canada. The only key bid lost in the period was the Royal Fleet Auxiliary ships for the Royal Navy, an opportunity that had been heavily discounted in our pipeline.

Our order book and pipeline gives us confidence in the future prospects of the group, with 92% of underlying revenue already secured for 2018/19 and 60% for 2019/20. The bid pipeline continues to be supported by a tracking pipeline of opportunities which have yet to formally come to market.

Outlook

The Group outlook for the year is unchanged from our July update:

- We expect low single digit underlying organic revenue growth at constant exchange rates for the full year with improved margins
- Revenue and cash flow performance will be second half weighted as has been the case for a number of years
- We expect to continue to reduce our debt during the year and expect our net debt to EBITDA ratio to be around 1.4 times by the end of the year

2018/19 sector outlook for reported underlying revenue and underlying operating profit:

- Marine: revenue to be broadly stable with stable margins
- Land: around a 10% decline in revenue with strengthening margins
- Aviation: strong underlying revenue growth but mix of business will result in a softening margin
- Cavendish Nuclear: underlying revenue flat with stable margins

Reported revenue will be impacted by exchange rate movements, exits and disposals. We currently estimate the full year impacts to reported revenue to be:

- Exchange rate impact of around £20 million (H1: £17 million)
- Impact of disposals of around £50 million (H1: £15 million)
- Impact of exits of around £50 million (H1: £42 million)

The programme of exits and disposals will impact the 2019/20 financial year. The current estimated revenue impact is around £40 million with a small impact on operating profit.

Magnox

While it is too early to give detailed financial guidance for the 2019/20 financial year, with opportunities and risks still to be quantified, we have updated our assumptions related to the end of the Magnox JV decommissioning contract and our base modelling assumption is that the NDA procurement strategy after August 2019 will be insufficiently advanced for us to assume any additional revenue. The step down in revenue in 2019/20 is now expected to be around £250 million with around a £20 million step down in operating profit.

Our medium term view remains that there are significant opportunities for us to support the long term decommissioning of the Magnox sites.

Shareholder returns

We remain committed to providing returns to our shareholders and the actions we are taking are reflective of that. We continue to grow our ordinary dividend, with the interim dividend up 3.6% to 7.10 pence, and it is well-covered by underlying earnings and cash generation.

Marine

		30 September 2018	30 September 2017	Change +/–
Underlying revenue	Group	£814.2 m	£873.0 m	–6.7 %
	JV	£10.5 m	£10.3 m	+1.9 %
	total	**£824.7 m**	**£883.3 m**	**–6.6 %**
	total excluding exits	***£818.9 m***	***£853.7 m***	***–4.1 %***
Underlying operating profit	Group	£105.6 m	£114.0 m	–7.4 %
	JV	£2.7 m	£1.6 m	+68.9 %
	Total	**£108.3 m**	**£115.6 m**	**–6.3 %**
Underlying operating margin	Group	13.0 %	13.1 %	
	JV	25.7 %	15.5 %	
	Total	**13.1 %**	**13.1 %**	

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

Financial review

As expected, Marine's revenue was lower in the first half. This was partly the result of the start of our exit of the renewables business in the last financial year and the continued step down in revenue related to the Queen Elizabeth Class (QEC) aircraft carriers of £47 million. Organic revenue growth at constant exchange rates was -6.2%. Excluding QEC and the renewables exit, organic revenue growth at constant exchange rates was 2.1%.

Revenue was helped by increased activity on UK naval ships but was held back by changes in the expected phasing of infrastructure and equipment spend related to other defence programmes, as we flagged in our July Trading Update.

Operating profit declined by 6.3% while the margin was maintained. This reflects the margin benefit of lower QEC and renewables revenue, which have low margins, offset by a small change in business mix.

Operational review

UK Naval Marine

Our UK Naval Marine business is based upon our unique and critical assets, with ownership of the Devonport Dockyard facility and Rosyth. In total, we are currently delivering over 20 naval support programmes for the UK Royal Navy.

Our provision of services under the £2.6 billion Maritime Support Delivery Framework (MSDF) progresses well, with improved efficiencies and cost reductions on the agreed programme of work. We achieved customer acceptance and fleet dates for HMS Northumberland and HMS Kent. The HMS Monmouth fleet time support package was successfully completed on time to allow deployment with HMS Queen Elizabeth. HMS Albion successfully completed her four-week Deployed Support Period in Japan during August, while HMS Scott achieved undocking as planned at the end of September.

We remain a strategic partner in the Queen Elizabeth Class carrier programme and September saw the first aircraft touch down on HMS Queen Elizabeth during sea trials in the USA. This was a significant milestone for the programme, and the support provided through Babcock Marine Systems Support Partner (MSSP) contract played an important role in making it happen. At our Rosyth facilities, HMS Prince of Wales is now around 90% physically complete and her programme of testing and commissioning will continue into mid-2019.

We continue to progress on our submarine programmes and in the period we secured two additional submarine programme contracts. The first is to enable the procurement and manufacture of long lead items associated with Dreadnought weapon launch systems. The second encompasses the first phase of Astute Weapon Handling & Launch System spares.

The first half of the year has seen the pause and restart of the competition for the new Type 31e general purpose light frigate programme and we are once again in the bidding process.

At Appledore, we completed work on the fourth and final Irish offshore patrol vessel, LÉ George Bernard Shaw, and as a result of no further work being available for the Appledore yard we took the decision to exit the site.

International Naval Marine

In Canada, we secured a CAD 384 million three year extension to our existing strategic submarine support contract with the Canadian Department of National Defence for its fleet of four Victoria Class submarines. VISSC is the largest naval in service support contract in Canada and includes project management, refits and maintenance, capability upgrades, logistics, configuration/safety records and engineering support.

In other markets, we secured and completed a number of contracts from our facilities in Duqm, Oman for the US Navy and Royal Navy. We have opened an office in South Korea and are developing plans for a new facility to meet our ambitions for delivering in-service support work for the Jangbogo-III submarine programme. Performance in our Australian JV has been good with gain shares realised.

Technology

During April, the first two missile launch assemblies were delivered from our Rosyth facility to General Dynamics Electric Boat (GDEB) as part of Babcock's £80 million Common Missile Compartment (CMC) contract in support of the UK Dreadnought and US Columbia Class submarine programmes. These initial missile launch assemblies were transported to the US for outfitting prior to transportation to Barrow for the UK Dreadnought programme, representing an important milestone in this programme as the first of 27 individual missile launch assemblies being delivered by Babcock.

In June we secured a five year Maritime Training Systems Through-Life Availability & Support Service (MARTASS) contract with the MOD. The contract is comprised of a series of support packages for training equipment across the Royal Navy and Defence establishments, including Naval Bases and Air Stations that are clustered under one contract for consolidated delivery. Through the contract, Babcock will deliver on-call engineering support, routine maintenance and the modernisation of legacy equipment to ensure the availability of the training equipment in the long-term.

During August we received the first tranche of equipment orders from the MOD for the Marine Systems Support Partner (MSSP) contract, to build up the agreed inventory levels to support the UK Royal Navy Type 45 Destroyers and Queen Elizabeth Class aircraft carriers.

Also in the period, we secured a five year Ship Naval Design Partnering (NDP) contract with the MOD with options for extension. This important long term contract provides leadership for the industry development of new naval platforms and mission systems on behalf of the MOD.

In our Energy business, we reinforced the introduction of our ecoSMRT technology by securing a further seven liquid gas equipment systems contracts for South Korean markets worth in excess of £20 million whilst our patented Vent Gas Cooler (VGC™) technology will be applied on two liquid petroleum gas (LPG) carriers being built in South Korea. Additionally, we will supply the cargo handling system on a liquefied ethylene gas (LEG) carrier being built by Nanjing Jinling Shipyard Co. in China. These technologies highlight Babcock's innovative reliquefaction solutions across LNG and LPG carriers within the global liquefied gas market.

Outlook

For this financial year, we expect revenue to be broadly stable with stable margins. This is despite the continued step down in QEC revenue, which will have around a £90 million impact this year and around a £75 million next year.

Land

		30 September 2018	30 September 2017	Change + / –
Underlying revenue	Group	£782.6 m	£892.3 m	–12.3 %
	JV	£15.5 m	£42.1 m	–63.2 %
	total	**£798.1 m**	**£934.4 m**	**–14.6 %**
	total excluding exits and disposals	***£758.9 m***	***£861.9 m***	***–12.0 %***
Underlying operating profit	Group	£46.8 m	£42.4 m	+10.4 %
	JV	£16.5 m	£14.1 m	+17.0 %
	Total	**£63.3 m**	**£56.5 m**	**+12.0 %**
Underlying operating margin	Group	6.0 %	4.8 %	
	JV	106.5 %	33.5 %	
	Total	**7.9 %**	**6.0 %**	

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 in our Land sector was 14.6% lower in the period, with a £33 million impact from business exits and disposals and a £10 million impact from foreign exchange movements. Organic revenue growth at constant exchange rates was -11.9%, or -9.9% adjusting for business exits.

Lower revenues reflect reduced defence procurement activity and lower rail revenues primarily related to reduced electrification work. The significant reduction of this low margin work within the ABC electrification JV is the main reason for the change in JV margin.

Underlying operating profit increased to £63 million with a significant increase in margin. Performance was supported by improved contract performance, cost savings and improved profitability in our South Africa equipment business. Furthermore, JV operating profit benefited from better than expected savings in our Holdfast (RSME) JV. This better than expected performance helps this financial year and Holdfast (RSME) JV profits will normalise next year.

Operational review

Defence

Lower revenues in our Defence business mainly reflect reduced defence procurement revenue.

We continue to win additional work within DSG with two amendments to our existing Service Provision and Transformation Contract in the period. We agreed a £72 million extension to deliver UK and international maintenance to land equipment and cadet weapons in support to the UK 1 Division and, from April 2019, we will deliver maintenance, repair and overhaul support to the British Army's protected mobility vehicle fleet.

During the period, we prepared nearly 500 vehicles plus operational spares for the joint UK/Oman exercise in the Gulf in October.

Our Holdfast (RSME) JV benefited from better than expected savings in the period, leading to higher than expected recognised profits. Our ALC JV, which provides construction vehicles for the MOD, traded broadly in line with last year.

Emergency Services and Training

Our Emergency Services and Training business had lower apprentice training volumes following the introduction of the Apprentice Levy, particularly in the SME market.

During the period we secured a two-year extension with the Metropolitan Police Service for their critical vehicle fleets service, valued at around £50 million. The introduction of the degree level apprenticeship in professional policing through the Police Education Qualification Framework has resulted in a number of police forces across the UK initiating the first stages of procurement for industry support. We are in discussion with a range of partners and intend to participate in the bidding for this work.

Networks and Equipment Support

Revenue in our Networks and Equipment Support business reflects business exits and lower revenues in our Rail business, primarily relating to lower electrification work in our ABC electrification JV.

Our Rail business won a contract with Translink for the provision of rail services in Northern Ireland. The eight-year contract is worth up to £130 million over its lifetime. This new contract is in addition to our existing signalling framework contract, awarded in 2017, making us the sole supplier for Translink's track and signalling programmes. We also successfully progressed through the Pre-Qualification Questionnaire phase of the Network Rail Control Period 6 (CP6) track replacement programme and have submitted the first of two proposals to the customer.

Trading in other parts of the Networks and Equipment Support business was broadly stable and we are exploring opportunities for the renewal of contracts in airport baggage and ground support.

South Africa

In South Africa, the macroeconomic environment remains challenging. Revenues were down slightly in the period but margin has improved and led to higher profits. As previously highlighted, recent management changes at Eskom have resulted in power station outage delays which

impacted the business in the first half of the financial year but which have now started. The Equipment business supplying Volvo and DAF vehicles to the mining and construction industry has continued to perform well, gaining market share in a growing market and increasing profits.

Outlook

This year, we expect around a 10% decline in reported revenue, partly reflecting the impact of exits and disposals, and margins are expected to strengthen. Looking ahead to 2019/20, our programme of exits and disposals will continue to impact the Land sector. We currently expect an impact of around £40 million to revenue and a small impact to operating profit.

Aviation

		30 September 2018	30 September 2017	Change +/–
Underlying revenue	Group	£551.0 m	£453.2 m	+21.6 %
	Jv	£64.8 m	£45.2 m	+43.4 %
	total	**£615.8 m**	**£498.4 m**	**+23.6 %**
Underlying operating profit	Group	£59.6 m	£57.5 m	+3.7 %
	Jv	£22.0 m	£21.0 m	+4.8 %
	Total	**£81.6 m**	**£78.5 m**	**+3.9 %**
Underlying operating margin	Group	10.8 %	12.7 %	
	Jv	34.0 %	46.5 %	
	Total	**13.3 %**	**15.8 %**	

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

Financial review

Strong underlying revenue growth in our Aviation sector mainly relates to aircraft and simulator deliveries on our FOMEDEC training support contract with the French Air Force.

Underlying operating profit increased but margin declined due to a combination of growth in low margin FOMEDEC equipment revenue and lower initial margins on new contracts.

Operational review

UK Military Air

Revenue across UK Military Air was flat in the period. The Defence business is progressing well with all our Royal Air Force (RAF) contracts. Our HADES contract to provide technical support at 17 RAF air bases is now fully operational after a phased mobilisation period in the first half of the financial year and associated revenues have increased throughout the period. Offsetting this, we saw lower revenues related to the UK Military Flying Training System (UKMFTS) following the finalisation of the construction phase of the contract, which was completed by the group. The contract is now in its operational stage as part of our UKMFTS JV and this helped total JV revenue growth in the period.

We are continuing the bidding process, in partnership, for the RAF Air Support to Defence Operational Training (ASDOT) opportunity, which will provide adversary air combat training.

European Military Air

European Military Air grew strongly in the period as our training support contract with the French Air Force, FOMEDEC, develops at pace with the vast majority of equipment revenue now recognised. All 17 aircraft have been manufactured and all simulation devices are now up and running in the new simulation centre building with tests currently in progress.

We are continuing to progress the development of relationships with other European air forces and our bid pipeline includes some opportunities to build upon our experience with the FOMEDEC contract.

Aerial Emergency Services

Our Aerial Emergency Services business saw reduced firefighting activity in our markets compared to the same period last year, which disproportionately impacted the first half.

In Spain, we have been awarded a contract from Generalitat Valencia for firefighting, emergencies coordination and medical services until 2022 and we renewed SASEMAR, our flagship search and rescue contract along the Spanish coastline. Firefighting activity over the peak period was lower than in 2017 across both Spain and Italy.

In the Nordics, mobilisation for the air ambulance contract in Gothenburg, Sweden is proceeding on schedule and we have been awarded a five year air ambulance contract in Finland. Our business in Norway is expected to commence our air ambulance contract in 2019 and the first aircraft have been delivered for medical fit-out.

Oil and Gas

Our Oil and Gas business continues to be impacted by challenging industry conditions. Oversupply and intense competition, along with related underutilisation of assets, has reduced margins to low single digit levels (previously double digit). Revenue in the period grew slightly, helped by a pick-up in activity in the 'pay as you go' spot market.

We have taken action in the period to reshape this business, as set out on page 4. These actions will lead to a more profitable business.

Outlook

Our outlook for this financial year remains unchanged. We expect strong underlying revenue growth but a softening margin due to the mix of business. Revenue growth in the second half will be significantly lower as the revenue from the provision of FOMEDEC aircraft and simulators does not repeat.

Looking ahead to 2019/20, we will see a step down in equipment related revenue from FOMEDEC but that should be partly offset by the contribution from our Norwegian Emergency Services contract and contract growth within FOMEDEC. Our bid pipeline remains strong and Aviation is expected to continue to be a significant growth driver for the group over the medium term.

Cavendish Nuclear

		30 September 2018	30 September 2017	Change + / -
Underlying revenue	Group	£107.0 m	£98.2 m	+9.0 %
	jv	£231.3 m	£224.6 m	+3.0 %
	total	**£338.3 m**	**£322.8 m**	**+4.8 %**
Underlying operating profit	Group	£11.9 m	£12.2 m	–2.5 %
	jv	£18.0 m	£16.8 m	+7.1 %
	Total	**£29.9 m**	**£29.0 m**	**+3.1 %**
Underlying operating margin	Group	11.1 %	12.4 %	
	Jv	7.8 %	7.5 %	
	Total	**8.8 %**	**9.0 %**	

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

Financial review

Cavendish Nuclear saw good growth in both underlying revenue and operating profit in the first half of the year led by growth in our Nuclear Services business and increased activity on our Magnox JV. Underlying revenue increased by 4.8% and our overall margin was slightly lower at 8.8%.

Operational review

Decommissioning JVs

Magnox, a joint venture with Fluor where we have a 65% share, continues to perform strongly across the 12 sites. We have now received the licence from the Office of Nuclear Regulation (ONR) to put the Bradwell site into care and maintenance by the end of the calendar year, which is well ahead of plan. Preparation continues to hand over all Magnox sites to the UK Nuclear Decommissioning Authority (NDA) at the end of August 2019. The NDA has confirmed that it will then seek to use expertise from the private sector through multiple smaller contracts. The development of the new Magnox NDA procurement strategy is taking longer than anticipated and thus we do not see any immediate material opportunities and as such have reflected this in our financial outlook for 2019/20 and 2020/21. As the new NDA model establishes itself we remain confident that we are well positioned to secure a substantial proportion of this work going forward.

Dounreay, a joint venture with Jacobs and Aecom in which we have a 50% share, continues to deliver on its revised scope with the Waste Removal Project as part of the UK Government's strategy.

Projects

Nuclear Services had a strong first half, with successful performance on Sellafield Projects (including Pile Fuel Cladding Silo and Design Services Alliance projects), the Magnox Berkeley waste removal project and the EDF Lifetime Enterprise Agreement. We are currently supporting the scheduled outage at the Dungeness site and have been selected as preferred bidder for the Dounreay Materials Test Reactor decommissioning contract.

Activity on new build continues to increase as design programmes accelerate in preparation for construction at Hinkley Point C, where we expect the first on site equipment installation activities in 2019. We also continue to provide a wide range of engineering support through our framework contracts with Hitachi and Horizon as they work to finalise planning and budgeting for the Wylfa Newydd new build project.

We have opened an office in Japan to support opportunities for decommissioning work at both Tokai and Fukushima and we are currently working on a project for the Fukushima Daiichi site.

Outlook

Our outlook for this financial year remains unchanged. We expect revenue to be around flat and the margin to be stable.

Looking ahead to 2019/20, we expect that the step down in revenue and operating profit from the loss of the Magnox contract will be greater than previously expected. We currently assume a revenue step down of around £250 million, compared to a previous expectation of around £100 million, with an associated underlying operating profit step down of around £20 million.

With the contract ending in August 2019, there will also be a step down in 2020/21. We currently assume this step down to be around £100 million of revenue and around £7 million of operating profit.

Our medium term view remains that there are significant opportunities for us to support the long term decommissioning of the Magnox sites.

Financial review

Statutory to underlying reconciliation

		Joint ventures and associates							
	Statutory £m	Revenue and operating profit £m	Finance costs £m	Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Exceptional items £m	Change in tax rate £m	Underlying £m
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)		(11.4)	(19.8)	1.0	(44.2)
Profit after tax	58.2	–	–	–	–	41.5	100.6	1.0	201.3
Return on revenue	2.2%								10.9%
30 September 2017									
Revenue	2,316.7	322.2							2,638.9
Operating profit	172.2	39.2			15.3	49.1			275.8
Share of profit from JV	32.8	(39.2)	12.2	5.6	(14.3)	2.9			–
Investment income	1.0				(1.0)				–
Net finance costs	(24.1)		(12.2)						(36.3)
Profit before tax	181.9	–	–	5.6	–	52.0	–	–	239.5
Tax	(26.6)			(5.6)		(11.1)		0.2	(43.1)
Profit after tax	155.3	–	–	–	–	40.9	–	0.2	196.4
Return on revenue	7.4%								10.5%

Income statement

Statutory performance

Statutory revenue for the first half was £2,254.8 million (2017: £2,316.7 million), a decline of 2.7%. There was a statutory operating profit of £49.3 million (2017: £172.2 million) and a statutory profit before tax of £65.1 million (2017: £181.9 million), reflecting the impact of exceptional charges of £120.4 million. Basic earnings per share, as defined by IAS 33, was 11.5 pence (2017: 30.5 pence) per share.

Underlying revenue performance

Underlying revenue for the first half was £2,576.9 million (2017: £2,638.9 million), a decrease of 2.3%. Excluding exits, underlying revenue growth at constant exchange rates was 0.5% (2017: 5.0%).

Both our Aviation and Cavendish Nuclear sectors grew revenue. Aviation's underlying organic revenue growth, at constant rates, increased to 24.2%, primarily reflecting strong growth from the FOMEDEC contract as we delivered aircraft and simulators to the customer. Cavendish Nuclear's underlying organic revenue growth, at constant rates, was 4.8% with growth across our Nuclear Services business and our Magnox JV.

As expected, the Marine sector saw lower revenue due to the step down in QEC revenue and the impact of the exit from our renewables business. Underlying organic revenue growth was -6.2% at constant exchange rates. The Land sector's underlying organic revenue growth at constant exchange rates was -11.9%, reflecting lower defence procurement activity as previously indicated, reduced electrification work in Rail and a £33.4 million impact from business exits and disposals.

Underlying operating profit performance

Despite the small decline in revenue, the Group's underlying operating profit grew by 1.4% to £279.6 million (2017: £275.8 million). At constant exchange rates, organic growth in operating profit was 2.4%, with the Group's margin improving to 10.9% (2017: 10.5%).

In the Marine sector, underlying operating profit decreased at a similar pace to revenue with margin remaining flat at 13.1%. This reflects the negative impact of lower QEC and renewables revenue, which have low margins, offset by business mix. The Land sector achieved higher underlying operating profit due to improved contract performance, cost savings, improved profitability in our South Africa equipment business and better than expected savings in our Holdfast (RSME) JV.

The Aviation sector's underlying operating profit increased but, as expected, margin declined from 15.8% to 13.3% due to the impact of FOMEDEC being in its early contract phase and other contracts being in their early phase. Cavendish Nuclear's underlying operating profit growth was led by revenue growth.

Finance costs

Total net finance costs reduced to £34.1 million (2017: £36.3 million) reflecting reductions in net debt and pension interest, together with some favourable movement on Ascent JV swap valuations. The Group net finance costs reduced to £22.3 million (2017: £24.1 million). The Group's share of joint venture net interest expense reduced to £11.8 million (2017: £12.2 million). The IAS 19 pension finance credit was £0.2 million (2017: £1.1 million charge) as expected.

Underlying profit before tax

Underlying profit before tax increased by 2.5% to £245.5 million (2017: £239.5 million) reflecting both the increased underlying operating profit and the lower net finance costs.

Tax charge

The underlying tax charge, including the Group's share of joint venture tax of £7.1 million (2017: £5.6 million), totalled £44.2 million (2017: £43.1 million), representing an effective underlying rate of tax of 18.0% (2017: 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 and the tax effect of changes in tax rates. The underlying effective rate is based on the estimated effective rate of tax of 18.0% for the full year ended 31 March 2019.

Pensions

The Group's net pension deficit moved to a surplus of £26.3 million (2017: £115.7 million deficit), due to higher discount rates, asset performance and continued deficit contributions. The projected pension charge within operating profit for 2018/19 is £44.1 million (2017/18: £47.3 million), a £3.2 million cost decrease which is enhanced by a £2.8 million reduction in retirement benefit interest.

Amortisation of acquired intangibles

Amortisation of acquired intangibles was £50.0 million (2017: £49.1 million). This represents the amortisation of the value attributed on business acquisitions to customer relationships (both contractual and non-contractual) and acquired brands.

Phasing

Half year income statement phasing for 2018/19 is expected to be broadly similar to the phasing in 2017/18.

Underlying organic growth

	Marine £m	Land £m	Aviation £m	Nuclear £m	Unallocated £m	Total £m
Underlying revenue						
30 September 2017	883.3	934.4	498.4	322.8	–	2,638.9
Exchange adjustment	(3.5)	(10.2)	(3.2)	–	–	(16.9)
Disposals	–	(14.8)	–	–	–	(14.8)
Exits	(23.8)	(18.6)	–	–	–	(42.4)
Organic growth	(31.3)	(92.7)	120.6	15.5	–	12.1
30 September 2018	824.7	798.1	615.8	338.3	–	2,576.9
Underlying revenue growth	(6.6%)	(14.6%)	23.6%	4.8%	–	(2.3%)
Organic growth at constant exchange rates	(6.2%)	(11.9%)	24.2%	4.8%	–	(1.1%)
Organic growth excl. exits at constant exchange rates	(3.5%)	(9.9%)	24.2%	4.8%	–	0.5%
Underlying operating profit						
30 September 2017	115.6	56.5	78.5	29.0	(3.8)	275.8
Exchange adjustment	(0.4)	(0.6)	(0.4)	–	–	(1.4)
Disposals	–	(1.4)	–	–	–	(1.4)
Organic growth	(6.9)	8.8	3.5	0.9	0.3	6.6
30 September 2018	108.3	63.3	81.6	29.9	(3.5)	279.6
Underlying operating profit growth	(6.3%)	12.0%	3.9%	3.1%		1.4%
Organic growth at constant exchange rates	(6.0%)	15.6%	4.5%	3.1%		2.4%

Disposal and exit adjustments remove the impact of business performance for affected businesses.

Exchange rates

The impact of foreign currency movements over the year resulted in a decrease in underlying revenue of £16.9 million and a corresponding £1.4 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 £34 million and underlying operating profit by around £4 million
- A 10% movement in the South African Rand against Sterling would affect half year underlying revenue by around £16 million and underlying operating profit by around £1 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 year was 39.9 pence (2017: 38.7 pence), an increase of 3.1%. Basic continuing earnings per share, as defined by IAS 33, was 11.5 pence (2017: 30.5 pence).

Cash flow and net debt

The Group achieved its target of delivering pre-capital expenditure cash conversion of over 100% and around 80% post capital expenditure. Our cash generation over the past twelve months delivered a £159 million reduction in net debt to £1,132 million as of 30 September 2018. This represents a net debt to EBITDA ratio of 1.6 times EBITDA. We continue to expect our net debt to EBITDA ratio to reduce to around 1.4 times by March 2019 as we continue to de-gear our balance sheet. The analysis below reconciles the management KPI for cash conversion.

			2018	2017
	Underlying £m	Exceptional items £m	Six months ended 30 September £m	Six months ended 30 September £m
Operating profit before amortisation of acquired intangibles	219.7	(120.4)	99.3	221.3
Amortisation and depreciation	52.9	28.0	80.9	50.7
Other non-cash items	2.0	(15.2)	(13.2)	6.6
Working capital (excluding excess retirement benefits)	10.4	19.5	29.9	(115.1)
Provisions	(20.9)	56.7	35.8	(10.4)
Operating cash flow	264.1	(31.4)	232.7	153.1
Cash conversion %	120%	–	106%	69%
Capital expenditure (net)	(83.9)	–	(83.9)	(63.1)
Operating cash flow after capital expenditure	180.2	(31.4)	148.8	90.0
Cash conversion % – after capital expenditure	82%	–	68%	41%
Interest paid (net)	(14.0)	–	(14.0)	(17.2)
Taxation	(46.7)	–	(46.7)	(43.6)
Dividends from joint ventures	20.0	–	20.0	15.1
Free cash flow before pension contribution in excess of income statement	139.5	(31.4)	108.1	44.3
Retirement benefit contributions in excess of income statement	(20.7)	–	(20.7)	(11.3)
Free cash flow after pension contribution in excess of income statement	118.8	(31.4)	87.4	33.0
Acquisitions and disposals net of cash/debt acquired	(0.6)	26.1	25.5	(1.7)
Investments in joint ventures	–	–	–	(4.1)
Dividends paid	(115.5)	–	(115.5)	(112.8)
Other	1.8	–	1.8	–
Exceptional cash movement	(5.3)	5.3	–	–
Net cash outflow	(0.8)	–	(0.8)	(85.6)
Net debt reconciliation				
Opening net debt			(1,115.0)	(1,173.5)
Net cash outflow			(0.8)	(85.6)
Exchange difference/other			(16.1)	(32.0)
Closing net debt			(1,131.9)	(1,291.1)

In working capital in 2017 is £43.8 million outflow in respect of FOMEDEC, the French air training contract.

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

			2018	2017
	Underlying £m	Exceptional items £m	Statutory £m	Statutory £m
Cash generated from operations	243.4	(31.4)	212.0	141.8
Retirement benefit contributions in excess of income statement	20.7	–	20.7	11.3
Operating cash flow	264.1	(31.4)	232.7	153.1

Cash performance

Underlying cash generated from operations was £243.4 million (2017: £141.8 million), from which the Group's operating cash flow calculation is derived. Operating cash flow after movements in working capital was up 72.5% to £264.1 million (2017: £153.1 million), led by an improved working capital performance compared to last year including an unwind in FOMEDEC working capital.

Working capital
The financial year ended 31 March 2018 was impacted by FOMEDEC working capital outflows of £109.3 million in debtors offset by £58.9 million in creditors, with a net effect of a £50.4 million outflow. This effect will unwind in full over this financial year.

The FOMEDEC unwind provided a slightly larger benefit for the first half which helped offset the expected phasing of other working capital. Total working capital cash inflows for the period, excluding excess retirement benefits, were £10.4 million compared to a £115.1 million outflow in the first half of last year.

The Group's cash generation remains second half weighted, as it has been for a number of years, and our full year outlook remains unchanged.

Provisions
The cash outflow includes £20.9 million of provision movements (2017: £10.4 million) relating to contracts, onerous leases, personnel (taxation and reorganisation) and property. The level of non-exceptional provision outflow in 2018/19 is expected to be similar to 2017/18, after which we expect the non-exceptional provisions balance to stabilise. During the period £2.7 million of provisions were released to the income statement.

Capital expenditure
Net capital expenditure during the first half was £83.9 million (2017: £63.1 million) with the increase year-on-year mainly relating to the timing of aircraft payments which will convert to operating leases in the second half. The Group achieved a conversion rate of operating cash flow after movements in working capital and capital expenditure to operating profit of 82% (2017: 41%). Capital expenditure for the year was 1.6 times the Group's depreciation and amortisation charge of £52.9 million. For the 2018/19 financial year capital expenditure is expected to be around 1.2 times depreciation and amortisation.

Cash interest paid
Net Group cash interest paid, excluding that paid by joint ventures, was £14.0 million (2017: £17.2 million), with the timing of payments second half weighted.

Pensions
Pension cash outflows in excess of income statement charge were £20.7 million (2017: £11.3 million). Guidance for 2018/19 is an outflow of around £55 million with some increase due to increased cash service costs following the sign-off of the Devonport scheme. Deficit contributions remained unchanged. The Rosyth scheme negotiations are an ongoing and will be more challenging. The regulatory environment around pensions remains difficult and this, combined with the uneven distribution of funding deficits between our three large schemes, may result in more volatility in pensions funding over the coming years despite the improved overall funding levels.

Taxation
Cash taxation payments of £46.7 million (2017: £43.6 million) increased slightly due to an increase in overseas taxable profits partly offset by the impact of pension deficit payments in the UK.

Free cash flow
Free cash flow pre-excess pension payments improved to £139.5 million (2017: £44.3 million), up 215%, led by the improved working capital performance compared to last year. Free cash flow post excess pension payments increased to £118.8 million (2017: £33.0 million), up 260%.

Dividends
During the period the Group received £20.0 million in dividends from its joint ventures (2017: £15.1 million). Cash dividends (including to minorities of £1.1 million) paid out in the year totalled £115.5 million (2017: £112.8 million). The Group expects dividends from its joint ventures to increase to around £50 million in 2018/19 and £45 million in 2019/20.

Net cash
The Group's net cash outflow was £0.8 million (2017: £85.6 million). Net debt at 30 September 2018 was £1,132 million, a reduction of £159 million over the last twelve months (2017: £1,291 million). This gives a net debt to EBITDA ratio of 1.6 times (2017: 1.9 times).

Phasing
Half year cash flow phasing for 2018/19 is expected to be at a similar level to 2017/18, with the exception of the FOMEDEC reversal.

Net debt to EBITDA

	March 2018 £m	September 2017 £m	September 2018 £m	September 2018 annual £m
Underlying operating profit	584.6	275.8	279.6	588.4
Depreciation	91.3	45.0	45.9	92.2
Amortisation of software and development costs	13.0	5.6	7.0	14.4
Non-controlling interests	(1.4)	(1.3)	–	(0.1)
EBITDA	687.5	325.1	332.5	694.9
Net debt	1,115.0			1,131.9
Net debt/EBITDA	1.6x			1.6x

Annual September EBITDA is calculated by subtracting September 2017 numbers from March 2018 and adding September 2018, and equates to EBITDA for the 12 months to 30 September 2018.

Pensions

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,652.5 million in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,626.0 million. The total accounting surplus, pre-tax, of the Group's combined defined benefit pension schemes is £26.3 million surplus showing an improvement to the £5.0 million deficit at 31 March 2018 (30 September 2017: £115.7 million deficit). As at 30 September 2018, the key assumptions used in valuing pension liabilities were:

Discount rate	2.7% (30 September 2017: 2.7%)
Inflation rate (RPI)	3.2% (30 September 2017: 3.2%)

On 26 October, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. We are working with the trustees of our pension schemes, and our actuarial and legal advisers, to understand the extent to which the judgment crystallises additional liabilities for our pension schemes. We anticipate that any adjustment necessary will be recognised in the second half of this financial year.

Group income statement

For the six months ended 30 September 2018

Year ended 31 March 2018 £m		Note	Six months ended 30 September 2018 £m	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Six months ended 30 September 2017 £m
4,659.6	Revenue[1]	2		2,254.8		2,316.7
(3,971.7)	Cost of revenue			(2,015.0)		(1,989.4)
687.9	Gross profit			239.8		327.3
(12.8)	Distribution expenses			(5.8)		(6.1)
(304.5)	Administration expenses			(184.7)		(149.0)
370.6	Operating profit before share of results of joint ventures and associates	2		49.3		172.2
68.5	Share of results of joint ventures and associates			37.4		32.8
	Group and joint ventures and associates					
554.6	Operating profit before amortisation of acquired intangibles		264.8		260.5	
30.0	Investment income		14.8		15.3	
584.6	Underlying operating profit[2]	2	279.6		275.8	
(103.9)	Amortisation of acquired intangibles		(52.9)		(52.0)	
–	Exceptional items	4	(120.4)		–	
(1.9)	Group investment income		(0.7)		(1.0)	
(22.2)	Joint ventures and associates finance costs		(11.8)		(12.2)	
(17.5)	Joint ventures and associates income tax expense		(7.1)		(5.6)	
439.1	Operating profit			86.7		205.0
	Finance costs					
1.9	Investment income		0.7		1.0	
(2.3)	Retirement benefit interest		0.2		(1.1)	
(61.9)	Finance costs		(30.4)		(29.5)	
14.3	Finance income		7.9		6.5	
(48.0)				(21.6)		(23.1)
391.1	Profit before tax	2		65.1		181.9
(53.4)	Income tax expense	3		(6.9)		(26.6)
337.7	Profit for the year			58.2		155.3
	Attributable to:					
336.3	Owners of the parent			58.2		154.0
1.4	Non-controlling interest			–		1.3
337.7				58.2		155.3
	Earnings per share	5				
66.6p	Basic			11.5p		30.5p
66.5p	Diluted			11.5p		30.5p

1. Revenue does not include the Group's share of revenue from joint ventures and associates of £322.1 million (2017: £322.2 million and March 2018: £703.2 million).
2. Including IFRIC 12 investment income but before exceptional items and amortisation of acquired intangibles.

Group statement of comprehensive income

For the six months ended 30 September 2018

Year ended 31 March 2018 £m		Note	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
337.7	Profit for the year		58.2	155.3
	Other comprehensive income			
	Items that may be subsequently reclassified to income statement			
(25.9)	Currency translation differences		0.1	(9.3)
(6.1)	Fair value adjustment of interest rate and foreign exchange hedges		4.6	(4.2)
1.2	Tax on fair value adjustment of interest rate and foreign exchange hedges		(0.9)	0.9
24.3	Fair value adjustment of joint ventures and associates derivatives	7	(0.7)	3.4
(7.4)	Tax, including rate change impact, on fair value adjustment of joint ventures and associates derivatives	7	0.1	(1.7)
	Items that will not be subsequently reclassified to income statement			
49.7	Remeasurement of retirement benefit obligations		10.6	(21.4)
(10.3)	Tax on remeasurement of retirement benefit obligations		(2.2)	4.2
1.9	Impact of change in UK tax rates		0.7	(0.4)
27.4	Other comprehensive income, net of tax		12.3	(28.5)
365.1	Total comprehensive income		70.5	126.8
	Total comprehensive income attributable to:			
363.6	Owners of the parent		72.4	126.6
1.5	Non-controlling interest		(1.9)	0.2
365.1	Total comprehensive income		70.5	126.8

Group statement of changes in equity

For the six months ended 30 September 2018	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 2017	303.4	873.0	768.8	30.6	757.9	(86.5)	22.6	2,669.8	22.4	2,692.2
Total comprehensive income/(loss)	–	–	–	–	136.5	(1.6)	(8.3)	126.6	0.2	126.8
Dividends	–	–	–	–	(109.4)	–	–	(109.4)	(3.4)	(112.8)
Share-based payments	–	–	–	–	5.1	–	–	5.1	–	5.1
Tax on shared-based payments	–	–	–	–	3.0	–	–	3.0	–	3.0
Net movement in equity	–	–	–	–	35.2	(1.6)	(8.3)	25.3	(3.2)	22.1
At 30 September 2017	303.4	873.0	768.8	30.6	793.1	(88.1)	14.3	2,695.1	19.2	2,714.3
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 shared-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

Group balance sheet

As at 30 September 2018

As at 31 March 2018 £m		Note	As at 30 September 2018 £m	As at 30 September 2017 £m
	Assets			
	Non-current assets			
2,600.9	Goodwill		2,604.1	2,615.5
529.3	Other intangible assets		494.0	567.8
1,028.4	Property, plant and equipment		1,024.7	1,053.9
119.3	Investment in joint ventures and associates	7	136.6	95.9
27.8	Loan to joint ventures and associates	7	32.1	30.1
240.1	Retirement benefits	11	231.8	151.0
6.7	Trade and other receivables		7.1	25.6
17.8	IFRIC 12 financial assets		17.3	19.4
76.0	Other financial assets	8	92.6	116.5
104.0	Deferred tax asset		125.0	120.9
4,750.3			4,765.3	4,796.6
	Current assets			
181.4	Inventories		167.6	166.6
1,060.1	Trade and other receivables		976.3	966.5
15.4	Income tax recoverable		12.2	16.4
27.5	Other financial assets	8	222.6	17.6
286.3	Cash and cash equivalents	10	247.1	209.3
1,570.7			1,625.8	1,376.4
6,321.0	Total assets		6,391.1	6,173.0
	Equity and liabilities			
	Equity attributable to owners of the parent			
303.4	Share capital		303.4	303.4
873.0	Share premium		873.0	873.0
721.6	Capital redemption and other reserves		726.8	725.6
994.9	Retained earnings		953.9	793.1
2,892.9			2,857.1	2,695.1
18.1	Non-controlling interest		17.2	19.2
2,911.0	Total equity		2,874.3	2,714.3
	Non-current liabilities			
1,485.2	Bank and other borrowings	10	1,636.3	1,494.8
2.3	Trade and other payables		2.1	3.2
112.8	Deferred tax liabilities		106.0	125.4
5.0	Other financial liabilities	8	4.9	7.5
245.1	Retirement liabilities	11	205.5	266.7
61.1	Provisions for other liabilities		70.5	74.9
1,911.5			2,025.3	1,972.5
	Current liabilities			
38.1	Bank and other borrowings	10	38.8	160.2
1,392.1	Trade and other payables		1,338.4	1,256.8
21.7	Income tax payable		6.0	16.7
11.9	Other financial liabilities	8	48.5	12.5
34.7	Provisions for other liabilities		59.8	40.0
1,498.5			1,491.5	1,486.2
3,410.0	Total liabilities		3,516.8	3,458.7
6,321.0	Total equity and liabilities		6,391.1	6,173.0

Group cash flow statement

For the six months ended 30 September 2018

Year ended 31 March 2018 £m		Note	2018 Six months ended 30 September £m	2017 Six months ended 30 September £m
	Cash flows from operating activities			
468.7	Operating profit before amortisation of acquired intangible and exceptional items		219.7	221.3
(98.1)	Amortisation of acquired intangible and exceptional items	4	(170.4)	(49.1)
370.6	Group operating profit after amortisation of acquired intangibles and exceptional items		49.3	172.2
91.3	Depreciation of property, plant and equipment		73.9	45.0
111.1	Amortisation of intangible assets		57.0	54.8
1.9	Investment income	2	0.7	1.0
6.4	Equity share-based payments		2.9	5.1
–	Profit on disposal of subsidiaries	13	(15.2)	–
(4.1)	(Profit)/loss on disposal of property, plant and equipment		(1.6)	0.5
577.2	Operating cash flows before movement in working capital		167.0	278.6
(19.5)	Increase in inventories		(1.0)	(12.1)
(137.4)	Decrease/(increase) in receivables		77.3	(63.0)
102.6	(Decrease)/increase in payables		(46.4)	(40.0)
(27.7)	Increase/(decrease) in provisions		35.8	(10.4)
(47.3)	Retirement benefit payments in excess of income statement		(20.7)	(11.3)
447.9	Cash generated from operations		212.0	141.8
	Cash flows from operating activities			
(74.3)	Income tax paid		(46.7)	(43.6)
(67.9)	Interest paid		(22.1)	(23.7)
14.3	Interest received		8.1	6.5
320.0	Net cash flows from operating activities		151.3	81.0
	Cash flows from investing activities			
(0.2)	Disposal of subsidiaries and joint ventures and associates, net of cash disposed	13	25.5	(1.7)
42.9	Dividends received from joint ventures and associates		20.0	15.1
70.0	Proceeds on disposal of property, plant and equipment		19.3	14.8
(150.4)	Purchases of property, plant and equipment		(84.0)	(66.8)
(32.3)	Purchases of intangible assets		(19.2)	(11.1)
(1.5)	Investment in, loans to and interest received from joint ventures and associates		(4.3)	(1.9)
(71.5)	Net cash flows from investing activities		(42.7)	(51.6)
	Cash flows from financing activities			
(143.9)	Dividends paid		(114.4)	(109.4)
(27.5)	Finance lease principal payments		(10.5)	(16.8)
9.6	Finance lease assets repaid		8.7	7.1
(88.4)	Bank loans repaid		(30.2)	–
121.9	Loans raised		–	121.0
(3.8)	Dividends paid to non-controlling interest		(1.1)	(3.4)
(5.3)	Transactions with non-controlling interests	14	1.9	–
(4.2)	Movement on own shares		–	–
(141.6)	Net cash flows from financing activities		(145.6)	(1.5)
106.9	Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(37.0)	27.9
185.6	Cash, cash equivalents and bank overdrafts at beginning of year		286.3	185.6
(6.2)	Effects of exchange rate fluctuations		(2.2)	(5.1)
286.3	Cash, cash equivalents and bank overdrafts at end of year	10	247.1	208.4

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 2018 (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, none of which had a material impact on the consolidated results, financial position or cash flows of the Group.

Standards and interpretations that have been adopted by the Group:

- IFRS 9, 'Financial Instruments', effective from 1 January 2018 and endorsed by the EU. This has been adopted using the retrospective approach but has had no material impact on the Group's results including all components of the standard, such as new rules for classification, impairment and hedge accounting; and
- IFRS 15, 'Revenue from contracts with customers', effective from 1 January 2018 and endorsed by the EU. This has been adopted using the fully retrospective approach, however the impact is immaterial therefore no restatement is required. Increased disclosures for disaggregation of revenue have been made in these interim statements.

Standards, amendments and interpretations that are not yet effective and where the impact on the Group's operations is currently being assessed:

- IFRS 16, 'Leases', effective from 1 January 2019 and endorsed by the EU. Currently, operating leases are not recognised on the balance sheet and the impact of this standard will be to recognise a lease liability and right of use asset on the Group's balance sheet in relation to most leases currently classified as operating leases. The change will result in an improvement in operating profit, with the depreciation of the right of use asset being less than the current operating lease charge. This will however be offset by an increase in interest charge with the net position dependent on the average lease maturity on adoption. The Group is still assessing the exemptions to be applied, including transition options, and the impact on systems and processes.

IFRS 9 Financial instruments

The adoption of IFRS 9 for the Group resulted in changes in accounting policies, however they have not had a material impact on the Group's financial statements, as the accounting policy under the previous period for hedging financial exposures was in line with the new requirements.

The Group's financial assets, including trade and contract receivables, are subject to the new expected credit loss model under IFRS 9. In determining the recoverability of financial assets, the Group considers any change in the credit quality, from the date credit was granted to the reporting date using forward looking information. The Group has assessed credit risk in relation to sales to government and other public sector customers as very low, therefore no expected credit loss provision has been recorded for these trade and contract receivables. The Group has also assessed expected credit losses for non-government commercial customers, however this risk has been assessed as not material to the financial statements.

IFRS 15 Revenue from contracts with customers

IFRS 15 requires the identification of performance obligations in contracts, allocation of the contract price to the performance obligations and recognition of revenue as performance obligations are satisfied. Performance obligations are satisfied as control of goods and services is transferred to customers and control can be transferred at a point in time or over time. The Group's contracting arrangements, in relation to provision of services contracts and long term service-provision contracts, meet the requirements set out in the standard to satisfy performance obligations and recognise revenue over time:

- with customers simultaneously receiving and consuming the benefits of the Group's performance; or
- where the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for work done; or
- where the Group's performance creates or enhances an asset controlled by the customer.

The Group's accounting policy for revenue now therefore provides for the identification of performance obligations and the allocation of the contract price to the performance obligations; given the bespoke nature of the goods and services the Group provides stand-alone selling prices are not generally available. The Group continues to recognise revenue over time using methods such as costs incurred as a proportion of total estimated costs to assess stage of completion, but with the stage of completion and revenue now assessed in relation to each performance obligation.

Profit continues to be recognised to the extent that the final outcome on contracts can be reliably assessed but with assessment of outcome now in relation to separate performance obligations and the inclusion of variable consideration to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised.

The prior year accounting policy in respect of pre-contract costs and post-contract award but pre-contract operational start-up mobilisation costs is in line with IFRS 15 and so has not been updated. Capitalised contract costs will be disclosed separately at the year end.

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 2018 was approved by the Directors on 20 November 2018. The half year report has not been audited or reviewed by auditors.

2. Segmental information

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

30 September 2018	Marine £m	Land £m	Aviation £m	Cavendish Nuclear £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	824.7	798.1	615.8	338.3	–	2,576.9
Less: joint ventures and associates revenue	10.5	15.5	64.8	231.3	–	322.1
Revenue	814.2	782.6	551.0	107.0	–	2,254.8
Operating profit/(loss) before share of results of joint ventures and associates	84.9	15.3	(51.9)	6.9	(5.9)	49.3
Exceptional items	18.2	7.1	88.1	4.6	2.4	120.4
Acquired intangible amortisation	2.3	23.9	23.4	0.4	–	50.0
Operating profit*	105.4	46.3	59.6	11.9	(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	15.8	8.6	18.0	–	45.1
Share of IFRIC 12 investment income – joint ventures and associates	–	0.7	13.4	–	–	14.1
Underlying operating profit	108.3	63.3	81.6	29.9	(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)	(1.2)	(1.6)	(3.4)	–	(7.1)
Acquired intangible amortisation – Group	(2.3)	(23.9)	(23.4)	(0.4)	–	(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	(18.2)	(7.1)	(88.1)	(4.6)	(2.4)	(120.4)
Profit before tax	86.9	29.8	(44.9)	21.5	(28.2)	65.1

* Before amortisation of acquired intangibles and exceptional items.

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

* Before amortisation of acquired intangibles and exceptional items

2. Segmental information (continued)

The analysis of revenue for the six months ended 30 September 2018 is as follows:

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
Sales of goods – transferred at a point in time	269.5	327.5
Sales of goods – transferred over time	29.5	15.5
Sales of goods	299.0	343.0
Provision of services – transferred over time	1,951.5	1,970.0
Rental income	4.3	3.7
Revenue	2,254.8	2,316.7

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

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
United Kingdom	1,445.2	1,609.1
Rest of Europe	373.2	273.0
Africa	176.3	191.9
North America	92.1	97.0
Australasia	97.8	82.9
Rest of World	70.2	62.8
Revenue	2,254.8	2,316.7

3. Income tax expense

The charge for taxation is after a tax credit of £19.8 million (2017: nil) relating to exceptional items, a tax credit of £11.4 million (2017: £11.2 million) relating to acquired intangible amortisation, of which £0.6 million (2017: £0.6 million) is included in share of profits from joint ventures and associates, and a tax charge of £1.0 million (2017: £0.2 million) relating to rate changes. The charge for taxation gives an underlying effective rate of 18.0% (2017: 18.0%), which is based on the estimated effective rate of tax for the full year ended 31 March 2019, and before the credits in respectof exceptionals, amortisation of acquired intangibles and rate changes.

4. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £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	–
Exit[2]	15.7	–	–	–	15.7	–
Capacity reductions & restructuring[3]	39.6	–	–	–	39.6	–
Profit on disposal of subsidiaries (see note 13)	(15.2)	–	–	–	(15.2)	–
Exceptional items	120.4	–	–	–	120.4	–
Tax on exceptional items	(19.8)	–	–	–	(19.8)	–
Exceptional items – net of tax	100.6	–	–	–	100.6	–
Acquired intangible amortisation	50.0	49.1	2.9	2.9	52.9	52.0
Tax on acquired intangibles amortisation	(10.8)	(10.5)	(0.6)	(0.6)	(11.4)	(11.1)
Acquired intangible amortisation – net of tax	39.2	38.6	2.3	2.3	41.5	40.9

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

1. During the 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 is £80.3 million and the cash costs are expected to be offset by tax effects and proceeds from the disposal of assets.
2. The Group continued with its strategy of exiting small low margin businesses. The costs of exiting renewables, North American mining and construction and powerlines (South Africa) are reflected within exit costs.
3. Capacity reduction and restructuring costs reflect the rightsizing, restructuring and closure of businesses across the Sectors including Appledore, Rail and Magnox.
4. £81.3 million of the exceptional charge has been charged through cost of revenue and the balance of £39.1 million through Administration expenses.

5. Earnings per share

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

	Six months ended 30 September 2018	Six months ended 30 September 2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	504,994,752	504,744,045
Effect of dilutive potential ordinary shares: share options	73,254	190,567
Weighted average number of ordinary shares for the purpose of diluted EPS	505,068,006	504,934,612

Earnings

	Six months ended 30 September 2018			Six months ended 30 September 2017		
	Earnings £m	Basic per share Pence	Diluted per share Pence	Earnings £m	Basic per share Pence	Diluted per share Pence
Earnings from continuing operations	58.2	11.5	11.5	154.0	30.5	30.5
Add back:						
Amortisation of acquired intangible assets, net of tax	41.5	8.2	8.2	40.9	8.2	8.2
Exceptional items, net of tax	100.6	20.0	19.9	–	–	–
Impact of change in statutory tax rates	1.0	0.2	0.2	0.2	–	–
Earnings before amortisation, exceptional items and other	201.3	39.9	39.8	195.1	38.7	38.7

6. Dividends

An interim dividend of 7.10p per 60p ordinary share (2017: 6.85p per 60p ordinary share) was declared after the balance sheet date and will be paid on 16 January 2019 to shareholders registered on 7 December 2018.

7. 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 2018 £m	Six months ended 30 September 2017 £m	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
At 1 April	119.3	71.9	27.8	32.3	147.1	104.2
Repayments from joint ventures and associates	–	–	(0.4)	(2.2)	(0.4)	(2.2)
Investment in joint ventures and associates	–	4.6	–	–	–	4.6
Share of profits	37.4	32.8	–	–	37.4	32.8
Interest accrued and capitalised	–	–	5.0	0.5	5.0	0.5
Interest received	–	–	(0.3)	(0.5)	(0.3)	(0.5)
Dividends received	(20.0)	(15.1)	–	–	(20.0)	(15.1)
Fair value adjustment of derivatives	(0.7)	3.4	–	–	(0.7)	3.4
Tax on fair value adjustment of derivatives	0.1	(1.7)	–	–	0.1	(1.7)
Foreign exchange	0.5	–	–	–	0.5	–
Total	136.6	95.9	32.1	30.1	168.7	126.0

8. Other financial assets and liabilities

	Fair value			
	Assets		Liabilities	
	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
Non-current				
Financial instruments	77.1	97.4	4.9	7.5
Finance leases granted	15.5	19.1	–	–
Total non-current other financial assets and liabilities	92.6	116.5	4.9	7.5
Current				
Financial instruments	46.1	–	48.5	12.5
Finance leases granted	176.5	12.7	–	–
Total current other financial assets and liabilities	222.6	17.6	48.5	12.5

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.

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

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

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

The Group has temporarily entered into finance leases with the government customer which it has securitised for cash receivable in the second half.

9. Movement in net debt

Year ended 31 March 2018 £m		Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
106.9	(Decrease)/increase in cash in the period	(37.0)	27.9
(43.7)	Cash flow from the increase in debt and lease financing	(124.8)	(125.1)
63.2	Change in net funds resulting from cash flows	(161.8)	(97.2)
28.1	Finance leases – granted	156.7	13.8
(4.5)	Movement in joint ventures and associates loans	4.3	(2.2)
(28.3)	Foreign currency translation differences and other	(16.1)	(32.0)
58.5	Movement in net debt in the period	(16.9)	(117.6)
(1,173.5)	Net debt at the beginning of the period	(1,115.0)	(1,173.5)
(1,115.0)	Net debt at the end of the period	(1,131.9)	(1,291.1)

10. Changes in net debt

	As at 1 April 2018 £m	Cash flow £m	Finance leases £m	Exchange/ other movement £m	As at 30 September 2018 £m
Cash and bank balances	286.3	(37.0)	–	(2.2)	247.1
Bank overdrafts	–	–	–	–	–
Cash, cash equivalents and bank overdrafts	286.3	(37.0)	–	(2.2)	247.1
Debt	(1,432.2)	(126.6)	–	(33.2)	(1,592.0)
Finance leases – received	(91.1)	10.5	–	(2.5)	(83.1)
Finance leases – granted	46.5	(8.7)	156.7	(2.5)	192.0
	(1,476.8)	(124.8)	156.7	(38.2)	(1,483.1)
Net debt before derivatives and joint ventures and associates loans	(1,190.5)	(161.8)	156.7	(40.4)	(1,236.0)
Net debt derivative	47.7	–	–	24.3	72.0
Joint ventures and associates loans	27.8	4.3	–	–	32.1
Net debt	(1,115.0)	(157.5)	156.7	(16.1)	(1,131.9)

11. Retirement benefits and liabilities

Analysis of movement in the Group balance sheet

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
Fair value of plan assets (including reimbursement rights)		
At 1 April	4,734.9	4,676.2
Interest on assets	57.8	58.0
Actuarial gain/(loss) on assets	85.1	(79.9)
Employer contributions	41.8	37.0
Employee contributions	0.3	0.4
Benefits paid	(193.7)	(98.5)
Settlements	(73.7)	–
At 30 September	4,652.5	4,593.2
Present value of benefit obligations		
At 1 April	4,739.7	4,780.5
Service cost	20.7	23.2
Incurred expenses	1.9	2.0
Interest cost	57.6	59.1
Employee contributions	0.3	0.4
Experience losses	29.5	8.7
Actuarial gain – demographics	–	–
Actuarial loss/(gain) – financial	43.7	(66.7)
Benefits paid	(193.7)	(98.5)
Settlements	(73.7)	–
At 30 September	4,626.0	4,708.7
Present value of unfunded obligations	(0.2)	(0.2)
Net surplus/(deficit) at 30 September	26.3	(115.7)

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

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
Current service cost	20.7	23.2
Incurred expenses	1.9	2.0
Total included within operating profit	22.6	25.2
Net interest (credit)/cost	(0.2)	1.1
Total included within income statement	22.4	26.3

As at 30 September 2018 the key assumptions used in valuing pension liabilities were:

Discount rate	2.7% (30 September 2017: 2.7%)
Inflation rate (RPI)	3.2% (30 September 2017: 3.2%)

12. Acquisitions

There were no acquisitions in the current or previous periods.

13. Disposals

In September the Group disposed of its media business for £29.5 million, which resulted in a profit of £15.2 million.

During both the current and the previous year the Group paid certain accrued costs on previously disposed of businesses of £0.6 million (2017: £1.7 million).

	Six months ended 30 September 2018			Six months ended 30 September 2017	
	Babcock Media Services £m	Previously disposed of business £m	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	(0.8)	(0.6)	(1.4)	(1.7)	(1.7)
Net cash inflow/(outflow)	26.1	(0.6)	25.5	(1.7)	(1.7)

14. Transactions with Non-Controlling Interests

In September a subsidiary, Babcock Ntuthuko Engineering, issued an additional 2.9% of its share capital to its non-controlling interest partner for £1.9 million. It also issued further restricted shares, which employ Notional Vendor Financing, to give the non-controlling interest partner 48.5% of the business. However, for as long as the Notional Vendor Amount is greater than zero the holders of the restricted shares shall not be entitled to receive any distributions.

15. Related party transactions

Related party transactions for the half year to 30 September 2018 are: sales to joint ventures and associates of £104.4 million (2017: £86.8 million) and purchases from joint ventures and associates of £0.2 million (2017: £0.8 million).

For annualised key management compensation, please refer to note 6 and the Remuneration report in the Annual Report for the year ended 31 March 2018.

For transactions with Group defined benefit pension schemes, please refer to note 11 above and note 24 in the Annual Report for the year ended 31 March 2018.

16. Post balance sheet events

On 26 October, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. We are working with the trustees of our pension schemes, and our actuarial and legal advisers, to understand the extent to which the judgment crystallises additional liabilities for our pension schemes. We anticipate that any adjustment necessary will be recognised in the second half of this financial year.

17. 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 2018 were approved by the Board on 22 May 2018 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

Risks and uncertainties

The Directors consider that the principal risks and uncertainties affecting the Group remain unchanged from those described in the 2018 Annual Report, and are those arising from: **our customer profile:** reliance on winning and retaining large contracts with a relatively limited number of major clients (particularly the UK MOD), including clients affected by political and public spending reviews and decisions, which exposes the Group to political and public spending risks and which could be impacted by Brexit; **the nature of our contracts, bid processes and our major markets:** bidding is a time consuming and expensive process; public procurement rules apply in many cases and bring the risk of challenge to award decisions; large contract opportunities by their nature tend not to arise on a regular or frequent basis; failure to win rebids of large contracts that we already hold could represent a major loss of business and the failure to win new bids for large contract opportunities can represent a major missed opportunity and either loss can affect our strategic development; long-term contracts carry risk-transfer and potential pricing risks for our businesses and our contracts typically contain strict key performance indicators, failure to meet them can result in adverse financial consequences or loss of contract; **reputational risks:** our reputation is a fundamental business asset given the nature of our business, markets and customers – its loss for any reason (for example, poor contract performance or a high profile safety incident) could have a major adverse impact as could damage 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 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 68 to 79 of the 2018 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 2018 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

20 November 2018