Babcock International Group PLC
full year results for the year ended 31 March 2015

18 May 2015

Continued delivery of growth and strengthening platform for the future

Underlying	March 2015	March 2014	Change
Revenue*	£4,503.3m	£3,547.6m	+ 27%
Operating profit**	£518.7m	£377.9m	+ 37%
Profit before tax***	£417.7m	£316.1m	+ 32%
Basic earnings per share****	68.5p	62.1p	+ 10%
Statutory			
Revenue	£3,996.6m	£3,321.0m	+ 20%
Operating profit	£352.3m	£233.1m	+ 51%
Profit before tax	£313.1m	£218.8m	+ 43%
Basic earnings per share	52.9p	44.3p	+ 19%
Net debt	£1,325.6m	£533.7m	
Net debt/ebitda	2.2 x	1.3 x	
Order book	£20bn	£11.5bn	+ 74%
Full year dividend††	23.6p	21.4 p	+ 10%

*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.

†† Adjusted to reflect the Rights Issue

Operational Highlights

- Continued growth driven by strong underlying operational performance – business model and strategy well suited to current economic environment
  - 27% growth in underlying revenue, 12% organic growth at constant exchange rates
  - 37% growth in underlying operating profit, 11% organic growth at constant exchange rates
- MCS (formerly Avincis) delivered 22% revenue growth – business performing in line with our expectations at time of acquisition
  - integration progressing smoothly and establishing growth platform for wider Group
- Cash conversion of 113% (2014: 103%)
- Sustained focus on creating value for shareholders
  - 10.3% increase in basic underlying eps to 68.5p
  - 10.3% increase in full year dividend
- Acquisitions and significant contract wins create strong platform for growth
- Record £20 billion order book provides excellent revenue visibility

Peter Rogers, Chief Executive commented

"Babcock performed strongly last year, both organically and through acquisitions. We achieved double digit organic growth in revenue and operating profit driven by major contract wins and by expanding the size and scope of existing contracts. Growth from Marine and Technology and Support Services has been particularly compelling.

Our recent acquisitions have continued to perform in line with our expectations and have created an excellent platform for future growth.

We continue to ensure that our financial success is aligned with the interests of our shareholders through the 10% increase in the dividend."

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Analysts and investors

A meeting for investors and analysts will be held on 18 May 2015 at 9.00 am at JP Morgan, 60 Victoria Embankment entrance, London, EC4Y 0JP. The presentation will be webcast live at www.babcockinternational.com and subsequently will be available on demand from mid-afternoon on 18 May 2015. To dial-in to the presentation, please call +44 (0)20 3059 5861.

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

Introduction

Overview

The strength and stability of Babcock's operations are once again reflected in the financial results for the 2014/15 financial year and the delivery of further growth in revenue, operating profit and earnings per share. This year's revenue growth has come both organically, through major contract wins and by expanding and enhancing existing contracts, and from acquisitions made during the past year. Similarly, operating profit growth has been driven both organically and through acquisitions.

The integration of Avincis (renamed Mission Critical Services (MCS)) has progressed well and its financial results are included within the Group's results from 16 May 2014. During the year we have also invested a further c £200 million in acquisitions, strengthening and enhancing the Group's capabilities and market positions to support and create opportunities for long-term growth.

We continue to focus on maintaining a secure financial base to support our future growth ambitions. Delivery of cash remains an important KPI for each of the Group's businesses and this year we have once again achieved our target of cash conversion, before capital expenditure, of over 100%. This resulted in cash conversion after capital expenditure of 83%. During the 2014/15 financial year we refinanced the debt acquired through acquisition, achieving in excess of the £35 million of interest synergies targeted, to maintain an appropriate balance within the Group's funding arrangements as well as sufficient headroom to fund future growth.

Over the year, the order book has increased to a record level of £20 billion and this, along with a £10.5 billion bid pipeline, provides considerable visibility of future revenue streams and across the Group we have continued to invest in bidding activities to deliver medium and long-term organic growth opportunities.

Dividend

This year underlying basic earnings per share increased by 10.3%, the Group has once again achieved its target of delivering cash conversion over 100% and the combined order book and bid pipeline have reached record levels, providing excellent visibility of future revenue streams.

The Board's confidence in the long-term future of our business remains strong and it is therefore delighted to recommend a 10.4% increase in the final dividend per share for 2015 of 18.1 pence per share (2014: 16.4 pence per share). If approved by shareholders at the AGM on 30 July 2015, this will give a total dividend for the year of 23.6 pence per share (2014: 21.4 pence per share), an increase of 10.4%. The final dividend will be paid on 12 August 2015 to shareholders on the register at 3 July 2015.

As a result of the new ordinary shares created by the rights issue, which started trading on 7 May 2014, the dividend numbers and the comparatives referred to above have been adjusted accordingly.

Order book and bid pipeline

Over the last financial year we have seen the order book increase from c £11.5 billion at the end of March 2014 to c £20 billion at the end of March 2015. Throughout the year it steadily increased as we reached final signature on a number of major contract wins, including contracts for Magnox civil nuclear decommissioning, London Fire Brigade vehicle support, Defence Support Group military vehicle support and the Maritime Support Delivery Framework. During the first half, after completing the acquisition, we incorporated the order book for the MCS business, which accounts for c £2 billion of the total. The order book provides us with excellent visibility of future revenues and we started the 2015/16 financial year with over 80% of anticipated revenues for the year already contracted. We also have visibility of 50% of revenue for the 2016/17 financial year.

With the significant number of high value bid decisions announced during the year the bid pipeline has reduced to c £10.5 billion (2014: £17.5 billion). As well as the successful contract awards totalling c £12 billion which have moved into the order book, bids where we have been unsuccessful have been removed from the bid pipeline. The unsuccessful bids include Tranche 2 of the Next Generation Estates Contracts (NGEC), the Logistics and Commodity Services Transformation (LCST) contract and the New South Wales Air Ambulance contract. These opportunities in total represented around £5.0 billion of the pipeline.

During the year the Group achieved a win rate on new contracts of c 40% and on rebids of over 90% (excluding the Next Generation Estates Contracts). The Group performance is matched by the MCS business which has achieved a win rate of c 55% on new contracts and of over 90% on rebids.

The bid pipeline now includes c £1 billion of opportunities from MCS which has continued to see a number of major opportunities move into the bid pipeline from tracking throughout the year. These include opportunities in both our defence and civil markets.

The bid pipeline continues to represent the significant opportunities for growth within the Group, including bids at preferred bidder stage/sole source, c 70% of the opportunities are new business, with the remaining 30% rebids. The bid pipeline continues to include a number of large opportunities with 55% (2014: 75%) comprising bids with a total contract value of over £100 million. The bid pipeline continues to be supported by a healthy tracking pipeline of over £16 billion. The tracking pipeline comprises prospects that have yet to 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.

Outlook

We continue to benefit from positive market conditions in both the UK and overseas, where demand for our technical expertise and our ability to deliver complex and critical programmes and projects remains high. We believe our move into new markets and geographies, our order book, which continues to provide visibility and certainty of future revenues, and our bid pipeline each offer significant further opportunities for growth.

The Board therefore remains confident in the long-term prospects for the Group and expects it to make further good progress in the 2015/16 financial year.

Financial review

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.
The underlying figures provide a consistent measure of business performance year to year thereby enabling comparison and understanding of Group financial performance.

Statutory to underlying reconciliation

		Joint ventures and associates							
	Continuing operations – 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	Exceptional items £m	Continuing operations – underlying £m
31 March 2015									
Revenue	3,996.6	506.7							4,503.3
Operating profit	352.3	35.2			37.6	93.6			518.7
Share of profit from jv	29.4	(35.2)	31.0	5.0	(36.2)	6.0			–
Investment income	1.4				(1.4)				–
Net finance costs	(70.0)		(31.0)						(101.0)
Profit before tax	313.1	–	–	5.0	–	99.6	–	–	417.7
Tax	(46.7)			(5.0)		(23.2)	0.6		(74.3)
Profit after tax	266.4	–	–	–	–	76.4	0.6	–	343.4
31 March 2014									
Revenue	3,321.0	226.6							3,547.6
Operating profit	233.1	21.9			38.8	59.2		24.9	377.9
Share of profit from jv	20.9	(21.9)	25.1	7.0	(37.3)	6.2			–
Investment income	1.5				(1.5)				–
Net finance costs	(36.7)		(25.1)						(61.8)
Profit before tax	218.8	–	–	7.0	–	65.4	–	24.9	316.1
Tax	(30.8)			(7.0)		(15.2)	(2.4)		(55.4)
Profit after tax	188.0	–	–	–	–	50.2	(2.4)	24.9	260.7

Income statement

Total revenue for the year was £4,503 million (2014: £3,548 million) an increase of 27%, this includes £536.9 million of revenue from MCS, which represents a growth rate of 22% for this business from the prospectus.

The Babcock businesses, excluding acquisitions, delivered revenue growth at constant exchange rates of 12% (2014: 11%). The main contributor to this growth was the Support Services division which reported a 23% growth in revenue benefitting from the increased activity in its subsidiary Cavendish Nuclear as a result of the Magnox civil nuclear decommissioning contract, as well as increases in its fleet support activities. The Marine and Technology division achieved organic revenue growth of 14% at constant exchange rates. Organic growth was driven by increased volumes in warship refit activities including the Queen Elizabeth class (QEC) aircraft carrier programme and growing commercial and Technology activities. Strong growth from the Marine and Technology and Support Services divisions offset the anticipated 5% fall in revenue in the Defence and Security division following the completion of the East and South West Regional Prime contracts. Within the International division, the South African business achieved a 10.5% increase in revenue in local currency, however this translated into flat revenue in Sterling terms.

Total operating profit increased by 37% to £518.7 million (2014: £377.9 million), this includes £95.7 million of operating profit from MCS.

The Babcock businesses achieved organic growth in operating profit of 11% at constant exchange rates. The total Group operating margin increased to 11.5% benefiting from operating margins within the MCS business of 17.8%. Excluding the MCS business, the Babcock businesses maintained a stable operating margin of 10.7% (2014: 10.7%).

For the Marine and Technology division, operating profits increased in line with revenue at 13% and the Defence and Security division achieved a 9% increase in operating profit despite reduced revenue as a result of milestone achievements on the Future Strategic Tanker Aircraft (FSTA) programme and final contract adjustments on the ending of the Regional Prime contracts. For the Support Services division, operating profit growth was 19% but margin was diluted by the effect of low margin take in the early stages of new contracts, particularly within its subsidiary Cavendish Nuclear and the Critical Services business. The Group benefited from £8.5 million profit on disposal of the Greenwich Building Schools for the Future Private Finance Initiative (PFI), reported within the Support Services division.

Financial review continued

However, this was substantially offset by a provision of £7 million which we have taken in respect of overtime holiday pay (Marine and Technology £2.3 million, Defence and Security £0.6 million and Support Services £4.1 million). Despite a 15% growth in operating profits in local currency in the South African business, ongoing weakness in the Rand resulted in a 3% increase in operating profits in Sterling terms.

As the Group increases the proportion of its revenue from international operations, particularly in Europe, the impact of movements in exchange rates has a greater effect on the Group's results. A 10% movement in the Euro equates to a £6.0 million change in operating profit and a £4.0 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 2014/15 underlying revenue and profit were £/€1.28 and £/ZAR17.8.

During the year a net £2.3 million of provisions were charged to the income statement. Over the last five financial years the net provision charge was £8.6 million or an average of 1% of underlying operating profit excluding jvs. Provision utilisation in the period included £14 million related to acquisition deferred considerations and disposal costs and £9 million related to exceptionals.

Net finance costs were £101.0 million (2014: £61.8 million) reflecting the increase in total Group debt following the acquisition of MCS. The Group net finance costs were £59.0 million (2014: £25.8 million) and we expect this to reduce going forward in line with the decrease in the average amount drawn on the Group's revolving credit facilities and improved finance terms, which have reduced to a marginal rate around 2%. The Group's share of joint venture net interest expense increased to £31.0 million (2014: £25.1 million) partly as a result of fair value movements on interest rate swaps of £2 million, but also, as anticipated, as the FSTA and UK MFTS PFI contracts continue to deliver assets into service for the customer. During 2014/15 the FSTA PFI delivered four tanker aircraft and the related non-recourse debt was drawn down under the PFI facilities. The IAS 19 pension finance charge was £11.0 million (2014: £10.9 million).

During the year we have refinanced the debt acquired with the MCS business. We repaid and cancelled two revolving credit facilities for €145 million and £25 million as well as the €470 million and £260 million high yield notes. We successfully issued a €550 million bond, the proceeds from which were used to pay off part of the £900 million bridge facility during the first half. The remainder of the facility was paid off during the second half. These actions achieved in excess of the £35 million of interest synergies targeted at the time of acquisition.

Profit before tax, amortisation of acquired intangibles and exceptional charges increased by 32% to £417.7 million (2014: £316.1 million). The associated tax charge, including the Group's share of joint venture tax of £5.0 million (2013: £7.0 million), totalled £74.3 million (2014: £55.4 million) representing an effective underlying rate of tax of 17.8% (2014: 17.5%). The effective tax rate is calculated by using the Group's underlying profit before tax and therefore excludes the tax effect of amortisation and exceptional charges.

There were no exceptional items during the 2014/15 year (2014: £24.9 million acquisition costs relating to the acquisition of MCS).

Amortisation of acquired intangibles was £99.6 million (2014: £65.4 million). The increase in amortisation is mainly a result of the acquisition of the MCS business during the year. This represents the amortisation of the value attributed on business acquisitions to customer relationships (both contractual and non-contractual) and acquired brands. The value is amortised over its estimated useful life, which in the case of relationships currently does not exceed 15 years, by reference to the duration of contracts in hand at the time of acquisition and for non-contractual customer relationships, the risk adjusted value of potential future orders from existing customers with an average estimated duration. In relation to brands, the asset life is dependent on the market characteristics of the business acquired.

Earnings per share

Basic underlying earnings per share for the year was 68.5 pence (2014: 62.1 pence), an increase of 10.3%. Basic earnings per share as defined by IAS 33 was 52.9 pence (2013: 44.3 pence) per share, an increase of 19.4%.

As a result of the new ordinary shares created by the rights issue, which started trading on 7 May 2014, the comparative earnings per share numbers for 2014 referred to above have been adjusted accordingly.

Dividend

This year underlying basic earnings per share increased by 10.3% and the Group has once again achieved its target of delivering cash conversion over 100% and the combined order book and bid pipeline have reached record levels, providing excellent visibility of future revenue streams.

The Board's confidence in the long-term future of our business remains strong and we are therefore delighted to recommend a 10.4% increase in the final dividend per share for 2015 of 18.1 pence per share (2014: 16.4 pence per share). If approved by shareholders at the AGM on 30 July 2015, this will give a total dividend for the year of 23.6 pence per share (2014: 21.4 pence per share), an increase of 10.3%. The final dividend will be paid on 12 August 2015 to shareholders on the register at 3 July 2015.

As a result of the new ordinary shares created by the rights issue, which started trading on 7 May 2014, the dividend numbers and comparatives referred to above have been adjusted accordingly.

Financial review continued

Acquisitions and disposals

During the year the Group spent a total of £2,023.6 million on acquisitions (2014: £63.1 million). These include

- The Avincis Group on 16 May 2014 for £1,759.2 million including net debt of £859.7 million
- Scandinavian AirAmbulance on 29 June 2014 for £66.1 million including deferred consideration of £7.3 million and net debt of £40.8 million
- MacNeillie on 2 February 2015 for £66.3 million including deferred consideration of £1.3 million but excluding cash acquired of £15.7 million
- WRN Broadcast (WRN) on 9 February 2015 for £13.1 million including deferred consideration of £7.5 million (to be paid on the achievement of agreed growth targets) and net debt of £1.6 million
- Defence Support Group (DSG) on 31March 2015 for £140 million

As expected, fair value adjustments have benefited MCS profits in the year ended 31 March 2015 by £5 million through the utilisation of onerous operating lease provisions and by £4 million for reduced depreciation charge compared to historic cost.

During the year the Group disposed of its share in the Greenwich Building Schools for the Future (BSF) PFI for a consideration of £12 million. Post the year end, the Group also disposed of the Lewisham BSF PFI for £14.3 million. These disposals will reduce jv profit and jv interest by a total of c £7 million in the 2015/16 financial year.

Cash flow and net debt

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

	2015 £m	2014 £m
Operating profit before amortisation of acquired intangibles and exceptional items	445.9	317.2
Amortisation and Depreciation	78.5	47.6
Other Non-cash items	16.7	13.9
Working capital (excluding retirement benefits)	(37.7)	(51.3)
Operating cash flow	503.4	327.4
Cash conversion %	*113%*	*103%*
Capital expenditure (net)	(135.0)	(68.3)
Operating cash flow after capital expenditure	368.4	259.1
Cash conversion after capital expenditure %	*83%*	*82%*
Interest paid (net)	(73.8)	(31.8)
Taxation	(46.1)	(55.8)
Dividends from jvs	19.5	4.8
Free cash flow	268.0	176.3
Acquisitions and disposals net of cash/debt acquired	(2,023.6)	(63.1)
Issue of shares	1,077.4	–
Pensions contributions in excess of income statement	(43.9)	(47.2)
Exceptional items – working capital	(24.2)	24.2
Exceptional items – income statement	–	(24.9)
Investments in joint ventures	(1.7)	4.7
Movement in own shares	(3.5)	0.7
Dividends paid	(117.0)	(101.0)
Exchange difference/other	76.6	(3.9)
Net cash outflow	(791.9)	(34.2)
Opening net debt	(533.7)	(499.5)
Closing net debt	(1,325.6)	(533.7)

The table below provides the reconciliation between the statutory cash flow (page 21) and trading cash flow table above.

	2015 £m	2014 £m
Cash generated from operations	426.8	279.5
Retirement benefit contributions in excess of income statement	43.9	47.2
Exceptional items – acquisition costs working capital	24.2	(24.2)
Profit on disposals of jv/exceptional loss	8.5	24.9
Operating cash flow	503.4	327.4

Financial review continued

Working capital cash outflows during the period, excluding retirement benefits, were £37.7 million (2014: £51.3 million). The cash outflow includes £14.3 million which represents operating provision movements, with the balance of the working capital outflow substantially linked to growth. Cash generated from operations was £426.8 million (2014: £279.5 million) from which the Group's operating cash flow calculation is derived. Operating cash flow after movement in working capital was £503.4 million (2014: £327.4 million) and represents a conversion rate of underlying operating profit to cash of 113% (2014: 103%).

Net capital expenditure, including new finance leases, during the year was £135.0 million (2014: £68.2 million). MCS net capital spend was £60 million. In addition the rest of the Group spent £10 million at the start of a new SAP back office ERP system for the majority of the Group to be implemented over the next two years as well as ongoing investment in upgrades to our dockyard facilities in the Marine and Technology division to support future work streams. We have also invested in capital expenditure for growth on the back of contract wins in particular training facilities for the London Fire Brigade and vehicles for the Phoenix white fleet contract. The Group achieved a conversion rate of operating cash flow after movements in working capital and capital expenditure to underlying operating profit of 83% (2014: 82%). Capital expenditure for the year was 1.7 times the Group's depreciation charge of £78.5 million. For the 2015/16 financial year we expect capital expenditure to be in the region of 2.0 times depreciation after allowing for the increase expected on the ERP implementation.

Net Group cash interest paid, excluding that paid by joint ventures, was £73.8 million (2014: £31.8 million), the increase reflecting the increase in the Group's debt levels following the acquisition of MCS in May 2014.

After taxation payments of £46.1 million (2014: £55.8 million), free cash flow was £268.0 million (2014: £176.3) representing a free cash flow yield on 31 March 2015 of 5.4% (2014: 3.6%). We expect the cash tax charge for this financial year to increase in line with the income statement charge.

Acquisitions and disposals during the year totalled £2,023.6 million (2014: £63.1 million) and comprise the purchase of Avincis, Scandinavian AirAmbulance, Defence Support Group, MacNeillie, WRN and the disposal of the Group's share in the Greenwich Building Schools for the Future joint venture.

During the year the Group received £19.5 million in dividends from its joint ventures (2014: £4.8 million). Cash dividends (including to minorities of £7.2 million) paid out in the year totalled £117.0 million (2014: £101.0 million).

Group net cash outflow was £791.9 million (2014: £34.2 million) increasing total net debt at 31 March 2015 to £1,325.6 million (31 March 2014: £533.7 million, 30 September 2014: £1,284.9 million). This gives a net debt to ebitda ratio of 2.15 times (31 March 2014: 1.3 times, 30 September 2014: 2.3 times). Over the course of the next financial year we would expect to see this reduce to around 1.9 times by the year end.

Return on Invested Capital (ROIC)

We define ROIC as earnings before financing costs and tax excluding exceptional charges, divided by equity plus net debt, excluding retirement benefit deficits. Following the significant acquisition made at the beginning of the year, ROIC was 14.5% (2014: 20.7%) compared with the Group's current weighted average, pre-tax, cost of capital of 9.1%. The reduction from prior years arises from the acquisition of MCS in particular. As identified at the time of the acquisition, we have a number of initiatives in place to achieve a return on invested capital ahead of the Group's weighted average cost of capital by 2016/17 for the MCS business which remain on track. These measures, added to the expected improvements in the rest of the Group, are expected to improve the ratio in coming years.

The key actions for MCS focus on the following areas

- driving growth – existing opportunities plus maximising benefits of enlarged Group to increase operational gearing
- pricing – assisted by increased demand for new technology and improved safety
- operating costs – overhead and procurement efficiencies, fleet rationalisation
- financing – optimise leasing versus ownership, improve lease terms and refinance debt.

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.

	2015 £m	2014 £m
Future service contributions	44.7	49.0
Deficit recovery	39.2	43.6
Longevity swap	4.2	4.2
Total cash contributions – employer	88.1	96.8

Financial review continued

In the 2015/16 financial year, the total cash contributions expected to be paid by the Group into the defined benefit pension schemes are £81.5 million. £46.0 million of this is in respect of the cost of future service accrual of which £30.5 million is to recover deficits over periods of time agreed with the Trustee. £5.0 million of the contributions are 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. Of the £81.5 million, £32 million in Marine and Technology is recovered via contractual terms with the balance funded from other Group contracts.

Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £3,938.0 million, net of longevity swaps, in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,106.8 million representing a 96% 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 impact of increasing allowance for longevity.

	Devonport		Babcock		Rosyth	
	2015	2014	2015	2014	2015	2014
Discount rate %	3.4	4.5	3.4	4.5	3.4	4.5
Rate of increase in pensionable salaries %	2.2	2.4	2.2	2.4	2.2	2.4
Rate of increase in pensions in payment %	2.1	2.2	2.8	3.0	3.0	3.4
Life expectancy of male currently aged 65 years	21.7	21.7	23.0	22.8	19.3	19.3

The total net accounting deficit, pre deferred tax, at 31 March 2014, was £168.8 million (2014: £267.7 million) and the expected IAS 19 net periodic benefit cost in 2015/16 is £55.9 million (2014/15: £57.9 million).

The continued hedging of inflation and interest rate changes has helped to mitigate volatility in the value of assets and liabilities. The benefits accruing to members of the Babcock International Group Scheme have been adjusted from 1 October 2014 to reduce future costs and in addition employee contribution rates are increasing by up to 2% per annum to a minimum level of 6% over the next three years.

Operating review

Marine and Technology

		31 March 2015	31 March 2014	Change + / –
Revenue	group	£1,543.6 m	£1,364.6 m	+ 13%
	jv	£18.9 m	£12.7 m	+ 49%
	total	£1,562.5 m	£1,377.3 m	+ 13%
Operating profit	group	£172.0 m	£152.9 m	+ 12%
	jv	£1.9 m	£1.0 m	+ 90%
	total	£173.9 m	£153.9 m	+ 13%
Operating margin	group	11.1%	11.2%	
	jv	10.1%	7.9%	
	total	11.1%	11.2%	

Market overview

Over the past year, our main market in the UK for the Marine and Technology division has remained positive as the Ministry of Defence (MoD) continues with its strategy to manage its critical naval infrastructure and assets by outsourcing through a range of long-term partnership contracts and alliance programmes. The MoD's equipment programme continues to reflect sustained investment in naval platforms over the next decade including the Queen Elizabeth class (QEC) aircraft carriers, the Type 26 frigates and the Astute and Successor submarine programmes. Following the General Election in May 2015, the UK government is expected to undertake a Strategic Defence and Security Review. We do not currently anticipate any significant impact to our existing naval marine contracts however, and believe any budget reduction could drive an increased focus on achieving further value for money from future support solutions.

The Surface Ship Support Alliance (SSSA) was established in 2009 to provide the best and most cost effective solutions for the Royal Navy whilst maintaining the highest levels of availability. The SSSA will be the contracting mechanism to deliver all future surface ship support solutions. We believe the MoD's expenditure on surface ship procurement and support will be £18 billion over the next decade.

The Submarine Enterprise Performance Programme (SEPP), an alliance between the MoD, Babcock, BAE Systems and Rolls Royce, continues to drive availability and support efficiencies across the submarine enterprise. The MoD is forecast to spend £40 billion on the entire submarine programme during the next decade.

Building on its positions in the UK, the division continues to grow its international and commercial activities where we believe market conditions present opportunities. In Canada, we continue to monitor naval infrastructure and in-service support opportunities that are driven by the Canadian government's proposed renewal and expansion of the Royal Canadian Navy fleet through the Can$33 billion National Shipbuilding Procurement Strategy. The Australian government is due to publish its Defence White Paper in June 2015, which is expected to announce the transformation of the Defence Materiel Organisation and an increased focus on capital expenditure related to naval platforms, including the future submarine programme.

We continue to identify global opportunities in the commercial marine sector, which are well suited to our expertise in complex and critical engineering services. A predicted increase in demand for gas transportation is generating opportunities for specialised systems for gas transport ships and further opportunities are expected from ageing offshore oil and gas production infrastructure and increasing demand for offshore renewable energy. Increasing activities in the UK's nuclear new build and decommissioning markets are also driving demand for our engineering design and manufacturing capabilities.

Cyber security remains a top priority for the UK government and it is working to increase cyber awareness across all business sectors. As businesses increasingly recognise the importance of cyber security we anticipate future sustained growth in demand for our services in this area.

Financial review

The Marine and Technology division had a successful year, reporting a total increase in revenue of 13%, to £1,562.5 million (2014: £1,377.3 million). Organic growth at constant exchange rates was 14 % (2014: 13%). The main drivers of growth this year have been the continued increase in activities on the QEC aircraft carrier programme and other warship support activities through both the Naval Marine and Technology business units. The Technology and Energy and Marine Services business units have both delivered growth in their commercial activities for oil and gas customers including BP and Total, as well as continued growing demand for liquid gas transportation systems. These increases, along with growth in Australian naval support activities, have offset some reduction in volumes as a result of timing of activities on the Canadian submarine programme.

Operating profit increased broadly in line with revenue by 13% to £173.9 million (2014: £153.9 million). At constant exchange rates, organic growth was 14%. Operating margins remained broadly in line with last year at 11.1% (2014: 11.2%).

Operational review

The division continued to deliver in-service support and deep maintenance to the Royal Navy's (RN) fleet of submarines and warships and maintain its role as the MoD's strategic partner at HMNB Devonport and Clyde. These activities are all carried out under the Terms of Business Agreement (ToBA) with the MoD, which runs until 2025. Through the long-term programmes and alliances we have with the MoD, we have been able to maximise availability of the fleet whilst remaining focused on the delivery of cost reductions.

Operating review continued

In September 2014, we concluded discussions with the MoD and signed the Maritime Support Delivery Framework (MSDF) contract. Working within the ToBA, MSDF confirms the continuation of our contract to deliver services at HMNB Devonport and Clyde through to 2020, replacing the previous Warship Support Modernisation Initiative (WSMI) contracts. MSDF will also cover a number of surface ship projects which will be delivered in conjunction with the SSSA. The contract is valued at a total of £2.6 billion, of which £600 million had already been included within the Group's order book as part of nominated roles under the ToBA. The new contract enables Babcock to provide continuity and development of the range of activities and services delivered to the MoD and RN, as well as deliver improved efficiencies and a further £250 million of cost reductions on the agreed programme of work.

Our role in the Aircraft Carrier Alliance (ACA) remains strategically important as we deliver both QEC aircraft carriers with our alliance partners. Significant progress has been made over the past year on both HMS Queen Elizabeth and HMS Prince of Wales at our facility in Rosyth. Assembly of HMS Queen Elizabeth was completed and, following the naming ceremony, she was flooded up and successfully floated into the basin during July 2014. Activities are now focused on the fitting out of the vessel, installation of vital electrical and mechanical systems and the start of the assembly phase for HMS Prince of Wales. We are already working with the MoD and the ACA to develop the long-term engineering support solution for the QEC carriers when they become operational from 2017 and 2023.

All current warship and submarine refit contracts are performing in line with our financial expectations and are aligned with the customer's programme milestones and KPIs.

We continue to play a central role in the SSSA with the completion of a major refit on the helicopter carrier, HMS Ocean, and the commencement of a significant reactivation package on the amphibious assault ship, HMS Albion. We will also be undertaking the life extension work packages for all of the RN's Type 23 frigates at our frigate refit complex in Devonport. Building on the strength of our UK position, we continue to identify opportunities to export our warship support capability.

We have maintained our position as the leading support partner for the UK submarine fleet by successfully supporting the Trafalgar and Vanguard class, as well as the new Astute class submarines as they enter service. We are currently completing the Long Overhaul Period (Refuel) for HMS Vengeance, and are planning and preparing for the Vanguard class life extension programme to ensure there is no disruption to the UK's ability to meet Continuous At Sea Deterrence. Preparation work is already underway for the first Vanguard class life extension package and refuelling on HMS Vanguard.

Planning and preparations, are already taking place for HMS Astute's first deep maintenance period. Additionally, through the Astute Class Training Service we are providing high quality training solutions to the RN, which also presents opportunities to expand our role in submarine training in the UK and internationally.

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

As through-life support partners to the RN, planning work on the proposed solution for the dismantling of redundant submarines at our Rosyth and Devonport facilities continues to make good progress, with preparatory work starting for the demonstration pilot vessel at Rosyth.

The first of the offshore patrol vessels being built by our Appledore facility for the Irish Naval Service was commissioned into service in May 2014 and the second vessel is currently undergoing sea trials . These successes led to the customer exercising an option for a third ship, which is currently under construction and due for delivery by July 2016.

Our contracts to support the Australian, New Zealand and Canadian navies are all performing well, achieving excellent KPI performance and delivering improved availability and efficiencies for our customers. In Canada, under the Victoria class in service support contract, which is set to run until 2024, HMCS Chicoutimi has returned to the Royal Canadian Navy after an extended docking work period and we are now working on the refit of HMCS Corner Brook. We have delivered the refit contract for the Canadian Coastguard ship, Louis St Laurent, on time and budget with our partners Chantier Davie Canada and are now working on the medium ice-breaker CCGS Des Groseilliers. We also continue to track future naval support and commercial opportunities in the liquefied natural gas market.

In Australia, we have consolidated our relationship with the Royal Australian Navy where we are successfully delivering in-service engineering support to the Collins class submarines and the ANZAC class frigates. We have recently established a teaming arrangement with Austal Ships to bid for the Pacific Patrol Boat programme. In New Zealand, we started a new contract on 1 March 2015, with the New Zealand Defence Force which extends our previous dockyard contract for a further five years, with an option to extend for an additional two years. The new contract is worth approximately NZ$300 million and provides an opportunity for us to broaden our responsibilities. We expect this to also generate further naval support opportunities.

Through our investments in equipment management operations and technology, we have been successful in securing initial maritime equipment management contracts under the MoD's Maritime Equipment Transformation programme and similar programmes, in support of a range of UK defence assets, totalling over £100 million. These programmes are at an early stage and we are very pleased with progress to date, further opportunities of over £300 million are in bidding and tracking phases.

Our independent technology consultancy businesses continue to deliver growth. ContextIS has been successfully integrated into the division whilst retaining its reputation to provide independent impartial advice. We continue to develop our consultancy businesses to support growth in the UK and overseas, particularly in response to the developing cyber-threat environment, but also by using our information management and data analytics capabilities to enable our clients to deliver higher availability from their assets.

Operating review continued

In the past 12 months, we have continued to develop our presence in the oil and gas market. The former LGE business is making good progress on a number of liquid gas system projects having won orders worth £320 million since acquisition. We are nearing completion of the BP Quad 204 programme, manufacturing and delivering 73 subsea modules and also completed work on the Total Ellon Grant project. Additionally, we have successfully delivered an integrated 'walk to work' solution for Total which allowed 18,000 safe, personnel transfers to the West Franklin and Elgin B platforms.

Divisional outlook

In the UK our long-term relationship with the RN and MoD as their trusted naval support partner continues to provide us with excellent long-term visibility of revenue. We believe our unrivalled technical expertise and ToBA provide us with an excellent platform to work with the RN to maximise the availability of their assets and safely reduce cost. We continue to develop our integrated engineering expertise into the commercial marine market both in the UK and overseas. We believe the outlook for the Marine and Technology division remains positive as we continue to track significant future opportunities to support long-term growth both in the UK and internationally.

Defence and Security

		31 March 2015	31 March 2014	Change + /–
Revenue	group	£710.6 m	£736.8 m	– 4%
	jv	£102.2 m	£115.8 m	– 12%
	total	£812.8 m	£852.6 m	– 5%
Operating profit	group	£82.4 m	£75.4 m	+ 9%
	jv	£46.3 m	£43.2 m	+ 7%
	total	£128.7 m	£118.6 m	+ 9%
Operating margin	group	11.6%	10.2%	
	jv	45.3%	37.3%	
	total	15.8%	13.9%	

Market overview

The UK government's defence transformation programme, known as Future Force 2020, has achieved many of its original aims through defence reform. These include the resizing of the armed forces and delivering a new materiel strategy through competitive outsourcing programmes. In the 2015/16 financial year, we will see the formation of a new parliament followed by a Comprehensive Spending Review and a Strategic Defence and Security Review (SDSR) to make decisions on the future of the UK's forces and determine further savings across defence spending.

We expect the MoD will continue to seek to maintain defence outputs on Future Force 2020 plans without reducing or compromising its capabilities, whilst delivering of future cost savings. The increasing focus on output is aligned with our business model and the strength of our relationship with customers positions us to provide solutions to this challenge during a period of ongoing fiscal pressure. We expect future opportunities will arise in complex engineering support, fleet management and provision of training across the armed services. We therefore, remain focused on an estimated addressable market of c £4 billion annual spend.

Beyond our domestic market, there is improved visibility of international defence markets. We have identified a number of emerging opportunities, particularly in Canada, Australia and Europe, where Babcock is already established. These countries display varying degrees of maturity in their outsourcing of defence support to drive financial and operational efficiencies and improved availability of assets and, we believe these markets offer significant potential growth.

Financial review

Revenue for the Defence and Security division, including the Group's share of jv revenue, reduced, as anticipated, by 5% to £812.8 million (2014: £852.6 million). This is a result of the completion of the East and South West Regional Prime contracts at the end of January 2015. Other contracts in the division continued to perform at expected levels.

Despite a reduction in revenue, total operating profit for the division increased by 9% to £128.7 million (2014: £118.6 million) benefitting mainly from milestone achievements on the Future Strategic Tanker Aircraft (FSTA) programme and final contract adjustments at the end of the Regional Prime contracts. As a result, operating margins for the division increased to 15.8% (2014: 13.9%).

Operational review

Our Air business has continued to perform well and deliver a strong operational performance for the Royal Air Force (RAF) with all contracts performing in line with our financial expectations as well as meeting or exceeding contract KPIs. Support to military flying training has been delivered through the Hawk T1 and T2 support contracts, both of which have been extended. The award of the Hawk T2 follow-on contract is being negotiated on a sole-source basis and we anticipate contract award later in 2015. We are also engaged in the competition for future support to the Hawk T1. Whilst support to the Hawk aircraft in the UK has been the primary focus over the past year, we have signed an agreement with BAE Systems to pursue opportunities jointly to support the Hawk for overseas military customers and several opportunities are already being explored. Elsewhere, we remain committed to supporting the Tucano aircraft and have confirmed our intention to compete for the next support contract to deliver the service from April 2016.

Operating review continued

Both of our Air jvs, Ascent (delivering the UK Military Flying Training System) and AirTanker (delivering the FSTA programme) have made significant progress over the last year. Ascent has received customer approval for the fixed-wing flying programme and contract award is expected later this year. AirTanker, already established in the strategic transport role, met its air-to-air refueling in-service date during 2014 and is now delivering fully on this important role, including support for the UK and Falkland Quick Reaction Alert posture, to refuel fast jets, scrambled to protect UK airspace.

Building on last year's success, when we reported that the Air business had secured a contract to support Army Air Corps Apache helicopters, we have now also secured a similar contract to support Lynx helicopters. The business will build on this capability in military rotary-wing support through collaboration with MCS in this sector.

On 19 November 2014, we were announced as the preferred bidder for the acquisition of the Defence Support Group (DSG), the MoD's civilian workshops, for a consideration of £140 million. These facilities provide maintenance, repair, overhaul, storage and spares procurement services to land equipment, ranging from small arms to main battle tanks, delivered from seven main sites across the UK. The acquisition of DSG, which employs around 2,000 staff, completed on 31 March 2015, included a ten year contract for service provision and transformation, expected to be worth c £2 billion, with options to extend the contract for up to five years.

The Phoenix programme continues to deliver savings to the MoD through the provision of effective fleet and supply chain management services for the UK 'white-fleet' of vehicles. Since contract award in 2011, the programme has been credited by the MoD as having saved in excess of £40 million. Our contract hire team enjoyed further success in 2014 and 2015, winning additional competitions to acquire and provide coaches, trailers and other vehicles with a total contract value of £27 million.

Performance of our ALC joint venture with Amey remains strong, with the C-vehicle contract acknowledged as an effective and flexible service in the provision and support of the MoD's fleet of 2,000 construction vehicles worldwide. ALC implemented changes within the contract as part of an MoD Private Finance Incentive efficiency review, which included the addition of RAF construction equipment and the adjustment of fleet numbers to meet military requirements better.

Within our training operations, we have started the implementation of the Defence College of Technical Training, Electro-Mechanical Training contract, secured in July 2014. The new contract, expected to be worth up to £180 million over five years, with two single year extensions realigns Royal Electrical Mechanical Engineers and Royal Navy (RN) schools under a single training organisation and includes the relocation of training activity from Bordon and Arborfield to Lyneham, Wiltshire. Planning is well advanced for the move to Lyneham to ensure the first training activities can start there by November 2015. We have also been advised that the MoD intends to contract the extension to the Training, Maintenance and Support Services contract at Bovington on a non-competitive, single source, negotiated process.

At the Royal School of Military Engineering, through our training business we have continued to operate at the highest level, with no KPI failures in the financial year and a 100% pass rate for the training courses we delivered. Additionally, over 50% of the courses have been transformed, leading to a significant improvement in output whilst reducing the average course length by 24%. As part of the original contract, we were required to deliver the major, seven year, build and refurbishment phase of the construction programme with a total contract value in excess of £260 million. We successfully completed this phase in 2015.

Delivery of training to the Royal Navy via the Fleet Outsourced Activities Project (FOAP) training programme has entered its third year. The contract continues to operate below the target cost, delivering efficiency savings to the MoD via a range of initiatives. We have continued to seek opportunities in international markets. Following the successful delivery of the Hunter Training Project for the Royal Saudi Naval Forces, our customer BAE Systems has recently announced that it has signed a follow-on contract and we will deliver further training valued at £37 million over the seven year programme.

In our Infrastructure business, over the past year we have delivered injected works programmes arising from the Regional Prime contracts. Through our Single Living Accommodation Modernisation contract we handed back the 20,000th fully compliant, bed space during the period, including the handover of the largest building in the entire programme, the 270 bed, Falklands block accommodation at Nelson barracks, Portsmouth.

During the first half of 2014, we learnt that the Infrastructure business had been unsuccessful in its bids for the Defence Infrastructure Organisation's (DIO) Next Generation Estates contracts (NGEC). Whilst it is disappointing not to play a significant role in the future management of the MoD's built infrastructure, we recognise that the changes to the customer requirements in this market sector mean it is no longer suited to the Babcock business model and the delivery of complex and critical support. The failure to secure new business within the NGEC programme confirmed our evaluation of the sector's development in recent years, to one of transactional and low margin activity, in an increasingly competitive environment. We will not be pursuing any similar activities in this sector in the UK. Operations to support and manage the British Forces estate in Germany have been progressing as planned and the contract continues to perform in line with our expectations.

A priority during the second half of the year was on the successful demobilisation of the two Regional Prime contracts at the end of January 2015, ensuring there was no deterioration in service levels and we achieved an effective handover of operations and the transfer of around 1,300 employees to the DIO's new suppliers. Following the termination of the Regional Prime operations, we have realigned our remaining infrastructure support activities within the business units best placed to deliver services to our Air, Land and Sea customers.

During the 2014/15 financial year the division had success winning new contracts and rebidding existing contracts, whilst recognising disappointment in not being selected to operate the Logistics and Commodities Service Transformation programme or the NGEC programme. The division remains focused on its bidding activities, with significant attention being placed on securing contract

Operating review continued

extensions during the 2015/16 financial year. The Phoenix II competition is now in progress and in the Security sector our current contract is being rebid as three separate service streams and we are involved in all three competitions. The outcome of the Phoenix and the Security competitions is anticipated during the 2015/16 financial year. The Defence Fire and Rescue Project moved into a formal bid process during the second half of the year and we continue to track opportunities in military training in the UK and the potential appointment of an Army Training Development Programme partner to help the Army transform military training and equipment support to both the regular and reserve forces.

Divisional outlook

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

Support Services

		31 March 2015	31 March 2014	Change +/–
Revenue	group	£937.1 m	£942.0 m	– 1%
	jv	£379.3 m	£98.1 m	+ 287%
	total	£1,316.4 m	£1,040.1 m	+ 27%
Operating profit	group	£80.2 m	£70.1 m	+ 14%
	jv	£20.7 m	£15.0 m	+ 38%
	total	£100.9 m	£85.1 m	+ 19%
Operating margin	group	8.6%	7.4%	
	jv	5.5%	15.3%	
	total	7.7%	8.2%	

Market overview

The markets served by the Support Services division remain attractive as existing and potential customers seek to reduce their costs and maximise service levels. With the UK government now in the fifth year of what is projected to be a ten year fiscal consolidation period, we expect that demand for public sector outsourcing will continue into the foreseeable future. The division is responding to this demand by developing new solutions to maximise service quality and volumes whilst minimising cost of service delivery for the customer.

The division continues to pursue outsourcing opportunities in the nuclear, complex fleet management and training markets and the scale of the addressable markets open to us remains substantial. We have sized the addressable market opportunities at £14 billion annual revenue, which includes £1.8 billion in the UK civil nuclear market and £3.0 billion in global mining and construction fleet management.

Both public and private customers are becoming increasingly accustomed to outsourced solutions and with many services being delivered through second and third generation contracts. However, customers continue to market test the services they outsource and this can result in increased pressure on margins in both contract delivery and competitive bids. We have responded to this challenge by seeking to differentiate ourselves from competitors through innovations in engineering, technology, customer analysis and information-rich services. This ensures we deliver market-leading engineering and technical support solutions, at optimal cost in our markets.

Financial review

The Support Services division has continued to deliver strong growth in revenue, which increased by 27% to £1,316.4 million (2014: £1,040.1 million), of which 23% was organic growth. This has mainly been a result of growth achieved in Cavendish Nuclear, particularly from the Magnox decommissioning contract which started on 1 September 2014, as well as from the Critical Services business which saw increased activities across all its business streams. The division also benefited from a full period of results from Conbras in Brazil as well as growth from the NTI and Skills2Learn businesses which offset lower volumes in the Network Engineering business.

Operating profit, including jvs, increased by 19% to £100.9 million (2014: £85.1 million). Included in these results is £8.5 million profit on disposal of the division's equity holding in Greenwich Building Schools for the Future jv and a provision of £4.1 million made against overtime holiday pay. As indicated previously, low margin take at the start of new large, long-term contracts including Magnox resulted in operating margins being reduced to 7.7% (2014: 8.2%). For the 2015/16 financial year, taking into consideration a full year of Magnox and the impact of the sale of both Greenwich and Lewisham BSF holdings, we expect margins are likely to be reduced to c 7%.

Operational review

Cavendish Nuclear has continued to strengthen its market position as the UK's leading supplier to the nuclear industry during the period. Cavendish Nuclear remains focused on site operations, maintenance, decommissioning and new build.

Following the formal award of the Magnox and RSRL decommissioning contract in September 2014, prior detailed planning and mobilisation activities ensured a smooth and efficient start to the contract. The Cavendish Fluor Partnership – in which Cavendish Nuclear is the lead partner - continue to work through the 12 month consolidation phase, embedding the new contract programme. This contract continues to demonstrate Cavendish Nuclear's capability as a trusted partner of the Nuclear Decommissioning Authority (NDA) to carry out complex decommissioning work across its estate.

Operating review continued

At Dounreay, good progress has been made on the programme with key milestones being achieved on schedule. Additional programme scope is also being introduced in response to a change in the national strategy for the consolidation of nuclear materials and as a result the site closure plan will be extended to 2029. Dounreay continues to challenge itself against a declared objective to be recognised as the pre-eminent reference site for decommissioning in Europe.

At Sellafield, in partnership with Balfour Beatty, we are constructing a major new decommissioning support facility. Phase 3 of the Silos' Maintenance Facility contract, was awarded in June 2014, worth a total of £160 million over a three year period. We have continued to strengthen our position on the Design Services Alliance Framework and successfully rebid its Environmental Laboratories contract worth £45 million over the next ten years.

Cavendish Nuclear signed a 16 year, £600 million contract with EDF in January 2015. The Lifetime Enterprise Agreement means Cavendish Nuclear will continue to provide fuel route and other technical services to EDF Energy's seven advanced gas-cooled reactor stations and its pressurised water reactor at Sizewell for the remainder of their operating lives. Cavendish Nuclear continues to pursue opportunities in the UK nuclear new build sector. It submitted the bid for delivery of the Balance of Nuclear Island work at Hinkley Point C and waits to hear the outcome. In the meantime, we continue to work with EDF to understand the scope of work to be delivered under this contract.

Cavendish Nuclear delivered a number of projects for Hitachi-GE Nuclear Energy, in respect of the development of its strategy for the construction of an advanced boiling water reactor for its Horizon programme. The business continues to explore options for a long-term involvement in the project as a delivery partner.

Critical Services has delivered year-on-year revenue growth of over 10%, excluding the recent acquisition of MacNeillie, and has met or exceeded operational and availability KPIs across all its contracts as well as achieving financial efficiencies for its customers.

Building on existing contracts, the business has continued to secure new business wins in North America. The Mining and Construction business has continued to grow over the past twelve months with the mobilisation of the Lafarge Readymix contract in Western Canada for 700 assets with a contract value estimated at c £60 million. In addition, the business has also secured a 10 year contract with Holcim as a new customer in the Eastern United States. New business has been secured in the UK, with the award and mobilisation of the Lafarge Tarmac contract, in respect of 700 vehicles over 208 sites across the UK, which is expected to be worth c £8 million per annum.

Contracts for the Metropolitan Police and Highways Agency, as well as the New Dimensions contract have performed well and, building on this success, the business is pursuing a number of new opportunities in this market. The Metropolitan Police Service has started the process for re-tendering the contract for fleet maintenance services and our team is fully engaged in this process. The existing contract is due to end in March 2016.

In January 2015, Critical Services acquired MacNeillie, the leading specialist vehicle converter. MacNeillie will strengthen the Critical Services' whole life asset management capability and we believe this will create opportunities for both Babcock and MacNeillie's existing customers as well as new customers.

At Heathrow we continue to manage the operations and maintenance of all the baggage handling equipment across the estate and successfully deliver maintenance for British Airways' fleet of ground support equipment. Through an extensive efficiency programme we are delivering savings to Heathrow Airports Limited, in line with our contract.

Our Skills and Learning business has seen a year of steady progress. In the training sector, our contract with Volkswagen Audi Group to deliver training to its dealer network through its National Learning Centre has started well. In the emergency services sector, our contract with the London Fire Brigade (LFB) continues to perform well. Two new, state-of-the-art, dedicated training facilities, designed and built by Babcock, have been opened in Beckton and Park Royal, transforming the quality of training for London firefighters. Significant progress has also been made in our programme of course redesign, including the initial training provided under the Firefighter Development Programme. With support from the LFB and the Trades Union, this flagship course has been redesigned to be delivered in ten weeks, down from the existing 17 weeks, whilst maintaining the quality output.

To reinforce this long-term relationship the 21 year, contract to support LFB's fleet of 500 vehicles and 50,000 pieces of equipment has started well. We are continuing to drive improved availability of the fleet and extensive redevelopment, and improvements to the Ruislip technical facility have already begun to support the delivery of this contract.

We are in the process of retendering our contracts with BMW, to provide training to its UK dealer network, and with Network Rail, to deliver their advanced apprenticeship programme.

We have successfully integrated the two acquisitions made in the Skills and Learning business during the last financial year into the wider business, both acquisitions are performing ahead of expectations.

In Oman, NTI is operating at full capacity in Muscat. It started new contracts with Petroleum Development Oman in February 2015, worth just under £10 million, to provide technical skills training to young Omanis. We have expanded two training centres to accommodate the increase in demand. Additional opportunities also exist in Oman and the wider Gulf Cooperation Council region to export our UK training capability in the emergency services and rail sectors.

The Skills2Learn business has also secured new contracts for its immersive e-learning products with a number of new customers, including some existing Babcock customers. We have also been able to provide these services to other Babcock divisions, including the provision of support to the Defence and Security division with the redesign of its training programme for the Royal Navy.

Operating review continued

During the year, the Rail business has been engaged in significant demobilisation and mobilisation activities following the award of framework contracts for conventional plain line track works in new geographies as well as new electrification framework programmes. We managed a smooth transition and maintained a high quality of delivery as work started under the new arrangements. The ABC jv between Alstom, Babcock and Costain is delivering work through the two national electrification programmes as well as the Edinburgh Glasgow Improvement Programme (EGIP). During this year, the EGIP project moved from design phase to delivery phase. Future prospects for the electrification market look promising, with further growth expected.

Our Power business has seen a significant reduction in demand for refurbishment and new build schemes from National Grid and lower demand has increased competition in the market impacting revenue and margins. However, this has largely been offset by demand from other distribution and transmission network operators for example SP Energy Network.

In the Integrated Services business, Conbras, in Brazil, is performing well with current contracts all performing as expected. The business has a number of new opportunities that it is currently pursuing in its existing markets as well as in new sectors. In this year we started delivering facilities management, baggage and air bridge maintenance services to Sao Paulo-Guarulhos International Airport and we believe there will be further opportunities for expansion in the Brazilian airports market. We have been awarded a seven-year contract by the London Borough of Richmond upon Thames to deliver an integrated property and estate management solution which is expected to be worth c £56 million over a seven year period, with the option to extend for a further three years. The BBC World Service contract continues to perform well and we have strengthened our Media Services business with the acquisition of WRN Broadcast, which provides innovative solutions to deliver television and radio content to any platform or device anywhere around the world.

Divisional outlook

The demand for outsourcing within our selected markets remains high. We believe our track record of delivering complex projects, the depth of our technical knowledge and our understanding of our customers' requirements set us apart from others in our sector. We seek to underpin our position by the continued enhancement of our technical capabilities and the development of our people. We therefore remain confident the division is well placed to pursue the significant opportunities available to it in the UK and overseas.

International

			31 March 2015	31 March 2014	Change + / -
Revenue	group	(MCS £530.6 m)	£805.1 m	£277.6 m	+ 190%
	jv	(MCS £6.3 m)	£6.3m	–	
	total	(MCS £536.9 m)	£811.4 m	£277.6 m	+ 192%
Operating profit	group	(MCS £93.2 m)	£114.3 m	£23.2 m	+ 393%
	jv	(MCS £2.5 m)	£2.5 m	–	
	total	(MCS £95.7 m)	£116.8 m	£23.2 m	+ 403%
Operating margin	group		14.2%	8.4%	
	jv		39.7%		
	total	(MCS 17.8%)	14.4%	8.4%	

Market overview

Mission Critical Services (MCS)

The emergency services market, which accounts for over two thirds of the MCS business and delivers vital and politically sensitive services, remains attractive and continues to create opportunities. The market is increasingly supported by positive trends in the macro-economic situation affecting our Southern European customers in particular. We see the possibility of further outsourcing in this sector, particularly in the provision of search and rescue services, which are currently performed by the military in many countries. We continue to see opportunities from future military outsourcing in the maintenance, repair and overhaul (MRO) market, particularly in France where we currently operate a joint venture with Défense Conseil International to provide the purchase, upgrade and full maintenance service of 36 helicopters for the French Army.

The majority of MCS' oil and gas business, which accounts for less than a third of total MCS revenue, is experiencing only limited impact from the fall in the oil price, with some delays to the award of contracts for new projects and to exploration activity. However, in MCS' markets in the UK North Sea and Australia where activities support existing production facilities, there has been no significant change to the long-term contract structures.

South Africa

In 2014/15, the South African economy experienced ongoing weaknesses in the Rand and inflation has led to subdued consumer spending and GDP growth dropped from 2.5% to 2.1% impacted by low global commodity prices and a lack of consistent power supplies. Extended strikes in the mining sector and the slowdown in Asian economies, particularly in China, have affected coal, copper, platinum and iron ore prices, all traditionally South African export products, and consequently have reduced mining activity. However, despite these headwinds, our core markets and activities supporting power generation, distributing Volvo and DAF equipment and providing plant hire have seen good growth in Rand terms.

As the aging Eskom power stations struggle to meet demand there have been staged power outages to protect the grid which has led to an increased demand for generation support, breakdown and preventative maintenance as well as life extension programmes. Over the next five years we expect opportunities to arise as new power stations are commissioned from 2020.

Although the new construction equipment market has remained flat, equipment owners have sought efficiencies by extending the life of their equipment fleets and demand for parts and service has increased. The market for specialist production machines has also increased. In the near-term, we expect demand for new equipment and for plant hire to increase based on indications from the South African Finance Minister that the planned infrastructure spend programme will progress in 2015.

Financial review

The significant growth in revenue, operating profit and margin for the International division as a whole, has come from the inclusion of the Mission Critical Services (MCS) business unit (formerly Avincis) acquired on 16 May 2014. The International division reported total revenue of £811.4 million (2014: £277.6 million) and total operating profit of £116.8 million (2014: £23.2 million), which resulted in an operating margin of 14.4%.

Within the total divisional results, MCS reported revenue of £536.9 million for the period since acquisition, achieving our expectation of 22% growth on a full year pro forma basis. This was driven by new emergency medical services (EMS) contracts in France, growth from renewal of EMS contracts in Italy and new firefighting contracts with both the Spanish and Portuguese governments and the acquisition of Scandinavian AirAmbulance (SAA) that was completed on 30 June 2014.

The Oil and Gas businesses achieved good growth from contracts awarded in the previous financial year which started operating during this year in Australia and in the UK North Sea.

MCS operating profit was £95.7 million which resulted in an operating margin of 17.8%. As MCS benefits further from being part of Babcock, for example by being able to access improved operating lease terms and increased procurement savings, we expect to achieve further improvements in operating margin.

The South African operations have made further good progress achieving a 10.5% increase in local currency although results in Sterling remained flat on last year at £274.5 million (2014: £277.6). Growth in the business was driven by strong equipment sales as well as an increase in parts and servicing and strong demand for the Powerlines business, which offset stable power generation activities and reduced demand for crane hire during the first half.

Operating profit in South Africa increased by 15% in local currency and by 3% in Sterling terms to £24.7 million (2014: £23.9 million), which resulted in an operating margin of 9% (2014: 8.6%), the increase being driven by the growth in Powerlines activities and set up costs for new businesses outside of South Africa in the previous year.

Operational review

Mission Critical Services (MCS)

Since acquisition, MCS has continued to make good progress as part of Babcock, with all contracts meeting or exceeding our customers' requirements.

Over the last financial year, MCS has maintained a high total contract win rate of over 70% and over 90% for renewals. 36 contracts and extensions have been won over the past 12months with a total value of around £550 million.

In the Emergency Medical Services business, Australian Helicopters is mobilising for the start of a new ten year contract to provide air ambulance services, awarded by the Victoria government and Ambulance Victoria. The agreement sees the supply of six new, twin-engine helicopters and includes a dedicated back-up aircraft to maintain services when heavy aircraft maintenance is required. The new helicopters will be operational from January 2016 and will be located at bases in Essendon, Warrnambool, the Latrobe Valley and Bendigo. We currently operate two helicopters for Ambulance Victoria and have supplied the service for the past six years. During the year, we learnt that we had been unsuccessful in our bid to deliver helicopter emergency medical services (HEMS) for the New South Wales Health Administration Corporation. Despite the unsuccessful bid for the New South Wales Air Ambulance contract, the addition of the Ambulance Victoria contract will make us the largest operator of HEMS in Australia.

We have been awarded a four year contract, with a potential two year extension, to provide HEMS in Spain's Galicia region, following a competitive tender. This service has been operated by Inaer Spain for the Public Foundation of Health Emergencies since 1990.

In France, we have won a number of contracts to provide regional HEMS, including a six year contract to deliver helicopters for medical transfer and emergency missions for Nantes, Angers, La Roche-sur-Yon, Brest and St Brieuc in Western France. The contract forms part of the French Ministry of Health's new process of placing regional contracts, which have introduced the requirement for additional technology, such as mandatory autopilot and night vision goggles (NVG), where Inaer France is the only French operator who is certified to use NVG.

In Italy, we were awarded a six year renewal of an existing contract, to provide HEMS in the Alto Adige region. This contract utilises new aircraft from Airbus Helicopters operated from bases in Bolzano and Bressanone. The renewal amalgamates two existing HEMS contracts in a region where Inaer Italy has provided a continuous service since 2000. Additionally, we are currently preferred bidder for an eight year renewal of the contract to provide HEMS in the Emilia Romagna region, from bases in Bologna, Pavullo, Parma and Ravenna. This contract combines four existing contracts in a region where Inaer Italy has delivered HEMS for around 20 years.

In the UK, through Bond Air Services we continue to operate services for air ambulance charities, with two seven year contracts for Thames Valley and Chiltern Air Ambulance, and Hampshire and Isle of Wight Air Ambulance, announced in September. These contracts extend existing relationships and enable the charities to provide a full, round the clock, service.

In the Emergency Services' surveillance business, Bond Air Services won a two year renewal for the provision of services for Police Scotland. We also provided an additional helicopter to support the Commonwealth Games in Glasgow. In Spain, we were awarded a two year extension from Agencia Estatal De Administracion Tributaria to provide surveillance for the customs authority throughout mainland Spain. The Italian firefighting business won a six year contract for the provision of firefighting services for the Italian central government with 19 amphibious water-bombers spread across the country.

In June 2014, the acquisition of Scandinavian Air Ambulance (SAA) was completed. SAA has 22 aircraft with bases across Sweden and Finland and is one of Scandinavia's largest air ambulance companies, delivering primary and secondary emergency medical services across Sweden and Finland. The business has a strong management team and integration is progressing well and has performed in line with our expectations since acquisition. We are now evaluating further opportunities in Norway and Denmark.

In the Oil and Gas business, we have increased our geographic footprint with strategic, customer-led entries into new regions.

In Australia, we have begun to operate services for ConocoPhillips, in support of its offshore activities. In Spain, the business was awarded a five year extension to its existing contract with Enegas in November and in the UK we were awarded a three year renewal from Eni and Centrica to provide services for their offshore installations in the southern North Sea, operating two aircraft from Blackpool, as well as a contract with Maersk and a new contract to provide oil and gas search and rescue services in the North Sea. We have also been awarded a three year extension to our contract to provide crew change services from Sicily for Edison's offshore operations. Plans are in hand to build on the existing oil and gas expertise and customer relationships within the wider Babcock Group.

MCS is already benefiting from its integration into the broader Babcock Group, with its processes and reporting now aligned and the Group's expertise helping to roll-out engineering, safety, procurement and IT systems which will allow the business to drive efficiency. With significantly greater abilities to lease and finance aircraft at lower cost, the pipeline of opportunities remains stable and robust and MCS is utilising Babcock's experience to optimise bid management systems. The fleet optimisation project currently being undertaken is designed to capture cost savings through improved training efficiencies for pilots and engineers and improved inventory management as well as reduced operational complexity. For example, our largest operating company in Spain has 26 aircraft types in its current fleet. Our goal is to reduce those down to 16 aircraft types by the 2019 financial year.

As well as working with the South African business to support potential opportunities for MCS in Mozambique, MCS continues to work with other Babcock divisions to help facilitate growth through existing MCS customer relationships, operational credibility and administration in the geographies in which it operates. In support of this we have appointed four local business development directors in Spain, Italy and France to identify new market opportunities.

South Africa

During the year there has been strong demand for equipment in South Africa and Mozambique despite the impact of mining strikes and low global commodity prices. We have experienced increasing demand for the Volvo Chinese value brand products which were introduced last year and growth has been supported by further penetration into the neighbouring markets of Zambia, Namibia, Mozambique and Botswana. During the year our share of the construction equipment market increased to just under 10% and we are now the largest provider of Chinese construction equipment in the region.

Sales of DAF trucks have improved through our dealerships across South Africa and we continue to develop relationships with fleet operators to support further growth. After a lengthy absence from the South African market, the brand is gaining renewed traction and market share has grown from 1% to 3%. This has been helped by the establishment of our own finance company which is able to obtain external bank finance and offer finance leases to our DAF customers.

Growth in the Rentals business has been steady, although demand for cranes was held back slightly by delays in maintenance activities by one of our major private energy customers. As wage settlements were finalised, strikes have ended and demand for cranes has increased.

During the year, Eskom postponed a number of scheduled outages in an attempt to balance maintenance activities with the increasing demand for electricity. We continue to work with Eskom to develop more efficient working practices for both planned and unscheduled outages to support the demands on generating capacity. Going forward, Eskom has announced that maintenance activity will be increased to improve operating efficiencies on aging plant.

The business continues to pursue opportunities in the new build power station market, winning a significant order for pipe work on the new Kusile power station. We anticipate successful completion of this project will lead to other project opportunities. As investment into new transmission lines continues, there has been increasing demand for the Powerlines business, which has been working at full capacity throughout the year. The business also continues to bid on new opportunities and, nine bids are currently under evaluation.

Divisional outlook

We continue to see significant prospects for growth as MCS progresses bids in the pipeline and opportunities in tracking that have yet to come to market. We are looking to build on our long-term relationships with customers, and on our proven expertise and technology focus to create further opportunities for growth. We are also developing a number of opportunities in new geographies, such as Africa and South America.

For the South African business, the primary focus remains the growth of market share in the commercial transport and construction equipment market as well as expansion in our export markets. Continuing strong demand is expected for the Powerlines business and the power generation support market, including the supply of portable diesel generation sets. Furthermore, we will be exploring opportunities in the training sector and aviation support.

Across the International business units, we are making good progress in a number of areas where we are building on the financial, operational and bidding expertise of the wider Group.

Group income statement

For the year ended 31 March 2015	Note	2015 £m	2015 Total £m	2014 £m	2014 Total £m
Total revenue		4,503.3		3,547.6	
Less: joint ventures and associates revenue		506.7		226.6	
Group revenue	2		3,996.6		3,321.0
Group					
Operating profit before amortisation of acquired intangibles and exceptional items	2	445.9		317.2	
Amortisation of acquired intangibles	2, 3	(93.6)		(59.2)	
Exceptional items	3	–		(24.9)	
Group operating profit			352.3		233.1
Joint ventures and associates					
Share of operating profit		35.2		21.9	
Investment income		36.2		37.3	
Amortisation of acquired intangibles	3	(6.0)		(6.2)	
Finance costs		(31.0)		(25.1)	
Income tax expense		(5.0)		(7.0)	
Share of results of joint ventures and associates			29.4		20.9
Group and joint ventures and associates					
Operating profit before amortisation of acquired intangibles and exceptional items		481.1		339.1	
Investment income		37.6		38.8	
Underlying operating profit*	2	518.7		377.9	
Amortisation of acquired intangibles		(99.6)		(65.4)	
Exceptional items		–		(24.9)	
Group investment income		(1.4)		(1.5)	
Joint ventures and associates finance costs		(31.0)		(25.1)	
Joint ventures and associates income tax expense		(5.0)		(7.0)	
Group operating profit plus share of joint ventures and associates			381.7		254.0
Finance costs					
Investment income		1.4		1.5	
Retirement benefit interest		(11.0)		(10.9)	
Finance costs		(70.4)		(35.2)	
Finance income		11.4		9.4	
			(68.6)		(35.2)
Profit before tax	2		313.1		218.8
Income tax expense	4		(46.7)		(30.8)
Profit for the year			266.4		188.0
Attributable to:					
Owners of the parent			260.2		180.5
Non-controlling interest			6.2		7.5
			266.4		188.0
Earnings per share from continuing operations	5				
Basic			52.9p		44.3p
Diluted			52.6p		43.9p

* 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 2015	2015 £m	2014 £m
Profit for the year	266.4	188.0
Other comprehensive income		
Items that may be subsequently reclassified to income statement		
Currency translation differences	(78.6)	(19.5)
Fair value adjustment of interest rate and foreign exchange hedges	(14.7)	(2.2)
Tax on fair value adjustment of interest rate and foreign exchange hedges	2.9	0.5
Fair value adjustment of joint venture and associates derivatives	(41.9)	23.1
Tax on fair value adjustment of joint venture and associates derivatives	4.5	(5.3)
Items that will not be subsequently reclassified to income statement		
Remeasurement of retirement benefit obligations	66.0	(43.0)
Tax on remeasurement of retirement benefit obligations	(13.1)	9.9
Impact of change in UK tax rates	–	(9.5)
Other comprehensive loss, net of tax	(74.9)	(46.0)
Total comprehensive income	191.5	142.0
Total comprehensive income attributable to:		
Owners of the parent	185.5	137.8
Non-controlling interest	6.0	4.2
Total comprehensive income	191.5	142.0

Group statement of changes in equity

For the year ended 31 March 2015	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Owners of the parent £m	Non-controlling interest £m	Total equity £m
At 1 April 2013	217.2	873.0	–	30.6	(110.7)	(58.5)	(4.5)	947.1	21.8	968.9
Total comprehensive income/(loss)	–	–	–	–	137.9	16.1	(16.2)	137.8	4.2	142.0
Dividends	–	–	–	–	(96.7)	–	–	(96.7)	(4.3)	(101.0)
Share-based payments	–	–	–	–	12.2	–	–	12.2	–	12.2
Tax on shared-based payments	–	–	–	–	3.3	–	–	3.3	–	3.3
Own shares and other	–	–	–	–	0.7	–	–	0.7	–	0.7
Net movement in equity	–	–	–	–	57.4	16.1	(16.2)	57.3	(0.1)	57.2
At 31 March 2014	217.2	873.0	–	30.6	(53.3)	(42.4)	(20.7)	1,004.4	21.7	1,026.1
At 1 April 2014	217.2	873.0	–	30.6	(53.3)	(42.4)	(20.7)	1,004.4	21.7	1,026.1
Total comprehensive income/(loss)	–	–	–	–	313.0	(49.2)	(78.3)	185.5	6.0	191.5
Shares issued in year	84.1	–	993.3	–	–	–	–	1,077.4	–	1,077.4
Dividends	–	–	–	–	(109.8)	–	–	(109.8)	(7.2)	(117.0)
Share-based payments	–	–	–	–	15.4	–	–	15.4	–	15.4
Tax on shared-based payments	–	–	–	–	5.2	–	–	5.2	–	5.2
Other reserves released	–	–	(142.0)	–	142.0	–	–	–	–	–
Acquisition of non-controlling interest	–	–	–	–	–	–	–	–	(0.4)	(0.4)
Transaction with non-controlling interest	–	–	–	–	5.5	–	–	5.5	(2.1)	3.4
Own shares and other	–	–		–	(3.5)	–	–	(3.5)	–	(3.5)
Net movement in equity	84.1	–	851.3	–	367.8	(49.2)	(78.3)	1,175.7	(3.7)	1,172.0
At 31 March 2015	301.3	873.0	851.3	30.6	314.5	(91.6)	(99.0)	2,180.1	18.0	2,198.1

Group balance sheet

As at 31 March 2015	Note	2015 £m	2014 £m
Assets			
Non-current assets			
Goodwill		2,506.0	1,609.6
Other intangible assets		745.9	275.8
Property, plant and equipment		878.0	252.1
Investment in joint ventures and associates	7	36.3	52.3
Loan to joint ventures and associates	7	38.6	50.6
Retirement benefits	12	45.6	15.2
Trade and other receivables		27.1	1.2
IFRIC 12 financial assets		19.2	20.5
Other financial assets	8	61.8	–
Deferred tax asset		132.2	46.6
		4,490.7	2,323.9
Current assets			
Inventories		155.4	105.9
Trade and other receivables		743.6	577.5
Income tax recoverable		24.7	28.0
Other financial assets	8	12.3	9.6
Cash and cash equivalents	11	130.6	86.3
		1,066.6	807.3
Total assets		5,557.3	3,131.2
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital		301.3	217.2
Share premium		873.0	873.0
Capital redemption and other reserves		691.3	(32.5)
Retained earnings		314.5	(53.3)
		2,180.1	1,004.4
Non-controlling interest		18.0	21.7
Total equity		2,198.1	1,026.1
Non-current liabilities			
Bank and other borrowings	11	1,495.3	649.4
Trade and other payables		6.8	9.2
Deferred tax liabilities		184.6	2.4
Other financial liabilities		7.8	12.3
Retirement liabilities	12	214.4	282.9
Provisions for other liabilities		159.8	95.0
		2,068.7	1,051.2
Current liabilities			
Bank and other borrowings	11	64.8	17.7
Trade and other payables		1,162.4	974.4
Income tax payable		5.7	–
Other financial liabilities	8	27.9	11.7
Provisions for other liabilities		29.7	50.1
		1,290.5	1,053.9
Total liabilities		3,359.2	2,105.1
Total equity and liabilities		5,557.3	3,131.2

Group cash flow statement

For the year ended 31 March 2015	Note	2015 £m	2014 £m
Cash flows from operating activities			
Cash generated from operations	9	426.8	279.5
Income tax paid		(46.1)	(55.8)
Interest paid		(80.7)	(36.5)
Interest received		6.9	4.7
Net cash flows from operating activities		306.9	191.9
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	14	2.1	0.7
Dividends received from joint ventures and associates		19.5	4.8
Proceeds on disposal of property, plant and equipment		77.6	4.2
Proceeds on disposal of intangible assets		0.7	–
Purchases of property, plant and equipment		(150.7)	(37.4)
Purchases of intangible assets		(23.4)	(16.1)
Investment in, loans to and interest received from joint ventures and associates		10.3	5.2
Transactions with non-controlling interest	15	(4.3)	–
Acquisition of subsidiaries net of cash acquired	13	(1,039.1)	(62.5)
Net cash flows from investing activities		(1,107.3)	(101.1)
Cash flows from financing activities			
Dividends paid		(109.8)	(96.7)
Finance lease principal payments		(39.7)	(3.5)
Bank loans repaid		(1,638.7)	(1.0)
Loans raised		1,570.3	–
Dividends paid to non-controlling interest		(7.2)	(4.3)
Net proceeds on issue of shares		1,077.4	–
Movement on own shares		(3.5)	0.7
Net cash flows from financing activities		848.8	(104.8)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		48.4	(14.0)
Cash, cash equivalents and bank overdrafts at beginning of year		71.2	90.6
Effects of exchange rate fluctuations		(7.1)	(5.4)
Cash, cash equivalents and bank overdrafts at end of year	11	112.5	71.2

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 2015. They should be read in conjunction with the Annual Report for the year ended 31 March 2014, which has been prepared in accordance with IFRS's 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 2014, except as noted below.

Standards, amendments and interpretations effective in 2014 with minimal or no impact on the Group:

IAS 27 'Consolidated and separate financial statements', endorsed 1 January 2014;
IAS 28 'Investments in associates and joint ventures', endorsed 1 January 2014;
IFRS 10, 'Consolidated financial statements', endorsed 1 January 2014;
IFRS 11, 'Joint arrangements', endorsed 1 January 2014;
IFRS 12, 'Disclosure of interests in other entities', endorsed 1 January 2014;
IAS 32 (amendment), 'Financial instruments; disclosure – Offsetting financial assets and liabilities', effective 1 January 2014;
IAS 36 (amendment), 'Impairment of assets' effective 1 January 2014; and
IAS 39 (amendment), 'Financial instruments; Recognition and measurement', effective 1 January 2014.

2. Segmental information

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

2015	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total continuing operations £m
Total revenue	1,562.5	812.8	1,316.4	811.4	0.2	4,503.3
Less: joint ventures and associates revenue	18.9	102.2	379.3	6.3	–	506.7
Group revenue	1,543.6	710.6	937.1	805.1	0.2	3,996.6
Operating profit* – Group	172.0	81.7	79.5	114.3	(1.6)	445.9
IFRIC 12 investment income – Group	–	0.7	0.7	–	–	1.4
Share of operating profit – joint ventures and associates	1.9	17.1	13.7	2.5	–	35.2
Share of IFRIC 12 investment income – joint ventures and associates	–	29.2	7.0	–	–	36.2
Underlying operating profit	173.9	128.7	100.9	116.8	(1.6)	518.7
Share of finance costs – joint ventures and associates	–	(23.2)	(6.8)	(1.0)	–	(31.0)
Share of tax – joint ventures and associates	(0.6)	(1.2)	(2.0)	(1.2)	–	(5.0)
Acquired intangible amortisation – Group	(11.1)	(9.5)	(33.5)	(39.5)	–	(93.6)
Share of acquired intangible amortisation –joint ventures and associates	–	(5.7)	(0.3)	–	–	(6.0)
Net finance costs – Group	–	–	–	–	(70.0)	(70.0)
Group profit before tax	162.2	89.1	58.3	75.1	(71.6)	313.1

* Before amortisation of acquired intangibles and exceptional items.

Notes to the consolidated financial statements continued

2. Segmental information (continued)

2014	Marine and Technology £m	Defence and Security £m	Support Services £m	International £m	Unallocated £m	Total continuing operations £m
Total revenue	1,377.3	852.6	1,040.1	277.6	–	3,547.6
Less: joint ventures and associates revenue	12.7	115.8	98.1	–	–	226.6
Group revenue	1,364.6	736.8	942.0	277.6	–	3,321.0
Operating profit* – Group	152.9	74.6	69.4	23.2	(2.9)	317.2
IFRIC 12 investment income – Group	–	0.8	0.7	–	–	1.5
Share of operating profit – joint ventures and associates	1.0	14.4	6.5	–	–	21.9
Share of IFRIC 12 investment income – joint ventures and associates	–	28.8	8.5	–	–	37.3
Underlying operating profit	153.9	118.6	85.1	23.2	(2.9)	377.9
Share of finance costs – joint ventures and associates	–	(16.6)	(8.5)	–	–	(25.1)
Share of tax – joint ventures and associates	(0.3)	(5.3)	(1.4)	–	–	(7.0)
Acquired intangible amortisation – Group	(12.8)	(10.5)	(35.9)	–	–	(59.2)
Share of acquired intangible amortisation – joint ventures and associates	–	(5.8)	(0.4)	–	–	(6.2)
Net finance costs – Group	–	–	–	–	(36.7)	(36.7)
Exceptional items – Group	–	–	–	–	(24.9)	(24.9)
Group profit before tax	140.8	80.4	38.9	23.2	(64.5)	218.8

* Before amortisation of acquired intangibles and exceptional items

3. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Continuing operations						
Acquisition costs	–	24.9	–	–	–	24.9
Exceptional items	–	24.9	–	–	–	24.9
Acquired intangible amortisation	93.6	59.2	6.0	6.2	99.6	65.4
Continuing total	93.6	84.1	6.0	6.2	99.6	90.3

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. In 2014 the acquisition costs relate to the acquisition of Avincis Mission Critical Services comprising legal and professional fees and stamp duty.

Notes to the consolidated financial statements continued

4. Income tax expense

Taxation in respect of Group profit before tax, acquired intangible amortisation and exceptional items totalled £74.3 million (2014: £55.4 million) including the Group's share of JV income tax of £5.0 million (2014: £7.0 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) was17.8% (2014: 17.5%).

5. Earnings per share

In order to finance the acquisition of the Avincis Group and to ensure the Group maintains sufficient financial headroom for growth opportunities, the Group undertook a rights issue of 139,259,204 new ordinary shares which raised £1,076.9 million and was completed on 7 May 2014. To provide an appropriate comparison, earnings per share for 2014 has been restated to take into account the increase in the number of shares and the bonus issue of shares.

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

Number of shares

	2015 Number	2014 Number
Pre adjustment for rights issue		
Weighted average number of ordinary shares for the purpose of basic EPS	487,123,443	360,262,890
Effect of dilutive potential ordinary shares: share options	2,200,000	3,204,338
Weighted average number of ordinary shares for the purpose of diluted EPS	489,323,443	363,467,228
Adjustment for rights issue		
Weighted average number of ordinary shares for the purpose of basic EPS	4,853,822	47,796,072
Effect of dilutive potential ordinary shares: share options	60,639	425,119
Weighted average number of ordinary shares for the purpose of diluted EPS	4,914,461	48,221,191
Restated for rights issue		
Weighted average number of ordinary shares for the purpose of basic EPS	491,977,265	408,058,962
Effect of dilutive potential ordinary shares: share options	2,260,639	3,629,457
Weighted average number of ordinary shares for the purpose of diluted EPS	494,237,904	411,688,419

Earnings

	2015 Earnings £m	2015 Basic per share Pence	2015 Diluted per share Pence	2014 Earnings £m	2014 Basic per share (restated) Pence	2014 Diluted per share (restated) Pence
Continuing operations						
Earnings from continuing operations	260.2	52.9	52.6	180.5	44.3	43.8
Add back:						
Amortisation of acquired intangible assets, net of tax	76.3	15.5	15.4	50.3	12.3	12.2
Exceptional items, net of tax	–	–	–	24.9	6.1	6.0
Impact of change in statutory tax rates	0.6	0.1	0.1	(2.4)	(0.6)	(0.6)
Earnings before amortisation, exceptional items and other	337.1	68.5	68.1	253.3	62.1	61.4

Notes to the consolidated financial statements continued

6 Dividends

The Directors have proposed a final dividend of 18.1p per 60p ordinary share (2014: 16.4p per 60p ordinary share) and it will be paid on 12 August 2015 to shareholders registered on 3 July 2015, subject to approval at the Annual General Meeting on 30 July 2015. The full year declared dividend per share is 23.6p per 60p ordinary share (2014: 21.4p per 60p ordinary share).

7. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
At 1 April	52.3	18.6	50.6	51.1	102.9	69.7
Joint ventures and associates acquired	8.3	–	–	–	8.3	–
Disposal of joint ventures and associates	5.2	–	(6.3)	–	(1.1)	–
Loans to/(repayments from) joint ventures and associates	(0.3)	–	(7.1)	(1.5)	(7.4)	(1.5)
Investment in joint ventures and associates	–	(0.1)	–	–	–	(0.1)
Share of profits	29.4	20.9	–	–	29.4	20.9
Interest accrued	–	–	4.4	4.6	4.4	4.6
Interest received	–	–	(3.0)	(3.6)	(3.0)	(3.6)
Dividend received	(19.5)	(4.8)	–	–	(19.5)	(4.8)
Fair value adjustment of derivatives	(42.6)	23.1	–	–	(42.6)	23.1
Tax on fair value adjustment of derivatives	4.5	(5.3)	–	–	4.5	(5.3)
Foreign exchange	(1.0)	(0.1)	–	–	(1.0)	(0.1)
At 31 March	36.3	52.3	38.6	50.6	74.9	102.9

8. Other financial assets and liabilities

	Fair value			
	Assets		Liabilities	
	2015 £m	2014 £m	2015 £m	2014 £m
Non-current				
US private placement – currency and interest rate swaps	52.2	–	–	3.5
Non-controlling interest put option	–	–	7.8	8.8
Financial instruments	52.2	–	7.8	12.3
Finance leases granted	9.6	–	–	–
Total non-current other financial assets and liabilities	61.8	–	7.8	12.3
Current				
Interest rate hedges	–	–	–	6.7
Other currency hedges	8.8	9.6	27.9	5.0
Financial instruments	8.8	9.6	27.9	11.7
Finance leases granted	3.5	–	–	–
Total current other financial assets and liabilities	12.3	9.6	27.9	11.7

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

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

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

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 £13.1 million, these were split as £3.5 million due within one year and £9.6 million between one and five years.

Notes to the consolidated financial statements continued

9. Reconciliation of operating profit to cash generated from operations

	2015 £m	2014 £m
Cash flows from operating activities		
Operating profit before amortisation of acquired intangible and exceptional items	445.9	317.2
Amortisation of acquired intangible and exceptional items	(93.6)	(84.1)
Group operating profit	352.3	233.1
Depreciation of property, plant and equipment	71.0	40.0
Amortisation of intangible assets	101.1	66.7
Investment income	1.4	1.5
Equity share-based payments	15.4	12.2
Profit on disposal of joint ventures and associates	(8.5)	–
Loss/(profit) on disposal of property, plant and equipment	(0.1)	0.3
Operating cash flows before movement in working capital	532.6	353.8
Decrease/(increase) in inventories	2.4	(43.7)
Increase in receivables	(29.5)	(67.6)
Increase in payables	3.7	91.3
Decrease in provisions	(14.3)	(31.3)
Exceptional items – acquisition costs	(24.2)	24.2
Retirement benefit payments in excess of income statement	(43.9)	(47.2)
Cash generated from operations	426.8	279.5

10. Movement in net debt

	2015 £m	2014 £m
Increase/(decrease) in cash in the year	48.4	(14.0)
Cash flow from the decrease in debt and lease financing	92.4	4.5
Change in net funds resulting from cash flows	140.8	(9.5)
Loans and finance leases acquired with subsidiaries	(978.1)	(1.3)
New finance leases – received	(39.2)	(19.0)
New finance leases - granted	15.7	–
Movement in joint venture and associates loans	(12.0)	(0.5)
Foreign currency translation differences and other	80.9	(3.9)
Movement in net debt in the year	(791.9)	(34.2)
Net debt at the beginning of the year	(533.7)	(499.5)
Net debt at the end of the year	(1,325.6)	(533.7)

11. Changes in net debt

	31 March 2014 £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange/ other movement £m	31 March 2015 £m
Cash and bank balances	86.3	(40.0)	91.8	–	(7.5)	130.6
Bank overdrafts	(15.1)	(3.4)	–	–	0.4	(18.1)
Cash, cash equivalents and bank overdrafts	71.2	(43.4)	91.8	–	(7.1)	112.5
Debt	(633.2)	55.3	(832.0)	–	15.9	(1,394.0)
Finance leases – received	(18.8)	39.7	(146.1)	(39.2)	16.4	(148.0)
Finance leases – granted	–	(2.6)	–	15.7	–	13.1
	(652.0)	92.4	(978.1)	(23.5)	32.3	(1,528.9)
Net debt before derivatives and joint venture and associate loans	(580.8)	49.0	(886.3)	(23.5)	25.2	(1,416.4)
Net debt derivative	(3.5)	–	–	–	55.7	52.2
Joint venture and associate loans	50.6	(12.0)	–	–	–	38.6
Net debt	(533.7)	37.0	(886.3)	(23.5)	80.9	(1,325.6)

Notes to the consolidated financial statements continued

12. Retirement benefits and liabilities

Analysis of movement in the Group balance sheet

	2015 Total £m	2014 Total £m
Fair value of plan assets (including reimbursement rights)		
At 1 April	3,220.1	3,204.8
(Settlements)/transfers in	–	(3.3)
Interest on assets	139.1	135.5
Interest on reimbursement rights	(4.5)	(4.4)
Actuarial gain/(loss) on assets	682.7	(79.1)
Actuarial (gain)/loss on reimbursement rights – demographics	(4.2)	18.6
Actuarial (gain)/loss on reimbursement rights – financial	(28.7)	4.2
Experience gains/(loss) on reimbursement rights	(6.0)	(19.2)
Employer contributions	88.0	96.8
Employee contributions	5.0	5.4
Benefits paid	(153.5)	(139.2)
At 31 March	3,938.0	3,220.1
Present value of benefit obligations		
At 1 April	3,487.7	3,465.8
(Settlements)/ transfers in	–	(3.3)
Service cost	40.3	44.0
Incurred expenses	3.6	5.3
Interest cost	145.4	142.2
Employee contributions	5.0	5.4
Experience (gain)/losses	20.4	35.8
Actuarial (gain)/loss – demographics	(6.4)	35.7
Actuarial (gain)/loss – financial	564.1	(104.0)
Benefits paid	(153.5)	(139.2)
At 31 March	4,106.6	3,487.7
Present value of unfunded obligations	(0.2)	(0.1)
Net deficit at 31 March	(168.8)	(267.7)

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

	2015 Total £m	2014 Total £m
Current service cost	40.3	44.0
Incurred expenses	3.6	5.3
Total included within operating profit	43.9	49.3
Net interest cost	11.0	10.9
Total included within income statement	54.9	60.2

As at 31 March 2015 the key assumptions used in valuing pension liabilities were:

Discount rate	3.4% (31 March 2014: 4.5%)
Inflation rate (RPI)	2.9% (31 March 2014: 3.3%)

Notes to the consolidated financial statements continued

13 (a). Acquisitions – current year

On 16 May 2014 the Group acquired Avincis Mission Critical Services Topco Limited ("Avincis") for £899.5 million (€1,088.5 million). The Group also assumed the Avincis debt of £859.7 million (€1,036.6 million). Avincis is a leading provider of helicopter and fixed wing services in mission critical operations such as medical, search and rescue, firefighting and civil protection in Europe and a leading supplier of critical offshore crew-change helicopter services to the oil and gas industry in the UK sector of the North Sea.

On 29 June 2014 the Group acquired 84.6% of Scandinavian AirAmbulance AB ("SAA") for £25.3 million (SEK290.3 million) including deferred consideration of £7.3 million (SEK 84.2 million). The Group also assumed SAA debt of £40.8 million. This company provides helicopter services in medical mission critical services in Sweden and Finland.

On 2 February 2015 the Group acquired 100% of S MacNeillie and Sons Limited ("MacNeillie") for £65.0 million plus deferred consideration of £1.3 million relating to working capital adjustments. MacNeillie is a specialist vehicle converter and will strengthen Babcock's whole life asset management capability.

On 9 February 2015 the Group acquires 100% of WRN Broadcast Limited ("WRN") for £11.5 million including deferred consideration of £7.5 million. The Group also assumed debt of £1.6 million. WRN offers innovative broadcast solutions that deliver television and radio content to any platform or device anywhere around the world.

On 31 March 2015 the Group acquired the Defence Support Group ("DSG") for £140 million. DSG was the MoD agency responsible for storage, maintenance, repair and overhaul of military vehicles and equipment.

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

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

	Avincis £m	SAA £m	WRN £m	MacNeillie £m	DSG £m	Total £m
Cost of acquisition						
Cash paid	899.5	18.0	4.0	65.0	140.0	1,126.5
Deferred consideration	–	7.3	7.5	1.3	–	16.1
Purchase consideration	899.5	25.3	11.5	66.3	140.0	1,142.6
Fair value of assets acquired (see below)	(5.2)	(2.5)	2.1	34.2	140.0	168.6
Goodwill	904.7	27.8	9.4	32.1	–	974.0

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

	Avincis	SAA	WRN	MacNeillie	DSG	Total
	Provisional fair value acquired £m	Provisional fair value acquired £m	Provisional fair value acquired £m	Provisional fair value acquired £m	Provisional fair value acquired £m	Provisional fair value acquired £m
Acquired intangibles*	413.5	15.5	2.9	15.3	130.6	577.8
Other intangible assets	4.9	–	–	–	–	4.9
Property plant and equipment	574.2	41.4	3.4	3.2	2.5	624.7
Investments	8.3	–	–	–	–	8.3
Deferred tax	(65.8)	(1.4)	(0.4)	(3.1)	(26.1)	(96.8)
Income tax	(8.8)	0.7	0.1	0.5	–	(7.5)
Cash, cash equivalents and bank overdraft	67.0	9.0	0.1	15.7	–	91.8
Bank Loan	(808.1)	(23.9)	–	–	–	(832.0)
Finance leases	(118.6)	(25.9)	(1.6)	–	–	(146.1)
Inventory	20.0	0.1	–	10.2	25.8	56.1
Current assets	138.9	5.9	1.9	6.4	24.8	177.9
Current and non-current liabilities	(162.3)	(23.0)	(3.5)	(13.8)	(17.6)	(220.2)
Provisions	(68.4)	(1.3)	(0.8)	(0.2)	–	(70.7)
Non-controlling interest	–	0.4	–	–	–	0.4
Net assets acquired	(5.2)	(2.5)	2.1	34.2	140.0	168.6

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

Cash outflow to acquire businesses net of cash acquired:

	Avincis £m	SAA £m	WRN £m	MacNeillie £m	DSG £m	Other £m	Total £m
Purchase consideration paid in cash	899.5	18.0	4.0	65.0	140.0	–	1,126.5
Deferred consideration paid in cash	–	–	–	–	–	4.4	4.4
Cash, cash equivalents and bank overdrafts	(67.0)	(9.0)	(0.1)	(15.7)	–	–	(91.8)
Cash outflow/(inflow) in period	832.5	9.0	3.9	49.3	140.0	4.4	1,039.1

Notes to the consolidated financial statements continued

13 (a). Acquisitions – current year (continued)

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

	Avincis		SAA	
	Since date of acquisition £m	For full year £m	Since date of acquisition £m	For full year £m
Group revenue	497.4	538.8	33.2	45.8
Total revenue (including share of joint ventures)	503.7	545.8	33.2	45.8
Group operating profit	50.9	50.7	4.0	5.9
Underlying operating profit	90.7	90.8	5.0	7.0

	WRN		MacNeillie		DSG	
	Since date of acquisition £m	For full year £m	Since date of acquisition £m	For full year £m	Since date of acquisition £m	For full year £m
Group revenue	1.9	11.0	7.6	34.0	–	150.5
Total revenue (including share of joint ventures)	1.9	11.0	7.6	34.0	–	150.5
Group operating profit	(0.1)	(0.7)	0.5	4.1	–	12.5
Underlying operating profit	–	(0.6)	0.7	4.3	–	12.5

13 (b). Acquisitions – prior year

On 23 July 2013 the Group acquired Conbras Engenharia Ltda (Conbras), a privately owned Brazilian company, for a consideration of £22.6 million (R$75 million), including a maximum £4.4 million (R$15 million) deferred consideration based on an earn out payable to non-employees based on financial performance. The full deferred consideration was paid subsequent to the year end. Conbras operates in the facilities management sector, serving private and public customers across Brazil.

On 16 December 2013 the Group acquired Context Information Services Limited (Context) for a consideration of £33.0 million including £4 million of deferred consideration which is payable over 3 years. Context provides specialist technical consultancy services in the cyber security market, with offices in London, Germany and Australia.

On 10 December 2013 the Group acquired Skills2Learn Limited for a consideration of £7.3 million including £1.5 million deferred consideration which is payable over 3 years. Skills2Learn is one of the UK's premier developers of interactive digital learning and virtual reality simulation solutions. The deferred consideration relates to warranty provisions.

On 29 January the Group acquired National Training Institute LLC, (NTI) for a consideration of £12.3 million. NTI is an Oman based technical training specialist providing high quality training solutions to the energy, oil and gas, and construction sectors in Oman.

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

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

	Conbras £m	Context £m	Other £m	Total £m
Cost of acquisition				
Cash paid	18.2	29.0	18.7	65.9
Deemed consideration	4.4	4.0	1.5	9.9
Purchase consideration	22.6	33.0	20.2	75.8
Fair value of assets acquired (see below)	6.5	12.3	6.6	25.4
Goodwill	16.1	20.7	13.6	50.4

Notes to the consolidated financial statements continued

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

	Conbras	Context	Other	Total
	Fair value acquired £m	Fair value acquired £m	Fair value acquired £m	Fair value acquired £m
Acquired intangibles*	9.3	13.5	5.5	28.3
Other intangible assets	–	0.2	–	0.2
Property plant and equipment	0.3	0.4	1.2	1.9
Deferred tax	(2.7)	(3.1)	(0.7)	(6.5)
Income tax	0.2	(0.1)	(0.2)	(0.1)
Cash, cash equivalents and bank overdraft	1.3	0.7	1.4	3.4
Bank loans	(1.3)	–	–	(1.3)
Current assets	8.9	2.9	3.8	15.6
Current and non-current liabilities	(6.8)	(2.0)	(2.0)	(10.8)
Provisions	(2.7)	(0.2)	(2.4)	(5.3)
Net assets acquired	6.5	12.3	6.6	25.4

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

Cash outflow to acquire businesses net of cash acquired:

	Conbras £m	Context £m	Other £m	Total £m
Purchase consideration paid in cash	18.2	29.0	18.7	65.9
Cash, cash equivalents and bank overdrafts	(1.3)	(0.7)	(1.4)	(3.4)
Cash outflow/(inflow) in period	16.9	28.3	17.3	62.5

13 (b). Acquisitions – prior year (continued)

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

	Conbras		Context		Other	
	Since date of acquisition £m	For full year £m	Since date of acquisition £m	For full year £m	Since date of acquisition £m	For full year £m
Revenue	26.1	42.0	3.0	9.9	2.6	13.1
Operating profit	1.5	3.8	0.3	0.5	0.6	2.4

14. Disposals

In January 2015 the Group disposed of its 50% interest in Greenwich BSF SPV Limited ("Greenwich") for £12 million.

During both the current and the previous years the Group paid certain accrued costs on previously disposed of businesses. During the previous period the Group received the deferred consideration on the disposal of the UKAEA Pension Administration Office.

Details of the final assets disposed of are:

	2015			2014		
	Greenwich £m	Previously disposed of business £m	Total £m	UKAEA Pensions £m	Previously disposed of business £m	Total £m
Goodwill	0.4	–	0.4	–	–	–
Investment in and loans to joint ventures and associates	1.1	–	1.1	–	–	–
Mark to market amortisation recycled from hedging reserve	0.7	–	0.7	–	–	–
Net assets disposed	2.2	–	2.2	–	–	–
Profit on disposal of joint ventures and associates	8.5	–	8.5	–	–	–
Disposal costs/deferred consideration	1.3	–	1.3	4.2	–	4.2
Sale proceeds	12.0	–	12.0	4.2	–	4.2
Sale proceeds less cash disposed of	12.0	–	12.0	4.2	–	4.2
Less costs paid in the year	–	(9.9)	(9.9)	–	(3.5)	(3.5)
Net cash inflow/(outflow)	12.0	(9.9)	2.1	4.2	(3.5)	0.7

Notes to the consolidated financial statements continued

15. Transactions with non-controlling interests

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

There were no transactions with non-controlling interest in the previous year.

The following were the transactions with non-controlling interests:

	Increase/ (decrease) in retained earnings £m	Increase/ (decrease) in non-controlling interests £m	Cash outflow/ (inflow) £m
During the year part of the put option in Target Cranes was exercised. As a result 7.6% of shares in target Cranes were purchased, in cash, from the non-controlling interest for £4.3 million utilising the put option valuation with the balance sheet. This resulted in a transfer from non-controlling interest of £2.1 million.	2.1	(2.1)	4.3
Following the exercise of part of the put option the balanced lapsed and was transferred to reserves. The put option liability was shown as non-current Other financial assets on the balance sheet.	3.4	–	–
Transactions with non-controlling interests – 2015	5.5	(2.1)	4.3

16. Related party transactions

Related party transactions in the year are: sales to joint ventures and associates of £287.2 million (2014: £276.1 million) and purchases from joint ventures and associates of £1.9 million (2014: £0.2 million). The year end receivables balance was £25.9 million (2014: £12.2 million) and the payables balance was £3.5 million (2014: £0.5 million).

17. 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 2014 have been delivered to the Registrar of Companies and those for 2015 will be delivered following the Company's Annual General Meeting.

The Annual Report for the year ended 31 March 2015 and this preliminary statement were approved by the Board on 18 May 2015. The auditors have reported on the Annual Report for the year ended 31 March 2015 and 31 March 2014 and neither report was qualified and neither contain a statement under section 498(2) or (3) of the Companies Act 2006.

Annual General Meeting 2015

This year's Annual General Meeting will be held on 30 July 2015 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 2015.

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

Peter Rogers
Group Chief Executive

Franco Martinelli
Group Finance Director

18 May 2015