Babcock International Group PLC
full year results for the year ended 31 March 2017

24 May 2017

Visible growth and returns

Statutory	March 2017	March 2016	Change
Revenue	£4,547.1m	£4,158.4m	+9.3%
Operating profit	£359.6m	£352.5m	+2.0%
Profit before tax	£362.1m	£330.1m	+9.7%
Basic earnings per share	61.8p	57.0p	+8.4%

The adjustments described below, collectively, are made to derive the underlying operating 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.

**Underlying revenue includes the Group's share of joint ventures and associates revenues. **Underlying operating profit includes IFRIC 12 investment income and joint ventures and associates operating profit but is before amortisation of acquired intangibles and exceptional items. ***Underlying profit before tax is inclusive of pre-tax joint ventures and associates income but before amortisation of acquired intangibles and exceptional items. ****Underlying basic earnings per share is before amortisation of acquired intangibles and exceptional items, before the related tax effects and before the effect of corporate tax rate changes.*

Underlying	March 2017	March 2016	Change
Revenue*	£5,216.6m	£4,842.1m	+7.7%
Operating profit**	£574.8m	£539.7m	+6.5%
Profit before tax***	£494.8m	£459.7m	+7.6%
Basic earnings per share****	80.1p	74.2p	+8.0%

	March 2017	March 2016	Change
Net debt	£1,173.5m	£1,228.5m	–4.5%
Net debt/EBITDA	1.8 x	2.0 x	–10.0%
Order book	£19.0bn	£20bn	–5.0%
Full year dividend	28.15p	25.8p	+9.1%

Financial highlights

Maintained track record of growth

- 7.7% growth in underlying revenue, 4.9% organic growth at constant exchange rates
- 6.5% growth in underlying operating profit; 5.3% organic growth at constant exchange rates

Robust order book and pipeline providing visibility

- £19 billion order book and £10.5 billion pipeline
- 76% of revenue in place for 2017/18; 52% in place for 2018/19

Focused on cash performance

- Free cash flow up 3.3%
- Cash conversion pre capital expenditure 115%; post capital expenditure 86%
- Net debt reduced to £1,173.5 million (2016: £1,228.5 million)

Delivering returns

- 8.0% increase in underlying basic earnings per share to 80.1p
- 9.1% increase in full year dividend
- ROIC post tax improving to 11.9%

Operational highlights

- Realignment of Group around four core sectors: Marine, Land, Aviation, Cavendish Nuclear
- Award of 11-year FOMEDEC training contract for French Air Force
- First non-US company to supply critical component for US nuclear submarine
- Ground support equipment contract for Qantas across Australia
- Award of £360 million technical support contract from QEC aircraft carriers and Type 45 destroyers
- Additional procurement work at DSG with all contractual milestones achieved

Archie Bethel, Chief Executive said:

"Babcock continued its strong track record of growth last year. We increased revenues, profits, earnings per share and cash conversion, reduced net debt and are again delivering an increased dividend payment. Our success is powered by Babcock's distinctive position as an engineering group dedicated to providing critical services for major public and private sector customers. We are focused on being the experts in our chosen sectors, with a combination of deep technical skills, unique infrastructure and strong long-term relationships which set us apart.

"During the year, we took important steps that further strengthen our platform for future growth. Internationally, we made significant breakthroughs in winning business from the French Ministry of Defence and becoming the first non-US company to win important business on an American nuclear submarine programme. Internally, we realigned our business around the four key sectors where we operate, sharpening our focus and bringing ourselves even closer to our customers and markets.

"Our long-term contracts continue to provide us with excellent visibility of future revenues, and we have three-quarters of expected sales already in place for the current year. With our combined order book and near-term bid pipeline of almost £30 billion and our healthy tracking pipeline, we expect to continue to generate sustainable growth this year and over the medium term."

Ends

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Analysts and investors

A meeting for investors and analysts will be held on 24 May 2017 at 9.00 am at FTI Consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD. 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 from mid-afternoon on 24 May 2017. To dial into the presentation, please call +44 (0)20 3059 8125.

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

Introduction

Overview

Babcock continued to deliver in 2016/17, with sustained growth of 6.5% in underlying operating profit (5.3% organic growth at constant exchange rates) and 7.7% growth in underlying revenue (4.9% organic growth at constant exchange rates). This growth demonstrates the quality of our operations and the resilience of the Group's business, and has resulted in an 8.0% increase in underlying basic earnings per share. Our proven model of providing our customers with better capability, reliability and availability of their critical assets whilst delivering cost savings continues to prove successful and we continue to experience demand across our markets, both in the UK and internationally. With clear barriers to entry across many of our businesses, we believe we are well positioned to continue to grow the business, supported by a strong underpin of already secured future revenue.

We believe the market dynamics remain positive in the sectors in which we have deep expertise, both in the UK and internationally. There continues to be an appetite for increased operational and cost efficiencies in the delivery of non-discretionary critical services, and for working with a partner who can demonstrate a track record of delivery. This fundamental requirement of regional and national governments and of blue chip international customers appears unaffected by the changing environment. This is exemplified by our success in winning an 11-year contract from the French Ministry of Defence and our success in becoming the first non-US company to be selected to provide a critical component for a US nuclear submarine as part of the £1 billion joint US-UK missile tube programme.

In the UK, we have seen the work programmes identified in the 2015 Strategic Defence and Security Review (SDSR) begin to come to market, ensuring a healthy pipeline of outsourcing opportunities in the provision of equipment, through-life equipment support and training over the medium term. In May the UK Ministry of Defence (MOD) awarded us all four elements of a £360 million technical authority and equipment support package for both the Queen Elizabeth Class (QEC) aircraft carriers and Type 45 Destroyers. In our nuclear business, the volume of the additional work now required has led to an ending of the existing Magnox contract in 2019. The Nuclear Decommissioning Authority (NDA) will establish a replacement structure to be put in place when the current contract ends and we believe that Cavendish Nuclear is well positioned to win further elements of decommissioning work, both on the Magnox estate and in the decommissioning of Sellafield, which the NDA now estimates will cost a total of around £88 billion.

After starting the year as Chief Operating Officer, working alongside Peter Rogers, Archie Bethel became Chief Executive on 1 September 2016. Following the Group's annual five-year strategy review, on 1 April 2017 we realigned the business around the four core sectors in which we operate. Grouping our business around these sectors brings us even closer to our customers and markets, allows our teams in each sector to focus on the capabilities we offer and makes the Group easier to understand for all our stakeholders. Most importantly, the realignment will help us achieve our growth ambitions, supported by technology and technical training, as well as enabling easier identification and development of international opportunities through our Global Growth team.

Each sector has a strong base of both defence and civil customers, with operations of scale in the UK and potentially internationally, and importantly all four have growth opportunities across the globe with customers who demonstrate a willingness to embrace Babcock's transformational change and performance improvement model.

Through infrastructure, know-how, technology and regulatory requirements, all four sectors have inherently high barriers to entry. Each sector is customer facing and shares deep sector technical knowledge, experience and understanding of its industry. Moving to a sector-reporting structure that is closer aligned with our markets serves to provide clarity and focus. This resonates with our employees, our customers and our shareholders, creating a stronger base from which to build future growth.

We continue to focus on cash generation and on maintaining a secure financial base to support our future growth. We have reduced our net debt to £1,173.5 million (2016: £1,228.5 million) during the year, reducing the ratio of net debt to EBITDA to 1.8x, and expect to continue to reduce that ratio over the coming years.

Order book, bid pipeline and contract performance

Our order book is currently £19.0 billion, which reflects £4.7 billion of contracts awarded during 2016/17 and a reduction of £800 million from the early termination of the Magnox contract which will now end in 2019. This provides clear visibility of future revenues in the short and medium term, with 76% of revenue already secured for 2017/18 and 52% for 2018/19.

During the year, we maintained our win rate, achieving success in over 40% of our bids for new contracts, and over 90% for renewals. In addition to the c €500 million French military flight training contract, FOMEDEC, we were delighted to win a contract to support Qantas' ground fleet at around 60 locations across Australia, as well as a number of naval equipment support packages and a contract to design and build a fourth Offshore Patrol Vessel (OPV) for the Irish Naval Service at our yard in Appledore, Devon. We saw a strong performance in our Emergency Services business, including winning new contracts in France and Northern Ireland and the successful mobilisation in Victoria, Australia. In May we were awarded all four elements of a £360 million technical authority and equipment support package for both the QEC aircraft carriers and Type 45 destroyers.

We continue to make good progress on the contracts already in our order book, including the ongoing progress under the £2.6 billion Maritime Support Delivery Framework (MSDF) and the ramp up of the Type 23 frigate life extension programme. Growth in the Air business in the Defence and Security division has continued with the successful start to the fixed and rotary wing UK Military Flying Training System (UKMFTS) contracts awarded to Ascent, our joint venture with Lockheed Martin. The final AirTanker was delivered on schedule in September, and the joint venture will therefore be providing partners with dividends from 2017/18.

Introduction continued

Trading in the Defence Support Group (DSG) contract for the British Army continues in line with expectations following a busy year. We are currently working on a demonstration project for the Warrior Capability Sustainment Programme and are engaged in discussions regarding the full programme of 380 armoured vehicles. We successfully completed the overhaul and reset of 670 vehicles returning from military operations ahead of schedule.

In 2016, following a final investment decision by EDF Energy, the UK Government confirmed the decision to go ahead with the construction of a new nuclear facility at Hinkley Point C. Our Cavendish Boccard Nuclear joint venture, which has been selected as preferred bidder to deliver the Balance of Nuclear Island (BNI) mechanical installation package, is currently about to transition from Early Contractor Involvement studies to an Early Works Contract for the BNI.

We are currently in the process of completing the disposal of our Civil Infrastructure business, which in the year ending 31 March 2017 had revenues of around £30 million.

Our bid pipeline of near term opportunities has also remained broadly stable at around £10.5 billion (2016: £10.5 billion), despite the removal of around £1 billion relating to the consolidation phase of the Magnox decommissioning project. Successful contract awards which have moved into the order book have been replaced with £6.6 billion of new opportunities which are currently being processed. The majority of bids in the pipeline continue to be new business, with rebids representing only 30%. Around half represent contracts with a total value of over £100 million, reflecting the scale and complexity of the contracts for which we compete.

The bid pipeline continues to be supported by a buoyant tracking pipeline. The tracking pipeline comprises prospects that have yet to formally come to market and includes a number of opportunities where we are in active dialogue with our customer to help formulate appropriate long-term support solutions. We expect these opportunities to deliver growth in the medium to long-term.

Dividend

This year, underlying basic earnings per share increased by 8.0% and the Group again more than achieved its target of delivering pre capital expenditure cash conversion of over 100%. Additionally the combined order book and pipeline of c £30 billion provides clear visibility of future revenue streams.

The Board therefore remains confident in the long-term future of our business and it is recommending a 9.6% increase in the final dividend per share for 2017 of 21.65 pence (2016: 19.75 pence). If approved by shareholders at the AGM on 13 July 2017, this will give a total dividend for the year of 28.15 pence per share (2016: 25.8 pence per share), an increase of 9.1%. The final dividend will be paid on 11 August 2017 to shareholders on the register at 30 June 2017.

Outlook

We believe that the revenue visibility provided by our c £30 billion order book and near term bid pipeline, together with the future opportunities in our buoyant longer term tracking pipeline, offers continued prospects for strong and sustainable growth. We have identified significant opportunities across all of our core markets, and believe that the realignment of the business, which brings us closer to our customers, both in the UK and internationally, provides a stronger platform to further develop our business.

Looking ahead, the Board remains confident that the Group will continue to achieve mid single digit organic revenue growth at constant exchange rates with margins remaining broadly stable this year and over the medium term.

Following the realignment of the business which took effect on 1 April 2017, the Group is now organised in four new sectors which have replaced the previous divisional structure. Reporting for 2016/17 therefore reflects the divisional structure in place through the financial year, but future outlooks reflect the new sectors, and can be seen on page 19 of this document. A Divisional to Sector reconciliation for 2014/15, 2015/6 and 2016/17 will be provided in the full year presentation available on www.babcockinternational.com/investors and will be included in the 2016/17 Annual Report and Accounts.

Financial review

The adjustments described below, collectively, are made to derive the underlying operating results of the Group. The underlying figures provide a consistent measure of business performance year-to-year, thereby enabling comparison and understanding of the Group's financial performance. In this review, unless otherwise stated, revenue, operating profit, operating margin, net finance costs, profit before tax and earnings per share refer to results before amortisation of acquired intangibles and exceptional items. Revenue, operating profit, operating margins and net finance costs also include the Group's share of equity accounted joint ventures (jv) and associates. Operating profit and operating margin include investment income arising under IFRIC12 (Accounting for Service Concession Arrangements) which is presented as financial income in the Income Statement. Collectively these adjustments are made to derive the underlying operating results of the business. All numbers are stated before the effect of corporate tax rate changes.

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	Change in tax rate £m	Underlying £m
31 March 2017								
Revenue	4,547.1	669.5						5,216.6
Operating profit	359.6	72.8			29.7	112.7		574.8
Share of profit from jv	56.7	(72.8)	24.6	14.2	(28.5)	5.8		–
Investment income	1.2				(1.2)			–
Net finance costs	(55.4)		(24.6)					(80.0)
Profit before tax	362.1	–	–	14.2	–	118.5	–	494.8
Tax	(46.5)			(14.2)		(26.4)	0.5	(86.6)
Profit after tax	315.6	–	–	–	–	92.1	0.5	408.2
31 March 2016								
Revenue	4,158.4	683.7						4,842.1
Operating profit	352.5	40.8			30.6	115.8		539.7
Share of profit from jv	34.6	(40.8)	21.9	8.0	(29.5)	5.8		–
Investment income	1.1				(1.1)			–
Net finance costs	(58.1)		(21.9)					(80.0)
Profit before tax	330.1	–	–	8.0	–	121.6	–	459.7
Tax	(39.0)			(8.0)		(26.8)	(8.1)	(81.9)
Profit after tax	291.1	–	–	–	–	94.8	(8.1)	377.8

Income statement

Statutory revenue for the year was £4,547.1 million (2016: £4,158.4 million), an increase of 9.3%. Statutory operating profit increased by 2.0% to £359.6 million (2016: £352.5 million). Statutory profit before tax increased by 9.7% to £362.1 million (2016: £330.1 million), reflecting the growth from joint ventures and associates. Basic earnings per share as defined by IAS 33 was 61.8 pence (2016: 57.0 pence) per share, an increase of 8.4%.

Underlying revenue for the year was £5,216.6 million (2016: £4,842.1 million), an increase of 7.7%. The Babcock businesses, excluding acquisitions, delivered revenue growth at constant exchange rates of 4.9% (2016: 7.6%). The largest contributor to this growth was the Defence and Security division which reported organic revenue growth at constant exchange rates of 15.1%, primarily due to the start of the UKMFTS fixed wing, rotary wing and rear crew contracts and the first year of the Aviation and Engineering Support and Aircraft Services (AESAS) contract. In addition there was increased procurement work in the DSG business. The Marine and Technology division achieved organic revenue growth of 4.9% at constant exchange rates, primarily driven by the ramp-up of the Type 23 life extension programme in our Warship Support business and increased submarine maintenance activity, as well as significant new business wins in our complex equipment and renewables businesses.

The Support Services division's revenue declined by 2.3% in the year. There were some additional works in Dounreay and the rail sector was buoyant. This partly offset the expected step-down in volumes in the Magnox decommissioning project, together with Apprenticeship Levy uncertainty, some weakness in our Training business and the impact of a reduction in volumes in our North American fleet support contracts.

Financial review continued

In the International division, a strong second half performance in our South African equipment business, growth in the Mission Critical Services (MCS) Emergency Services business, two second half oil and gas wins and new business wins in Italy, Australia and France resulted in organic revenue growth at constant exchange rates of 9.5%.

Total operating profit across the Group increased by 6.5% to £574.8 million (2016: £539.7 million). At constant exchange rates, Babcock achieved organic growth in operating profit of 5.3%, with the Group's operating margin broadly unchanged at 11.0% (2016: 11.1%), primarily reflecting margin improvements in Support Services and, to a lesser extent, Marine and Technology, offset by reductions in Defence and Security due to the low margin associated with additional DSG procurement work, as expected, and in International.

In the Marine and Technology division, operating profit increased by 9.7%, with margin improvement driven by contract performance, including in our Australian joint venture, and an increase in Research and Development tax credits. The Defence and Security division achieved an 11.7% increase in operating profit, with increased volumes helped by a step up in the Royal School of Mechanical Engineering (RSME) joint venture which is now in the ninth year of the 30 year contract.

For the Support Services division, operating profit grew by 2.7% following an increase in profit recognition in the Magnox decommissioning contract and improved performance in the Rail business, whereas the previous year included £7.5 million profit on the disposal of Lewisham Building Schools for the Future. The International division's organic operating profit declined by 12.9% at constant exchange rates, reflecting the headwinds from the unrecovered costs due to the industry-wide grounding of Airbus EC225 helicopters, continued margin pressure in the oil and gas sector on contract renewals, and competitive pressures in the South African equipment business. On a reported basis, the division saw a 2.1% reduction in profit, benefiting from movements in exchange rates.

The total Group impact of the change in average foreign currency rates was an increase in revenue of £133 million with a corresponding £15 million effect on operating profit.

The impact of movements in exchange rates has the following effect on the Group's results: a 10% movement in the Euro equates to a £5.9 million change in operating profit and a £3.4 million change in profit before tax. A 10% movement in the South African Rand equates to a £2.4 million change in operating profit and a £2.3 million change in profit before tax. The average rates used for translation of 2016/17 revenue and profit were £/€1.19, £/ZAR18.5. During the year, a net £2.5 million of provisions were charged to the income statement. Over the last seven financial years, the cumulative net provision charge averaged less than 1% of operating profit excluding joint ventures. Provisions cash outflow in the period was £28.4 million, relating to contracts (primarily pain share/gain share and warranties), onerous leases, personnel (taxation and reorganisation) and property.

Total net finance costs remained stable at £80.0 million (2016: £80.0 million) reflecting the decrease in total Group debt over the year but offset by increases in both IAS 19 and joint venture interest. The Group net finance costs reduced to £49.0 million (2016: £53.0 million) and we expect these to reduce further in future, in line with the decrease in the average amount drawn on the Group's revolving credit facilities at a marginal rate of around 1%. The Group's share of joint venture net interest expense increased to £24.6 million (2016: £21.9 million), largely reflecting the new Ascent fixed wing programme and adverse swap valuations. The IAS 19 pension finance charge was £6.4 million (2016: £5.1 million) as expected.

Underlying profit before tax increased by 7.6% to £494.8 million (2016: £459.7 million). The associated tax charge, including the Group's share of joint venture tax of £14.2 million (2016: £8.0 million), totalled £86.6 million (2016: £81.9 million), representing an effective underlying rate of tax of 17.5% (2016: 17.8%). 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. We expect the effective underlying rate of tax to be around 18% in 2017/18 and then to remain stable for the following two years as increasing international profits combined with currency movements have increased weighting.

The Group's net pension deficit reduced to £104.5 million (2016: £203.1 million), essentially because the liabilities were 75% hedged for discount rates and inflation by matching assets, and growth assets performed well along with continuing annual deficit contributions. The projected pension charge within operating profit for 2017/18 is £47.6 million (2017: £38.8 million), a £8.8 million cost increase which will be partially offset by a £4.1 million reduction in retirement benefit interest.

Amortisation of acquired intangibles was £118.5 million (2016: £121.6 million). This represents the amortisation of the value attributed on business acquisitions to customer relationships (both contractual and non-contractual) and acquired brands.

Earnings per share

Basic underlying earnings per share for the year was 80.1 pence (2016: 74.2 pence), an increase of 8.0%. Basic earnings per share as defined by IAS 33 was 61.8 pence (2016: 57.0 pence) per share, an increase of 8.4%.

The Group has once again achieved its target of delivering pre capital expenditure cash conversion of over 100% and around 80% post capital expenditure. The cash flow has delivered a net debt to EBITDA reduction to 1.8 times at the year end and we expect continue to reduce the net debt to EBITDA ratio to around 1.6 times by the end of 2017/18.

Financial review continued

Acquisitions and disposals

In April 2016 the Group acquired 100% of Heli Aviation GmbH for a total cash cost of £10.9 million. Heli Aviation GmbH provides helicopter services in mission critical operations.

Cash paid in respect of acquisitions and disposals during the year totalled £30.5 million (2016: £1.0 million received), reflecting the deferred consideration paid in respect of the acquisition of DSG, Scandinavian Air Ambulance, and other businesses combined with the acquisition of HeliAviation.

Cash flow and net debt

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

	2017 £m	2016 £m
Operating profit before amortisation of acquired intangibles	472.3	468.3
Amortisation, depreciation and impairments	92.3	86.0
Other non-cash items	13.7	15.0
Working capital (excluding excess retirement benefits and provisions)	(7.7)	(11.5)
Provisions	(28.4)	(25.1)
Operating cash flow	542.2	532.7
Cash conversion %	*115%*	*114%*
Capital expenditure (net)	(134.9)	(145.1)
Operating cash flow after capital expenditure	407.3	387.6
Cash conversion after capital expenditure %	*86%*	*83%*
Interest paid (net)	(51.6)	(53.4)
Taxation	(61.5)	(46.6)
Dividends from jvs	26.7	23.0
Free cash flow before pension contribution in excess of income statement	320.9	310.6
Pensions contributions in excess of income statement	(38.2)	(34.9)
Free cash flow after pension contribution in excess of income statement	282.7	275.7
Acquisitions and disposals net of cash/debt acquired	(30.5)	1.0
Issue of shares	0.9	1.2
Investments in joint ventures	2.1	(4.8)
Movement in own shares	(7.8)	(0.7)
Dividends paid	(133.8)	(125.6)
Exchange difference/other	(58.6)	(49.7)
Net cash inflow	55.0	97.1
Opening net debt	(1,228.5)	(1,325.6)
Closing net debt	(1,173.5)	(1,228.5)

The table below provides the reconciliation between the statutory cash flow (page 24) and trading cash flow table above.

	2017 £m	2016 £m
Cash generated from operations	504.0	490.3
Retirement benefit contributions in excess of income statement	38.2	34.9
Profit on disposals of jv/exceptional loss	–	7.5
Operating cash flow	542.2	532.7

Financial review continued

Working capital cash outflows during the period, excluding excess retirement benefits, were £36.1 million (2016: £36.6 million), with modest working capital cash outflows over the last two years driven by milestones and customer requirements. The cash outflow includes £28.4 million of provision movements. Cash generated from operations was £504.0 million (2016: £490.3 million), from which the Group's operating cash flow calculation is derived. Operating cash flow after movements in working capital was up 1.8% to £542.2 million (2016: £532.7 million) and represents a conversion rate of operating profit to cash of 115% (2016: 114%).

Net capital expenditure, including new finance leases, during the year was £134.9 million (2016: £145.1million). The Group achieved a conversion rate of operating cash flow after movements in working capital and capital expenditure to operating profit of 86% (2016: 83%). Capital expenditure for the year was 1.5 times the Group's depreciation and amortisation charge of £90.0 million. For the 2017/18 financial year capital expenditure will be around 1.3 times depreciation. In the FOMEDEC contract, the majority of the finance leases with the French Ministry of Defence for the provision of training platforms are likely to be timed after the March 2018 year end, however the exact profile of deliveries, and therefore cash, is yet to be agreed.

Net Group cash interest paid, excluding that paid by joint ventures, was £51.6 million (2016: £53.4 million), which reflects the continuing reduction in the Group's debt and the and some refinancing of credit facilities.

Cash taxation payments of £61.5 million (2016: £46.6 million) increased due to prior year utilisation of overseas tax losses but still benefited from pension payments in the UK. Free cash flow pre-excess pension payments improved to £320.9 million (2016: £310.6 million), up 3.3%, representing a free cash flow yield at 31 March 2017 of 7.2% (2016: 6.5%). Free cash flow post excess pension payments increased to £282.7 million (2016: £275.7 million), up 2.5%.

During the year the Group received £26.7 million in dividends from its joint ventures (2016: £23.0 million). Cash dividends (including to minorities of £1.3 million) paid out in the year totalled £133.8 million (2016: £125.6 million). The Group expects dividends from its joint ventures to increase to around £35 million in 2017/18.

Group net cash inflow was £55.0 million (2016: £97.1 million inflow) decreasing total net debt at 31 March 2017 to £1,173.5 million (31 March 2016: £1,228.5 million). At constant exchange rates the net cash inflow would have been around £56 million higher. This gives a net debt to EBITDA ratio of 1.8 times (31 March 2016: 2.0 times).

Return on Invested Capital (ROIC)

We define ROIC as underlying earnings before financing costs, divided by the average of opening and closing equity plus net debt, excluding retirement benefit deficits. ROIC, pre tax, was 14.5% (2016: 14.2%). Post tax ROIC was 11.9% (2016: 11.7%). This compares to the Group's current weighted average cost of capital of c 7.5%. The Group continues to focus on capital employed and on improving returns, and management compensation includes this as a performance measure.

Pensions

Cash contributions

Cash contributions made by the Group into the defined benefit pension schemes during the year are set out in the table below.

	2017 £m	2016 £m
Future service contributions	34.6	45.3
Deficit recovery	36.4	30.5
Longevity swap	6.0	5.0
Total cash contributions – employer	77.0	80.8

In the 2017/18 financial year, the total cash contributions expected to be paid by the Group into the defined benefit pension schemes are £92.7 million. £8.0 million of this is for salary sacrifice contributions, £31.8 million is in respect of the cost of future service accrual, £42.2 million is to recover deficits over periods of time agreed with the Trustee and £10.7 million is in respect of the three longevity swaps transacted for each of the largest schemes during 2009/10 to mitigate the financial impact of increasing longevity. This total cash cost is expected to be around £45.0 million in excess of the charge within the income statement per annum over the medium term.

The current level of bond yields and inflation expectations has increased cash service costs for pension schemes. A consultation with the members of the schemes has begun in order to mitigate this position.

Financial review continued

Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,676.2million, net of longevity swaps, in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,780.7 million. The total net accounting deficit, pre deferred tax, at 31 March 2017, was £104.5 million (2016: £203.1 million), representing a 98% funding level.

A summary of the key assumptions used to value the largest schemes is shown below. The most significant assumptions that impact on the results are the discount rate, the rate of future pensionable salary increases and the expected rate of inflation. The impact of the longevity swaps transacted during 2009/10 has helped to mitigate the risk of increasing allowances for longevity.

	Devonport		Babcock		Rosyth	
	2017	2016	2017	2016	2017	2016
Discount rate %	2.6	3.5	2.6	3.5	2.6	3.5
Rate of increase in pensionable salaries %	2.3	2.2	2.3	2.2	2.3	2.2
Rate of increase in pensions in payment %	2.2	2.1	3.0	2.8	3.3	3.0
Life expectancy of male currently aged 65 years	21.2	21.4	22.6	22.9	20.3	19.2

Operational review

Marine and Technology

		31 March 2017	31 March 2016	Change + / –
Revenue	group	£1,777.8 m	£1,674.3 m	+6.2%
	JV	£27.8 m	£21.6 m	+28.7%
	total – underlying	£1,805.6 m	£1,695.9 m	+6.5%
Operating profit	group	£211.2 m	£195.9 m	+7.8%
	JV	£6.9 m	£3.0 m	+130.0%
	total – underlying	£218.1 m	£198.9 m	+9.7%
Operating margin	group	11.9%	11.7%	
	JV	24.8%	13.9%	
	total – underlying	12.1%	11.7%	

Market Overview

The Marine and Technology division's core UK naval market has remained positive over the past year following the 2015 SDSR.

The UK MOD Equipment Plan 2016 confirmed the Government's intention to spend £178 billion on equipment and support over the decade, £67.2 billion of which will be spent on the support of existing in-service equipment. This represents a 2% increase on the previous year's plan. The MOD continues to seek opportunities to outsource support capabilities in order to meet efficiency targets, reduce support costs and improve operational capability. £19 billion is programmed for surface ship procurement and support to 2026, which includes the completion of the QEC aircraft carriers, the design and development of the Type 26 Frigate which will ultimately replace the Type 23 class and the possible development of a general purpose Light Frigate (Type 31).

The MOD continues to drive efficiency, performance and sustainability improvements through the Submarine Enterprise Performance Programme where we continue to play a leading role alongside our Tier 1 partners BAE Systems and Rolls-Royce. Over the next decade £44 billion is programmed for procurement and support of the UK's submarine capability, including the design and build of the Dreadnought Class which will begin to replace the Vanguard Class submarines by the late 2020s.

We continue to engage with the UK Single Source Regulations Office as its thinking matures. The vast majority of our sole source activities are contracted until 2020 under the MSDF, and 2025 under the Terms of Business Agreement, and we anticipate that the complexity and value inherent in the majority of services we provide would continue to generate commensurate returns within the sole source environment.

2016/17 continued to be a challenging period for the offshore energy markets but the North Sea decommissioning market is expected to grow in future years. In Liquid Petroleum Gas (LPG), our market returned to baseline levels in 2016/17 following rapid fleet build in the previous four years. However the Liquid Natural Gas (LNG) carrier market demand is strong and forecast to increase as the market for cleaner fuel grows.

In Canada the Government remains supportive of defence, and we expect no material impact on our business from the Defence Review currently underway. In 2016, the Australian Government issued a Defence White Paper which outlined plans for A$195 billion of capital investment over the next 20 years, a quarter of which is earmarked for maritime and anti-submarine warfare. The Government also committed to a continuous build programme in naval warships and selected an international partner for the platform design of it's A$50 billion Future Submarine programme.

The New Zealand MOD also published a White Paper which identified a NZ$20 billion investment programme over the next 15 years and outlined the integration of military services, while increasing private sector participation.

The market trend towards the adoption of Industry 4.0 thinking for the Internet of Things and digital aspects of asset management is driving the demand for our more advanced analytic and data exploitation capabilities across the energy, transport and defence sectors. High-profile cyber security incidents over the past year, together with the increasing threat of cyber-attacks, has continued to drive the demand for services in our chosen niche areas of the global cyber security market.

Financial Review

The Marine and Technology division had another successful year and experienced growth in most sectors, reporting an increase in total revenue of 6.5%, to £1,805.6 million (2016: £1,695.9 million). Organic growth at constant exchange rates was 4.9% (2016: 9.4%). The main drivers of growth this year have been the ramp up of the Type 23 life extension programme within our Warships Support business and increased submarine maintenance activities on the legacy Trafalgar and Vanguard Class boats and the new Astute Class boats at both Devonport and Clyde. Our complex equipment business has grown due to significant contract wins in equipment support and delivery of new weapons handling systems for submarine projects in Spain, Korea and the UK.

Operational review continued

Our business in New Zealand grew following the first full year of the new Dockyard Management contract. Work on the QEC aircraft carrier programme has stabilised as we push to get the first vessel ready for sea trials, and will accordingly step down by around £100 million in 2017/18.

Our Energy and Marine business has grown due to three contract wins in the renewables sector for offshore substations for Siemens, DONG Energy and E.ON. Additionally, joint venture revenue growth was 28.7%, driven by an uplift in our Naval Ship Management joint venture in Australia following the conclusion of the ANZAC frigates maintenance contract, which has led to the follow-on contract being enlarged under the Warship Asset Management Agreement which started in July 2016. Disappointingly this growth was partially offset by a slow-down in our Liquefied Gas Handling business.

Operating profit increased by 9.7% to £218.1 million (2016: £198.9 million). Organic operating profit growth at constant exchange rates was 8.8%. The division's total operating margin increased by 0.4% to 12.1% (2015: 11.7%), driven by improved contract performance including within our Australian joint venture, and increased Research and Development tax credits.

Operational Review

Over the past year we have maintained our position as lead support partner for the Royal Navy, successfully providing deep maintenance and in-service support for warship and submarine platforms.

We are now two years into our five-and-a-half year MSDF contract to deliver a range of engineering support services across HMNB Devonport and HMNB Clyde and delivery of key milestones is on track. We continue to deliver submarine and warship refits in support of our customer's programme, while building additional capability and capacity to support increasing operational demands and progressing opportunities with the MOD to upgrade the critical nuclear infrastructure needed to support both current and future submarine classes.

As the lead submarine support partner, we remain focused on underpinning the UK's Continuous At Sea Deterrence through support to the Vanguard Class. HMS Vanguard's life extension is now well under way at Devonport and initial project milestones have been successfully completed. We continue to invest in developing our engineering capability and capacity in order to maximise submarine availability as the UK transitions from the Trafalgar Class to the Astute Class.

At HMNB Clyde, we continue to focus on driving efficiency improvements and developing our capacity and engineering capabilities to deliver the required outputs. In October 2016, we were awarded a contract to deliver submarine escape, rescue and abandonment and survival training, which will contribute to the UK submarine centre of specialisation being consolidated at HMNB Clyde from 2021. The Astute Class Training Service continues to deliver world-class training with crews regularly achieving pass rates of over 99%.

The dismantling of the first nuclear submarine under the Submarine Dismantling Project has now begun with the removal of low-level waste from the demonstrator submarine in our Rosyth Dockyard.

The QEC aircraft carrier programme continues at pace within our Rosyth facility. HMS Queen Elizabeth has completed the commissioning of major systems phase and will begin contractor sea trials in 2017. HMS Prince of Wales is now structurally complete and work is underway on the outfitting phase. We continue to progress an in-service support solution for QEC with our Surface Ship Support Alliance partners and the MOD.

Over the past year, we have made significant progress on the Type 23 life extension programme. HMS Argyll has now begun sea trials having been the first of its class to complete a life extension package, which also included the installation of the Sea Ceptor weapons system. We currently have a further three Type 23 vessels docked in Devonport and planning continues for future upkeep programmes. The contract to reactivate HMS Albion has achieved a major project milestone after 1.3 million man-hours; work on the ship is on target to complete in September 2017.

We continue to develop and improve our warship support capability and have a number of initiatives underway to exploit emerging innovative technologies and data analytics. These will enable us to develop a more efficient maintenance methodology, and reduce time and cost for our customer. We also continue to develop a global support offering for our customers, and last year supported Royal Navy vessels in Bahrain, Oman, Gibraltar and South Africa.

The third OPV, LÉ William Butler Yeats, was successfully completed, handed over and commissioned into service with the Irish Naval Service in July 2016. As a result of our performance, we were contracted to design and build a fourth OPV in November 2016. Work has already started at our Appledore facility with the keel laying ceremony taking place on 28 February 2017.

Our market-leading weapons handling and launch systems (WHLS) products continue to be developed for the UK Dreadnought Class submarine programme. In October 2016, we were awarded a contract for the manufacture of 22 missile launch tube assemblies for the joint US-UK Trident nuclear submarine replacement programme. This is the first production batch of a competed 300 missile launch tube assembly programme. We also delivered WHLS for the South Korean Jangbogo III submarine programme and continue to deliver equipment for the Spanish S80 submarine programme.

In November 2016, we were awarded a £20 million contract to deliver detailed production engineering design support for the US Coastguard Offshore Patrol Cutter programme, which is a significant milestone in our strategy to export our naval design engineering knowledge and expertise.

Operational review continued

Our continued investment in the development of our Equipment Management Operations Centre (EMOC) has enabled us to win several equipment management contracts in support of the MOD's strategy to outsource the management of maritime systems and equipment. In March we were awarded preferred bidder status for all four elements of a £360 million technical authority and equipment support package, Maritime Systems Support Partner (MSSP), for both the QEC aircraft carriers and Type 45 Destroyers, a month after being awarded all six Maritime Equipment Consumables (MEC) packages. Our position on MSSP and MEC has been made possible by a dedicated EMOC in Bristol. We also won an availability contract for the support of the Royal Navy's Phalanx weapons system.

In Australia, our Naval Ship Management joint venture between Babcock and UGL Limited entered into the Warship Asset Management Agreement (WAMA) with the Commonwealth of Australia, BAE Systems and SAAB Australia. WAMA will provide maintenance support services until the end of life of the ANZAC Class Frigates.

We continue to deliver through-life support for submarine equipment and engineering services for the Australian Collins Class submarines, with negotiations now underway to secure a further five-year contract. We continue to pursue multiple opportunities relating to the A$50 billion Future Submarine programme and expect initial contracts for material systems and sub-systems to come to market in 2017.

In New Zealand, our dockyard maintenance contract continues to perform to plan and in Canada work on HMCS Corner Brook under our long-term Victoria Class In-Service Support contract is progressing well, with a planned return to service in late 2018. We continue to track several major future naval support opportunities including refit and in-service support opportunities on the Halifax Class frigates.

In line with our strategic aim to develop a global support offering, Babcock and Oman Drydock Company signed a joint venture agreement to develop a naval operation in Duqm, Oman. The business is ideally located to support ships and submarines operating in the Middle East region. A number of international navies have expressed interest in utilising the facility at Duqm in addition to both the Royal Navy of Oman and the UK Royal Navy.

We are seeing strong growth potential in LNG and Volatile Organic Compounds capture. In February 2017, we agreed a joint venture with Bernhard Schulte Ship Management to design and operate a ground-breaking Gas Supply Vessel. The 7,500m³ vessel, which will be used for the LNG fuelling of ships and other shore-based gas consumers in the Baltic Sea, is the first vessel of its kind to use our gas handling technology and we are exploring other opportunities in this area.

Our Energy and Marine Services business has successfully executed the first offshore renewables substation for E.ON's Rampion wind farm. We are currently working to deliver an offshore reactive compensation platform for DONG Energy and have also won a contract to deliver two offshore transformer modules for the SSE Beatrice wind farm. Given this recent experience and our world-class facility at Rosyth, we remain well positioned to take advantage of the next round of Government offshore wind funding and approvals in 2017.

Over the past year we have seen sustained growth in our independent technology consultancy businesses. Our cyber security business ContextIS has trebled in size since acquisition in 2013. We continue to develop and enhance our cyber capabilities through our Babcock Managed Security Services business which provides our clients with a managed cyber defence capability through our Advanced Security Operations Centre. Our Frazer-Nash engineering consultancy continues to grow and demand for our engineering consultancy services looks set to remain strong in the medium to long-term with significant opportunities being tracked in the defence, power, energy and nuclear markets.

Defence and Security

		31 March 2017	31 March 2016	Change + /–
Revenue	group	£885.7 m	£754.6 m	+17.4%
	jv	£90.8 m	£88.5 m	+2.6%
	total – underlying	£976.5 m	£843.1 m	+15.8%
Operating profit	group	£87.9 m	£86.1 m	+2.1%
	jv	£58.7 m	£45.2 m	+29.9%
	total – underlying	£146.6 m	£131.3 m	+11.7%
Operating margin	group	9.9%	11.4%	
	jv	64.6%	51.1%	
	total – underlying	15.0%	15.6%	

Market Overview

In addition to its commitment to increase the defence budget by 0.5% above inflation for the remainder of this Parliament, the UK Government has also committed to increase its equipment budget at 1% above inflation. This should enable our principal customer to plan for the future with some confidence, including its intention to spend £178 billion on equipment and support over the decade to 2025-26. These investments include £7.4 billion for land equipment and a total of £27.2 billion for military air equipment.

Operational review continued

This is an increase of more than £11 billion against last year's Equipment Plan. Importantly for Babcock, there is a change in financial arrangements where savings made by the front line commands can be used to fund new investments. This gives the armed forces a better incentive to seek efficiencies in the support arena and this should give rise to new opportunities for Babcock. The MOD will need to realise a total of £9.8 billion of savings over the next 10 years, primarily through transformation efficiencies. For the Defence and Security division the net result of the additional equipment commitments in the 2015 SDSR is a 28% increase in planned spend on support for new equipment over the next 10 years, up from £18.3 billion to £23.4 billion for 2016-2025, and a 2% increase on last year's expected spend for in-service equipment over the next decade.

Western European defence markets show many of the same financial and engineering skills based challenges associated with the UK Armed Forces. Our deep skills, gained from decades of experience serving the mature defence sector in the UK, have contributed to our ability to develop a presence in France, which has a similar size defence budget but a less mature outsourcing defence support services sector.

Financial Review

Revenue for the Defence and Security division, including the Group's share of joint venture revenue, increased by 15.8% to £976.5 million (2016: £843.1 million). Organic revenue at constant exchange rates grew by 15.1%. This strong growth was primarily due to the start of the UKMFTS fixed wing, rotary wing and rear crew contracts and the first year of the AESAS contract. In addition there was increased procurement work in the DSG business.

Total operating profit increased by 11.7% to £146.6 million (2016: £131.3 million). Operating profit growth was driven by the revenue increase but also by profit recognition within the Holdfast Training Services joint venture (Holdfast) which is now in the ninth year of a 30 year contract. Organic operating profit at constant exchange rates grew by 11.3%. The division's operating margins reduced slightly to 15.0% (2016: 15.6%) reflecting a mix of lower margins on procurement revenue offset by additional profit recognition on Holdfast.

Operational Review

Within our Land business, the DSG contract with the MOD for the British Army is trading in line with expectations following a busy year. The first generation 10-year contract is delivered from seven main sites across the UK. The contract includes maintenance, repair, overhaul and provision of stores and spares procurement services for land equipment, ranging from small arms to main battle tanks. We successfully completed the overhaul and reset of 670 vehicles returning from military operations ahead of schedule and met the demanding timelines to issue vehicles for operations in central Europe from the stored fleet. The transformation is on track with all contractual milestones achieved.

During the year, we secured a contract amendment for eight years to provide equipment on a turnkey availability basis to the Defence School of Transport at Leconfield and a year's extension to provide maintenance on the fleet of Protected Mobility Vehicles, totalling in excess of £30 million. We are engaged with Lockheed Martin to offer the production of the Warrior Capability Sustainment Programme of 380 armoured vehicles and we anticipate these discussions will progress through the coming year. We also anticipate further opportunities as the Army 2020 Refine programme crystallises to defined projects, with revenues expected in 2018/19.

The six-year contract to manage the MOD's white fleet, entitled Phoenix II, started in the UK in September 2016. This service manages the MOD's fleet of 16,000 administrative vehicles and the rental vehicle requirements. We continue to perform well in delivery of the MOD's worldwide construction fleet of 2,000 vehicles through our ALC joint venture. As well as supporting a continued number of operational requirements we have also developed more advanced fleet management systems to support the reduction of costs through the term of the contract.

Within our training operations, we continue to successfully deliver to our customer with no service failures across all main contracts, delivering over 20,000 training days to the British Army. Under the Electro-Mechanical Training contract we continue to deliver transformation in training delivery and support. Recent successes include the development of a new Protected Mobility Vehicle fleet course, reducing the course duration from eight to five weeks utilising modern learning methods and media. Performance at the RSME continues to remain at the highest level and the contract was showcased in the autumn during the visit of Her Majesty The Queen as part of the 300th anniversary of the Royal Engineers. We expect services to be expanded to include training support to the Defence Explosive Ordnance Disposal, Munitions and Search Training Regiment in Bicester and Kineton. In addition, our contract with Defence Infrastructure Organisation to provide support services to the British Forces in Germany, which commenced in 2011, was extended for a two-year period in 2016.

Our Air business began the year with a £500 million contract award to deliver rotary wing flying training services. This is the Babcock share of the contract, delivered through Ascent, our joint venture with Lockheed Martin to deliver UKMFTS. As this contract, and the previously awarded fixed wing contract, ramp up over the next three years we shall continue to focus on current military flying training through our Hawk, Tucano and Tutor contracts. We are well placed to ensure that the customer transitions from the current services to the new services in a seamless fashion.

Operational review continued

The five-year contract to deliver AESAS to the Royal Navy at Yeovilton and Culdrose, which we announced last year, is now fully operational and, as expected, there are clear benefits from the rotary wing aspects that we are able to leverage from the MCS helicopter business. On a similar basis, expertise, support and deep engineering knowledge from our Air business was provided for the FOMEDEC bid team in France and was a significant factor in our being awarded the contract in January. Further support is being provided to assist the implementation phase of the contract with both businesses operating in the new Aviation sector.

The Sea Training business has continued to deliver strong operational and safety performance. Our transformation of Royal Navy engineering training is progressing, providing innovative learning with stimulating interactive online content and media supported by simplified instruction. Feedback from the operational user community indicates that trainees who have benefited from this approach are more effective, being able to work independently and with higher confidence at completing practical tasks. Although the successful Fleet Outsourced Activities Project has entered its final year in providing wide-ranging training delivery and training support services to the Royal Navy, we expect to continue as the supplier of these services beyond December 2017. We also continue to support the Royal Navy through the provision of sophisticated and realistic high-end warfare training and the design of imaginative immersive training in support of the new QEC aircraft carrier.

Support Services

		31 March 2017	31 March 2016	Change + /–
Revenue	group	£936.5 m	£946.6 m	–1.1%
	jv	£542.3 m	£566.4 m	–4.3%
	total – underlying	£1,478.8 m	£1,513.0 m	–2.3%
Operating profit	group	£78.1 m	£87.7 m	–10.9%
	jv	£32.4 m	£19.9 m	+62.8%
	total – underlying	£110.5 m	£107.6 m	+2.7%
Operating margin	group	8.3%	9.3%	
	jv	6.0%	3.5%	
	total – underlying	7.5%	7.1%	

Market Overview:

Our markets remain attractive, with existing and potential customers opting to procure outsourced solutions to further reduce their cost base, deliver greater efficiency and improve service delivery. Customers continue to market test services and our breadth and depth of expertise, coupled with our investment in innovative solutions and people development, mean that we are well placed to respond to this challenge.

In the UK's civil nuclear market, there are opportunities for both decommissioning and new build services which provide scope for growth. In particular the recent Government decision to proceed with the Hinkley Point C project has given new momentum to new build activity in the UK.

We expect that the demand for fleet management and equipment support services in the UK and overseas will remain strong, particularly for customers with critical and complex fleets, such as Ground Support Equipment (GSE), Heavy Mobile Equipment and 'blue-light' emergency services. Investment in strategic fleet management capabilities, such as fleet optimisation, asset replacement programmes and conversions, and decision support and data analytics, to span multiple industry sectors, will position Babcock well for further outsourcing opportunities and expansion of existing operations.

Demand for our technical training services remains positive. We see an increasing requirement for technology and systems in the delivery of such training, which increases the barriers to entry for competitors and incentivises large organisations to outsource these services.

The introduction of the Apprenticeship Levy represents a potential opportunity to grow our existing apprentice business in the engineering and workplace skills sectors. However, while we expect large organisations to look to maximise the value of their levy account, our customer base also includes small employers who may be disincentivised from training apprentices under the new regime.

Our strong domestic market position has enabled us to expand our international footprint by leveraging the capabilities successfully developed and delivered for our UK customers. This breadth of expertise has provided a firm foundation upon which we will build an expanding pipeline of international opportunities. We expect that our recent contract wins in Europe and Australia will provide impetus for additional growth in these markets.

Operational review continued

Financial Review

Revenue in the Support Services division reduced slightly: 2.3% down to £1,478.8 million (2016: £1,513.0 million) following the significant growth in the prior year from the Cavendish Fluor Partnership's (CFP) full implementation of the Magnox decommissioning joint venture. Organic revenue at constant exchange rates decreased by 3.3%. Activity on the Magnox project has now reduced in line with the NDA annual site funding limits in the original programme. However, this decrease was partially offset by growth in our rail electrification joint venture with Alstom and Costain.

In addition Cavendish Nuclear's Dounreay joint venture had higher than expected activity levels following some acceleration to the programme of works. Despite the reduction in revenue, growth in operating profit increased by 2.7% to £110.5 million (2016: £107.6 million), an increase of 9.6% on an organic basis at constant exchange rates. This was been largely driven by the expected increase in margin recognition in the Magnox contract reflecting strong operational performance and the retirement of very early stage risk in the contract. Across other businesses within the division, the negative impact of lower activity levels in our North American fleet support contracts was mitigated by profit growth in our rail and UK fleet support operations.

Operational Review

In the year, Cavendish Nuclear, a wholly-owned Babcock subsidiary, continued to strengthen its position as the UK's leading supplier to the civil nuclear industry, remaining focused on site operations, maintenance, decommissioning and nuclear new build.

The CFP – in which the Group has a 65% stake – has come to a mutual agreement with the UK's NDA to bring to an end the Magnox decommissioning contract at the end of August 2019, when we will have operated the contract for a full five years.

Following the detailed contract Consolidation phase, it has become apparent that the work that needs to be done at the 12 Magnox sites is now materially different in volume from that specified in the NDA's tender, and this puts the contract at risk of a legal challenge. Last year a High Court judge ruled against the NDA in respect of its award of the Magnox contract. The NDA has been explicit that its decision was in no way a reflection on the operational performance of CFP, which has remained strong.

CFP is now over two years into the Magnox decommissioning contract, and making good progress in the delivery of the through-life programme across the12 licensed sites. Through innovative approaches to dealing with the legacy waste, the contract team is now targeting an earlier than expected completion of the Bradwell site. This will represent a significant milestone for the nuclear industry in the UK. Using new plant systems, the team has started the retrieval of waste from three highly active legacy waste facilities. In addition, the programme is benefiting from utilising specialist divers to decontaminate the former fuel cooling ponds at Dungeness.

At Dounreay, the Cavendish Dounreay Partnership continues to deliver the nationally important nuclear materials consolidation programme. The team has also achieved a significant reduction in two of the site's highest hazards associated with the Dounreay Fast Reactor - the safe immobilisation and storage of intermediate level liquid raffinate and the safe removal and processing of liquid metal coolant. As part of its existing Lifetime Support Agreement with EDF, Cavendish Nuclear successfully supported EDF in generating 65TWh in 2016, the highest annual outturn since 2003. Cavendish Nuclear's safety, quality and operational performance underpinned this achievement and has been formally recognised by the EDF Executive.

Major design and construction projects to aid decommissioning at both Sellafield and Magnox sites continue to be delivered to agreed programmes and budget. Of particular note was the delivery of six 12-tonne stainless steel doors to the Sellafield site to support decommissioning of the Pile Fuel Cladding Silo, one of the highest hazard legacy nuclear facilities in Europe. At the Atomic Weapons Establishment, Cavendish Nuclear has continued to build on its existing relationship with the customer, supporting both new build and decommissioning projects.

Following the Government's decision to go ahead with Hinkley Point C, the Cavendish Boccard Nuclear joint venture is about to transition from Early Contractor Involvement studies to an Early Works Contract for the Balance of Nuclear Island mechanical installation package. Work to date has focused on constructability studies and schedule integration with other installation contractors. Over the next 12 months the focus will move to supply chain engagement for long-lead item procurement. Cavendish Nuclear is also pursuing additional opportunities in the UK new build programme, including Small Modular Reactors.

Internationally, Cavendish Nuclear continues to seek to develop long-term relationships in Japan with HGNE and Shimizu, with both of whom we have Memoranda of Understanding in place for potential decommissioning projects. In support of Cavendish Nuclear's work in Japan, the NDA and Cavendish Nuclear have recently entered into a Cooperation Memorandum of Understanding which will provide unlimited access to NDA intellectual property, access to Magnox operating experience and site staff and access to Magnox sites for visits of potential customers and partners of Cavendish Nuclear.

In Critical Services, our Airports business performed well, helping Heathrow to achieve its best ever recorded performance in baggage operations. Performance enhancements and sustained performance improvements are increasingly being underpinned by investment in innovative technology, such as a Babcock-developed app which provides a single source of real-time information for over 100 key customer stakeholders. This app won the 'Best Innovator' category at the Airport Operators Association's annual awards. Contract wins for baggage upgrade projects across Heathrow and other airports, including Glasgow and Gatwick, provide further opportunities for Babcock to enhance its customers' operations.

Operational review continued

A strong performance was also delivered by our Fleet Management business supporting GSE operations at Heathrow, where flight delays were significantly reduced despite an increased flying schedule by our customer. Improving the operational performance of airports and airlines through enhanced management of GSE fleets is expected to generate further international opportunities for the Fleet Management business.

Our Fleet Management business also started an extensive rollout of new fire engines for the London Fire Brigade (LFB) in 2016. Babcock worked closely with the LFB and end users in the design of the new fleet, the first since 2007. In April, the first appliance was unveiled at a special event attended by HRH Prince Charles and the LFB Commissioner. Our fleet management contract which supports the Metropolitan Police Service (MPS) also continued to perform well and we are working with the MPS to extend our support activities beyond the current contract life and scope. Our specialist vehicle conversion business, MacNeillie, is now being more widely leveraged across our Fleet Management businesses and in the DSG business in the Defence and Security division.

Following a challenging period of trading driven by reducing customer demand and escalating supply chain costs, with returns falling below expectations, we are reviewing our Heavy Mobile Equipment fleet management contracts in the Aggregates and Cement market in North America. The Skills & Learning business has developed programmes and technologies to respond to the Government's changes to apprenticeship qualifications and funding. The Apprenticeship Levy represents an opportunity to grow our existing apprentice business in the engineering and workplace skills sectors although, whilst there may be more demand from larger employers, smaller employers may train less under the new regime. We have successfully mobilised our new Network Rail apprenticeship contract and the programme is now being delivered from a new site under the new Rail Apprenticeship standard. Delivering this 'trailblazer' standard from a modern facility using a range of innovative teaching technologies underpins the continuing success of this major contract.

Our emergency services training contracts continue to perform strongly. We played a key part in supporting the LFB's celebrations of 150 years in operation, and see good opportunity through the introduction of the Police and Crime Act 2017 for Babcock to support the blue-light sector in its drive for increased inter-service collaborations.

We are participating in the MPS market testing to secure a partner to support their training provision, and are pursuing opportunities in Babcock's other key markets including the nuclear training industry. Skills2Learn, our digital learning business, secured new orders to develop e-learning for the Royal Navy and the United Arab Emirates Navy, in support of wider programmes managed by the Marine and Technology division.

In Network Engineering, our Rail business has delivered Network Rail's plain line track renewals throughout the third year of the customer's five-year control period. Working with this key customer, our track renewals team successfully completed a track lowering project as part of the Severn Tunnel closure programme to introduce faster, greener electric trains for passengers in South Wales.

Working as part of the Edinburgh Glasgow Improvement Programme alliance, a project to electrify the main line between two of Scotland's largest cities, our track team successfully completed major engineering work at Queen Street Tunnel following a 20-week closure. This is the largest piece of engineering undertaken on this line since it was built.

Following the successful completion of Translink's multi-million pound signalling contract to upgrade the 33-mile route between Coleraine and Londonderry, we have been awarded a further signalling and telecommunications framework contract to deliver services across Northern Ireland's rail network.

The Power business within Network Engineering, has seen the successful completion of National Grid's overhead line refurbishment projects on the Padiham and Capenhurst projects, as well as the Indian Queens to Landulph route in Cornwall, and this is being followed by the refurbishment of 100km of overhead line between Plymouth and Exeter. Works for Western Power Distribution continue to progress steadily with projects such as a re-conductoring of a one-kilometre stretch of 33kV overhead lines in North Lincolnshire spanning a tidal river, and the reinforcement of the 132kV power network near Telford, being successfully completed by our Power team.

Our Media Services business continues to exploit the advantages of the combined service offering created by the acquisition of WRN Broadcast in 2015. Our relationship with Perform Group, supporting the roll-out of its live and on-demand sports service 'DAZN', continues to expand into new geographies and has positioned us as an expert in the emerging non-linear broadcast space. We also secured a key role in supporting local TV satellite distribution in the UK, delivering broadcast solutions to six local TV channels. GoMedia is utilising Babcock's multi-platform distribution offering to distribute video on demand direct to passengers' mobile devices on Eurostar trains and National Express coaches.

Operational review continued

International

		31 March 2017	31 March 2016	Change + / -
Revenue	group	£947.1 m	£782.9 m	+21.0%
	jv	£8.6 m	£7.2 m	+19.4%
	total – underlying	£955.7 m	£790.1 m	+21.0%
Operating profit	group	£102.0 m	£105.4 m	–3.2%
	jv	£3.3 m	£2.2 m	+50.0%
	total – underlying	£105.3 m	£107.6 m	–2.1%
Operating margin	group	10.8%	13.5%	
	jv	38.4%	30.6%	
	total – underlying	11.0%	13.6%	

Market Overview

At MCS, we continue to see attractive markets in the emergency services sector, with a number of new opportunities included in our pipeline together with search and rescue and firefighting outsourcing opportunities in existing and new markets.

The business has also entered new countries in support of existing customers, as well as new markets such as wind farm support and Unmanned Aviation Services. MCS' growth is based on winning organic opportunities and growing its pipeline, creating partnerships with customers and delivering differentiated solutions.

Challenging conditions in the oil and gas sector have continued to impact our business in the North Sea and Australia. Business conditions in the sector remain tough and we are not envisaging any improvement in the medium term. Our exposure to this market (and particularly to the exploration market) is limited, and we continue to be a robust and reliable long-term partner for the industry.

Tough trading conditions in South Africa persisted for the first half of the 2016/17 trading year as commodity volumes and prices remained depressed. Equipment and commodity markets contracted by a further 20% which, combined with a fragile political economy, maintained pressure on pricing and volumes. The second half saw some revival in commodity pricing and a significant strengthening of the Rand versus Sterling. The recovery led to an uptick in the demand for mining construction equipment in the final quarter and our strategy of growing market share during the commodity down cycle has supported significant order intake from the mining sector.

The power generation and distribution sectors remained buoyant through the year, with significant opportunities in maintenance support through the Eskom contract and new work being issued on the new Kusile and Medupi power stations.

Our mining export markets in Zambia, Namibia and the copper belt in southern Democratic Republic of the Congo have improved on the back of commodity pricing and early indications are that this will continue in 2017/18. Sustained low gas prices and political problems leading to instability in Mozambique have all but shut down economic activity but our oil and gas customers in the region remain optimistic for the future.

Financial Review

The International division saw revenue growth but experienced margin pressure in 2016/17. The division's revenue grew by 21.0% compared to the previous period, reflecting the impact of movements in foreign exchange rates. Organic revenue at constant exchange rates increased by 9.5% for the division as a whole, due to a strong second half performance from the South African Equipment business which grew by more than 10% and continued growth in MCS' Emergency Services business, as well as the mobilisation of new contracts in Italy, Australia (Qantas) and France (FOMEDEC). MCS' organic revenue increased by 6.3% at constant exchange rates, driven by continued growth in MCS' Emergency Services business and the start of new oil and gas contracts in Australasia in the second half of the year.

Total operating profit for the division declined by 2.1%, which equates to an organic reduction of 12.9% at constant exchange rates. This reflects continuing competitive pressures in the South African Equipment business, and ongoing difficulties in the oil and gas business affecting MCS' crew change services. Additionally operating profit has been impacted by ongoing unrecovered costs from the industry-wide grounding of the EC225 fleet of helicopters and by low margin recognition in the new long-term contracts which began in the period, in line with prudent accounting practice. Overall the division's margin declined to 11.0% (2016: 13.6%).

Operational Review

MCS has maintained a high contract win rate across new bids and renewals, securing 38 new contracts and extensions to existing contracts with a total value of around £540 million.

Operational review continued

We continue to see a number of opportunities outside the UK, following the award to Babcock France of an 11-year contract to provide and maintain training platforms and related services for the French Air Force (Armée de l'Air), drawing on our expertise in the European aviation industry and our experience of delivering long-term military flight training programmes (FOMEDEC). In addition to FOMEDEC, MCS is also growing its business supporting the defence sector in Europe. We delivered complex projects, such as the life extension programme developed for the Spanish Navy which includes the upgrade of seven Agusta Bell 212 helicopters. This project was successful in obtaining technical certification from INTA, the Spanish National Institute for Aerospace Technology.

The French Department of Defence awarded Babcock France a five-year contract to deliver maintenance operations and logistic needs for the Department's fleet of twenty Airbus EC135 helicopters, 15 of which belong to the Gendarmerie Nationale and five to the Sécurité Civile.

In our Emergency Services business, we have maintained leading positions in all the countries where we operate, and have continued to trade well throughout the year, as demonstrated by a number of recent contract wins, including important rebids and extensions.

During the year, we successfully renewed contracts for the provision of nationwide and regional firefighting and search and rescue services in Spain on behalf of the Spanish Government, and in October we renewed the main medical services contract in Spain's Castilla-La Mancha region, one of the most significant services in Spain, where we have a 15-year customer relationship and have pioneered emergency night flights.

We also continued to build on our presence in Ireland, with the award of a new three-year contract to support the helicopter operations of the Irish National Police Service. A three-year contract with Air Ambulance Northern Ireland also began in Spring 2017. In Wales, we will create one of the UK's most technologically advanced fleet of charity air ambulances under a seven-year agreement to provide the Wales Air Ambulance charity with new EMS aircraft.

In Italy, we signed two new contracts to continue providing helicopter emergency services (HEMS) operations to the healthcare service of the Italian Alto Adige and Abruzzo regions. Under the contract, Babcock Italy will provide a 24-hour emergency service with new Airbus' and Leonardo Helicopters' technologies. Both contracts have been awarded for a period of nine years. In Australia, we are running operations for the Victorian Government's Ambulance Victoria service and have renewed our emergency medical services contract at Horn Island.

In October, we secured a new long-term emergency medical services contract in the South West region of France, where we will provide and operate five aircraft for the French Ministry of Health.

In Scandinavia, a new five-year contract will see Babcock operate two new HEMS aircraft in Stockholm and a fixed wing operation in Northern Sweden and we will be introducing new AW169 aircraft in Scandinavia.

As previously flagged, challenging conditions in the oil and gas sector have continued to impact our business in the North Sea and Australia, especially following the grounding of the Super Puma helicopters following an accident involving one of our competitors' aircraft, with some delays and cancellations of bids. Despite this, we secured a long-term extension to an existing contract in the UK, renewed two oil and gas contracts and won two new additional contracts with an existing customer in Italy, becoming the sole provider of these services in the country. We have once again increased our market position in Australia with the award of two new long-term contracts by Chevron and Conoco Phillips. Margins and volumes remain challenging and are expected to continue to be so over the medium term.

In October, Babcock was awarded a five-year contract by the consortium TOTAL-ENI for Offshore Transportation and MEDEVAC operations in Congo, increasing our presence in Africa. And recently, Babcock Italy has secured a new contract with ENI to provide oil and gas services from two new bases on the Adriatic Sea. MCS has also reinforced its position in the renewable energy market winning a contract to support DONG Energy's offshore Walney Extension wind farm.

Safety remains the highest priority for MCS. However whilst MCS' air accident rates are at their lowest recorded levels and well below the world wide industry average, tragically, in January 2017 an EMS helicopter crashed in Italy resulting in the loss of six people.

In other international business, we were delighted to be awarded a contract to support Qantas' GSE fleet at 60 locations across Australia. The five-year contract, with an option for a further five years, streamlines the management of the airline's fleet of over 10,000 ground service equipment assets. Babcock will deliver a programme to improve the equipment's reliability and provide significant long-term capability and cost benefits. The contract to support GSE at Rome's Fiumicino airport is performing well, however Alitalia's financial difficulties create uncertainty as to the ongoing viability of this contract.

MCS continues to work with other Babcock divisions to help facilitate growth through existing strong customer relationships, operational credibility and administration in the geographies in which the Group operates.

Operational review continued

In South Africa, the Power business continued to grow both in transmission and generation on the back of Eskom power station maintenance and niche engineering and construction contracts on the new power stations at Medupi and Kusile. These contracts include design engineering, mill construction and high pressure piping installations. Further progress was made on our strategy of winning power work outside of Eskom with wins at Sasol and a number of industrial customers.

Our Equipment business continued to grow market share in a depressed market which, after a very slow first half, showed signs of strength on the back of increasing commodity prices. This resulted in a very strong final quarter leading into year end. Aftermarket spares and service performed well throughout the year as customers focused on life-extension programmes through the downturn. The new Terex product line followed the same pattern as Volvo, with significant orders won in the last quarter.

2017/18 Sector outlook

As previously mentioned, the Group is focused on continuing to develop its current areas of core capability in marine, land, aviation and nuclear engineering (through Cavendish Nuclear), supported by our expertise in technology, training and infrastructure. Therefore to better reflect Babcock's deep engineering experience and operations in these for areas, as of 1 April 2017 we have realigned our existing business to report in four sectors: Marine, Land, Aviation and Cavendish Nuclear. These replace the Group's previous divisional structure. As a result, below are the outlooks for 2017/18 for each of the new sectors.

Marine (36% of Group revenues)

The Marine sector consists of the previous Babcock Marine and Technology division, but also includes marine training previously in the Defence and Security division.

We continue to have excellent visibility of our future naval support programme though our ToBA and our relationship with the MOD and Royal Navy. We continue to see further outsourcing opportunities to increase the scope of our complex and critical engineering support to the MOD as we focus on maximising platform availability and providing increased value for money.

As well as our core defence business, our innovative expertise in complex and critical engineering services positions us well to continue to exploit opportunities in adjacent commercial marine and energy markets, both in the UK and internationally. We continue to monitor the market and develop our capacity and capabilities in these areas of growth. Additionally the markets for engineering consultancy and cyber security continue to grow, and we see further opportunities to win business in these areas.

We expect the sector to continue to make good progress during the next financial year, despite the maturing of QEC aircraft carrier work which will reduce revenues by around £260 million over the next three years, with a £100 million step down expected in 2017/18. As we look further ahead, we believe the outlook for the Marine sector remains positive, with a strong pipeline of growth opportunities across our businesses both in the UK and established international markets.

Land (35% of Group revenues)

The Land sector is a combination of Critical Services, Network Engineering, Skills & Learning, previously within the Support Services division), the military Land business, previously within the Defence and Security division and South Africa, previously within the International division.

We see significant opportunities to expand our equipment support and technical training capabilities across our military and civil customer base. Our deep understanding of customers' operational and financial objectives, underpinned by our market-leading capabilities, enables us to drive greater efficiency across their operations.

We are experiencing greater demand for equipment support, in the UK and internationally, as customers seek a flexible partner to deliver greater availability and efficiency at a reduced cost. In UK defence, we anticipate further equipment support outsourcing opportunities as customers acquire and upgrade equipment to improve force readiness as a result of this Whole Force Approach.

In the civil technical training market, demand for the outsourced management and delivery of technical training is increasing as the technology and skills required for delivery become more complex. Our current military training footprint also means we are well placed to respond to our defence customers' increasing focus on training efficiency and improved collective training solutions. The programmes identified within the SDSR15 are progressing, with significant activity expected to commence in 2018/19.

Aviation (17% of Group revenues)

The Aviation sector comprises MCS, previously in the International division, and the military Air business previously within the Defence and Security division.

Aviation has brought together all of Babcock's aviation related businesses, both civilian and military, and rotary and fixed wing. Whilst in the oil and gas business the market remains challenging, with continued pressure on margins and ongoing cost recovery issues relating to flight restrictions on EC225 helicopters, the Emergency Services business is pursuing a number of opportunities in the UK and internationally, particularly in HEMS.

The UK Military Air business is undertaking a number of bidding opportunities which have come to market following the SDSR15, deepening our relationship with the customer and providing innovative solutions. Our French Air Force contract FOMEDEC is at the earliest stages of transition and delivery and hence will initially declare lower margins, but provides an operational reference for our military air business in continental Europe.

Cavendish Nuclear (12% of Group revenues)

Cavendish Nuclear comprises the nuclear business previously within the Support Services division.

As a newly created sector in the Babcock Group, Cavendish Nuclear's growth will be focused in three main markets:

- nuclear decommissioning in the UK and internationally;
- the design and safety justification, construction, commissioning, operational support and maintenance of nuclear facilities in the UK and internationally; and
- new sectors where current capabilities can be applied and developed, such as offshore oil and gas decommissioning.

In the UK, the civil nuclear market remains resilient, with opportunities for both decommissioning and new build services providing scope for growth. In particular the recent Government decision to proceed with the Hinkley Point C project has given new momentum to new build activity in the UK.

Group income statement

For the year ended 31 March 2017	Note	2017 £m	2017 Total £m	2016 £m	2016 Total £m
Revenue[1]	2		4,547.1		4,158.4
Cost of revenue			(3,883.0)		(3,549.3)
Gross profit			664.1		609.1
Distribution expenses			(13.0)		(9.8)
Administration expenses			(291.5)		(246.8)
Operating profit before share of results of joint ventures and associates	2		359.6		352.5
Share of results of joint ventures and associates	2		56.7		34.6
Group and joint ventures and associates					
Operating profit before amortisation of acquired intangibles		545.1		509.1	
Investment income		29.7		30.6	
Underlying operating profit[2]	2	574.8		539.7	
Amortisation of acquired intangibles		(118.5)		(121.6)	
Group investment income		(1.2)		(1.1)	
Joint ventures and associates finance costs		(24.6)		(21.9)	
Joint ventures and associates income tax expense		(14.2)		(8.0)	
Operating profit			416.3		387.1
Finance costs					
Investment income		1.2		1.1	
Retirement benefit interest		(6.4)		(5.1)	
Finance costs		(60.4)		(64.1)	
Finance income		11.4		11.1	
			(54.2)		(57.0)
Profit before tax	2		362.1		330.1
Income tax expense	3		(46.5)		(39.0)
Profit for the year			315.6		291.1
Attributable to:					
Owners of the parent			311.8		286.6
Non-controlling interest			3.8		4.5
			315.6		291.1
Earnings per share from continuing operations	4				
Basic			61.8p		57.0p
Diluted			61.7p		56.8p

1 Revenue does not include the Group's share of revenue from Joint ventures and associates of £669.5 million (2016: £683.7 million)

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

Group statement of comprehensive income

For the year ended 31 March 2017	2017 £m	2016 £m
Profit for the year	315.6	291.1
Other comprehensive income		
Items that may be subsequently reclassified to income statement		
Currency translation differences	88.8	34.1
Fair value adjustment of interest rate and foreign exchange hedges	4.3	15.9
Tax on fair value adjustment of interest rate and foreign exchange hedges	(0.9)	(3.2)
Fair value adjustment of joint venture and associates derivatives	2.6	(16.4)
Tax on fair value adjustment of joint venture and associates derivatives	(0.5)	3.3
Items that will not be subsequently reclassified to income statement		
Remeasurement of retirement benefit obligations	66.8	(64.1)
Tax on remeasurement of retirement benefit obligations	(13.3)	13.0
Impact of change in UK tax rates	1.1	(4.7)
Other comprehensive income/(loss), net of tax	148.9	(22.1)
Total comprehensive income	464.5	269.0
Total comprehensive income attributable to:		
Owners of the parent	458.0	265.8
Non-controlling interest	6.5	3.2
Total comprehensive income	464.5	269.0

Group statement of changes in equity

For the year ended 31 March 2017	Share capital £m	Share premium £m	Other reserve £m	Capital redemptio n £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 2015	301.3	873.0	851.3	30.6	314.5	(91.6)	(99.0)	2,180.1	18.0	2,198.1
Total comprehensive income/(loss)	–	–	–	–	230.8	(0.4)	35.4	265.8	3.2	269.0
Shares issued in year	1.2	–	–	–	–	–	–	1.2	–	1.2
Dividends	–	–	–	–	(121.5)	–	–	(121.5)	(4.1)	(125.6)
Share-based payments	–	–	–	–	16.2	–	–	16.2	–	16.2
Tax on shared-based payments	–	–	–	–	(1.9)	–	–	(1.9)	–	(1.9)
Other reserves released	–	–	(82.5)	–	82.5	–	–	–	–	–
Disposal of non-controlling interest	–	–	–	–	(0.7)	–	–	(0.7)	0.7	–
Own shares and other	–	–	–	–	(0.7)	–	–	(0.7)	–	(0.7)
Net movement in equity	1.2	–	(82.5)	–	204.7	(0.4)	35.4	158.4	(0.2)	158.2
At 31 March 2016	302.5	873.0	768.8	30.6	519.2	(92.0)	(63.6)	2,338.5	17.8	2,356.3
At 1 April 2016	302.5	873.0	768.8	30.6	519.2	(92.0)	(63.6)	2,338.5	17.8	2,356.3
Total comprehensive income	–	–	–	–	366.3	5.5	86.2	458.0	6.5	464.5
Shares issued in year	0.9	–	–	–	–	–	–	0.9	–	0.9
Dividends	–	–	–	–	(132.5)	–	–	(132.5)	(1.3)	(133.8)
Share-based payments	–	–	–	–	15.0	–	–	15.0	–	15.0
Tax on shared-based payments	–	–	–	–	(0.8)	–	–	(0.8)	–	(0.8)
Transactions with non-controlling interest	–	–	–	–	(1.5)	–	–	(1.5)	(0.6)	(2.1)
Own shares and other	–	–		–	(7.8)	–	–	(7.8)	–	(7.8)
Net movement in equity	0.9	–	–	–	238.7	5.5	86.2	331.3	4.6	335.9
At 31 March 2017	303.4	873.0	768.8	30.6	757.9	(86.5)	22.6	2,669.8	22.4	2,692.2

Group balance sheet

As at 31 March 2017	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Goodwill		2,608.8	2,550.6
Other intangible assets		608.0	676.2
Property, plant and equipment		1,036.9	950.8
Investment in joint ventures and associates	6	71.9	39.9
Loan to joint ventures and associates	6	32.3	32.6
Retirement benefits	11	193.5	45.0
Trade and other receivables		29.4	29.2
IFRIC 12 financial assets		20.0	17.7
Other financial assets	7	152.6	84.3
Deferred tax asset		113.1	125.5
		4,866.5	4,551.8
Current assets			
Inventories		159.2	139.1
Trade and other receivables		885.4	766.9
Income tax recoverable		16.5	24.8
Other financial assets	7	11.9	10.1
Cash and cash equivalents	10	191.4	185.9
		1,264.4	1,126.8
Total assets		6,130.9	5,678.6
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital		303.4	302.5
Share premium		873.0	873.0
Capital redemption and other reserves		735.5	643.8
Retained earnings		757.9	519.2
		2,669.8	2,338.5
Non-controlling interest		22.4	17.8
Total equity		2,692.2	2,356.3
Non-current liabilities			
Bank and other borrowings	10	1,398.1	1,401.3
Trade and other payables		3.7	4.4
Deferred tax liabilities		134.6	151.9
Other financial liabilities	7	9.7	6.3
Retirement liabilities	11	298.0	248.1
Provisions for other liabilities		90.3	137.8
		1,934.4	1,949.8
Current liabilities			
Bank and other borrowings	10	154.3	131.6
Trade and other payables		1,297.6	1,185.6
Income tax payable		11.1	11.6
Other financial liabilities	7	4.3	10.6
Provisions for other liabilities		37.0	33.1
		1,504.3	1,372.5
Total liabilities		3,438.7	3,322.3
Total equity and liabilities		6,130.9	5,678.6

Group cash flow statement

For the year ended 31 March 2017	Note	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from operations	8	504.0	490.3
Income tax paid		(61.5)	(46.6)
Interest paid		(63.0)	(61.7)
Interest received		11.4	8.3
Net cash flows from operating activities		390.9	390.3
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	13	(0.6)	10.3
Dividends received from joint ventures and associates		26.7	23.0
Proceeds on disposal of property, plant and equipment		71.9	66.0
Purchases of property, plant and equipment		(175.9)	(163.2)
Purchases of intangible assets		(30.9)	(28.2)
Investment in, loans to and interest received from joint ventures and associates		2.4	1.2
Acquisition of subsidiaries net of cash acquired	12	(24.7)	(1.8)
Net cash flows from investing activities		(131.1)	(92.7)
Cash flows from financing activities			
Dividends paid		(132.5)	(121.5)
Finance lease principal payments		(26.4)	(37.2)
Bank loans repaid		(329.5)	(111.3)
Loans raised		250.0	28.9
Dividends paid to non-controlling interest		(1.3)	(4.1)
Net proceeds on issue of shares		0.9	1.2
Transactions with non-controlling interest	14	(2.1)	–
Movement on own shares		(7.8)	(0.7)
Net cash flows from financing activities		(248.7)	(244.7)
Net increase in cash, cash equivalents and bank overdrafts		11.1	52.9
Cash, cash equivalents and bank overdrafts at beginning of year		168.8	112.5
Effects of exchange rate fluctuations		5.7	3.4
Cash, cash equivalents and bank overdrafts at end of year	10	185.6	168.8

Notes to the consolidated financial statements

1. Basis of preparation and significant accounting policies

The financial information has been extracted from the Annual Report, including the audited financial statements for the year ended 31 March 2017. They should be read in conjunction with the Annual Report for the year ended 31 March 2016, which has been prepared in accordance with IFRSs as adopted by the European Union. The accounting policies used and presentation of these consolidated financial statements are consistent with those in the Annual Report for the year ended 31 March 2016, except as noted below.

Standards, amendments and interpretations effective in 2017 with minimal or no impact on the Group:

- IAS 7 (amendments), 'Statement of cash flows', effective 1 January 2017;
- IAS12 (amendments), 'Income taxes' on Recognition of deferred tax assets for unrealised losses', effective 1 January 2017.

Interpretations to existing standards that are not yet effective, have not been endorsed by the EU and the impact on the Group's operations is currently being assessed but is not expected to be significant:

- IFRS 2, 'Share based payments', effective 1 January 2018;
- IFRS 9, 'Financial instruments', effective 1 January 2018;
  2016 Annual improvements, effective 1 January 2018.

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

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

2. Segmental information

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

2017	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total continuing operations £m
Revenue including joint ventures and associates	1,805.6	976.5	1,478.8	955.7	–	5,216.6
Less: joint ventures and associates revenue	27.8	90.8	542.3	8.6	–	669.5
Revenue	1,777.8	885.7	936.5	947.1	–	4,547.1
Operating profit before share of joint ventures and associates	201.8	66.8	47.5	49.2	(5.7)	359.6
Acquired intangible amortisation	9.4	20.4	30.1	52.8	–	112.7
Operating profit* – Group	211.2	87.2	77.6	102.0	(5.7)	472.3
IFRIC 12 investment income – Group	–	0.7	0.5	–	–	1.2
Share of operating profit – joint ventures and associates	6.9	30.2	32.4	3.3	–	72.8
Share of IFRIC 12 investment income – joint ventures and associates	–	28.5	–	–	–	28.5
Underlying operating profit	218.1	146.6	110.5	105.3	(5.7)	574.8
Share of finance costs – joint ventures and associates	–	(23.5)	–	(1.1)	–	(24.6)
Share of tax – joint ventures and associates	(2.1)	(5.4)	(6.0)	(0.7)	–	(14.2)
Acquired intangible amortisation – Group	(9.4)	(20.3)	(30.2)	(52.8)	–	(112.7)
Share of acquired intangible amortisation – joint ventures and associates	–	(5.8)	–	–	–	(5.8)
Net finance costs – Group	–	–	–	–	(55.4)	(55.4)
Group profit before tax	206.6	91.6	74.3	50.7	(61.1)	362.1

* Before amortisation of acquired intangibles and exceptional items.

Notes to the consolidated financial statements continued

2. Segmental information (continued)

2016	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total continuing operations £m
Revenue including joint ventures and associates	1,695.9	843.1	1,513.0	790.1	–	4,842.1
Less: joint ventures and associates revenue	21.6	88.5	566.4	7.2	–	683.7
Revenue	1,674.3	754.6	946.6	782.9	–	4,158.4
Operating profit before share of joint ventures and associates	185.7	62.6	54.1	55.8	(5.7)	352.5
Acquired intangible amortisation	10.2	22.9	33.1	49.6	–	115.8
Operating profit* – Group	195.9	85.5	87.2	105.4	(5.7)	468.3
IFRIC 12 investment income – Group	–	0.6	0.5	–	–	1.1
Share of operating profit – joint ventures and associates	3.0	15.9	19.7	2.2	–	40.8
Share of IFRIC 12 investment income – joint ventures and associates	–	29.3	0.2	–	–	29.5
Underlying operating profit	198.9	131.3	107.6	107.6	(5.7)	539.7
Share of finance costs – joint ventures and associates	–	(20.7)	(0.2)	(1.0)	–	(21.9)
Share of tax – joint ventures and associates	(0.9)	(2.1)	(4.5)	(0.5)	–	(8.0)
Acquired intangible amortisation – Group	(10.2)	(22.9)	(33.1)	(49.6)	–	(115.8)
Share of acquired intangible amortisation – joint ventures and associates	–	(5.8)	–	–	–	(5.8)
Net finance costs – Group	–	–	–	–	(58.1)	(58.1)
Group profit before tax	187.8	79.8	69.8	56.5	(63.8)	330.1

* Before amortisation of acquired intangibles and exceptional items

Exceptional items are those items which are exceptional in nature or size. These include material acquisition costs and reorganisation costs.

There are no exceptional costs in the year nor in the previous year.

3. Income tax expense

Taxation in respect of Group profit before tax and acquired intangible amortisation totalled £86.6 million (2016: £81.9 million) including the Group's share of jv income tax of £14.2 million (2016: £8.0 million). The effective rate of income tax, which is calculated by reference to the Group's underlying profit before tax and the associated tax charge (excluding prior year items) was17.5% (2016: 17.8%).

4. Earnings per share

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

Number of shares

	2017 Number	2016 Number
Weighted average number of ordinary shares for the purpose of basic EPS	504,571,769	503,165,719
Effect of dilutive potential ordinary shares: share options	737,251	1,072,736
Weighted average number of ordinary shares for the purpose of diluted EPS	505,309,020	504,238,455

Earnings

	2017 Earnings £m	2017 Basic per share Pence	2017 Diluted per share Pence	2016 Earnings £m	2016 Basic per share Pence	2016 Diluted per share Pence
Continuing operations						
Earnings from continuing operations	311.8	61.8	61.7	286.6	57.0	56.8
Add back:						
Amortisation of acquired intangible assets, net of tax	92.1	18.2	18.2	94.8	18.8	18.8
Impact of change in statutory tax rates	0.5	0.1	0.1	(8.1)	(1.6)	(1.6)
Earnings before amortisation, exceptional items and other	404.4	80.1	80.0	373.3	74.2	74.0

Notes to the consolidated financial statements continued

5 Dividends

The Directors have proposed a final dividend of 21.65p per 60p ordinary share (2016: 19.75p per 60p ordinary share) and it will be paid on 11 August 2017 to shareholders registered on 30 June 2017, subject to approval at the Annual General Meeting on 13 July 2017. The full year declared dividend per share is 28.15p per 60p ordinary share (2016: 25.8p per 60p ordinary share).

6. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
At 1 April	39.9	36.3	32.6	38.6	72.5	74.9
Joint ventures and associates acquired	–	–	–	–	–	–
Disposal of joint ventures and associates	–	3.2	–	(6.5)	–	(3.3)
Loans to/(repayments from) joint ventures and associates	–	0.9	–	(1.5)	–	(0.6)
Investment in joint ventures and associates	(1.0)	0.1	–	–	(1.0)	0.1
Share of profits	56.7	34.6	–	–	56.7	34.6
Interest accrued	–	–	1.1	2.9	1.1	2.9
Interest received	–	–	(1.4)	(0.9)	(1.4)	(0.9)
Dividend received	(26.7)	(23.0)	–	–	(26.7)	(23.0)
Fair value adjustment of derivatives	2.6	(16.4)	–	–	2.6	(16.4)
Tax on fair value adjustment of derivatives	(0.5)	3.3	–	–	(0.5)	3.3
Foreign exchange	0.9	0.9	–	–	0.9	0.9
At 31 March	71.9	39.9	32.3	32.6	104.2	72.5

7. Other financial assets and liabilities

	Fair value			
	Assets		Liabilities	
	2017 £m	2016 £m	2017 £m	2016 £m
Non-current				
US private placement – currency and interest rate swaps	127.6	71.7	–	–
Interest rate hedges	6.5	2.6	1.2	–
Other currency hedges	1.7	0.3	3.3	1.3
Non-controlling interest put option	–	–	5.2	5.0
Financial instruments	135.8	74.6	9.7	6.3
Finance leases granted	16.8	9.7	–	–
Total non-current other financial assets and liabilities	152.6	84.3	9.7	6.3
Current				
Interest rate hedges	–	–	0.2	1.5
Other currency hedges	1.1	5.6	4.1	9.1
Financial instruments	1.1	5.6	4.3	10.6
Finance leases granted	10.8	4.5	–	–
Total current other financial assets and liabilities	11.9	10.1	4.3	10.6

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

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

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

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

In South Africa the Group operates its own finance company to facilitate the sale of DAF vehicles. It obtains external borrowings and sells vehicles on finance leases to external customers. At the year end the present value of the minimum lease receivable amounted to £27.6 million (2016: £14.2 million), these were split as £10.8 million (2016: £4.5 million) due within one year and £16.8 million (2016: £9.7 million) between one and five years.

Notes to the consolidated financial statements continued

8. Reconciliation of operating profit to cash generated from operations

	2017 £m	2016 £m
Cash flows from operating activities		
Operating profit before amortisation of acquired intangible and exceptional items	472.3	468.3
Amortisation of acquired intangible and exceptional items	(112.7)	(115.8)
Operating profit before share of results of joint ventures and associates	359.6	352.5
Depreciation of property, plant and equipment	82.4	78.1
Amortisation of intangible assets	122.6	123.7
Investment income	1.2	1.2
Equity share-based payments	15.0	16.2
Profit on disposal of joint ventures and associates	–	(7.5)
Profit on disposal of property, plant and equipment	(2.8)	(2.4)
Loss on disposal of intangible assets	0.3	–
Operating cash flows before movement in working capital	578.3	561.8
(Increase)/decrease in inventories	(0.4)	6.8
Increase in receivables	(78.3)	(33.4)
Increase in payables	71.0	15.1
Decrease in provisions	(28.4)	(25.1)
Retirement benefit payments in excess of income statement	(38.2)	(34.9)
Cash generated from operations	504.0	490.3

9. Movement in net debt

	2017 £m	2016 £m
Increase in cash in the year	11.1	52.9
Cash flow from the decrease in debt and lease financing	91.0	112.4
Change in net funds resulting from cash flows	102.1	165.3
Loans and finance leases acquired with subsidiaries	(5.2)	–
New finance leases – received	–	(19.7)
New finance leases – granted	14.8	7.2
Movement in joint venture and associates loans	(0.3)	(6.0)
Foreign currency translation differences and other	(56.4)	(49.7)
Movement in net debt in the year	55.0	97.1
Net debt at the beginning of the year	(1,228.5)	(1,325.6)
Net debt at the end of the year	(1,173.5)	(1,228.5)

10. Changes in net debt

	31 March 2016 £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange/ other movement £m	31 March 2017 £m
Cash and bank balances	185.9	4.6	(5.5)	–	6.4	191.4
Bank overdrafts	(17.1)	12.2	(0.2)	–	(0.7)	(5.8)
Cash, cash equivalents and bank overdrafts	168.8	16.8	(5.7)	–	5.7	185.6
Debt	(1,378.6)	69.8	(5.2)	–	(114.4)	(1,428.4)
Finance leases – received	(137.2)	26.4	–	–	(7.4)	(118.2)
Finance leases – granted	14.2	(5.2)	–	14.8	3.8	27.6
	(1,501.6)	91.0	(5.2)	14.8	(118.0)	(1,519.0)
Net debt before derivatives and joint venture and associate loans	(1,332.8)	107.8	(10.9)	14.8	(112.3)	(1,333.4)
Net debt derivative	71.7	–	–	–	55.9	127.6
Joint venture and associate loans	32.6	(0.3)	–	–	–	32.3
Net debt	(1,228.5)	107.5	(10.9)	14.8	(56.4)	(1,173.5)

Notes to the consolidated financial statements continued

11. Retirement benefits and liabilities

Analysis of movement in the Group balance sheet

	2017 Total £m	2016 Total £m
Fair value of plan assets (including reimbursement rights)		
At 1 April	3,824.8	3,938.0
Interest on assets	127.1	123.5
Actuarial gain/(loss) on assets	821.7	(150.7)
Employer contributions	77.0	80.8
Employee contributions	1.8	1.7
Benefits paid	(176.2)	(168.5)
At 31 March	4,676.2	3,824.8
Present value of benefit obligations		
At 1 April	4,027.7	4,106.6
Service cost	34.9	40.4
Incurred expenses	3.9	4.3
Interest cost	133.5	129.8
Employee contributions	1.8	1.7
Experience gain	(13.2)	(26.8)
Actuarial gain – demographics	(29.6)	(21.4)
Actuarial loss/(gain) – financial	797.7	(38.4)
Benefits paid	(176.2)	(168.5)
At 31 March	4,780.5	4,027.7
Present value of unfunded obligations	(0.2)	(0.2)
Net deficit at 31 March	(104.5)	(203.1)

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

	2017 Total £m	2016 Total £m
Current service cost	34.9	40.4
Incurred expenses	3.9	4.3
Total included within operating profit	38.8	44.7
Net interest cost	6.4	5.1
Total included within income statement	45.2	49.8

As at 31 March 2017 the key assumptions used in valuing pension liabilities were:

Discount rate	2.6% (31 March 2016: 3.5%)
Inflation rate (RPI)	3.2% (31 March 2016: 2.9%)

Notes to the consolidated financial statements continued

12. Acquisitions

2017

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

Deferred consideration of £7.6 million in respect of the Defence Support Group, £7.2 million in respect of Scandinavian AirAmbulance AB, £4.0 million in respect of Context Information Services Limited and £0.2 million in respect of Skills2Learn Limited was paid during the year.

The goodwill arising on the acquisitions derives from the market position of the entities involved and the value of the workforce acquired.

Details of the final fair value of assets acquired and the final goodwill are as follows:

2017	Heli Aviation £m
Cost of acquisition	
Cash paid	5.7
Fair value of assets acquired (see below)	(4.0)
Goodwill	1.7

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

	Heli Aviation
2017	Fair value acquired £m
Acquired intangibles*	5.0
Property plant and equipment	7.0
Deferred tax	(1.5)
Income tax	(0.1)
Bank Loan	(5.2)
Inventory	0.8
Current assets	2.5
Current and non-current liabilities	(3.3)
Provisions	(1.2)
Net assets acquired	4.0

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

Cash outflow to acquire businesses net of cash acquired:

2017	Heli Aviation £m	Other £m	Total £m
Purchase consideration paid in cash	5.7	–	5.7
Deferred consideration paid in cash	–	19.0	19.0
Cash, cash equivalents and bank overdrafts	–	–	–
Cash outflow in period	5.7	19.0	24.7

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

	HeliAviation	
2017	Since date of acquisition £m	For full year £m
Group revenue	6.0	6.1
Group operating loss	1.5	1.7
Underlying operating loss	1.5	1.7

2016

There were no acquisitions in the previous year.

The deferred consideration of £1.3 million in respect of S. MacNeillie and Son Limited was paid during the year as well as an additional £0.5 million in respect of Skills2Learn Limited.

During the previous year the completion accounts for the Defence Support Group ("DSG") were finalized. The final consideration of £7.6 million was paid in April 2016.

Notes to the consolidated financial statements continued

13. Disposals

There have been no disposals during the year.

During both the current and the previous years the Group paid certain accrued costs on previously disposed of businesses.

In the previous year on 17 April 2015 the Group sold its investment in Lewisham Schools for the Future joint venture for £14.3 million at a profit of £7.5 million.

In the previous year on 5 July 2015 the Group disposed of its investment in Norsk Helikopterservice AS("Norsk") for NOK100.

We are currently in the process of completing the disposal of the Infrastructure business unit. Its revenue in the year to 31 March 2017 was circa £30.0 million.

Details of the final assets disposed of are:

	2017		2016			
	Previously disposed of business £m	Total £m	Lewisham £m	Norsk £m	Previously disposed of business £m	Total £m
Investment in and loans to joint ventures and associates	–	–	3.3	–	–	3.3
Property, plant and equipment	–	–	–	0.4	–	0.4
Cash, cash equivalents and bank overdraft	–	–	–	1.0	–	1.0
Inventory	–	–	–	0.3	–	0.3
Current assets	–	–	–	1.5	–	1.5
Current and non-current liabilities	–	–	–	(2.5)	–	(2.5)
Provisions	–	–	–	(2.1)	–	(2.1)
Deferred tax	–	–	–	0.4	–	0.4
Mark to market amortisation recycled from hedging reserve	–	–	0.7	–	–	0.7
Net assets disposed	–	–	4.0	(1.0)	–	3.0
Profit on disposal of joint ventures and associates	–	–	7.5	–	–	7.5
Disposal costs	–	–	2.8	1.0	–	3.8
Sale proceeds	–	–	14.3	–	–	14.3
Sale proceeds less cash disposed of	–	–	14.3	(1.0)	–	13.3
Less costs paid in the year	(0.6)	(0.6)	–	(1.1)	(1.9)	(3.0)
Net cash (outflow)/inflow	(0.6)	(0.6)	14.3	(2.1)	(1.9)	10.3

Notes to the consolidated financial statements continued

14. Transactions with non-controlling interests

In December 2016 the Group acquired the remaining 25% of Babcock Mission Critical Services Portugal, LDA for £2.1 million.

In the previous year on 5 July 2015 the non-controlling interest in Norsk Helikopterervice AS of £0.7 million was disposed of for no consideration.

The following were the transactions with non-controlling interests in the current year:

2017	Decrease in retained earnings £m	Decrease in non-controlling interests £m	Cash outflow £m
Babcock Mission Critical Services Portugal, LDA	1.5	0.6	2.1
Transactions with non-controlling interests	1.5	0.6	2.1

15. Related party transactions

Related party transactions in the year are: sales to joint ventures and associates of £184.9 million (2016: £184.0 million) and purchases from joint ventures and associates of £0.9 million (2016: £1.0 million). The year end receivables balance was £17.2 million (2016: £17.4 million) and the payables balance was £1.6 million (2016: £2.2 million).

16. Financial information

The financial information in this full year results announcement does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the Company's Annual General Meeting.

The Annual Report for the year ended 31 March 2017 and this preliminary statement were approved by the Board on 23 May 2017. The auditors have reported on the Annual Report for the year ended 31 March 2017 and 31 March 2016 and neither report was qualified and neither contain a statement under section 498(2) or (3) of the Companies Act 2006.

Annual General Meeting 2017

This year's Annual General Meeting will be held on 13 July 2017 at 11.00 am. Details of the resolutions to be proposed at that meeting will be included in the Notice of Annual General Meeting that will be sent to shareholders in June 2017.

At our Annual General Meeting in 2007 our shareholders unanimously agreed to proposals to allow us to use electronic communications with them as allowed for under the Companies Act 2006. For shareholders who agreed, or who are treated as having agreed, to receive electronic communications, the Company website is now the main way for them to access shareholder information. These shareholders will be sent a 'notice of availability' notifying them when the Annual Report and Accounts is available (which will be early in June) on the Company website www.babcockinternational.com. Hard copies of the Annual Report and Accounts will be distributed to those shareholders who have requested or subsequently request them. Additional copies will be available from the Company's registered office 33 Wigmore Street, London, W1U 1QX.

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, that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements, many of which are beyond Babcock's control. 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. 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. 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.

On behalf of the Board

Archie Bethel
Chief Executive

Franco Martinelli
Group Finance Director

23 May 2017