Babcock International Group PLC
full year results for the year ended 31 March 2016

25 May 2016

Clear visibility, sustained growth

Underlying	March 2016	March 2015	Change
Revenue*	£4,842.1m	£4,503.3m	+ 8%
Operating profit**	£539.7m	£518.7m	+ 4%
Profit before tax***	£459.7m	£417.7m	+10%
Basic earnings per share****	74.2p	68.5p	+ 8%
Statutory			
Revenue	£4,158.4m	£3,996.6m	+ 4%
Operating profit	£352.5m	£352.3m	–
Profit before tax	£330.1m	£313.1m	+ 5%
Basic earnings per share	57.0p	52.9p	+ 8%
Net debt	£1,228.5m	£1,325.6m	- 7%
Net debt/EBITDA	2.0 x	2.2 x	- 10%
Order book	£20bn	£20bn	–
Full year dividend	25.8p	23.6p	+9%

**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.*

Highlights

- Continuing track record of growth driven by strong operational performance - key markets remain positive
  - 8% growth in underlying revenue, 8% organic growth at constant exchange rates
  - 4% growth in underlying operating profit, 6% organic growth at constant exchange rates
  - 10% growth in underlying profit before tax
- Clear visibility of future revenue growth
  - 78% of revenue in place for full year 2016/17; 53% in place for full year 2017/18
  - £20 billion order book provides predictability of future revenues
  - Refreshed £10.5 billion pipeline of opportunities underpins confidence in continued growth
  - Continued contract win rates of over 40% for new bids and over 90% for rebids
- Ongoing focus on financial discipline and cash performance
  - Cash conversion pre capital expenditure 114%; post capital expenditure 83% (2015: 113%; 83%)
  - Net debt reduced to £1,228.5 million (2015: £1,325.6 million); net debt to EBITDA ratio of 2x
- Continued delivery of shareholder value
  - 8% increase in underlying eps to 74.2p
  - 9% increase in full year dividend

Peter Rogers, Chief Executive said:

"Babcock had another successful year in 2016, continuing to create value for shareholders. We delivered a strong performance in underlying revenue, operating profit and earnings per share, demonstrating the effectiveness of our strategy and the quality of our operations.

"We end the year well positioned for future growth in our key markets both in the UK and internationally, where we have had some early successes in securing new opportunities through leveraging the platform provided by the Avincis acquisition. Our confidence is underpinned by the clear visibility provided by our impressive order book and bidding pipeline. As a result, we expect to make further progress this year and beyond.

"Finally, I'm delighted that the Board has chosen Archie Bethel to succeed me on my retirement in September. Archie has played a vital part in our success to date, and his skills, expertise and deep understanding of our complex and critical business make him the ideal person to drive our future growth."

Contact:

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Analysts and investors

A meeting for investors and analysts will be held on 25 May 2016 at 9.00 am at FTI Consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD. The presentation will be webcast live at www.babcockinternational.com and subsequently will be available on demand from mid-afternoon on 25 May 2016. To dial into the presentation, please call +44 (0)20 3059 8125.

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

Introduction

Overview

Babcock had another successful year in 2016, continuing our track record of delivery. Our financial results show sustained underlying growth in revenue, operating profit and earnings per share, demonstrating the effectiveness of our strategy and the quality of our operations. With no acquisitions made during the year, our growth was primarily organic; reflecting new contract awards, the expansion of scope within existing contracts, and the renewal of contracts with enhanced scope and capability.

This organic growth demonstrates the strength and stability of our portfolio and our ability to create value for our shareholders. Our deep technical expertise and focus on building long-term relationships with our customers has enabled us to provide additional support and services to meet their developing needs. We believe we are well positioned for growth in our markets both in the UK and internationally and with clear visibility of future revenue streams.

We believe the market dynamics remain positive for outsourcing, both in the UK and internationally, with many customers seeking increased operational and cost efficiencies in the delivery of critical services, together with enhanced performance and availability and a proven ability to deliver. During the year, the UK Government published its five-year Strategic Defence and Security Review (SDSR) which included a commitment to an increase in defence spending over five years, and further defence equipment and equipment support over the next decade. These commitments underpin a range of opportunities across the armed forces in training and equipment support. The UK government also published its annual Comprehensive Spending Review for 2016/17 which confirmed the Nuclear Decommissioning Authority's budget.

In addition to delivering for our customers and shareholders, this year has been one of positioning for the future. In the second year following our acquisition of Avincis – now Mission Critical Services (MCS) – the business has become fully integrated into the Group and is contributing skills and expertise to help us capture future opportunities internationally. We said at the time of the acquisition that it would take us around three years to gain traction in new territories, particularly with governments and the public sector, before we were able to announce new contracts. Our new international business development managers have been working to identify opportunities which draw upon our existing expertise and have had some early successes: a five year contract to provide airport fleet management support services for Alitalia at Rome Fiumicino Airport; successful country entries for MCS in Ghana and Mozambique, together with an infrastructure development agreement with Mozambique's national oil company ENH. The additional capability MCS brought to the Group has proved valuable in the UK, helping our Defence and Security division to secure a contract to provide forward maintenance and engineering support for the Royal Navy's helicopter fleet.

In Oman, we have agreed a Heads of Terms for a joint venture with the Oman Drydock Company to develop a naval support facility in Duqm, and in Australia our joint venture's contract supporting ANZAC Class frigates has transitioned into the Warship Asset Management Alliance, securing our position for up to 16 years. In Japan, Cavendish Nuclear has signed an agreement with Hitachi-GE Nuclear Energy for collaboration on nuclear decommissioning in Japan.

We continue to focus on maintaining a secure financial base to support our future growth. We have reduced our net debt to £1,228.5 million (2015: £1,325.6 million) during the year and expect to continue reducing the ratio of net debt to EBITDA over the coming years. Delivery of cash remains an important focus 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%. The order book and pipeline have been maintained at £20 billion and £10.5 billion respectively, providing clear visibility of future revenue streams.

Dividend

This year underlying basic earnings per share increased by 8%; the Group has again reduced its gearing and the combined order book and pipeline over £30 billion provides clear visibility of future revenue streams.

The Board remains confident in the long-term future of our business and it therefore recommends a 9% increase in the final dividend per share for 2016 of 19.75 (2015: 18.1 pence per share). If approved by shareholders at the AGM on 21 July 2016, this will give a total dividend for the year of 25.8 pence per share (2015: 23.6 pence per share), an increase of 9%. The final dividend will be paid on 12 August 2016 to shareholders on the register at 1 July 2016.

Order book, bid pipeline and contract performance

Over the past year the order book has been maintained at £20 billion since reaching that level at the end of last financial year, having been replenished by around £4.8 billion of contracts awarded during 2015/16. This provides clear visibility of future revenues in the short and medium term, with 78% of revenue already secured for 2016/17 and 53% for 2017/18.

We continue to make good progress on the contracts already in our order book, including successfully completing the first full year of activity under the £2.6 billion Maritime Support Delivery Framework (MSDF), and starting the first full life extension programmes for the Vanguard Class of submarines and the Type 23 Frigates and celebrating 100,000 flight hours at our Helidax joint venture, a long term contract with the French Defence Ministry for army pilot training and equipment support.

This year saw us maintain high standards of service in our Army training contracts, including winning two City & Guilds Lions awards for our performance at the Royal School of Military Engineering; complete the largest electrification project on the Great Western Mainline for 40 years and successfully begin the provision of helicopter emergency services to Ambulance Victoria for the Australian Victorian Government. A further milestone was achieved when the Cavendish Fluor Partnership submitted the consolidation phase of the Magnox decommissioning project.

We have also benefited from significant growth within existing contracts. The integration of the Defence Support Group (DSG) has progressed very well and, as a result of all milestones being met in the first six months, our scope has been increased to encompass additional responsibility for the procurement of spares and repairs earlier than initially expected. Our decommissioning contract at Dounreay has also expanded, with around £250 million (Babcock share) of new work awarded during the period. We have maintained a high contract win rate of over70%, including rebids, in our MCS business, winning 66 contracts and extensions, several of which include an increase of capability, for example an upgrade of helicopter types.

During the year, we maintained our win rate, achieving success in over 40% of our bids for new contracts, and over 90% for renewals. New contracts awarded include a five year contract to deliver information and knowledge management services in our Marine business; a £120 million work package on Canadian submarine HMCS Corner Brook; a contract to engineer and construct an offshore substation for the Rampion wind farm; a c £0.5 billion contract (Babcock share) to provide fixed wing flight training and a c £0.4 billion contract (Babcock share) to provide rotary wing flight training for the Royal Air Force with our partner Lockheed Martin; oil and gas crew change services in the new geographies of Ghana and Mozambique and three major contracts for new line build won by our transmission business in South Africa. We have won a number of competitively tendered contract renewals, most notably the Phoenix II contract to provide global fleet management services to the MOD's white (non-armoured) fleet of vehicles.

Our bid pipeline has also remained stable at around £10.5 billion (2015: £10.5 billion). Successful contract awards totalling around £3.9 billion which have moved into the order book have been replaced with new opportunities which are currently in process. The majority of bids in the pipeline continue to be new business, with rebids representing only 30%. The majority, 58%, represent contracts with a total value of over £100 million, reflecting the complexity of the contracts for which we compete.

The bid pipeline continues to be supported by a healthy tracking pipeline. 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 believe we will continue to benefit from high demand for our technical expertise and our ability to deliver complex and critical programmes and projects efficiently. Our track record as a trusted partner continues to support our move into new markets and geographies.

The strength of our order book continues to provide clear visibility of future revenues and, together with the bidding pipeline, offers further prospects for growth. The Board therefore remains confident in the underlying performance of the Group and expects to achieve further good progress this year and beyond.

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.

Income statement

Total revenue for the year was £4,842.1 million (2015: £4,503.3 million), an increase of 8%.

The Babcock businesses, excluding acquisitions, delivered underlying revenue growth at constant exchange rates of 8% (2015: 12%). The largest contributor to this growth was the Support Services division which reported organic revenue growth of 13%, primarily due to the full year contribution from the Magnox civil nuclear decommissioning contract within its subsidiary Cavendish Nuclear. The Marine and Technology division achieved organic revenue growth of 9% at constant exchange rates, driven by increased volumes in both the Naval Marine and Technology businesses.

The Defence and Security division reported underlying revenue growth of 4%, benefiting from the early start of the procurement phase of the DSG business, combined with the award of the Aviation and Engineering Support and Airfield Services (AESAS) contract and the start of the UK Military Flying Training System (UKMFTS) fixed wing contract. In the International division, growth in Power (South Africa) and Emergency Services (MCS) was offset by headwinds in the commodity (South Africa) and oil sectors (MCS), giving a flat total International organic revenue at constant exchange rates.

Total underlying operating profit increased by 4% to £539.7 million (2015: £518.7 million). At constant exchange rates, Babcock achieved organic growth in operating profit of 6%, with the Group's operating margin slightly lower at 11.1% (2015: 11.5%), primarily reflecting the low margin recognition in the early stages of the Magnox decommissioning project.

In the Marine and Technology division, operating profit increased by 14%, with margins marginally ahead of last year before the additional effect of adding Research & Development tax credits, which from this year are reported within operating profit. The Defence and Security division achieved a 2% increase in operating profit, with slightly lower margins associated with the additional DSG procurement work awarded during the year.

For the Support Services division, operating profit grew by 7% with margins diluted by the effect of low profit recognition in the early stage of the Magnox decommissioning contract. The Group benefited from £7.5 million profit on disposal of the Lewisham Building Schools for the Future (BSF) Joint Venture Private Finance Initiative (PFI), reported within the Support Services division.

The International division's operating profit was flat at constant exchange rates, reflecting the revenue headwinds. On a reported basis, the division saw an 8% reduction in profit due to currency changes. The total Group reduction in revenue due to the year on year change in average foreign currency rates was £99.0 million with a corresponding £12.0 million effect on operating profit.

The impact of movements in exchange rates has the following effect on the Group's results: a 10% movement in the Euro equates to a £5.7 million change in operating profit and a £3.6 million change in profit before tax. A 10% movement in the South African Rand equates to a £1.7 million change in operating profit and a £1.5 million change in profit before tax. The average rates used for translation of 2015/16 underlying revenue and profit were £/€1.37 and £/ZAR20.6.

During the year a net £1.5 million of provisions were released to the income statement. Over the last six financial years the cumulative net provision charge averaged less than 1.0% of underlying operating profit excluding Joint Ventures. Provision cash outflow in the period was £25.1 million, relating to contracts (primarily pain share/gain share and warranties), personnel (taxation and reorganisation) and property.

Total net finance costs were £80.0 million (2015: £101.0 million) reflecting the decrease in total Group debt over the year and reduced charges for both IAS19 and Joint Venture interest. The Group net finance costs reduced to £53.0 million (2015: £59.0 million) and we expect this to reduce further in future in line with the decrease in the average amount drawn on the Group's revolving credit facilities at a marginal rate of around 2%. The Group's share of joint venture net interest expense decreased to £21.9 million (2015: £31.0 million), largely reflecting the disposals of the Lewisham (in 2015/16) and Greenwich (in 2014/15) BSF Joint Ventures. The IAS 19 pension finance charge was £5.1 million (2015: £11.0 million).

Profit before tax, amortisation of acquired intangibles and exceptional charges increased by 10% to £459.7 million (2015: £417.7 million). The associated tax charge, including the Group's share of joint venture tax of £8.0 million (2015: £5.0 million), totalled £81.9 million (2015: £74.3 million), representing an effective underlying rate of tax of 17.8% (2015: 17.8%). The effective tax rate is calculated by using the Group's underlying profit before tax and therefore excludes the tax effect of amortisation of acquired intangibles.

From 2015/16 Research and Development tax credits will be included within operating profit, in line with industry practice. The 2015/16 Research and Development tax credits effect on operating profit (post customer gain share) was £7 million.

Financial review continued

Amortisation of acquired intangibles was £121.6 million (2015: £99.6 million). The increase in amortisation is as a principal result of a full year of acquired intangible amortisation for the MCS and DSG businesses. 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.

As a result of the visibility afforded by our order book and pipeline of opportunities, we expect to achieve revenue growth of around 7% in 2016/17, with margins remaining broadly stable.

Earnings per share

Basic underlying earnings per share for the year was 74.2 pence (2015: 68.5 pence), an increase of 8%. Basic earnings per share as defined by IAS 33 was 57.0 pence (2015: 52.9 pence) per share, an increase of 8%.

Dividend

This year underlying basic earnings per share increased by 8%; the Group has once again achieved its target of delivering pre-capital expenditure cash conversion of over 100%. The combined order book and pipeline over £30 billion provides clear visibility of future revenue streams.

The Board remains confident in the long-term future of our business and it is therefore recommending a 9 % increase in the final dividend per share for 2016 of 19.75 pence (2015: 18.1 pence). If approved by shareholders at the AGM on 21 July 2016, this will give a total dividend for the year of 25.8 pence per share (2015: 23.6 pence per share), an increase of 9%. The final dividend will be paid on 12 August 2016 to shareholders on the register at 1 July 2016.

Statutory to underlying reconciliation

		Joint ventures and associates						
	Statutory £m	Revenue and operating profit £m	Finance costs £m	Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Change in tax rate £m	Underlying £m
31 March 2016								
Revenue	4,158.4	683.7						4,842.1
Operating profit	352.5	40.8			30.6	115.8		539.7
Share of profit from jv	34.6	(40.8)	21.9	8.0	(29.5)	5.8		–
Investment income	1.1				(1.1)			–
Net finance costs	(58.1)		(21.9)					(80.0)
Profit before tax	330.1	–	–	8.0	–	121.6	–	459.7
Tax	(39.0)			(8.0)		(26.8)	(8.1)	(81.9)
Profit after tax	291.1	–	–	–	–	94.8	(8.1)	377.8
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

There were no exceptional items in 2015/16

Financial review continued

Acquisitions and disposals

The Group made no acquisitions during 2015/16 (2015: £2,023.6 million). On 15 April 2016 the Group acquired German mission critical services company Heli Aviation GmbH for around €14 million including net debt (c £11 million). The business specialises in emergency services, including relief missions to remote locations for non-governmental organisations and government agencies as well as helicopter emergency medical services, aerial work and aircraft maintenance.

During the year the Group disposed of the Lewisham BSF PFI for £14.3 million with a profit on disposal of £7.5 million. In the prior year its underlying operating profit was £4.7 million.

Cash flow and net debt

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

	2016 £m	2015 £m
Operating profit before amortisation of acquired intangibles	468.3	445.9
Amortisation and depreciation	86.0	78.5
Other non-cash items	15.0	16.7
Working capital (excluding excess retirement benefits and provisions)	(11.5)	(23.4)
Provisions	(25.1)	(14.3)
Operating cash flow	532.7	503.4
Cash conversion %	*114%*	*113%*
Capital expenditure (net)	(145.1)	(135.0)
Operating cash flow after capital expenditure	387.6	368.4
Cash conversion after capital expenditure %	*83%*	*83%*
Interest paid (net)	(53.4)	(73.8)
Taxation	(46.6)	(46.1)
Dividends from jvs	23.0	19.5
Free cash flow before pension contribution in excess of income statement	310.6	268.0
Pensions contributions in excess of income statement	(34.9)	(43.9)
Free cash flow after pension contribution in excess of income statement	275.7	224.1
Acquisitions and disposals net of cash/debt acquired	1.0	(2,023.6)
Issue of shares	1.2	1,077.4
Exceptional items – working capital	–	(24.2)
Investments in joint ventures	(4.8)	(1.7)
Movement in own shares	(0.7)	(3.5)
Dividends paid	(125.6)	(117.0)
Exchange difference/other	(49.7)	76.6
Net cash inflow (outflow)	97.1	(791.9)
Opening net debt	(1,325.6)	(533.7)
Closing net debt	(1,228.5)	(1,325.6)

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

	2016 £m	2015 £m
Cash generated from operations	490.3	426.8
Retirement benefit contributions in excess of income statement	34.9	43.9
Exceptional items – acquisition costs working capital	–	24.2
Profit on disposals of jv/exceptional loss	7.5	8.5
Operating cash flow	532.7	503.4

Working capital cash outflows during the period, excluding excess retirement benefits, were £36.6 million (2015: £37.7 million), slightly better than expected. The cash outflow includes £25.1 million which represents provision movements. Cash generated from operations was £490.3 million (2015: £426.8 million) from which the Group's operating cash flow calculation is derived. Operating cash flow after movements in working capital was up 6% to £532.7 million (2015: £503.4 million) and represents a conversion rate of underlying operating profit to cash of 114% (2015: 113%).

Net capital expenditure, including new finance leases, during the year was £145.1 million (2015: £135.0 million). MCS net capital spend was £43 million, lower than anticipated but consistent with reduced growth during the year. The Group also spent £20 million on the new SAP back office ERP system which is being implemented over the coming years, as well as ongoing investment in upgrades to our dockyard facilities in the Marine and Technology division to support future work streams. The Group achieved a conversion rate of operating cash flow after movements in working capital and capital expenditure to underlying operating profit of 83% (2015: 83%). Capital expenditure for the year was 1.7 times the Group's depreciation and amortisation charge of £86.0 million. For the 2016/17 financial year we expect capital expenditure to be in the region of 1.5 times depreciation.

Net Group cash interest paid, excluding that paid by joint ventures, was £53.4 million (2015: £73.8 million), the decrease reflecting the reduction in the Group's debt levels since the acquisition of Avincis in May 2014 and the absence of major refinancing.

After taxation payments of £46.6 million (2015: £46.1 million), free cash flow pre-excess pension payments improved to £310.6 million (2015: £268.0 million), up 16%, representing a free cash flow yield on 31 March 2016 of 6.5% (2015: 5.4%). We expect the cash tax payments as a percentage of operating profit for 2016/17 to be maintained at 2015/16 levels. Free cashflow post excess pension payments increased to £275.7 million (2015: £224.1 million), up 23%.

Acquisitions and disposals during the year totalled £1.0 million (2015: £2,023.6 million) and represent the disposal of the Group's share in the Lewisham BSF joint venture offset by deferred consideration on acquisitions and costs on prior disposals.

During the year the Group received £23.0 million in dividends from its joint ventures (2015: £19.5 million). Cash dividends (including to minorities of £4.1 million) paid out in the year totalled £125.6 million (2015: £117.0 million).

Group net cash inflow was £97.1 million (2015: £791.9 million outflow) decreasing total net debt at 31 March 2016 to £1,228.5 million (31 March 2015: £1,325.6 million). At constant exchange rates the net cash inflow would have been around £60 million higher. This gives a net debt to EBITDA ratio of 2.0 times (31 March 2015: 2.2 times). We would expect to see this reduce to 1.7 times by the end of the 2016/17 financial year.

Return on Invested Capital (ROIC)

We define ROIC as earnings before financing costs and tax excluding exceptional charges, divided by the average of opening and closing equity plus net debt, excluding retirement benefit deficits. Following the significant acquisition made at the beginning of the prior year, ROIC was 14.2% compared with the Group's current weighted average, pre-tax, cost of capital of c 9.2%. Return on capital continues to be a key focus; driving our choices regarding which options to pursue, whether it be tenders, capital expenditure, acquisitions or returns to shareholders.

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.

	2016 £m	2015 £m
Future service contributions	45.3	44.7
Deficit recovery	30.5	39.2
Longevity swap	5.0	4.2
Total cash contributions – employer	80.8	88.1

In the 2016/17 financial year, the total cash contributions expected to be paid by the Group into the defined benefit pension schemes are £78.1 million. £6.9 million of this is for salary sacrifice contributions, £29.0 million is in respect of the cost of future service accrual, £36.2 million is to recover deficits over periods of time agreed with the Trustee and £6.0 million is in respect of the three longevity swaps transacted for each of the largest schemes during 2009/10 to mitigate the financial impact of increasing longevity.

Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £3,824.8million, net of longevity swaps, in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,027.9 million representing a 95% funding level.

Financial review continued

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 since 2009.

	Devonport		Babcock		Rosyth	
	2016	2015	2016	2015	2016	2015
Discount rate %	3.5	3.4	3.5	3.4	3.5	3.4
Rate of increase in pensionable salaries %	2.2	2.2	2.2	2.2	2.2	2.2
Rate of increase in pensions in payment %	2.1	2.1	2.8	2.8	3.0	3.0
Life expectancy of male currently aged 65 years	21.4	21.7	22.9	23.0	19.2	19.3

The total net accounting deficit, pre deferred tax, at 31 March 2016, was £203.1 million (2015: £168.8 million) and the expected IAS 19 net periodic benefit cost in 2016/17 is £47.5 million (2015/16: 49.8 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, and for the Devonport Royal Dockyard Pension Scheme and the Rosyth Royal Dockyard Pension Scheme from 1 June 2015, to reduce future costs (by capping pensionable salaries and related inflation and increasing retirement ages) and in addition employee contribution rates are gradually increasing to a minimum level of 6% up to the cap over the next three years.

Operational review

Marine and Technology

		31 March 2016	31 March 2015	Change + / –
Revenue	Group	£1,674.3 m	£1,543.6 m	+ 8%
	jv	£21.6 m	£18.9 m	+ 14%
	total	£1,695.9 m	£1,562.5 m	+ 9%
Operating profit	Group	£195.9 m	£172.0 m	+ 14%
	jv	£3.0 m	£1.9 m	+ 58%
	Total	£198.9 m	£173.9 m	+ 14%
Operating margin	Group	11.7%	11.1%	
	jv	13.9%	10.1%	
	Total	11.7%	11.1%	

Market overview

The markets in which the Marine and Technology division operate have remained positive during the year. The UK MOD continues with its strategy of managing and supporting critical naval infrastructure and assets through long-term partnership agreements, underpinned by the 2015 Strategic Defence and Security Review (SDSR) which reaffirmed the UK's investment in maritime capability by securing continued investment in the Queen Elizabeth Class (QEC), Frigates (Type 26), Astute and Successor submarine programmes, as well as announcements regarding the development of a general purpose Light Frigate (Type 31), additional Offshore Patrol Vessels (OPVs) and three new logistic support ships. The SDSR stated increased investment in Cyber and Intelligence, Surveillance and Target Acquisition (ISTAR) capabilities which we believe will present significant opportunities for our Technology and Consultancy businesses.

The MOD's Equipment Plan 2015-2025 saw a £3.5 billion increase compared with Equipment Plan 2014. Over the next ten years £19 billion is planned for a surface ship procurement and support programme. The Surface Ship Support Alliance (SSSA) continues to evolve the best and most cost-effective delivery solutions for Royal Navy complex warship support activity while maintaining fleet availability. The next phase of the SSSA development will see the transition to the common support model which is expected to include further outsourcing of delegated technical authority roles.

We continue to consolidate our leading position in submarine support by working with the MOD, BAE Systems and Rolls Royce as part of the Submarine Enterprise Performance Programme (SEPP) to drive availability and support efficiencies across the submarine enterprise, which forecasts spending £43 billion for procurement and support over the next decade. This includes the programme to develop the replacement for the Vanguard class submarines which is scheduled to progress through Government approval during 2016.

The liquefied gas handling market remains very strong, with a growing demand from international markets well suited to our capabilities. We continue to develop our understanding of the potential future UK offshore decommissioning market which Oil & Gas UK currently estimates to be worth between £40 billion and £70 billion over the next 40 years.

The market for cyber security services remains strong with global compound annual growth projected to continue at around 10% over the next five years. We have experienced growing demand for our services driven by recent high-profile cyber security incidents and General Data Protection Regulation and disclosure legislation that will come into force during 2016/17 across Europe.

In Canada the newly elected Liberal government has expressed a strong commitment to support the Royal Canadian Navy procurement and support programmes in order to develop and sustain their global capability and reach.

The publication of the Australian defence White Paper in February 2016 confirmed the intention to increase defence spending to 2% of GDP. In New Zealand the delayed 2015 Defence White Paper is expected to reinforce the capital investment and support programme for the Navy.

Financial review

The Marine and Technology division had a successful year and experienced growth in all sectors, reporting a total increase in revenue of 9%, to £1,695.9 million (2015: £1,562.5 million). Organic growth at constant exchange rates was 9% (2015: 14%). 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. Opportunities in our Liquefied Gas Handling, Consulting and Technology operations were also significant drivers of growth this year, and all three businesses remain buoyant.

Operating profit increased by 14% to £198.9 million (2015: £173.9 million). Organic growth at constant exchange rates was 15%. Operating margins were 0.3% ahead of last year, before the effect of adding Research & Development tax credits into operating profit, at 11.7% (2015: 11.1%).

Operational review

Over the past year the division has continued to develop its position as the UK's strategic support partner, providing deep maintenance and in-service support to the Royal Navy's fleet of submarines and warships as well as delivering services at HMNBs Clyde and Devonport. We are now well into our five-year MSDF contract which covers a range of complex and critical engineering support services across both naval bases until March 2020. We are on track to deliver significant MSDF cost savings to the MOD as well as ensuring the increased availability of the fleet and critical infrastructure.

We continue to deliver a range of submarine and warship refit contracts in support of our customer's programme while building additional capability and capacity to support increasing operational demands. We are working with the MOD to secure investment for the development and upgrade of the nuclear infrastructure required to underpin both the current and future submarine support programme across these critical facilities.

We remain focused on underpinning the Continuous At Sea Deterrence, supporting the Vanguard Class submarines and on working with the MOD to maximise platform availability during the transition from the Trafalgar Class to the new Astute Class. As the class enters service we deployed enhanced resources at both HMNBs Clyde and Devonport.

Our operations at HMNB Clyde continue to develop as we put in place the necessary engineering capability and capacity to meet the increasing operational demand. We remain well placed to support the MOD in the creation of the Submarine Centre of Specialisation at Clyde from 2020 and are focused on building our position in submarine training in the UK and overseas based on our successful Astute Class Training Service.

In December, the Long Overhaul Period and Refuel on HMS Vengeance was completed and she successfully departed Devonport. The arrival of HMS Vanguard at HMNB Devonport at the end of 2015 signified the start of a long-term deep maintenance programme and the beginning of the Vanguard Class life extension programme, with a contract value of around £200 million for the variable costs.

Preparation continues for the start of the Submarine Dismantling Programme which will develop the solution for the dismantling of redundant submarines at our Rosyth and Devonport facilities. Critical infrastructure projects are already underway and the first submarine is planned to enter the initial dismantling phase at Rosyth during late 2016.

Over the past year we have delivered the refit of two Type 23 Frigates as part of the Type 23 life extension programme. This programme involves the replacement of the primary weapon system, updating marine equipment, addressing equipment obsolescence and extending the life of the hull and superstructure. Amphibious assault ship HMS Albion's complex reactivation programme is progressing on schedule; this will be the largest warship support contract carried out at Devonport for 25 years.

We continue to develop and improve our warship support capability through the implementation of innovative technology and processes and are tracking significant new warship support opportunities supporting the Royal Navy in the UK and overseas.

As a strategic partner within the Aircraft Carrier Alliance (ACA), we continue to play a significant role in the QEC aircraft carrier build programme at Rosyth. HMS Queen Elizabeth has progressed through the commissioning phase, with the diesel generators and gas turbines now powering the propulsion shafts and the activation of mission systems and radars. The first compartments have now been handed over to the Royal Navy and are being prepared for the ship's staff to live on-board from mid-2016. The second carrier, HMS Prince of Wales, is now consolidated to her full length in the dry dock as part of the vessel assembly process at Rosyth. We continue to work with our SSSA partners and the MOD to develop a support solution for the QEC as they enter service.

We were awarded contracts for the design and build of air weapons handling system for the first three Type 26 global combat ships by BAE Systems. Additionally, progress has been made over the past year on our positions on weapons handling and launch systems, for UK and international submarine programmes. The Astute programme continues in line with customer expectation with four boat systems delivered and installed, a fifth in customer build and a further two boat systems in manufacture at our facilities for delivery over the next four years. We are approaching the next phase of work on UK Successor and have now commenced production of major long lead items. On the South Korean programme, design is well-advanced and key items have been delivered for the first of class submarine. In addition the customer has re-started work on the Spanish S-80 submarine programme, enabling further Babcock equipment deliveries to proceed. Investments have been made to enhance our manufacturing capability in order to support the strong pipeline of future UK and global submarine equipment programmes that we are tracking.

Following a £10 million investment in dedicated facilities at our Rosyth site, we are now manufacturing components for the Common Missile Compartment being developed by our customer Electric Boat Corporation (General Dynamics) for the future deterrent submarine programmes in the UK and USA.

The second of the OPVs built at our Appledore facility for the Irish Naval Service, named LE James Joyce, was commissioned into service in July. The third vessel is scheduled for delivery in July 2016.

Our work to support the Royal Australian Navy's Collins Class submarine is progressing well and provides a strong basis for a longer term agreement to support the Collins Class fleet until the end of its life. The ANZAC Class support contract (Naval Ship Management - a joint venture with UGL) continues to deliver strongly. At the request of the customer the contract has transitioned into the Warship Asset Management Alliance with BAE Systems and SAAB, securing our position in a long term asset management solution for the ANZAC Class until its end of life (up to 16 years).

In New Zealand, the first year of our new Dockyard Management Contract has seen successful programme delivery and continued development of our relationship with the customer, including the successful completion on time and to cost of the propulsion upgrade programme on HMNZS Te Mana.

In Canada, the Victoria class submarine HMCS Corner Brook has started her refit under our long-term Victoria Class In-Service Support Contract (VISSC). We continue to track several major future naval support opportunities including the 35-year in-service support contract for the Arctic/Offshore Patrol Ships and Joint Support Ships with a final request for proposal expected to be issued in mid-2016. In October 2015 Babcock was awarded a contract for the replacement of High Frequency Monitor Receiver Systems at select Department of National Defence (DND) facilities.

In Oman, we have signed a Memorandum of Understanding with the Oman Drydock Company, with the intention of forming a joint venture for the provision of support services in Duqm, Oman to the Royal Navy, Royal Navy of Oman and other international navies.

Over the past year we have seen sustained growth in our independent technology consultancy businesses, and in particular Context IS, which has doubled in size since its acquisition in December 2013. We continue to develop and enhance our cyber security capabilities by providing our clients with cyber defence capability through our Advanced Security Operations Centre. We continue to develop our analytic solutions capability using new technologies and information management practices and are targeting new customers for our complex information asset management offering.

Despite the challenging oil and gas market conditions our Energy and Marine businesses have continued to develop their capabilities and market presence, with the successful delivery of 73 subsea structures for BP Quad 204 Programme and by winning an engineering and construction contract for the E.ON Renewables Rampion offshore wind substation. Subsequently, in May 2016, we were awarded a contract for the construction of the world's first reactive compensation station for DONG Energy's Hornsea Project One offshore wind farm. In our core liquid gas handling markets, contract wins continue to exceed expectations and we are progressing a number of engineering design opportunities for the new generation liquid natural gas (LNG) fuel supply vessels. In April 2016 Babcock was awarded two Queen's Awards for Enterprise for outstanding business achievement in the global liquefied petroleum gas (LPG) sector. The awards, for 'International Trade' and 'Innovation', are given for the highest levels of excellence in each category and represent a major achievement for the rapidly growing business unit.

We also continue to develop relationships with commercial marine operators and over the past year have successfully delivered several ship refits and upgrade projects for commercial customers and the UK Border Agency at our Rosyth facility.

Divisional outlook

Our position and relationship with the Royal Navy and MOD through the Terms of Business Agreement (ToBA) continues to provide excellent visibility of our future naval support programme of work. We continue to identify opportunities to increase the scope of our complex and critical engineering support services to the MOD whilst maximising the availability of their assets and providing increased value for money.

We will continue to work with the new Single Source Regulations Office (SSRO) on future profit rates. We do not anticipate that the level of contracts awarded in 2016/17 which are subject to the regulations will be significant, and therefore anticipate a limited impact to operating profit of no more than £1 million in the coming year.

In addition to our core defence business, our expertise in complex and critical engineering services presents opportunities in adjacent commercial marine and energy markets both in the UK and internationally. We continue to develop our capabilities and capacity in order to exploit these opportunities as the market conditions evolve.

We believe the outlook for the Marine and Technology division is positive, with a strong pipeline of growth opportunities in both the UK and in our established international markets. The division expects to continue to make good progress during the next financial year, despite the maturing of QEC aircraft carrier work which will reduce revenues by around £60 million, in line with previous guidance.

Operational review continued

Defence and Security

		31 March 2016	31 March 2015	Change +/–
Revenue	group	£754.6 m	£710.6 m	+ 6%
	jv	£88.5 m	£102.2 m	– 13%
	total	£843.1 m	£812.8 m	+ 4%
Operating profit	group	£86.1 m	£82.4 m	+ 4%
	jv	£45.2 m	£46.3 m	– 2%
	total	£131.3 m	£128.7 m	+ 2%
Operating margin	group	11.4%	11.6%	
	jv	51.1%	45.3%	
	total	15.6%	15.8%	

Market overview

The UK's 2015 five-year Strategic Defence and Security Review (SDSR) moved defence fiscal policy towards investment and growth, with a future policy of drawing more heavily on the private sector's people and skills. It included a substantial programme of investment for new defence equipment, largely funded by over £9 billion of efficiency savings which are expected to be achieved during this UK parliament.

The SDSR provides for growth opportunities on existing contracts, such as military flying training and military equipment support, through increased training output and increased equipment utilisation. We believe new opportunities are emerging through a policy of continual defence reform intended to make the MOD leaner and more efficient. Customers across defence are looking to drive further operational benefits and savings through more innovative ways of working with industry, including strategic support supplier partnerships. The MOD continues to develop the Whole Force approach, ensuring that it makes best use of industry to support the front line, deploying forward when required.

The significant headcount reductions required across the MOD's civilian workforce provide further opportunities for the outsourcing of technical activities, underpinned by a government policy to outsource where it makes sense to do so. Currently there are a range of complex and technically difficult activities which could present opportunities for industry, such as areas where over 5,000 civilian personnel are employed by our customer in a range of industrial related roles.

International defence markets demonstrate varying degrees of maturity in their outsourcing activities, however all of the regions on which we are focused are expanding their provision for the delivery of equipment support and training by industry. We are currently working across the Group to support a number of opportunities in these markets.

Financial review

Revenue for the Defence and Security division, including the Group's share of jv revenue, increased by 4% to £843.1 million (2015: £812.8 million). Revenue growth was driven by the early start and procurement phase of the Defence Support Group (DSG) business, combined with the Aviation and Engineering Support and Airfield Services (AESAS) contract and the start of the UKMFTS fixed wing contract in the fourth quarter of the year.

Total operating profit for the division increased by 2% to £131.3 million (2015: £128.7 million). Operating margins were slightly lower at 15.6% (2015: 15.8%), reflecting the lower margins on the procurement phase of DSG.

Operational review

Our Air business continued to deliver a strong operational performance with all contracts performing in line with our expectations. Support to UK military flying training remains a core element of our service delivery and Ascent, our joint venture with Lockheed Martin to deliver UKMFTS, was awarded a contract worth c £0.5 billion (Babcock share), to deliver and manage the fixed wing flying training service until 2033. This was followed in May 2016 with a further contract awarded to Ascent (c £0.4 billion – Babcock share) for the delivery of a similar service for rotary wing flying training.

We continue to support current military flying training through our Hawk contracts. We concluded our sole source negotiation with the MOD at the end of 2015 and were awarded a five-year contract worth around £50 million to support Hawk T2. We have continued to develop our relationship with BAE Systems in support of Hawk aircraft.

We reported last year that we would develop our capability in military rotary wing support through collaboration with MCS. This proved successful, and we were awarded a five-year £20 million contract to deliver AESAS to the Royal Navy at Yeovilton and Culdrose. Under AESAS we will provide forward maintenance and aircraft engineering to all rotary wing aircraft types in Royal Navy service, as well as general airfield engineering services and support to aircraft operations.

The DSG contract with the MOD started on 31 March 2015. This is a first generation 10-year outsourcing contract to maintain, repair, overhaul, and to provide stores and spares procurement services to, land equipment, ranging from small arms to main battle tanks, delivered from seven main sites across the UK. It included the transfer of 1,950 staff into Babcock on 1 April 2015 and involves working with the Army to transform the equipment maintenance of its fleet of vehicles progressively over the life of the contract.

The contract has performed very well, and has already delivered growth in excess of £50 million, including a project to deliver 116 armoured vehicles to Latvia and the start of work with Lockheed Martin in preparation for the Warrior Capability Sustainment Programme. We have also taken on additional responsibility for the procurement of spares and repairs, earlier than planned.

In its first year of operation, the DSG team has delivered 50,000 maintenance and overhaul activities, day-to-day management of a training fleet of 1,000 vehicles and management of the Army's stored fleet of 6,000 vehicles. The transformation is on track with all contractual milestones met and the cost base is being transformed.

We secured the six-year Phoenix II contract to provide fleet management services to the MOD – a successor to our earlier Phoenix I contract. In addition to consolidating the 'white fleet' services in Germany and Northern Ireland, Phoenix II has the potential to include international operations in Cyprus and Gibraltar.

Our ALC joint venture with Amey continues to perform strongly, with the C-vehicle contract acknowledged as an effective and flexible service in the provision and support of the MOD's worldwide fleet of 2,000 construction vehicles. We successfully completed the regeneration of C-vehicle equipment returning from Afghanistan.

Within our training operations, under the Electro-Mechanical Training contract we successfully completed the move of the Royal Electrical and Mechanical Engineers training from Bordon and Arborfield to MOD Lyneham, Wiltshire. This involved the recruitment of over 300 staff and the safe move of c 250,000 pieces of equipment, ranging from spanners to tanks.

At the Armour Centre in Bovington and Lulworth, we were awarded a follow-on contract to provide Training, Maintenance and Support Services, which runs for three years from 1 April 2016. Together with DSG, this puts us at the heart of delivering the UK's Armoured Vehicle capability.

Performance at the Royal School of Military Engineering (RSME) continues to remain at the highest level; the contract is closely monitored and measured against 147 performance indicators and so it is a significant achievement that there have been no KPI failures in the last three years. The RSME won two City & Guilds Lions awards in 2015/16: Tutor and Centre of the Year, and the Happold Brilliant Award for Excellence in Training.

The Fleet Outsourced Activities Project which delivers wide-ranging training services to the Royal Navy has completed its fourth year of strong performance. We have continued to operate the contract below its target cost and have seen significant growth since service commencement.

A key strand of our ongoing support to the Royal Navy is the transformation of its engineering training. The first cohort trained in mechanical engineering courses at HMS Sultan are now in operational roles at sea and feedback on their performance has been most encouraging. Training utilising the transformed delivery and content development for the equivalent weapons engineering course at HMS Collingwood is nearing completion with the initial group of technicians having entered the Fleet in April 2016. The transformation project has proved challenging but has allowed us to introduce a series of innovative approaches to training with noticeable enhancements being an increase in the use of imaginative and stimulating on-line learning supported by facilitated instruction.

Following the successful conclusion of the Hunter Training Project contract for the Royal Saudi Naval Forces through BAE Systems Saudi Arabia in June 2015, its successor, the Hunter Training Project 2, is now fully underway and will run until June 2022.

Divisional outlook

Following the award of the AESAS rotary wing contract, the UKMFTS fixed and rotary wing contracts and the good progress made in the first year of the 10-year DSG contract, which included winning additional responsibility for the procurement of spares earlier than expected, we believe the division is well positioned for a strong performance in 2016/17.

Operational review continued

Support Services

		31 March 2016	31 March 2015	Change +/–
Revenue	group	£946.6 m	£937.1 m	+ 1%
	jv	£566.4 m	£379.3 m	+ 49%
	total	£1,513.0 m	£1,316.4 m	+ 15%
Operating profit	group	£87.7 m	£80.2 m	+ 9%
	jv	£19.9 m	£20.7 m	– 4%
	total	£107.6m	£100.9 m	+ 7%
Operating margin	group	9.3%	8.6%	
	jv	3.5%	5.5%	
	total	7.1%	7.7%	

Market overview

The Support Services division delivers services to both public and private sector customers across three key areas; civil nuclear, asset management and technical training. We believe our markets remain attractive, with existing and potential customers continuing to seek outsourced solutions to reduce their cost base. In the UK, the civil nuclear market remains resilient. We value the addressable market per annum at around £2.3 billion, with opportunities for both decommissioning and new build services providing scope for growth, albeit the timing of new build activity remains affected by uncertainty on funding routes.

We anticipate that outsourced spend on the management of complex fleet and equipment is likely to increase, particularly within the emergency services sector as the Government's new cross-service collaboration agenda comes into force. We believe we can address a greater part of this market as a result of our increased capability to deliver specialist vehicle conversion services following the acquisition of MacNeillie in February 2015.

Demand for our technical training services remains high, as demonstrated by recent activity in the rail and utilities markets. We currently value the UK technical training market at around £1.3 billion, and anticipate further growth opportunities from the new apprenticeship levy. We believe this will trigger large scale employers to review how they acquire and develop their workforce in the most efficient way, and provide greater funding visibility.

We see significant international opportunities in our core growth markets; most notably in the areas of complex fleet management, and technical training, where we have built a sizeable pipeline of visible opportunities and routes to market.

Financial review

The Support Services division continued to deliver strong growth in revenue, which increased by 15% to £1,513.0 million (2015: £1,316.4 million), driven by the first full year of the Cavendish Fluor partnership's operation of the Magnox decommissioning joint venture. Growth in Rail, Education and Critical Services more than offset the relatively small decline in Power.

Revenue growth drove operating profit growth, noting however the effect of the lower margin recognition in the early years of the Magnox contract. The £7.5 million gain on the sale of the Lewisham BSF joint venture is included in the operating profit for the year and represented £4.7 million of underlying profit in the prior year.

Operational review

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

Following the award of the 13.5 year Magnox and RSRL decommissioning contract in 2014, the Cavendish Fluor Partnership – in which Cavendish Nuclear is the lead partner - has completed the consolidation submission phase of the project, embedding the new contract programme across the 12 licensed sites. The contract team has delivered a number of successes, including the successful operation of the Wylfa power station, followed by taking the reactor offline in December 2015; and the early completion of the defueling project at the Oldbury site.

At Dounreay, the Cavendish Dounreay Partnership continued to make good progress, with key milestones such as the shipping of breeder elements from storage to Sellafield and the transfer of waste packages into underground disposal vaults being achieved on, or ahead of, schedule.

Significant additional scope has been introduced to the programme, following the change in the Government's national strategy for the consolidation of nuclear materials. This year saw the first shipments take place ahead of schedule. A technically complex project, Dounreay aims to be recognised as the pre-eminent reference site for decommissioning in Europe.

Operational review continued

As part of its existing Lifetime Support Agreement with EDF, Cavendish Nuclear successfully supported a major planned outage at the Dungeness power station delivering a complex maintenance programme and ensuring the station was brought back to power generation on time and within budget.

Major design and construction projects to aid decommissioning at both Sellafield and Magnox power stations continue to be delivered to agreed programmes and budget. This includes winning future phases for two major projects, securing work for the next three years. At the Atomic Weapons Establishment, Cavendish Nuclear built on its existing relationship with the customer, signing a five-year contract to decommission a further facility within its site.

In nuclear new build, EDF announced the selection of the Cavendish Boccard Nuclear joint venture as the preferred bidder for a key component to the Hinkley Point C programme, the Balance of Nuclear Island mechanical package. Funding and legislative issues have delayed the expected start date for this programme but the business continues to provide support in readiness for a final investment decision. Cavendish Nuclear is also pursuing additional opportunities in the UK new build programme.

Internationally, Cavendish Nuclear has continued to explore targeted opportunities for overseas work, and in November 2015 signed an international collaboration framework agreement with Hitachi-GE in connection with decommissioning activities in Japan.

Elsewhere in the division, the Critical Services business benefited from the February 2015 acquisition of a specialist vehicle converter MacNeillie, which further strengthened our full life-cycle offering for the emergency services sector. The business was successfully integrated into our wider Resilience & Emergency Services business, increasing our capability. We continue to develop our tender to the Metropolitan Police service for the provision of fleet maintenance services. This would replace our existing repair and maintenance and vehicle conversion contracts, which have been extended to April 2017, and would include additional scope.

Also in Critical Services, our airports business continues to progress well. During the period we successfully delivered upgrades to the baggage systems in Heathrow Airport's Terminals 2 and 3, and completed major baggage system works at Gatwick's North Terminal.

Significantly, the division has made substantial progress in its plans to aid international growth, in cooperation with the MCS business. In March, we were awarded a five-year contract by Alitalia, Italy's national air carrier, to manage its fleet of over 2,000 assets at Rome Fiumicino Airport. The support provided by Babcock's established local MCS team, in combination with our track record of delivery, played a critical role in our ability to win the bid. In Critical Services' Mining and Construction business, two of our customers – Lafarge and Holcim – came together in a merger during the summer of 2015. This led to the integration of a number of our existing contracts and also the sale of a number of UK sites to CRH. We continue to maintain these UK assets for CRH.

Our Skills & Learning business has secured a number of new training contracts, both in the UK and the Middle East. In the UK, we also expanded our delivery of apprentice training for the British Army, through a new contract with the Royal Armoured Corps and the Royal Armoured Veterinary Corps. We also won further five-year contracts with BMW Group UK, to provide training for its dealer network, and with Network Rail, to deliver its advanced apprenticeship programme. Babcock was named Training Partner of the Year at the Science, Engineering, Manufacturing and Technologies Alliance (SEMTA) Skills Awards 2016, for our work with EDF Energy and Network Rail apprentices.

Also within Skills & Learning, our e-learning and virtual reality simulation business continues to experience high demand for its products. It secured business from a range of customers, including British Airways, Siemens and BAE Systems, and also supported projects across other Babcock divisions.

Babcock continues to invest in new technologies and capabilities to drive efficiencies in training. We have developed a state-of-the-art emergency services driving simulator for our 21-year London Fire Brigade contract, which will support the delivery of driver training across the brigade. We have also created a new centre of excellence to provide customers with access to high quality, innovative training course design.

In our Network Engineering business, the rail team has continued to perform well, delivering Network Rail's plain line track renewals framework contracts in the second year of the customer's five-year control period. Working with Network Rail, we completed the largest project on the Great Western Mainline for over 40 years. The team replaced 10.25km of track over a 46 day period as part of the Bathampton Electrification project, in preparation for the arrival of a new fleet of electric trains.

ABC Electrification, our joint venture with Alstom and Costain, continues to make good progress on projects including the West Coast Power Supply Upgrade, the Great Western Route Modernisation and the Edinburgh Glasgow Improvement Programme.

Also in Network Engineering, we experienced a reduction in revenue of £30 million in our Power business which led to a programme to restructure our operations in the first half of the year. However, four major 400kV overhead line refurbishment projects were awarded by National Grid during the year, three of which began mobilisation in January 2016.

Our Media Services business completed the integration of WRN Broadcast, acquired in February 2015, and invested in a new Master Control Room facility to expand our multi-platform offering. This enhanced capability has enabled us to attract several new customers. We recently signed a three-year contract with new customer, Perform Group, to distribute live and on-demand sports coverage to any device in Japan and Germany, with further countries expected to be added next year. Meanwhile the BBC World Service contract and short-wave radio contracts continue to perform well.

Operational review continued

The Education business successfully expanded its footprint, mobilising a five-year £38 million contract with Worcestershire County Council to deliver education support services to around 240 schools in the county from October 2015. We also successfully launched an on-line product - Better Governor - expanding our presence in the digital market.

Divisional outlook

We believe that demand for outsourcing solutions remains strong in our chosen growth markets of civil nuclear, fleet management and technical training. We are confident that our well defined capabilities and proven track record of delivery in complex and critical environments will prove attractive to existing and new customers. We believe our deep technical knowledge, strongly aligned to customer requirements provides us with a distinctive and compelling offering.

As previously indicated, the scheduled reduction in revenue next year in the Magnox and Dounreay decommissioning contracts of around £100 million is expected to result in low single digit revenue growth for the division in financial year 2016/17. We remain confident that the division is well placed to pursue the substantial opportunities available in the UK and internationally.

International

			31 March 2016	31 March 2015	Change +/-
Revenue	group	(MCS £541.1m)	£782.9 m	£805.1 m	–3%
	jv	(MCS £7.2 m)	£7.2 m	£6.3m	+14%
	total	(MCS £548.3m)	£790.1 m	£811.4 m	–3%
Operating profit	group	(MCS £92.7m)	£105.4 m	£114.3 m	– 8%
	jv	(MCS £2.2 m)	£2.2 m	£2.5 m	–12%
	total	(MCS £94.9m)	£107.6 m	£116.8 m	– 8%
Operating margin	group		13.5%	14.2%	
	jv		30.6%	39.7%	
	total	(MCS 17.3%)	13.6%	14.4%	

Market overview

Mission Critical Services (MCS)

In our Emergency Services business, which delivers vital services to national and regional governments in Europe and Australia, we have maintained leading positions in all of the countries in which we operate. This market remains attractive and has continued to trade well throughout the year, as demonstrated by a number of recent contract wins and important rebids and extensions.

We continue to see new emergency services opportunities, including air ambulance, search and rescue and firefighting in our existing markets and in adjacent geographies. We also see opportunities to grow the provision of support services to the defence sector in Europe, and have delivered complex projects to upgrade national government fleets in Spain, France and the UK. MCS is also participating in Unmanned Aerial Vehicle (UAV) technologies, developing our own prototype for surveillance and firefighting coordination tasks.

In Oil and Gas, the market for outsourcing has suffered from the continuing weakness in the oil price which has led to a reduction of capital expenditure by the industry, particularly in services related to hydrocarbon exploration activity. As reported previously, this has resulted in exploration-related contracts not being renewed or being delayed which has resulted in a decrease of activity. However the majority of our services to this sector are related to oil and gas production from existing facilities where operations - and therefore the requirement to fly oil and gas workers offshore - continue. MCS continues to benefit from long-term production-related contracts in the UK North Sea and Australia.

Despite the low oil price environment contracting activity has not ceased; we have continued to win new contracts, and have increased our geographic footprint in Africa with a strategic customer led entry in Ghana and Mozambique through two new long-term contracts. We are taking action to reduce costs, grow presence and offer solutions which are integrated with the wider Group and to continue to leverage international revenue synergies.

South Africa

South Africa experienced tough trading conditions in 2015/16 as a consequence of the economic fallout from declining commodity volumes. The ongoing slowdown in Asian economies had a major impact on the mining markets, resulting in equipment and automotive markets falling by over 30% during the year, and the currency weakening 30% versus Sterling.

Power generation and distribution in the region remains a challenge due to an ageing fleet of fossil fuel fired power stations and project delays on the two new stations of Medupi and Kusile. This has provided us with an opportunity to provide maintenance and breakdown services under our long term Eskom contract. The need to distribute the new power as it becomes available has seen an improvement in the transmission line market with a number of new project opportunities coming to market.

Operational review continued

Our African export markets remain subdued as most of them have been impacted by headwinds in the commodity sector, and oil price weakness has impacted the timing of the exploitation of offshore gas fields in Mozambique. Despite this, we have made considerable progress during the year in creating a platform which should allow us to benefit from future expected growth in the region.

Financial review

The International division's revenue declined by 3% compared to the previous year, to £790.1 million (2015: £811.4 million), reflecting the impact of weaker oil and commodity prices on both the MCS and South African businesses and a movement in exchange rates. As a result, operating profit declined by 8% to £107.6 million (2015: £116.8 million), with the division achieving an overall margin of 13.6%. At constant exchange rates, organic revenue and operating profit were flat.

Our South African operations faced a challenging macro-economic environment throughout 2015/16, with low commodity prices and subdued export markets affecting the Equipment and Trucks business, which nevertheless continued to increase its share of the market. The increase in revenue of 6% at constant exchange rates could not offset a fall in profits of 20% reflecting the margin pressures in the equipment business offset by the growth in the Power business.

MCS reported revenue for the period of £548.3 million. Excluding pass-through costs which are recharged to the customer with no added margin and at constant exchange rates, organic revenue softened by 1% year-on-year.

On the same basis, revenue from emergency services operations grew by 5%, reflecting both contract wins and the growth within existing contracts, offset in part by lower firefighting activity in Spain. The significant headwinds in the oil and gas business have continued through the year. Revenue for MCS' Oil and Gas services business declined by 13% year on year with reduced flying hours and little exploration.

MCS' profits reflect the revenue change, but the actions taken to improve synergies and deliver efficiencies across the business have resulted in the margin being broadly maintained at 17.3% (2015: 17.8%).

Operational review

Mission Critical Services (MCS)

Over the last financial year, MCS has maintained a high contract win rate of over 70% including rebids, winning 66 contracts and extensions with a total value of around £510 million.

Our Emergency Services business has continued to make good progress. As a result, and with the full period effect of contracts awarded during the prior year, the Emergency Services business grew 5%, at constant exchange rates in 2015/16.

Contracts awarded during the period include a further two years extension of the search and rescue contract operated for SASEMAR on behalf of the Spanish Central Government. With a total contract value of around £60 million, it includes the operation of 11 helicopters and three planes, most of them in service 24 hours a day. These aircraft carried out more than 570 operations and rescued more than 290 people during 2015.

In the UK, we have renewed four emergency services contracts, several including an increase in scope or upgrade of equipment. In February, we were awarded a contract by existing customer Wales Air Ambulance Charity to provide pilots, engineers and three brand-new custom-configured H145 helicopters. Equipped for night flights, the upgrade from their existing fleet of H135s moves the charity a step closer to its goal of providing a 24-hour air ambulance service.

In France, as part of the French Ministry of Health's new process of placing regional tenders, we have been able to secure a new long-term helicopter emergency medical services contract for the Languedoc Region where we will be providing the service with four additional aircraft. In Australia, the 10-year contract with Ambulance Victoria for the Victorian Government began to ramp up operations in January, after a successful complex mobilisation which including the delivery of five new AW139 twin engine helicopters. Our Australian business was also awarded a three-year extension by the Government of South Australia to continue operating the State Rescue Helicopter Service. The extension also includes the provision of a replacement helicopter with improved range, payload and cabin space, and an upgrade of the remaining two helicopters to ensure their continuing compliance with aviation safety standards.

In the fire-fighting market, the Spanish Central Government awarded MCS a new contract to deliver a nationwide aerial fire fighting service in Spain. In Portugal MCS was awarded a three year contract to operate two Canadair CL215 for the Central Government during the fire-fighting season.

MCS is also growing its support to the defence sector in Europe, delivering complex projects such as the life extension programme developed for the Spanish Navy. The programme to upgrade seven AB212 helicopters with the latest technological and avionic advances will extend their operating life by at least 15 years. In the UK, we formally handed over the first of seven redesigned and upgraded H135 T2+ helicopters to the National Police Air Service.

Having been unsuccessful in our French central government bid earlier this year, we have taken steps to improve our ability to structure tenders designed for national European governments. Recently, MCS was awarded a pioneering contract by Spain's Galician government to create a centre of reference for the research and development of UAVs which will provide surveillance and firefighting prevention services to the civil sector. The project was won in a competitive tender against large OEMs.

Operational review continued

In April 2016 we acquired Heli Aviation, a German provider of mission critical helicopter services for around £11 million. The business not only provides MCS with an entry into the domestic German emergency services market but also provides non-governmental organisations and government agencies services for relief missions, delivering food, medical supplies, doctors and rescue teams to remote locations outside Europe.

In Oil and Gas, despite headwinds from the lower oil price, we have been able to increase our customer portfolio, winning a new North Sea contract and a new customer in Australia as well as extensions of existing contracts. This will largely offset the weakness in the Oil and Gas sector's flying hours in the coming year.

MCS has also increased its geographic footprint in Africa with a strategic customer-led entry into Ghana and Mozambique through two new long-term contracts with a total value of around £80 million. The Group's existing presence in South Africa played a key role for our successful entry into both countries. However, we experienced delays and cancellations in the North Sea and Australia, particularly in services related to exploration.

We are currently working to capture the benefits of the systems and expertise of the wider Group through collaboration in a number of areas including training, information systems, safety management, improved asset management capability and access to a much broader pool of expertise and resource across the business. In Italy, our team played a crucial role in winning a new airport services contract with Alitalia at Rome's Fiumicino airport, worth around £5 million revenue per annum, in collaboration with Support Services division colleagues in the UK, and MCS supported the Defence and Security division's successful bid to provide forward maintenance and aircraft engineering for the Royal Navy at air stations in the south west of England.

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

The new IT systems will enable extensive business change across maintenance and engineering, including airworthiness management, maintenance planning and execution, logistics, warehousing and purchasing, and also has a significant impact on finance. The new system will be set up to achieve measurable business benefit through the implementation of common best practice, business processes and shared data across the MCS group.

South Africa

The economic crisis that the country has found itself in has had a material effect on operations. However, in spite of the headwinds, we have made progress in increasing market share in our core markets of equipment, trucks, portable generators and rentals. The 6% increase in revenue reflects increased market share in Equipment, with Power also growing well; however there has been a 20% reduction in profit driven again by the equipment business margin pressures.

During the year we have undertaken preliminary activity in Zambia, Namibia and Botswana to take advantage of anticipated growth and in Botswana, in particular, we have opened a new Babcock owned dealership in preference to an independent sub dealer. In Mozambique, we have agreed a joint venture with ENH Logistics, the state owned enterprise responsible for developing the sovereign oil and gas reserves. We believe these steps will provide a platform for future growth in the country.

Divisional outlook

In MCS we continue to see significant prospects for growth in the Emergency Services business as we progress bids in our pipeline and opportunities in tracking that have yet to come to market. We are looking to build on our long-term customer relationships and on our proven expertise and technology focus to create further opportunities for growth in new contracts, in existing contracts and in new geographies. However, as previously advised, headwinds in the Oil and Gas sector are expected to continue for some time with contract wins offset by reduced flying hours.

Following the end of the financial year, a tragic accident to an Airbus EC225 helicopter resulted in the grounding of the aircraft type by aviation authorities in the UK and elsewhere, with the exception of flights providing life and rescue services. Whilst it is too early to predict the effect of this accident on the division, we make no change to Group guidance.

In the South African business, the power generation and transmission market continues to offer opportunities, and we hope to extend our support services offering in the power sector. We continue to focus on growing our market share in trucks, construction equipment and rentals, developing the business in Mozambique and focused expansion of our export market.

We continue to progress the identified opportunities to grow Babcock's presence internationally, using our access to the wider Group's expertise and our local teams.

Group income statement

For the year ended 31 March 2016	Note	2016 £m	2016 Total £m	2015 £m	2015 Total £m
Total revenue		4,842.1		4,503.3	
Less: joint ventures and associates revenue		683.7		506.7	
Group revenue	2		4,158.4		3,996.6
Group					
Operating profit before amortisation of acquired intangibles	2	468.3		445.9	
Amortisation of acquired intangibles	2	(115.8)		(93.6)	
Group operating profit			352.5		352.3
Joint ventures and associates					
Share of operating profit		40.8		35.2	
Investment income		29.5		36.2	
Amortisation of acquired intangibles		(5.8)		(6.0)	
Finance costs		(21.9)		(31.0)	
Income tax expense		(8.0)		(5.0)	
Share of results of joint ventures and associates			34.6		29.4
Group and joint ventures and associates					
Operating profit before amortisation of acquired intangibles		509.1		481.1	
Investment income		30.6		37.6	
Underlying operating profit*	2	539.7		518.7	
Amortisation of acquired intangibles		(121.6)		(99.6)	
Group investment income		(1.1)		(1.4)	
Joint ventures and associates finance costs		(21.9)		(31.0)	
Joint ventures and associates income tax expense		(8.0)		(5.0)	
Group operating profit plus share of joint ventures and associates			387.1		381.7
Finance costs					
Investment income		1.1		1.4	
Retirement benefit interest		(5.1)		(11.0)	
Finance costs		(64.1)		(70.4)	
Finance income		11.1		11.4	
			(57.0)		(68.6)
Profit before tax	2		330.1		313.1
Income tax expense	3		(39.0)		(46.7)
Profit for the year			291.1		266.4
Attributable to:					
Owners of the parent			286.6		260.2
Non-controlling interest			4.5		6.2
			291.1		266.4
Earnings per share from continuing operations	4				
Basic			57.0p		52.9p
Diluted			56.8p		52.6p

* 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 2016	2016 £m	2015 £m
Profit for the year	291.1	266.4
Other comprehensive income		
Items that may be subsequently reclassified to income statement		
Currency translation differences	34.1	(78.6)
Fair value adjustment of interest rate and foreign exchange hedges	15.9	(14.7)
Tax on fair value adjustment of interest rate and foreign exchange hedges	(3.2)	2.9
Fair value adjustment of joint venture and associates derivatives	(16.4)	(41.9)
Tax on fair value adjustment of joint venture and associates derivatives	3.3	4.5
Items that will not be subsequently reclassified to income statement		
Remeasurement of retirement benefit obligations	(64.1)	66.0
Tax on remeasurement of retirement benefit obligations	13.0	(13.1)
Impact of change in UK tax rates	(4.7)	–
Other comprehensive loss, net of tax	(22.1)	(74.9)
Total comprehensive income	269.0	191.5
Total comprehensive income attributable to:		
Owners of the parent	265.8	185.5
Non-controlling interest	3.2	6.0
Total comprehensive income	269.0	191.5

Group statement of changes in equity

For the year ended 31 March 2016	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 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	–	1077.4
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
At 1 April 2015	301.3	873.0	851.3	30.6	314.5	(91.6)	(99.0)	2,180.1	18.0	2,198.1
Total comprehensive income/(loss)	–	–	–	–	230.8	(0.4)	35.4	265.8	3.2	269.0
Shares issued in year	1.2	–	–	–	–	–	–	1.2	–	1.2
Dividends	–	–	–	–	(121.5)	–	–	(121.5)	(4.1)	(125.6)
Share-based payments	–	–	–	–	16.2	–	–	16.2	–	16.2
Tax on shared-based payments	–	–	–	–	(1.9)	–	–	(1.9)	–	(1.9)
Other reserves released	–	–	(82.5)	–	82.5	–	–	–	–	–
Disposal of subsidiary with non-controlling interest	–	–	–	–	(0.7)	–	–	(0.7)	0.7	–
Own shares and other	–	–		–	(0.7)	–	–	(0.7)	–	(0.7)
Net movement in equity	1.2	–	(82.5)	–	204.7	(0.4)	35.4	158.4	(0.2)	158.2
At 31 March 2016	302.5	873.0	768.8	30.6	519.2	(92.0)	(63.6)	2,338.5	17.8	2,356.3

Group balance sheet

As at 31 March 2016	Note	2016 £m	2015 (restated) £m
Assets			
Non-current assets			
Goodwill		2,550.6	2,506.0
Other intangible assets		676.2	756.2
Property, plant and equipment		950.8	876.1
Investment in joint ventures and associates	6	39.9	36.3
Loan to joint ventures and associates	6	32.6	38.6
Retirement benefits	11	45.0	45.6
Trade and other receivables		29.2	27.1
IFRIC 12 financial assets		17.7	19.2
Other financial assets	7	84.3	61.8
Deferred tax asset		125.5	132.2
		4,551.8	4,499.1
Current assets			
Inventories		139.1	155.2
Trade and other receivables		766.9	742.2
Income tax recoverable		24.8	24.7
Other financial assets	7	10.1	12.3
Cash and cash equivalents	10	185.9	130.6
		1,126.8	1,065.0
Total assets		5,678.6	5,564.1
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital		302.5	301.3
Share premium		873.0	873.0
Capital redemption and other reserves		643.8	691.3
Retained earnings		519.2	314.5
		2,338.5	2,180.1
Non-controlling interest		17.8	18.0
Total equity		2,356.3	2,198.1
Non-current liabilities			
Bank and other borrowings	10	1,401.3	1,495.3
Trade and other payables		4.4	6.8
Deferred tax liabilities		151.9	186.7
Other financial liabilities		6.3	7.8
Retirement liabilities	11	248.1	214.4
Provisions for other liabilities		137.8	168.6
		1,949.8	2,079.6
Current liabilities			
Bank and other borrowings	10	131.6	64.8
Trade and other payables		1,185.6	1,158.3
Income tax payable		11.6	5.7
Other financial liabilities	7	10.6	27.9
Provisions for other liabilities		33.1	29.7
		1,372.5	1,286.4
Total liabilities		3,322.3	3,366.0
Total equity and liabilities		5,678.6	5,564.1

Group cash flow statement

For the year ended 31 March 2016	Note	2016 £m	2015 £m
Cash flows from operating activities			
Cash generated from operations	8	490.3	426.8
Income tax paid		(46.6)	(46.1)
Interest paid		(61.7)	(80.7)
Interest received		8.3	6.9
Net cash flows from operating activities		390.3	306.9
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	13	10.3	2.1
Dividends received from joint ventures and associates		23.0	19.5
Proceeds on disposal of property, plant and equipment		66.0	77.6
Proceeds on disposal of intangible assets		–	0.7
Purchases of property, plant and equipment		(163.2)	(150.7)
Purchases of intangible assets		(28.2)	(23.4)
Investment in, loans to and interest received from joint ventures and associates		1.2	10.3
Transactions with non-controlling interest		–	(4.3)
Acquisition of subsidiaries net of cash acquired	12	(1.8)	(1,039.1)
Net cash flows from investing activities		(92.7)	(1,107.3)
Cash flows from financing activities			
Dividends paid		(121.5)	(109.8)
Finance lease principal payments		(37.2)	(39.7)
Bank loans repaid		(111.3)	(1,638.7)
Loans raised		28.9	1,570.3
Dividends paid to non-controlling interest		(4.1)	(7.2)
Net proceeds on issue of shares		1.2	1,077.4
Movement on own shares		(0.7)	(3.5)
Net cash flows from financing activities		(244.7)	848.8
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		52.9	48.4
Cash, cash equivalents and bank overdrafts at beginning of year		112.5	71.2
Effects of exchange rate fluctuations		3.4	(7.1)
Cash, cash equivalents and bank overdrafts at end of year	10	168.8	112.5

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 2016. They should be read in conjunction with the Annual Report for the year ended 31 March 2015, 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 2015, except as noted below.

Standards, amendments and interpretations effective in 2016 with minimal or no impact on the Group:

IFRS 11, 'Joint arrangements', endorsed 1 January 2016;
IFRS 10 (amendment), 'Consolidated financial statements', effective 1 January 2016;
IFRS 14, 'Regulatory deferral accounts', effective 1 January 2016;
IAS 16 (amendment), 'Property, plant and equipment', effective 1 January 2016;
IAS 28 (amendment), 'Investments in associates and joint ventures', effective 1 January 2016;
IAS 39 (amendment), 'Financial instruments; Recognition and measurement', effective 1 January 2016.

2. Segmental information

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

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

* Before amortisation of acquired intangibles and exceptional items.

Notes to the consolidated financial statements continued

2. Segmental information (continued)

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

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

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

3. Income tax expense

Taxation in respect of Group profit before tax and acquired intangible amortisation totalled £81.9 million (2015: £74.3 million) including the Group's share of jv income tax of £8.0 million (2015: £5.0 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% (2015: 17.8%).

Notes to the consolidated financial statements continued

4. Earnings per share

In the previous year, 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.

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

Number of shares

	2016 Number	2015 Number
Pre adjustment for rights issue		
Weighted average number of ordinary shares for the purpose of basic EPS	–	487,123,443
Effect of dilutive potential ordinary shares: share options	–	2,200,000
Weighted average number of ordinary shares for the purpose of diluted EPS	–	489,323,443
Adjustment for rights issue		
Weighted average number of ordinary shares for the purpose of basic EPS	–	4,853,822
Effect of dilutive potential ordinary shares: share options	–	60,639
Weighted average number of ordinary shares for the purpose of diluted EPS	–	4,914,461
Restated for rights issue		
Weighted average number of ordinary shares for the purpose of basic EPS	503,165,719	491,977,265
Effect of dilutive potential ordinary shares: share options	1,072,736	2,260,639
Weighted average number of ordinary shares for the purpose of diluted EPS	504,238,455	494,237,904

Earnings

	2016 Earnings £m	2016 Basic per share Pence	2016 Diluted per share Pence	2015 Earnings £m	2015 Basic per share (restated) Pence	2015 Diluted per share (restated) Pence
Continuing operations						
Earnings from continuing operations	286.6	57.0	56.8	260.2	52.9	52.6
Add back:						
Amortisation of acquired intangible assets, net of tax	94.8	18.8	18.8	76.3	15.5	15.4
Impact of change in statutory tax rates	(8.1)	(1.6)	(1.6)	0.6	0.1	0.1
Earnings before amortisation, exceptional items and other	373.3	74.2	74.0	337.1	68.5	68.1

5 Dividends

The Directors have proposed a final dividend of 19.75p per 60p ordinary share (2015: 18.1p per 60p ordinary share) and it will be paid on 12 August 2016 to shareholders registered on 1 July 2016, subject to approval at the Annual General Meeting on 21 July 2016. The full year declared dividend per share is 25.8p per 60p ordinary share (2015: 23.6p per 60p ordinary share).

Notes to the consolidated financial statements continued

6. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
At 1 April	36.3	52.3	38.6	50.6	74.9	102.9
Joint ventures and associates acquired	–	8.3	–	–	–	8.3
Disposal of joint ventures and associates	3.2	5.2	(6.5)	(6.3)	(3.3)	(1.1)
Loans to/(repayments from) joint ventures and associates	0.9	(0.3)	(1.5)	(7.1)	(0.6)	(7.4)
Investment in joint ventures and associates	0.1	–	–	–	0.1	–
Share of profits	34.6	29.4	–	–	34.6	29.4
Interest accrued	–	–	2.9	4.4	2.9	4.4
Interest received	–	–	(0.9)	(3.0)	(0.9)	(3.0)
Dividend received	(23.0)	(19.5)	–	–	(23.0)	(19.5)
Fair value adjustment of derivatives	(16.4)	(42.6)	–	–	(16.4)	(42.6)
Tax on fair value adjustment of derivatives	3.3	4.5	–	–	3.3	4.5
Foreign exchange	0.9	(1.0)	–	–	0.9	(1.0)
At 31 March	39.9	36.3	32.6	38.6	72.5	74.9

7. Other financial assets and liabilities

	Fair value			
	Assets		Liabilities	
	2016 £m	2015 £m	2016 £m	2015 £m
Non-current				
US private placement – currency and interest rate swaps	71.7	52.2	–	–
Interest rate hedges	0.3	–	1.3	–
Other currency hedges	2.6	–	–	–
Non-controlling interest put option	–	–	5.0	7.8
Financial instruments	74.6	52.2	6.3	7.8
Finance leases granted	9.7	9.6	–	–
Total non-current other financial assets and liabilities	84.3	61.8	6.3	7.8
Current				
Interest rate hedges	–	–	1.5	–
Other currency hedges	5.6	8.8	9.1	27.9
Financial instruments	5.6	8.8	10.6	27.9
Finance leases granted	4.5	3.5	–	–
Total current other financial assets and liabilities	10.1	12.3	10.6	27.9

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 £14.3 million (2015: £13.1 million), these were split as £4.6 million (2015: £3.5 million) due within one year and £9.7 million (2015: £9.6 million) between one and five years.

Notes to the consolidated financial statements continued

8. Reconciliation of operating profit to cash generated from operations

	2016 £m	2015 £m
Cash flows from operating activities		
Operating profit before amortisation of acquired intangible	468.3	445.9
Amortisation of acquired intangible	(115.8)	(93.6)
Group operating profit	352.5	352.3
Depreciation of property, plant and equipment	78.1	71.0
Amortisation of intangible assets	123.7	101.1
Investment income	1.2	1.4
Equity share-based payments	16.2	15.4
Profit on disposal of joint ventures and associates	(7.5)	(8.5)
Loss/(profit) on disposal of property, plant and equipment	(2.4)	(0.1)
Operating cash flows before movement in working capital	561.8	532.6
Decrease/(increase) in inventories	6.8	2.4
Increase in receivables	(33.4)	(29.5)
Increase in payables	15.1	3.7
Decrease in provisions	(25.1)	(14.3)
Exceptional items – acquisition costs	–	(24.2)
Retirement benefit payments in excess of income statement	(34.9)	(43.9)
Cash generated from operations	490.3	426.8

9. Movement in net debt

	2016 £m	2015 £m
Increase/(decrease) in cash in the year	52.9	48.4
Cash flow from the decrease in debt and lease financing	112.4	92.4
Change in net funds resulting from cash flows	165.3	140.8
Loans and finance leases acquired with subsidiaries	–	(978.1)
New finance leases – received	(19.7)	(39.2)
New finance leases - granted	7.2	15.7
Movement in joint venture and associates loans	(6.0)	(12.0)
Foreign currency translation differences and other	(49.7)	(80.9)
Movement in net debt in the year	97.1	(791.9)
Net debt at the beginning of the year	(1,325.6)	(533.7)
Net debt at the end of the year	(1,228.5)	(1,325.6)

10. Changes in net debt

	31 March 2015 £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange/ Other movement £m	31 March 2016 £m
Cash and bank balances	130.6	53.1	(1.0)	–	3.2	185.9
Bank overdrafts	(18.1)	0.8	–	–	0.2	(17.1)
Cash, cash equivalents and bank overdrafts	112.5	53.9	(1.0)	–	3.4	168.8
Debt	(1,394.0)	79.4	–	–	(64.0)	(1,378.6)
Finance leases – received	(148.0)	37.2	–	(19.7)	(6.7)	(137.2)
Finance leases – granted	13.1	(4.2)	–	7.2	(1.9)	14.2
	(1,528.9)	112.4	–	(12.5)	(72.6)	(1,501.6)
Net debt before derivatives and joint venture and associate loans	(1,416.4)	166.3	(1.0)	(12.5)	(69.2)	(1,332.8)
Net debt derivative	52.2	–	–	–	19.5	71.7
Joint venture and associate loans	38.6	(6.0)	–	–	–	32.6
Net debt	(1,325.6)	160.3	(1.0)	(12.5)	(49.7)	(1,228.5)

Notes to the consolidated financial statements continued

11. Retirement benefits and liabilities

Analysis of movement in the Group balance sheet

	2016 Total £m	2015 Total (restated) £m
Fair value of plan assets (including reimbursement rights)		
At 1 April	3,938.0	3,220.1
Interest on assets	123.4	134.6
Actuarial (loss)/ gain on assets	(150.7)	643.8
Employer contributions	80.8	88.0
Employee contributions	1.7	5.0
Benefits paid	(168.5)	(153.5)
At 31 March	3,824.8	3,938.0
Present value of benefit obligations		
At 1 April	4,106.6	3,487.7
Service cost	40.4	40.3
Incurred expenses	4.3	3.6
Interest cost	129.8	145.4
Employee contributions	1.7	5.0
Experience (gain)/losses	(26.8)	20.4
Actuarial (gain) – demographics	(21.4)	(6.4)
Actuarial (gain)/loss – financial	(38.4)	564.1
Benefits paid	(168.5)	(153.5)
At 31 March	4,027.7	4,106.6
Present value of unfunded obligations	(0.2)	(0.2)
Net deficit at 31 March	(203.1)	(168.8)

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

	2016 Total £m	2015 Total £m
Current service cost	40.4	40.3
Incurred expenses	4.3	3.6
Total included within operating profit	44.7	43.9
Net interest cost	5.1	11.0
Total included within income statement	49.8	54.9

As at 31 March 2016 the key assumptions used in valuing pension liabilities were:

Discount rate	3.5% (31 March 2015: 3.4%)
Inflation rate (RPI)	2.9% (31 March 2015: 2.9%)

Notes to the consolidated financial statements continued

12. Acquisitions

2016

There have been no acquisitions in the current year. The deferred consideration of £1.3 million in respect of S. MacNeillie and Son Limited was paid during the year as well as an additional £0.5 million in respect of Skills2Learn Limited.

During the year the completion accounts for the Defence Support Group ("DSG") were finalized. The restated, final assets acquired and goodwill is shown below. The final consideration of £7.6 million was paid in April 2016.

2015

During the previous year the following acquisitions were made:

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 Son 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. This was increased by £7.6 million following the finalisation of the completion accounts. 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:

2015	Avincis £m	SAA £m	WRN £m	MacNeillie £m	DSG (restated) £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	7.6	23.7
Purchase consideration	899.5	25.3	11.5	66.3	147.6	1,150.2
Fair value of assets acquired (see below)	(5.2)	(2.5)	2.1	34.2	147.6	176.2
Goodwill	904.7	27.8	9.4	32.1	–	974.0

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

2015	Avincis Fair value acquired £m	SAA Fair value acquired £m	WRN Fair value acquired £m	MacNeillie Fair value acquired £m	DSG Fair value acquired (restated) £m	Total Fair value acquired (restated) £m
Acquired intangibles*	413.5	15.5	2.9	15.3	140.9	588.1
Other intangible assets	4.9	–	–	–	–	4.9
Property plant and equipment	574.2	41.4	3.4	3.2	0.6	622.8
Investments	8.3	–	–	–	–	8.3
Deferred tax	(65.8)	(1.4)	(0.4)	(3.1)	(28.2)	(98.9)
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	25.1	55.4
Current assets	138.9	5.9	1.9	6.4	23.4	176.5
Current and non-current liabilities	(162.3)	(23.0)	(3.5)	(13.8)	(13.0)	(215.6)
Provisions	(68.4)	(1.3)	(0.8)	(0.2)	(1.2)	(71.9)
Non-controlling interest	–	0.4	–	–	–	0.4
Net assets acquired	(5.2)	(2.5)	2.1	34.2	147.6	176.2

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

Notes to the consolidated financial statements continued

12. Acquisitions (continued)

Cash outflow to acquire businesses net of cash acquired:

2015	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

The revenue and operating profit of acquired businesses since the date of acquisition and as if they had been acquired on 1 April 2015 are:

	Avincis		SAA	
2015	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	
2015	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

Notes to the consolidated financial statements continued

13. Disposals

On 17 April 2015 the Group sold its investment in Lewisham Schools for the Future joint venture for £14.3 million.

On 5 July 2015 the Group disposed of its investment in Norsk Helikopterservice AS ("Norsk") for NOK100.

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

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

Details of the final assets disposed of are:

	2016				2015		
	Lewisham £m	Norsk £m	Previously disposed of business £m	Total £m	Greenwich £m	Previously disposed of business £m	Total £m
Goodwill	–	–	–	–	0.4	–	0.4
Investment in and loans to joint ventures and associates	3.3	–	–	3.3	1.1	–	1.1
Property plant and equipment	–	0.4	–	0.4	–	–	–
Cash, cash equivalents and bank overdraft	–	1.0	–	1.0	–	–	–
Inventory	–	0.3	–	0.3	–	–	–
Current assets	–	1.5	–	1.5	–	–	–
Current and non-current liabilities	–	(2.5)	–	(2.5)	–	–	–
Provisions	–	(2.1)	–	(2.1)	–	–	–
Deferred tax	–	0.4	–	0.4	–	–	–
Mark to market amortisation recycled from hedging reserve	0.7	–	–	0.7	0.7	–	0.7
Net assets disposed	4.0	(1.0)	–	3.0	2.2	–	2.2
Profit on disposal of joint ventures and associates	7.5	–	–	7.5	8.5	–	8.5
Disposal costs/deferred consideration	2.8	1.0	–	3.8	1.3	–	1.3
Sale proceeds	14.3	–	–	14.3	12.0	–	12.0
Sale proceeds less cash disposed of	14.3	(1.0)	–	13.3	12.0	–	12.0
Less costs paid in the year	–	(1.1)	(1.9)	(3.0)	–	(9.9)	(9.9)
Net cash inflow/(outflow)	14.3	(2.1)	(1.9)	10.3	12.0	(9.9)	2.1

Notes to the consolidated financial statements continued

14. Transactions with non-controlling interests

On 5 July 2015 the non-controlling interest in Norsk Helikoptererervice AS of £0.7 million was disposed of for no consideration.

During the previous financial 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.

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

2015	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

15. Related party transactions

Related party transactions in the year are: sales to joint ventures and associates of £184.0 million (2015: £287.2 million) and purchases from joint ventures and associates of £0.9 million (2015: £1.9 million). The year-end receivables balance was £17.3 million (2015: £25.9 million) and the payables balance was £2.2 million (2015: £3.5 million).

16. Financial information

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

Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the Company's Annual General Meeting.

The Annual Report for the year ended 31 March 2016 and this preliminary statement were approved by the Board on 24 May 2016. The auditors have reported on the Annual Reports for the years ended 31 March 2016 and 31 March 2015 and neither report was qualified and neither contain a statement under section 498(2) or (3) of the Companies Act 2006.

Annual General Meeting 2016

This year's Annual General Meeting will be held on 21 July 2016 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 2016.

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
Chief Executive

Franco Martinelli
Group Finance Director

24 May 2016