11 June 2020 *This announcement contains inside information*

Resilient business model ready for the year ahead

Archie Bethel, Chief Executive, said:

"We end a busy year in a strong position to deal with the current Coronavirus (COVID-19) uncertainty. We saw strong performances across our Marine, Nuclear and Land sectors and have taken action to address weaknesses in Aviation, including writing down goodwill to reflect our updated expectations of the oil and gas market. The early impact of the global COVID-19 pandemic had a limited impact on the Group in the last financial year but is creating uncertainty as we head into this new financial year.

"I am immensely proud of the way our people have responded in these challenging times. At Babcock we pride ourselves on the fact that we support customers responsible for providing critical services: our work in defence and aerial emergency services saves lives, supports national defence and protects communities. As always, my priority, and the priority of the Group, is to keep our people safe whilst making sure that those vital services can continue.

"I am also extremely grateful to HM Government and in particular the Cabinet Office and Ministry of Defence who acted quickly and decisively to ensure that contracts continue to be funded and that cash flowed effectively through the main suppliers and down into the supply chain. Also, working with us and other major suppliers, we have together quickly developed safe working solutions at site level supported by our employees, trades unions and regulators. These solutions are being widely shared to ensure that the entire sector is benefiting from the experiences of individual companies.

"The majority of our work has been declared to be critical and our people designated as key workers. All of our major sites have remained open, and we have worked closely with our customers to understand and support their changing requirements and operational priorities. Whether working on site or at home, we have continued to work on major defence programmes, to design new systems, to provide emergency services and to keep nuclear power sites operational. Across Europe our emergency medical services teams have worked courageously alongside national health services in the transport by air of critically ill patients to hospital.

"We have also contributed to the fight against the pandemic with new innovative technical solutions. We pioneered the introduction of biocontainment isolation stretcher units which allow virus positive patients to be transported safely, and new in-helicopter barrier systems that provide added protection to flight crews and medical staff. We have shared the experiences gained in Italy, Spain and France with our teams elsewhere, including Sweden where we refitted one of our aircraft to create a dedicated COVID-19 air ambulance.

"By establishing strong safety protocols, many of our contracts have continued to operate throughout the crisis. The business impact of the virus will be felt most significantly in our short-cycle work and adjacent market businesses. We have put mitigation measures into place, including reducing and deferring non-essential operating and capital expenditure to protect the business in the short term. We continue to model a number of scenarios around the ongoing impact of the virus. We have also developed detailed plans to return to productive operating capacity in response to government guidance and customer need as the countries in which we operate begin to emerge from varied restrictions.

"Looking back over last year, we made solid progress in driving our strategy forward. We achieved good revenue growth across our defence businesses and won significant opportunities, including building the next generation of UK warships, securing long term positions on major submarine projects for the USA and Australia, and expanding our aviation defence operations in France. Our expanding technology capabilities were crucial in these wins, and I am really pleased with the high level of growth seen across our technology businesses this year.

"Our area of weakness was in the Oil and Gas aviation business. The global oil and gas market has become even more competitive and we have written down the value of assets in that business to reflect this and impaired Aviation goodwill to reflect how the market has changed and that we do not expect any recovery any time soon. We have also addressed the cost base of our civil aviation and civil nuclear businesses to right size them for the future given the weaker oil and gas market, price and cost pressures in our emergency services business and the smaller civil nuclear business following the end of the Magnox contract and a slowing UK civil nuclear market, exacerbated by COVID-19.

"We enter the new financial year facing uncertain times but the long term characteristics of our business remain strong. We provide some commentary on the year ahead across our sectors but are unable to provide detailed financial guidance at this time. Given this uncertainty, the Board has deferred the decision on our final dividend until there is greater certainty on the impact COVID-19 will have on our business and stakeholders.

"Despite this uncertainty, the Group's strong liquidity position, robust business model, record order book and pipeline and focus on critical services gives us confidence that we will deliver for all our stakeholders in the current year."

Archie Bethel CBE
Chief Executive

Financial results

	31 March 2020 IFRS 16 basis	31 March 2019 Pre-IFRS 16 basis
Statutory revenue	£4,449.5m	£4,474.8m
Underlying revenue[1]	£4,871.7m	£5,160.6m
Statutory operating (loss) / profit	£(164.9)m	£196.5m
Underlying operating profit[2]	£524.2m	£588.4m
Exceptional items	£(502.9)m	£(160.8)m
Statutory (loss) / profit before tax	£(178.2)m	£235.2m
Underlying profit before tax[3]	£428.4m	£517.9m
Statutory basic earnings per share	(38.6)p	39.5p
Underlying basic earnings per share[4]	69.1p	84.0p
Underlying operating cash flow (post net capex)	£344.4m	£469.3m
Underlying free cash flow (post pension payments)[5]	£192.2m	£323.7m
Net debt[6]	£(922.1)m	£(957.7)m
Net debt/EBITDA[7]	1.7x	1.6x
Full year dividend for the year (reflecting interim dividend already paid)	7.2p	30.0p

See notes on page 3. Results for this year are reported under IFRS 16 without prior year restatement. The adoption of IFRS 16 increased operating profit by £23.6 million. Results for this year include the impact of step downs (detailed on page 19). The revenue impact (including FX) was £428 million and the operating profit impact (including FX) was £60 million.

Financial highlights

- **Underlying revenue** of £4.9 billion in line with our FY20 guidance, statutory revenue of £4.4 billion
- **Underlying operating profit** of £524 million after a small impact of COVID-19
- **Statutory operating loss** of £165 million after exceptional items
- **Exceptional items** of £503 million include Aviation goodwill impairment of £395 million, other Aviation charges of £143 million (including Oil and Gas write downs, an Italy anti-trust fine and a sector restructure). Other exceptionals include a restructure of Nuclear and a profit on the sale of Context
- **Total cash outflows** from these charges expected to be £129 million, reduced to £27 million after proceeds from sale of Context
- **Exceptional net cash inflow in FY20** of £23 million, including Context proceeds
- **Underlying basic EPS** of 69.1p
- **Underlying free cash flow** of £192 million compared to FY20 guidance of over £250 million, with the shortfall reflecting the impact of COVID-19
- **Statutory net cash flows from operating activities** of £330 million (2019: £386 million)
- **Net debt[6]** of £922 million with net debt / EBITDA at 1.7 times. Net debt including lease obligations was £1,595 million
- **Final dividend** decision deferred until COVID-19 situation becomes clearer

Operational highlights

- **Record combined order book and pipeline** of around £35 billion (March 2019: around £31 billion) with an order book of £17.6 billion and a pipeline of £17 billion
- **Contract wins in the year** included Type 31 frigate programme, Met Police training, Australia and USA submarine programmes
- **Win rates continue** at over 40% for new business and over 90% for rebids in our focus markets
- **Increasing international presence:** Aviation operations started in Norway and Canada, second defence contract in France
- **Completed sale of Context** for over £100 million in March 2020
- Announced today, **we completed the sale of our share of the Holdfast joint venture** for £85 million, taking pro forma net debt / EBITDA to 1.5 times

Financial strength and liquidity

- Group comfortable with liquidity under stress-tests performed
- Group has access to around a total of £2.4 billion of borrowings and facilities of mostly long-term maturities
- Significant cash balance at 31 March 2020 of £1.35 billion
- Net debt to EBITDA ratio of 1.7 times well within our covenant levels of 3.5 times

Outlook for the year ending 31 March 2021

- Given the current level of uncertainty we are not providing financial guidance for the year ahead
- Work on critical, non-discretionary long term contracts (around 80% of Group revenue) continues
- Work across our short-cycle businesses (around 20% of Group revenue) will be more heavily impacted due to lower demand levels
- Sector margins will be impacted by lower demand and productivity levels
- Performance is expected to be weighted to the second half, reflecting normal business phasing and the expected impact of COVID-19
- We will provide a further update at our trading statement on 4 August 2020, the date of our AGM

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Results presentation:

A virtual meeting for investors and analysts will be held on 11 June 2020 at 9.00 am.

The presentation will be webcast live at www.babcockinternational.com/investors and subsequently will be available on demand at www.babcockinternational.com/investors/results-and-presentations. A transcript of the presentation and Q&A will also be made available on our website.

Notes

The adjustments described below, collectively, are made to derive the underlying results of the Group. The underlying figures provide a consistent measure of business performance year-to-year, thereby enabling comparison and understanding of Group financial performance. A reconciliation from statutory to underlying is provided within the financial review on page 17.

1. Underlying revenue includes the Group's share of joint ventures and associates revenues.
2. Underlying operating profit includes IFRIC 12 investment income and joint ventures' and associates' operating profit but is before amortisation of acquired intangibles and exceptional items. Underlying operating profit excludes exceptional items of £502.9 million.
3. Underlying profit before tax is inclusive of pre-tax joint ventures and associates income but before amortisation of acquired intangibles and exceptional items.
4. Underlying basic earnings per share is before amortisation of acquired intangibles, and exceptional items, before the related tax effects and before the effect of corporate tax rate changes.
5. Includes pension payments in excess of income statement of £70.2 million.
6. Excludes lease obligations. This measure now excludes £40 million of lease obligations which were previously treated as finance leases.
7. Group net debt (excluding non-recourse JV debt and all lease obligations) divided by underlying Group EBITDA (pre-IFRS 16) and JV dividends received. This is comparable to our covenant measure of net debt / EBITDA which includes finance leases but also makes some adjustments to EBITDA. The calculation is on page 22.

Update on Coronavirus (COVID-19)

Our focus remains firmly on the health, safety and wellbeing of our employees and those we work alongside - our customers, our supply chain partners and our communities. All employees who can work from home are doing so and across our sites we are following strict safety measures in line with evolving government guidance and are working closely with our customers, governments, trade unions and regulators.

The majority of our service delivery is non-discretionary and critical to our customers' operations. Major sites including the Devonport Royal Dockyard, Clyde Naval Base, Rosyth Royal Dockyard and many Army and RAF land and air bases have remained operational during this crisis, as well as key civil nuclear sites around the UK. Where we continue to operate sites, we comply with government guidance as it evolves and have worked with our customers, regulators, staff and trade unions to establish new flexible work patterns and procedures on a site-by-site basis. As such most of our work has continued during this crisis, including:

- Our defence businesses providing crucial support to the national defence of all the countries we operate in
- Continued work on key defence programmes such as submarine and surface ship refits and life extensions, design and build of new submarine equipment, design of the Type 31 frigates and critical defence training activities
- Our Emergency Services businesses have kept all bases open as they operate on the front line of this crisis and our aerial firefighting businesses are preparing for a new season
- Our Nuclear businesses continue to support the safe operation of nuclear power stations and decommissioned sites
- Our South African business continues to provide the maintenance and engineering support that keeps the power stations running

In the UK, many of our people are working from home, enabled by IT solutions with video and teleconferencing playing a critical role in making working from home an effective solution.

We have also helped our customers by sharing our experience from other countries and regions. In Italy, we pioneered the use of biocontainment isolation stretchers that allow infected patients to be transported to hospital by air, while at the same time protecting the flight and medical crews from infection. Once proven in Italy, similar approaches have been introduced in Spain, France, Sweden and the UK. In Spain we developed a new internal helicopter barrier arrangement that isolates aircrew from patients being transported and this has now been shared with our customers in the UK.

Babcock joined forces with a leading medical equipment company to design, manufacture and supply critical care ventilators in response to the UK Government's urgent request for help from industry. Working round the clock, our specialists developed a brand-new design. And when the technical requirements changed, we were able to make sure that our ground-breaking Zephyr Plus ventilator was flexible enough to meet the UK's need. Combining our engineering expertise and ability to create innovative supply chain solutions with developments in medical technology has resulted in a solution that could help medics in these extreme circumstances. We are incredibly proud of what our people, our suppliers, and everyone who has been involved in the project, has achieved in such a short space of time.

While many areas of our business continue to operate, they are experiencing lower levels of productivity due to staff absence and social distancing measures. There are some areas of our business that have been particularly affected by lower levels of demand, including:

- Many parts of our short-cycle work such as rail and power in the UK and our airports businesses are running at significantly lower levels of activity
- Lower levels of flying in our aerial emergency services business following lockdowns and lower flying hours in our Oil and Gas business
- Reduced activity at some civil nuclear sites with only essential safety works taking place
- Training activity, both defence and civil, has reduced with some programmes paused and others operating at reduced levels

This led to a small financial impact to our results for the year ended 31 March 2020. The ongoing crisis creates significant uncertainty for the year ahead and while the financial impact cannot yet be quantified, we have taken many steps to mitigate the impact to the Group to ensure a prudent approach to protect the long term health of the Group for all stakeholders. These steps include:

- Deferring non-essential operating and capital expenditure and tightening rules around spending across the business
- Accelerating restructuring plans in our Aviation and Nuclear sectors
- Limited use of furloughing staff in a number of areas such as our airports and civil training businesses
- Senior executive management have taken a temporary 20% reduction in basic salary and the annual bonus and pay rise for the new financial year have been deferred
- Non-Executive Board members have taken a temporary 20% reduction in fees and will have no increase in fees for this new financial year
- Decision on final dividend deferred until there is greater certainty

We are also preparing for the gradual easing of restrictions over the next few months that will allow more of our people to return safely to their workplaces in strict accordance with evolving government guidance.

Overview of the year

Trading

Underlying revenue and underlying operating profit were in line with our expectations set out in our April trading update after a small impact from COVID-19 and exchange rates in the final months of the year. Performance in our Marine sector was particularly strong and exceeded our expectations at the start of the year, with growth across every business area. Our Land sector delivered solid results while our defence businesses in Nuclear and Aviation had strong years.

We saw increasing challenges in parts of the business during the year. The oil and gas aviation market has deteriorated while we saw delays and increased cost pressures in aerial emergency services. Because of these pressures we have taken action to further reduce our Oil and Gas fleet and restructure our Aviation sector. We have also recognised a significant goodwill impairment charge to reflect our current expectations of the oil and gas market and the deterioration in the business since the acquisition of Avincis in 2014. A slowing in the UK civil nuclear market combined with a smaller business following the end of the Magnox contract has also led us to restructure our Nuclear sector, including closer integration of our civil and naval nuclear activities under a single management team.

We continue to generate significant free cash flow however the impact of COVID-19 resulted in free cash flow below our expectations for the year. COVID-19 impacted customer receipts and invoicing in the final month of the year and also stopped some asset sales completing in March which led to higher than expected net capital expenditure.

Net debt excluding lease obligations was £922 million, after paying our ordinary dividend last year, and we end the year well-placed for the future with a net debt to EBITDA of 1.7 times.

Exceptional items

In response to the further deterioration in the oil and gas aviation market and business challenges in our Aviation and Nuclear sectors, we have taken action this year to stabilise the business for the medium and long term. These actions have incurred exceptional charges which were partly offset by the gain on the sale of Context in March 2020.

	Income statement charge / (credit)
Aviation	
– Goodwill impairment	£395.0m
– Asset impairment (Oil and Gas)	£22.2m
– Right of use asset impairment and onerous customer contracts (Oil and Gas)	£31.2m
– Exit of Ghana and Congo (Oil and Gas)	£7.1m
– Aviation restructuring	£26.5m
– Aviation other (including Italy anti-trust fine)	£55.8m
Total Aviation	**£537.8m**
Capacity restructuring (Nuclear and Rail)	£24.3m
Exits and disposals	(£59.2m)
Total	**£502.9m**
Tax	(£26.1m)
Net	**£476.8m**

Aviation market

Our Aviation sector operates in the defence, emergency services and oil and gas markets. While the defence market has remained robust, and the emergency services market remains attractive in the medium term, the oil and gas market deteriorated significantly during the year. Two of the three large providers of helicopter services who operate worldwide in oil and gas emerged from Chapter 11 bankruptcy protection with reduced debt and written-down assets. This effectively reset global market pricing levels and forced us to respond quickly to remain competitive. Furthermore, with a significant fall in the price of oil, we do not expect any recovery in this market any time soon.

Aviation: Goodwill impairment

The further deterioration in the oil and gas market contributed significantly to our review of goodwill in the Aviation sector, which relates to the acquisition of Avincis in 2014. As a result of this review, we have taken an impairment charge of £395.0 million to reflect revised estimates of the future performance of the sector given the change in market conditions.

Aviation: Oil and Gas

We have written down assets in our Oil and Gas business by £22.2 million and recognised costs of £31.2 million in relation to the impairment of right of use assets and onerous customer contracts. We also exited our oil and gas businesses in Ghana and Congo and incurred charges of £7.1 million in relation to this.

Aviation: Restructuring

The impact of trading in our Oil and Gas aviation business combined with the impact of delays in our aerial emergency services business led us to take action to reduce the cost base as a whole for the Aviation sector, creating a simplified European structure to create an agile business competitive for the medium term. The Aviation restructuring charge was £26.5 million and primarily relates to redundancy costs.

Aviation: Other (including Italy anti-trust fine)

Other charges in our Aviation sector relate to a fine in Italy and associated legal costs, plus additional costs from our Brexit-related restructure in addition to those recognised in the prior financial year.

We have recognised a provision of £46 million in respect of a €51 million fine issued by the Italian Competition Authority to our subsidiary, Babcock Mission Critical Services Italia S.p.A ("BMCS Italy") following an unsuccessful first instance court decision. This matter was previously a contingent liability to the Group. The fine relates to a publicly available "tariff list" dating back to 2001 produced by a trade association of which BMCS Italy was a member. BMCS Italy does not accept the basis of this decision. In particular, BMCS Italy is convinced that the tariff list never related to the helicopter emergency medical services ("HEMS") and, indeed, this lack of relevance was explicitly stated on the front of the list from 2012, two years prior to the acquisition of BMCS Italy by Babcock in 2014. BMCS Italy will appeal this decision.

Capacity restructuring

This relates to restructuring programmes outside the Aviation section. The end of the Magnox contract in our civil nuclear business and the ongoing trading environment in the UK civil nuclear market has led us to take action to reduce the cost base of our civil nuclear business. The Nuclear restructuring charge was £16.5 million. We have also further restructured our Rail business. The total restructuring cost of £24.3m primarily relates to redundancy costs.

Exits and disposals

The total net credit related to exits and disposals was £59.2 million, consisting of a £74.7 million gain on the sale of Context partially offset by additional costs from exits in the last financial year and the costs of exiting areas of our nuclear manufacturing business.

Cash costs of exceptional items

The net exceptional cash inflow in the year ended 31 March 2020 was £23.1 million, consisting of £37.8 million of costs from exceptional items identified in the 2019 financial year and a net cash inflow of £60.9 million from the 2020 financial year exceptionals, which included net cash proceeds from the sale of Context of £102 million.

Looking ahead, we expect net exceptional cash costs for the 2021 financial year of around £100 million, consisting of around £50 million of cash costs from restructuring programmes, the payment of the Italy anti-trust fine and other smaller cash costs partly offset by a saving in cash tax. This is before the £85 million proceeds from the sale of Holdfast.

We expect a small exceptional cash inflow in the 2022 financial year as cash tax savings offset small cash costs.

In addition to this, we expect to make additional payments into the Rosyth pension scheme of around £90 million over the next two financial years. These payments will be treated as exceptional cash flows.

Our strategy

We outlined our strategy at our Capital Markets Day in June 2019. We are a leading provider of critical, complex engineering services for customers for whom failure is not an option. We focus on three markets where we enjoy leadership positions: defence, emergency services and civil nuclear. These markets make up around three-quarters of our business. We also operate in adjacent markets where we apply our engineering capabilities to a range of activities.

Our strategy is delivered across our four sectors and we focus on a set of strategic priorities to ensure delivery:

- Deliver operational excellence for our customers
- Grow our international businesses in focus markets
- Grow market share and expand our offering in the UK
- Develop our people
- Use technology to strengthen our offering
- Focus on value creation

Our strategy aims to deliver our medium term financial targets:

- Earnings growth of 3% to 4% CAGR
- Sustain margins at around 11%
- Increase cash flows each year in line with earnings
- Generate around £1.4 billion of free cash flow over the next five years
- Continue to reduce net debt and increase flexibility
- Improve ROIC from FY20
- Sustainable dividend

Given the uncertain impact of COVID-19, these medium term targets will not be achieved in the current financial year. The drivers of our strategy remain unchanged and the long term characteristics of our business remain strong. We will continually assess our medium term targets as we emerge from the pandemic and they are aiming points for us to return to.

Progress in the year

We made good progress in the year on our strategy. We delivered operational excellence for customers across programmes with continuous improvement exemplified through the development of our Strategic Partnering Programme. We had some significant contract wins in the UK including the design and build of Type 31 frigates in Defence, Met Police training in Emergency Services and additional scope in our Ascent aviation contract, and we maintained our win rates for bids in the UK overall in the year.

International expansion is a key part of our strategy. This year we increased our international presence with Aviation operations starting in Norway and Canada and we won our second defence contract in France. International markets represented 31% of underlying revenue in the year and account for around 48% of our pipeline with significant opportunities in all of our focus markets.

The use of technology to strengthen our offering was crucial in many winning bids this year, most notably the Type 31 frigates. The technology products businesses in our Marine sector had a particularly strong year with very high revenue growth.

Throughout the year we kept a focus on value creation. We continue to run our adjacent markets for value and saw revenue growth in our Marine and Land adjacent markets. In March 2020, we completed the sale of Context for net proceeds of £102 million.

We have, however, seen some significant pressures on our business this year. As well as the impact of COVID-19, we saw increasingly tough trading conditions in our civil aviation and civil nuclear businesses and have taken actions to right-size these businesses to ensure we remain on track to deliver for the medium term.

Liquidity

Our primary financial focus is on ensuring the strength of the Group's cash flows and balance sheet while we work through the uncertainty and negative impacts from COVID-19.

During the year we renewed our revolving credit facility of £775 million and issued €550 million (c.£500 million) of bonds in September 2019 and our credit rating was confirmed as BBB by Standard and Poor's.

In total, the Group has access to around a total of £2.4 billion of borrowings and facilities of mostly long-term maturities. This includes our revolving credit facility of up to £775 million which expires in August 2024. In light of the uncertainty created by COVID-19, the Group drew down all of this facility. As such, the Group had a significant cash balance at 31 March 2020 of £1.35 billion and has substantial liquidity for the next financial year and beyond. Our net debt to EBITDA ratio of 1.7 times is well within our covenant levels of 3.5 times.

Capital allocation

Given the current challenging environment from the impact of COVID-19, our immediate focus is ensuring the Group has sufficient capital and liquidity to cope with COVID-19 and other risks. If these are met then the capital allocation policy we set out in November 2019 still applies. We target a net debt (excluding lease obligations) to EBITDA range of 1.0 times to 1.5 times. This enables us to organically invest in the business, fund our pension schemes and continue a sustainable ordinary dividend while providing scope for additional opportunities as we continue to de-gear.

We have redefined our net debt to EBITDA measure this year to a basis comparable to that used in the covenants included in some of our debt. This gearing measure compares net debt (excluding non-recourse JV debt and all lease obligations) to Group EBITDA (excluding our share of JV's EBITDA) plus joint venture dividends. At 31 March 2020 our net debt to EBITDA was 1.7 times, slightly higher than the 1.6 times at 31 March 2019.

We do not include our proportion of net debt held in joint ventures of £260 million (31 March 2019: £311 million) as this is non-recourse to the Group. Around 85% of JV net debt relates to the AirTanker joint venture, which continues to perform very well. This PFI contract has five shareholders and multiple layers of protection over financing risk, with guaranteed minimum payments covering financing. Our share of total joint venture debt reduced by £51 million this year after paying dividends and in the year we received £52 million of dividends from our joint ventures.

Final dividend

Given the current level of uncertainty over the impact of COVID-19, the Board has decided to defer the decision on our final dividend for the year ended 31 March 2020. We recognise the importance of the dividend to our shareholders and the Board will keep this under review during the financial year as the impact of COVID-19 becomes clearer.

Order book and pipeline

Our combined order book and pipeline remains at the record level of around £35 billion. The Group continued to win work across all sectors in the year, with win rates in line with our targets. For new business, win rates exceeded 40% while win rates for rebids and extensions in our focus markets exceeded 90%.

Our order book is based on contracted and committed work. This order book provides a base level of revenue for the years ahead which is then complemented by contract growth and short-cycle work. The Group's order book at 31 March 2020 was £17.6 billion with an order book intake of £5.3 billion in the year more than replenishing £4.9 billion of revenue. Over £1 billion of order intake this year came through contract growth and not through the bid pipeline.

The Group's pipeline represents those bids formally in process, following our rigorous stage gate approvals. The Group's pipeline at 31 March 2020 was £17 billion compared to around £14 billion at 31 March 2019. The £3 billion increase relates to a range of opportunities predominantly in UK and international defence.

Market update

We operate across three focus markets and a range of adjacent markets. All of these offer significant medium term potential for growth and value creation, however, market conditions in the financial year varied. While COVID-19 has impacted our markets, as discussed on page 4, the long term fundamentals of our focus markets remain strong.

During the year, the **UK defence** market saw the award of key programmes, including the design and build of five Type 31 frigates to Babcock. Activity levels across surface ship and submarine support remained high throughout the year to meet the increased needs of the Royal Navy. In Land, we started work on a programme of Warrior vehicle overhauls while in Aviation we are working with the customer on the next stages of pilot training. Work across all of UK defence has been deemed critical during the ongoing COVID-19 pandemic.

The opportunities across **international defence** markets remain significant for the Group. This year we started to maintain Australia's fleet of amphibious landing ships and in France our Fomedec flying training contract is performing well and we have commenced our second defence contract, providing H160 aircraft and support to the French Navy. The pipeline of Group bids includes many opportunities across defence in Australia, Canada, France and South Korea. Work across international defence programmes has been deemed critical during the ongoing COVID-19 pandemic.

The market for **aerial emergency services** across Southern Europe was challenging in the year with some contract delays in Italy and Spain and lower levels of firefighting activity. Our aerial medical emergency services teams have been contributing directly in the fight against COVID-19 and have introduced innovative solutions to continually adapt and transfer learnings from country to country. In the period we started new Aviation operations in Norway and Canada and, in our Land sector, we won a large contract to provide training for the Metropolitan Police Service in London.

The market for **civil nuclear** in the UK continues to see lower levels of customer spending. The long term growth opportunities remain significant as ageing power stations come offline and new power stations are built but these opportunities have moved further out in our timeline.

Highlights across our **adjacent markets** this year included improvements in trading conditions in our South African business and the successful start of our CP6/7 contract in Rail. The market for oil and gas aviation deteriorated further as explained above. The impact of COVID-19 has been more significant in our adjacent markets, partly due to greater exposure to short-cycle work.

ESG strategy

This year we have introduced a new ESG strategy for the Group. Sustainability is at the heart of our business, and is a key part of our planning, our operational delivery and our approach to through-life support. We are committed to minimising the impact of our operations on the environment, focusing on the safety of our people and ensuring a positive impact in the communities in which we operate. Full details of our ESG strategy and the progress we are making will be available in this year's Annual Report.

Board changes

We have made some changes to our Board over the last year. Ruth Cairnie took over as Chair at our AGM in July 2019 and Russ Houlden joined the Board as Non-Executive Director on 1 April 2020 and will take over as Chair of the Audit Committee at our 2020 AGM. Carl-Peter Forster joined the Board as Non-Executive Director on 1 June 2020 and will become our senior independent director after the AGM when Sir David Omand will step down from the role. Ian Duncan, our current Chair of the Audit Committee, and Jeff Randall intend to retire from the Board at our forthcoming AGM after nine and six years' service respectively. Jeff was succeeded as Chair of the Remuneration Committee by Kjersti Wiklund on 1 April 2020.

After 16 years working for Babcock, Archie Bethel advised the Board in February 2020 of his intention to retire as Chief Executive. The process to appoint his successor is progressing and an announcement will be made when appropriate. Archie will remain in his role as Chief Executive until his successor is in place.

Sale of Holdfast

In June 2020, we completed the sale of our 74% shareholding in Holdfast Training Services Ltd ("Holdfast") to HICL Infrastructure PLC ("HICL") for a cash consideration of £85 million. Holdfast was a joint venture in the Babcock Group created in 2008 to undertake a 30-year contract for the Ministry of Defence to provide training infrastructure and services for the Royal School of Military Engineering ("RSME"). Babcock will continue to provide services for RSME on its existing subcontract.

Outlook for the year ending 31 March 2021

Given the level of uncertainty we are not providing financial guidance for the year ahead. Work on critical, non-discretionary long term contracts (around 80% of Group revenue) continues. Work across our short cycle businesses (around 20% of Group revenue) will be more heavily impacted due to lower demand levels. Sector margins will be impacted by lower demand and productivity levels.

Performance for the year is expected to be weighted to the second half, reflecting both normal phasing and the expected impact of COVID-19.

We will provide an update on our first quarter's trading on 4 August 2020.

Underlying financial performance

		31 March 2020 IFRS 16 basis	31 March 2019 pre-IFRS 16 basis
Underlying revenue	Group	£4,449.5m	£4,474.8m
	JV	£422.2m	£685.8m
	Total	**£4,871.7m**	**£5,160.6m**
Underlying operating profit	Group	£418.5m	£453.8m
	JV	£105.7m	£134.6m
	Total	**£524.2m**	**£588.4m**
Underlying operating margin	Group	9.4%	10.1%
	JV	25.0%	19.6%
	Total	**10.8%**	**11.4%**

Results for this full year are reported under IFRS 16 (Leases) without prior year restatement. The adoption of IFRS 16 increased operating profit by £23.6 million.

Underlying revenue of £4,871.7 million was in line with our guidance for revenue of around £4.9 billion. This reflects growth of around 3% after excluding the impacts of step downs related to the end of our QEC and Magnox contracts and exits and disposals of businesses made last year. Last year benefited from around £125 million of revenue from asset sales on our Fomedec contract in Aviation. Excluding this and the step downs, revenue for the Group this year grew by around 5%.

Our **underlying operating profit** of £524.2 million includes a £23.6 million benefit from the adoption of IFRS 16 and step downs, including exchange rates, of £60.0 million. Excluding these, the reduction in underlying operating profit was £27.8 million. The majority of this decline relates to our Aviation sector which saw tough trading in its oil and gas business and lower margins in aerial emergency services.

The weakness in our Aviation sector led to a change of our guidance for underlying operating profit in February 2020 from a range of £540 million to £560 million to around £540 million. The impact of COVID-19 in the final couple of months in the year resulted in the final outcome of £524 million.

The **contribution from joint ventures** declined from £134.6 million to £105.7 million this year, reflecting step downs in Holdfast (RSME) and Magnox partially offset by strong performances in our Aviation joint ventures (AirTanker and Ascent) and our ALC joint venture in Land. The joint venture margin has increased due to the mix impact of lower Magnox revenue and strong performances across AirTanker, Ascent and ALC.

The **Group total underlying margin** of 10.8% includes the benefit of IFRS 16, which had a positive 0.5 percentage point impact. The majority of the decline in underlying margin related to the Aviation sector.

As expected, **cash generation** this year was below last year which included a significant contribution of over £50 million of working capital inflows from our Fomedec contract.

Excluding IFRS 16, net capital expenditure was £147.5 million in the period (2019: £148.5 million) comprised of gross capital expenditure of £174.6 million (2019: £227.0 million) and asset disposals, mainly related to the sale and leaseback of new aircraft, of £30.1 million (2019: £78.5 million). **Net capital expenditure** of 1.5 times depreciation was slightly higher than last year and higher than the 1.0 times depreciation we had expected. This was due to lower assets disposals as COVID-19 led to some asset sales on delayed contracts in Southern Europe not completing as both lessors and customers experienced difficulties.

Underlying free cash flow was £192.2 million (2019: £323.7 million) after pension payments in excess of the income statement of £70.2 million (2019: £55.8 million) and including dividends from joint ventures of £52.0 million (2019: £44.6 million).

Underlying free cash flow was lower than expected due to the lower operating profit and higher net capital expenditure. Outperformance in our working capital position was expected to offset the lower operating profit but COVID-19 had an impact on customer receipts and invoicing at the end of the year. March is our most important month of the year, with significant profits and cash flows, as many of our government customers settle their debtors however this year not all were able to meet this objective in full as COVID-19 impacted timings.

The **net cash inflow** in the period was £57.4 million, reflecting the free cash flow, dividends paid of £153.9 million and a net £23.1 million inflow from exceptional cash movements which included the proceeds from the sale of Context.

At 31 March 2020, **net debt** including lease obligations was £1,594.9 million and includes a negative impact of £53.8 million from foreign exchange translation. Net debt excluding lease obligations at 31 March 2020 was £922.1 million. This measure now excludes £40 million of lease obligations which were previously treated as finance leases.

Marine

		31 March 2020 IFRS 16 basis	31 March 2019 pre-IFRS 16 basis
Underlying revenue	Group	£1,163.8m	£1,065.7m
	JV	£43.1m	£20.3m
	Total	**£1,206.9m**	**£1,086.0m**
Underlying operating profit	Group	£140.7m	£137.9m
	JV	£3.3m	£3.3m
	Total	**£144.0m**	**£141.2m**
Underlying operating margin	Group	12.1%	12.9%
	JV	7.7%	16.3%
	Total	**11.9%**	**13.0%**

The adoption of IFRS 16 increases operating profit by £2.2 million in the year
JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue

Financial review

Our Marine sector had a very strong year and exceeded our expectations. Strong revenue growth of 11.1% was led by strong growth in our technology businesses, increased warship support activity and the start of work on the Type 31 frigate programme. The increase in joint venture revenue reflects the start of work supporting Australia's LHD ships. The strong revenue growth in the year was despite a step down in revenue related to the QEC programme of £50.4 million.

There was no material trading impact from COVID-19 in the financial year.

Underlying operating profit of £144.0 million includes a small uplift from IFRS 16. Excluding this, underlying operating profit increased by £0.6 million with the total underlying margin falling year-on-year as expected, from 13.0% to 11.9%. This mainly reflects comparison to some contract outperformances last year and some lower profit take in the early stages of contracts this year, both for Group and joint ventures.

Operational review

UK Defence

Revenue across our businesses in UK Defence was higher in the year as increased warship support activity, higher volumes of technology products and the start of Type 31 work offset the step down in QEC revenues and the end of our Irish OPV contract, which was completed in the previous financial year.

The Queen Elizabeth Class (QEC) build programme completed this year with HMS Prince of Wales leaving our Rosyth facility in September 2019 for sea trials. Work on the QEC ships will continue into the future and in April 2019 HMS Queen Elizabeth returned to Rosyth for a planned six-week dry docking and inspection work package.

The Type 23 frigate life-extension programme at our Devonport facilities continues with a number of vessels undergoing deep maintenance and structural upgrade work simultaneously. During the year, HMS Lancaster was successfully returned to the fleet following her life extension package, HMS Richmond completed a power generation and machinery controls upgrade. HMS Portland is in the final stages of her refit. Our iFrigate support product underwent pioneering trials in the year on HMS Sutherland. iFrigate is an innovative smart technology used to predict and support future maintenance and through-life support decisions. We have also continued refit work for the UK's minehunter vessels during the year.

We continue to deliver training support to the Royal Navy under our FOAP contract and we are one of two parties down-selected for Project Selborne, which will consolidate the majority of Royal Navy training contracts into a single contract for the next 10-12 years.

We saw strong revenue growth across our defence technology businesses with increased activity on weapons handling systems and higher volumes on our MSSP contract, which supports the Type 45 and QEC platforms.

The US/UK Common Missile Compartment programme has continued well and in the year additional orders have been received to take our total contract to supply missile tube assemblies to over £250 million. This includes an award of a further 18 tubes placed in March 2020.

We see many opportunities for further growth in our technology businesses with some large opportunities in our pipeline. This includes a bid for the Maritime Electronic Warfare Programme and the Skynet 6 Service Delivery Wrap contract that will support the next generation of UK military satellite communications. We are also engaged with a range of partners bidding on opportunities on the £3.2 billion Morpheus programme which aims to deliver the next generation of land environment Tactical Communication and Information Systems (TacCIS) for the UK Armed Forces.

International Defence

We saw good revenue growth across our international businesses this year, helped by the start of the LHD contract in Australia and higher activity levels in Canada.

In Australia, our Naval Ship Management joint venture started work in July 2019 on the contract to sustain and support the largest vessels in the Royal Australian Navy: two flagship Canberra Class Landing Helicopter Docks (LHD) and their twelve associated amphibious landing craft. We have also secured the weapons handling and launch system contract for the Australian Attack class submarines. The initial design phase will be completed in Bristol, UK while the latter design phase and manufacture will be done in Osborne, Australia. Revenue from this programme will be small in the early years but we expect work to be over £1 billion over the decades-long lifetime of the programme.

In New Zealand, we won a 20-year contract with the Ministry of Defence to procure, deliver and support the country's high frequency communications network. High frequency communications represents a great opportunity for the sector and we have large bids in place in the UK and Australia.

In Canada, work continues on the HMCS Corner Brook extended docking work period as part of the Victoria Class in Service Support Contract (VISSC) and we have been pre-qualified for the VISSC II re-bid competition that starts in 2022.

In South Korea, we will now be providing our weapons handling and launch systems for the fourth boat in the Jangbogo-III Submarine programme. We have built up our Korea office and have invested in an in-service support facility in Busan from where we will continue to develop our presence and in country capability.

Looking ahead we see opportunities for export orders for our Arrowhead 140 frigate design used for the Type 31 programme and we are working with a cross UK Government General Purpose Frigate Export Working Group to explore opportunities around the world.

Adjacent markets: Energy and Marine

Revenue growth was strong across our Energy and Marine businesses in the year led by high demand for complex liquid gas transportation systems.

We continue to win contracts across our LGE business, with both LPG and ecoSMRT® systems, with orders of over £200 million in the year. We have now sold seventeen of our patented ecoSMRT® systems, bringing the total sold to date to 39. In the year we sold 23 reliquefaction systems for liquefied petroleum gas (LPG) ships.

Outlook for the year ending 31 March 2021

Around 75% of the work we do in the Marine sector relates to defence, mostly delivered through long term contracts, and this work continues throughout the COVID-19 pandemic. The defence support we provide in the UK, Australia and Canada is vital to national defence as are the defence programmes we are involved with across the world. Work on the Type 31 frigate programme will continue to ramp up. We expect our Energy and Marine business to see a greater impact from COVID-19 due to weaker demand.

Operating profit for the sector will be impacted by any revenue impact from COVID-19, as well as the sector margin impact from lower demand and productivity levels.

Nuclear

		31 March 2020 IFRS 16 basis	31 March 2019 pre-IFRS 16 basis
Underlying revenue	Group	£898.4m	£853.2m
	JV	£212.5m	£465.7m
	Total	**£1,110.9m**	**£1,318.9m**
Underlying operating profit	Group	£114.1m	£106.5m
	JV	£12.2m	£37.0m
	Total	**£126.3m**	**£143.5m**
Underlying operating margin	Group	12.7%	12.5%
	JV	5.7%	7.9%
	Total	**11.4%**	**10.9%**

The adoption of IFRS 16 increases operating profit by £0.8 million in the year
JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue

Financial review

Underlying revenue in our Nuclear sector was down 15.8% due to the £270.8 million step down in revenue from our Magnox JV which ended in August 2019. Excluding Magnox, revenue grew by 6.0% with a small decline in civil nuclear offset by good growth across the defence business.

There was a small impact from COVID-19 in the period as activity levels across our civil nuclear business were reduced.

Underlying operating profit of £126.3 million includes a small uplift from IFRS 16. Excluding this, underlying operating profit was £18.0 million lower than last year with a strong performance in Defence offsetting a £25.0 million step down in Magnox. The sector total margin increased to 11.4% reflecting a stable Group margin and a mix impact from lower joint venture revenue.

Due to the ongoing challenges across the UK civil nuclear market and to right-size our business following the end of the Magnox contract, we have implemented a restructuring programme across the Nuclear sector. This is focused on reducing overheads and simplifying our structure.

Operational review

Defence

The Defence business saw strong growth in the year supported by higher levels of activity in submarine support, design work for the Dreadnought Class and the start of work on the strategic infrastructure programme.

Our performance on our key contract, the Maritime Support Delivery Framework (MSDF) remains in line with expectations, with efficiencies and cost reductions being delivered. The replacement Future Maritime Support Programme (FMSP) contract is being developed and will be within our Terms of Business Agreement (TOBA) that runs to 2025.

We support the UK's submarine fleet at both HMNB Clyde and HMNB Devonport. Activity levels in Clyde have been higher throughout the year as we work closely with the customer across three submarine classes. In Devonport, we continue to work on the Revalidation Assisted Maintenance Period (RAMP) programmes for the Trafalgar Class and the first life-extension of the Vanguard Class.

Work started this year on the infrastructure design for the deep maintenance of the Astute Class of submarines in Devonport in the mid-2020s and we are engaging with the customer on further infrastructure upgrades at HMNB Clyde and HMNB Devonport.

Civil Nuclear

Excluding Magnox, revenue across our Civil Nuclear businesses was lower this year reflecting lower levels of customer funding as the civil nuclear market in the UK remains tough.

In decommissioning, all Magnox sites were handed back to the customer as planned at the end of August 2019 while work at Dounreay continues to deliver on its revised scope. The scope of our Dounreay joint venture continues to reduce each year as decommissioning work progresses.

We saw lower levels of activity in our nuclear services business in the period with lower levels of customer funding and some project delays at Sellafield. We continued to support EDF power stations through a challenging year of extended outages which impacted our levels of work activity.

Work on new build nuclear power stations is a small but strategically significant part of our business for the long term. In August 2019, the MEH Alliance was launched. This alliance will work across the Hinkley Point C site to integrate and coordinate the delivery of all the main MEH (Mechanical, Electrical and HVAC) activity. Our share of this work will be around £300 million over a five-to-six year period starting in 2022.

Civil nuclear work for our UK defence customer is a significant opportunity for the medium term and during the year we were selected as the Nuclear Technical Service Provider for HMNB Clyde.

We continued to make progress in building a presence in international markets this year. We secured a small contract in Japan and have won a series of small consultancy contracts in Canada.

Outlook for the year ending 31 March 2021

Defence accounts for the significant majority of the work we do in nuclear and is delivered through long term contracts. The support we provide to the Royal Navy's submarine fleet is critical to the UK's national defence and has been prioritised. Design work on new submarine classes and work on the strategic infrastructure programme will continue. The outlook for our civil nuclear business is tougher as a slowing UK market combined with the impacts of COVID-19 are expected to impact revenue. Year on year comparison will also be impacted by the completion of our Magnox contract in the year ended 31 March 2020.

Operating profit for the sector will be impacted by any revenue impact from COVID-19, as well as the sector margin impact from lower demand and productivity levels.

Land

		31 March 2020 IFRS 16 basis	31 March 2019 pre-IFRS 16 basis
Underlying revenue	Group	£1,534.7m	£1,560.0m
	JV	£18.9m	£60.2m
	Total	**£1,553.6m**	**£1,620.2m**
Underlying operating profit	Group	£100.5m	£105.1m
	JV	£33.4m	£40.9m
	Total	**£133.9m**	**£146.0m**
Underlying operating margin	Group	6.5%	6.7%
	JV	176.7%	67.9%
	Total	**8.6%**	**9.0%**

The adoption of IFRS 16 increases operating profit by £2.6 million in the year
JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue. The effect of this is that there is no revenue recognised in relation to our Holdfast (RSME) JV

Financial review

Underlying revenue was slightly lower in the year due to a £61.1 million impact from exits and disposals and a £24.0 million negative impact from foreign exchange movements. Excluding these, underlying revenue grew by 1.2% with stronger trading in South Africa and higher defence procurement revenues partly offset by a lower contribution from joint ventures following the end of our ABC joint venture.

There was a small impact to revenue in the final month of the year from COVID-19 as training activities were suspended and we saw lower activity in our short cycle areas including Airports and UK rail and power. We also saw lower procurement-related revenue.

Underlying operating profit of £133.9 million was slightly ahead of our expectations and includes the impact of £18.4 million of step downs. These relate to foreign exchange movements, exits and disposals, and a £10.2 million reduction in profits from our Holdfast (RSME) joint venture. Excluding these step downs and the benefit of IFRS 16, underlying operating profit increased by £3.7 million. This increase represents the strong performance of South Africa and an improved performance in our ALC joint venture. The step down in the Holdfast (RSME) profit contribution was less than originally expected as we were able to realise more lifecycle operating cost savings in the year.

The increase in the joint venture margin in the year reflects the absence of ABC joint venture revenue, which ended in the last financial year, and an improved performance in our ALC joint venture. Revenue from the Holdfast (RSME) joint venture is not included in JV revenue, as it is already included in Group revenue as the work is performed by Babcock Group on behalf of the joint venture. The operating profit is included in JV operating profit and this leads to the high JV margin for Land.

Operational review

Defence

We saw a strong performance across our defence businesses in the year with revenue growth led by higher defence procurement revenues, although these fell in the final month of the year.

We made great progress in our Defence Support Group (DSG) business, helped by working collaboratively with the MOD as part of the Cabinet Office's Strategic Partnering Programme. We continue to invest in a new ERP system to drive further efficiencies in our vehicle maintenance and spares procurement activities. During the year, we secured new orders worth around £80 million in equipment support activities, including additional Warrior platforms and we continue to discuss further initiatives for fleet support for future years.

We had a good year across Defence training, where we support the British Army in delivering training to around 20,000 service personnel. We continued to drive efficiencies in training for the Royal School of Mechanical Engineers (RSME) though our Holdfast joint venture and we were able to realise more lifecycle operating cost savings. We secured a two-year extension to our Defence College of Technical Training contract and a three-year extension to our Training, Maintenance and Support Services contract. We continue to work closely with our customer as they develop their Collective Training Transformation Programme, including mobilising Project Hannibal to develop a dynamic opposing force for the Army to train against in a realistic synthetic environment.

Additionally, we secured a two-year extension to our contract to support the British Army in Germany and have successfully pre-qualified for the National Training Estate opportunity, which will come to market later in the 2021 financial year.

Our ALC JV continued to perform well in the period but we were unsuccessful in the bid for Project Miter, the replacement contract for ALC. As such, our work supporting the Army's C vehicles will end in May 2021.

Emergency Services

Trading across our Emergency Services businesses was strong over the period with good revenue growth and a significant new contract win.

Our fleet support and training contracts for the London Fire Brigade (LFB) continue to perform well and during the year we acquired and introduced a number of new vehicles into the LFB fleet to help them meet their low carbon initiatives.

Our fleet support contract for London's Metropolitan Police Service (MPS) also performed well in the year and we completed the move to a dedicated new workshop facility to support further improvements in contract delivery. In November 2019, we won a new contract worth around £300 million to act as the MPS's learning partner. This partnership to support the UK's largest police service with its new training recruits will last at least eight years and starts in the next financial year.

Adjacent markets

The Land sector operates a range of contracts across markets adjacent to our key markets, all benefiting from our engineering capabilities.

In line with our strategy, we continue to exit non-strategic areas of our business. In June 2019 we concluded our services for British Airways ground support and in December 2019 we exited our final aggregates and cement fleet management contract. These exits are in addition to the set of exits and disposals made in the 2019 financial year.

In Rail, work has now started on the new ten-year CP6/7 contract for track works in Scotland, a contract worth up to £1 billion over its life. We were also awarded a signals and telecoms framework contract by Network Rail worth £65 million over the next five years.

Our Airports business had a solid year of contract performance and was successful in the rebid of the Schiphol Baggage Maintenance contract. Our rebid for Heathrow baggage handling was unsuccessful, with the existing contract ending in October 2020.

Our business in South Africa delivered a record year with good revenue growth, record margins and significant improvements in health and safety. However, the devaluation of the rand, particularly in the final months of the year, reduced the Group pound sterling benefit. Revenue growth came from the energy business which saw increased work with Eskom, the state-owned power generation company. The construction and mining equipment supply business saw lower revenue reflecting overall market demand but we were able to grow our market share.

Outlook for the year ending 31 March 2021

Work on defence programmes, which make up around 40% of work in our Land sector, continues during the COVID-19 pandemic and is delivered across long term contracts. Work across our South African energy business and emergency services businesses also continues with relatively little disruption. The impact from COVID-19 will be greater across our adjacent markets, particularly in civil training, rail, power, airports and our South African equipment business.

Operating profit for the sector will be impacted by any revenue impact from COVID-19, as well as the sector margin impact from lower demand and productivity levels. Operating profit will also reflect only two months of contribution from our Holdfast (RSME) joint venture following the sale of our interest in June 2020.

Aviation

		31 March 2020 IFRS 16 basis	31 March 2019 pre-IFRS 16 basis
Underlying revenue	Group	£852.6m	£995.9 m
	JV	£147.7m	£139.6 m
	Total	**£1,000.3m**	**£1,135.5 m**
Underlying operating profit	Group	£64.2m	£107.1 m
	JV	£56.8m	£53.4 m
	Total	**£121.0m**	**£160.5 m**
Underlying operating margin	Group	7.5%	10.8%
	JV	38.5%	38.3%
	Total	**12.1%**	**14.1%**

The adoption of IFRS 16 increases operating profit by £17.9 million in the year
JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue

Financial review

Underlying revenue of £1,000.3 million was £135.2 million lower than last year, which included around £125 million of asset sales in our Fomedec contract, plus revenue from the Helidax joint venture which was disposed of in March 2019. Excluding Fomedec and Helidax, revenue for the sector was broadly flat over the year following a stronger second half of trading in our defence and aerial emergency services businesses.

There was a small impact from COVID-19 in the final two months of the year as we saw reduced flying hours and increased costs in our aerial medical services businesses.

Underlying operating profit of £121.0 million includes a £17.9 million benefit from the adoption of IFRS 16. Excluding this, operating profit is £57.4 million lower than last year. The reduction in operating profit reflects the lower revenue across the sector combined with a fall in margin, with the sector margin falling to 12.1%, or 7.5% excluding joint ventures. These lower margins reflect the pressures in our Oil and Gas business, the impact of contract delays both in pricing and costs in aerial medical emergency services in Italy and Spain and a comparison to some contract outperformances in the sector in the last financial year. The profit contribution from joint ventures was slightly higher with an improved contract performance in Ascent and better than expected contract performance in AirTanker offsetting the end of contributions from Helidax.

To address the lower margins in the sector this year we have reduced our fleet in Oil and Gas and implemented a restructuring programme across the sector. We have impaired the value of goodwill to reflect changes to market conditions.

Operational review

Defence

As expected, revenue in our Defence business was lower given the impact of Fomedec equipment sales last year.

Our defence business across the UK had a good year. Our HADES contract, which provides technical support at 17 RAF air bases, has now been fully operational for over a year and we signed a three-year extension to our existing Light Aircraft Flying Task contract to provide our Babcock-owned Grob 115 aircraft through to March 2022.

Our Ascent joint venture performed well in the period with key milestones met and it was awarded a contract uplift, with our share worth around £100 million, to provide additional helicopter flight training. Work will start in the March 2022 financial year.

Expanding our services across international defence markets remains a key part of our strategy. In France, our Fomedec contract has performed well and we are exploring opportunities to expand the scope of work. In December 2019 we won our second defence contract in France. We will provide four H160 helicopters to the French Navy for search and rescue operations and be responsible for modifications and through-life support over the ten-year contract worth at least £100 million. International opportunities remain a significant part of our pipeline, including defence flying training opportunities in Canada and France.

Aerial Emergency Services

Revenue across our aerial emergency services was flat over the year as the positive impact of the start of operations in Norway and Canada were offset by the impact of delayed contracts in Southern Europe and lower flying hours in the final months of the year as COVID-19 lockdowns led to fewer primary emergency missions in Italy, Spain and France. We have, however, continued to provide aerial emergency services in all geographies, introducing new safety measures to keep crew and patients safe.

Across Italy and Spain we saw delays this year in the award of new aerial medical emergency services contracts. These delays were a mix of rebids and new regions and were caused by customer decisions and appeals from other bidders. In addition, we are increasingly seeing customers demand additional and more complex services without full budgets. We are addressing the impact this has on profitability with the restructuring programme across the sector.

Our firefighting operations in Europe had a successful year of operations though total flying hours were lower than last year. We have expanded our market presence in Spain with a contract expansion in the Andalucía region. As part of efforts to help countries outside our operations this year we flew operations in Greece and Israel to assist with their fire season.

We entered two new countries in the year. The Norwegian fixed wing contract began operations in July 2019 with 11 aircraft providing aerial medical emergency services. We also entered the Canadian market, with the start of our firefighting contract in April 2019 in Manitoba. We manage, maintain and operate Manitoba's fleet of seven firefighting amphibious aircraft and provide three of our own aircraft.

Adjacent markets: Oil and Gas

Our Oil and Gas business continues to face challenging market conditions and revenue was down significantly this year following the loss of some key contracts, lower pricing and lower flying activity.

We are addressing the difficult trading environment through the restructuring actions we are taking. We have significantly rationalised our fleet, removing many heavy helicopters. We have returned seven S92s and five EC225 leased assets. This rationalisation programme has enabled us to significantly improve our fleet utilisation across all bases. In March 2020 we won a five year contract in the North Sea with three operators starting in July, albeit at pricing reflective of the tough environment and current lease rates.

Outlook for the year ending 31 March 2021

Defence accounts for around 30% of the work we do in our Aviation sector and work continues throughout the COVID-19 pandemic. Lower productivity is expected to impact operating profit however.

Despite directly contributing to the fight against COVID-19, our Emergency Services business is seeing lower flying hours. The response to COVID-19 has created additional costs on top of the pressures on our cost base from contract delays in Southern Europe. The market for oil and gas aviation is expected to remain weak and revenue will be lower next year due to contracts lost in the last financial year, plus some impact from COVID-19.

Operating profit for the sector will be impacted by any revenue impact from COVID-19, as well as the sector margin impact from lower demand and productivity levels. We will look to accelerate fleet rationalisation to drive cash generation and future cost reduction.

Financial review

Headline underlying results

	31 March 2020 IFRS 16 basis	31 March 2019 pre-IFRS 16 basis
Group underlying revenue	£4,449.5m	£4,474.8m
Joint venture underlying revenue	£422.2m	£685.8m
Total underlying revenue	**£4,871.7m**	**£5,160.6m**
Group underlying operating profit	£418.5m	£453.8m
Joint venture underlying operating profit	£105.7m	£134.6m
Total underlying operating profit	**£524.2m**	**£588.4m**
Net finance cost – Group	£(72.9)m	£(46.7)m
Net finance cost – JV	£(22.8)m	£(24.1)m
IAS 19 pension credit/(charge)	£(0.1)m	£0.3m
Total net interest	£(95.8)m	£(70.5)m
Underlying profit before tax	**£428.4m**	**£517.9m**
Tax	£(77.1)m	£(93.2)m
Underlying profit after tax	**£351.3m**	**£424.7m**
Non-controlling interests	£(2.0)m	£(0.4)m
Underlying basic EPS	**69.1p**	**84.0p**

Results for the year are reported under IFRS 16 (Leases) without prior year restatement. The adoption of IFRS 16 increases operating profit by £23.6 million, increases net interest by £24.7 million and has a negative impact on underlying basic EPS of 0.2p

Statutory to underlying reconciliation

		Joint ventures and associates							
	Statutory £m	Revenue and operating profit £m	Finance costs £m	Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Exceptional items £m	Change in tax rate £m	Underlying £m
31 March 2020									
Revenue	4,449.5	422.2							4,871.7
Operating (loss)/profit	(164.9)	79.8			27.0	81.5	500.8		524.2
Share of profit from JV	58.6	(79.8)	22.8	16.4	(25.9)	5.8	2.1		–
Investment income	1.1				(1.1)				–
Net finance costs	(73.0)		(22.8)						(95.8)
(Loss)/Profit before tax	(178.2)	–	–	16.4	–	87.3	502.9	–	428.4
Tax	(15.0)			(16.4)		(18.4)	(26.1)	(1.2)	(77.1)
(Loss)/Profit after tax	(193.2)	–	–	–	–	68.9	476.8	(1.2)	351.3
Return on revenue	(3.7)%								10.8%
31 March 2019									
Revenue	4,474.8	685.8							5,160.6
Operating profit	196.5	106.8			29.1	95.2	160.8		588.4
Share of profit from JV	83.8	(106.8)	24.1	20.9	(27.8)	5.8			–
Investment income	1.3				(1.3)				–
Net finance costs	(46.4)		(24.1)						(70.5)
Profit before tax	235.2	–	–	20.9	–	101.0	160.8	–	517.9
Tax	(35.4)			(20.9)		(21.5)	(16.7)	1.3	(93.2)
Profit after tax	199.8	–	–	–	–	79.5	144.1	1.3	424.7
Return on revenue	4.4%								11.4%

Adjustments between statutory and underlying

Our underlying results include some adjustments to our statutory results that we make to provide a consistent measure of business performance year to year. Underlying results are used by management to measure operating performance and as a basis for forecasting and the Group believes they are used by investors in analysing business performance. The adjustments made are:

- Underlying revenue, underlying operating profit and underlying net finance costs include the Group's share of equity-accounted joint ventures and associates. These are included as they are a key part of our business and the way work is conducted in the markets in which we operate, with joint venture structures common in the defence industry. Our bidding pipeline includes the potential for more joint ventures to be added to the Group in the future and they remain a key part of our strategy.
- Underlying operating profit includes investment income arising under IFRIC 12 which is presented as financial income in the Income Statement. Like joint ventures, the income we receive under IFRIC 12 relates to key parts of our business and its contribution is dependent on the performance of the business
- Underlying operating profit excludes the amortisation of acquired intangibles. This item is excluded from underlying results as it is a non-cash item that does not change each year based on the performance of the business.
- Underlying operating profit excludes exceptional items. Details of these items are included on page 5 of this statement.

Income statement

Statutory performance

Statutory revenue was £4,449.5 million (2019: £4,474.8 million) and reflects the step downs in our QEC contract as well as the impact of exits and disposals in the last financial year. Statutory operating loss was £(164.9) million (2019 profit: £196.5 million) and statutory loss before tax was £(178.2) million (2019 profit: £235.2 million), reflecting higher exceptional charges in the current year compared to the prior year. Basic earnings per share, as defined by IAS 33, was (38.6) pence (2019: 39.5 pence) per share.

Underlying revenue performance

Underlying revenue for the year was £4,871.7 million (2019: £5,160.6 million), down £288.9 million. This reduction reflects the impact of £428.4 million of step downs including foreign exchange movements. Excluding these, underlying revenue grew by 2.7%.

Underlying operating profit performance

The Group's underlying operating profit performance reflects strong trading in our Marine sector offset by weakness in our Aviation sector and a small impact from COVID-19.

Underlying operating profit includes a £23.6 million benefit from the adoption of IFRS 16. Excluding this, underlying operating profit of £500.6 million was down £87.8 million on last year. This reduction includes a combined £60.0 million impact of step downs as detailed below. These step downs relate to:

- The end of our contract for design and build of the Queen Elizabeth Class (QEC) aircraft carriers and the step down in revenue and profit year-on-year
- The end of our Magnox contract and the step down in revenue
- The impact of exits and disposals with the step down being the absence of revenue and profit contribution in the FY20 year
- The normalisation of the profit contribution from our Holdfast (RSME) joint venture
- The additional costs incurred in the FY20 financial year as a result of our Brexit-related restructure in Aviation
- The adverse impact of foreign exchange in the 2020 financial year

FY20 step downs

	Revenue £m	Operating profit £m
QEC	(50.4)	(2.0)
Magnox	(270.8)	(25.0)
Exits and disposals	(70.8)	(9.6)
Normalisation of Holdfast profit contribution	–	(10.2)
Brexit-related Aviation restructuring	–	(10.0)
Total impact of step downs	**(392.0)**	**(56.8)**
Impact of foreign exchange movements	(36.4)	(3.2)
Total impact of step downs including foreign exchange movements	**(428.4)**	**(60.0)**

Excluding IFRS 16, step downs and exchange rates, underlying operating profit was down 4.7%, mainly due to performance in our Aviation sector and a small impact from COVID-19.

Exceptional items

During the year we incurred exceptional costs related to actions taken to strengthen the business that were partly offset by a gain on the sale of Context. We also impaired goodwill related to our Aviation sector. Further details are on page 5.

Underlying organic growth

	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Underlying revenue						
31 March 2019	**1,086.0**	**1,318.9**	**1,620.2**	**1,135.5**	**–**	**5,160.6**
Exchange adjustment	(0.1)	–	(24.0)	(12.3)	–	(36.4)
Disposals	–	–	(37.9)	(8.7)	–	(46.6)
Step downs excl. disposals	(51.4)	(270.8)	(23.2)	–	–	(345.4)
Organic growth excl. step downs	172.4	62.8	18.5	(114.2)	–	139.5
31 March 2020	**1,206.9**	**1,110.9**	**1,553.6**	**1,000.3**	**–**	**4,871.7**
Underlying revenue growth	11.1%	– 15.8%	– 4.1%	– 11.9%	–	– 5.6%
Organic growth at constant exchange rates	11.1%	– 15.8%	– 0.3%	– 10.1%	–	– 4.0%
Organic growth excl. step downs at constant exchange rates	15.9%	4.8%	1.1%	– 10.1%	–	2.7%
Underlying operating profit						
31 March 2019	**141.2**	**143.5**	**146.0**	**160.5**	**(2.8)**	**588.4**
IFRS 16 impact	2.2	0.8	2.6	17.9	0.1	23.6
Exchange adjustment	(0.1)	–	(1.6)	(1.5)	–	(3.2)
Disposals	–	–	(4.3)	(3.0)	–	(7.3)
Step downs excl. disposals	(2.0)	(25.0)	(12.5)	(10.0)	–	(49.5)
Organic growth excl. step downs	2.7	7.0	3.7	(42.9)	1.7	(27.8)
31 March 2020	**144.0**	**126.3**	**133.9**	**121.0**	**(1.0)**	**524.2**
Underlying operating profit growth (pre-IFRS 16)	0.4%	– 12.5%	– 10.1%	– 35.8%	– 60.7%	– 14.9%
Organic growth at constant exchange rates (pre-IFRS 16)	0.5%	– 12.5%	– 6.0%	– 33.0%		– 13.1%
Organic growth excl. step downs at constant exchange rates (pre-IFRS 16)	1.9%	4.9%	2.5%	– 26.7%		– 4.7%

Finance costs

Total net finance costs increased to £95.8 million (2019: £70.5 million), mainly reflecting the impact of adoption of IFRS 16 and the group refinancing in September 2019, which increased group costs, partly offset by lower JV finance costs.

The Group's share of joint venture net interest expense decreased to £22.8 million (2019: £24.1 million), following the pay down of joint venture debt. The IAS 19 pension finance charge was £0.1 million (2019: £0.3 million credit).

The refinancing in 2019 increased group finance costs by around £5 million year-on-year and is expected to increase finance costs further in the 2021 financial year by around another £2 million.

Tax charge

The underlying tax charge, including the Group's share of joint venture tax of £16.4 million (2019: £20.9 million), totalled £77.1 million (2019: £93.2 million), representing an effective underlying tax rate of 18.0% (2019: 18.0%). The effective tax rate is calculated by using the Group's underlying profit before tax and therefore excludes the tax effect of amortisation of acquired intangibles, together with the tax credit in respect of exceptional items.

The underlying tax rate for the year ending 31 March 2021 will be dependent on country mix post COVID-19 but is not expected to exceed 19%.

Pensions

The Group's net pension position moved to a surplus of £145.2 million (2019: £28.0 million deficit), with the movement due to slightly higher discount rates and significantly lower inflation rate assumptions.

Amortisation of acquired intangibles

Amortisation of acquired intangibles was £81.5 million (2019: £95.2 million). This represents the amortisation of the value attributed on business acquisitions to customer relationships (both contractual and non-contractual).

Exchange rates

The impact of foreign currency movements over the year resulted in a decrease in underlying revenue of £36.4 million and a corresponding £3.2 million decrease in underlying operating profit. The main currencies that have impacted our results are the South African Rand and the Euro. The currencies with the greatest potential to impact our results are the Euro, the South African Rand and the Canadian Dollar:

- A 10% movement in the Euro against Sterling would affect underlying revenue by around £39 million and underlying operating profit by around £3 million
- A 10% movement in the South African Rand against Sterling would affect underlying revenue by around £33 million and underlying operating profit by around £4 million
- A 10% movement in the Canadian Dollar against Sterling would affect underlying revenue by around £15 million and underlying operating profit by around £2 million

Earnings per share

Underlying earnings per share for the year was 69.1 pence (2019: 84.0 pence), reflecting the lower underlying operating profit. The adoption of IFRS 16 had a minimal impact on underlying EPS, with higher operating profit offset by higher finance charges.

Basic continuing earnings per share, as defined by IAS 33, was (38.6) pence (2019: 39.5 pence) reflecting statutory earnings which included exceptional items.

Cash flow and net debt

The table below compares our underlying and statutory cash flows. Our underlying cash flows are used by management to measure operating performance as they provide a more consistent measure of business performance year to year.

	2020			2019	2019
	Underlying £m	Underlying adjustments* £m	Statutory £m	Underlying £m	Statutory £m
Operating profit before amortisation of acquired intangibles	417.4	(582.3)	(164.9)	452.5	291.7
Amortisation, depreciation and impairments	95.7	490.0	585.7	108.6	137.9
Depreciation of right of use asset – IFRS 16	129.4	14.2	143.6	–	–
Profit on disposal of subsidiaries	–	(74.7)	(74.7)		
Other non-cash items	5.4	2.1	7.5	(1.4)	(16.2)
Working capital (excluding excess retirement benefits)	(26.8)	14.9	(11.9)	86.8	108.9
Provisions	(19.4)	81.8	62.4	(28.7)	10.7
Operating cash flow	601.7	(54.0)	547.7	617.8	533.0
Capital expenditure (net)	(147.5)	3.0	(144.5)	(148.5)	(148.5)
IFRS 16 additions less exceptional payments**	(109.8)	(18.3)	(128.1)	–	–
Operating cash flow after capital expenditure	344.4	(69.3)	275.1	469.3	384.5
Cash conversion % – after capital expenditure	83%	–	(167)%	104%	132%
Interest paid (net)	(46.7)	–	(46.7)	(47.5)	(47.5)
Interest paid – IFRS 16	(24.7)	–	(24.7)	–	–
Taxation	(62.6)	(9.8)	(72.4)	(86.9)	(74.0)
Dividends from joint ventures	52.0	–	52.0	44.6	44.6
Free cash flow before pension contribution in excess of income statement	262.4	(79.1)	183.3	379.5	307.6
Retirement benefit contributions in excess of income statement	(70.2)	(3.3)	(73.5)	(55.8)	(25.1)
Free cash flow after pension contribution in excess of income statement	192.2	(82.4)	109.8	323.7	282.5
Acquisitions and disposals net of cash/debt acquired	(0.8)	105.5	104.7	(0.8)	29.5
Investments in joint ventures	(0.3)	–	(0.3)	0.1	0.1
Movement in own shares	(2.9)	–	(2.9)	–	–
Dividends paid	(153.9)	–	(153.9)	(153.3)	(153.3)
Exceptional cash movement	23.1	(23.1)	–	(11.4)	(0.5)
Movement in net debt excluding exchange rates	57.4	–	57.4	158.3	158.3

Net debt reconciliation		
Opening net debt	(957.7)	(1,115.0)
IFRS 16 transition	(640.8)	–
Net cash flow	57.4	158.3
Exchange difference	(53.8)	(1.0)
Closing net debt	(1,594.9)	(957.7)

*Adjustments for exceptional cash flows (including lease payments) and acquired intangible amortisation

**Additional leases entered into during the year less exceptional payments which we include in underlying cash flow for the purposes of explaining net debt movement

Our underlying free cash flow excludes exceptional lease cash payments. Cash flows relating to onerous leases before the adoption of IFRS 16 continue to be considered exceptional cash flows.

The IFRS 16 additions line has been adjusted by the amount of exceptional lease payments; being defined as the net increase to lease obligations (additions) after underlying lease principal payments and foreign exchange impact are removed.

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

	2020			2019	2019
	Underlying £m	Exceptional items £m	Statutory £m	Underlying £m	Statutory £m
Cash generated from operations	531.5	(57.3)	474.2	562.0	507.9
Retirement benefit contributions in excess of income statement	70.2	3.3	73.5	55.8	25.1
Operating cash flow	601.7	(54.0)	547.7	617.8	533.0

IFRS 16 impact

IFRS 16 impacts various cash flows. There was an additional £23.6 million of operating profit, a £129.4 million depreciation charge of the right of use assets, £109.8 million of IFRS 16 additions less exceptional payments, and £24.7 million interest on the lease liabilities.

The PPE depreciation charge excludes £10.3 million related to leases designated as finance leases prior to the adoption of IFRS 16. This is now included in the depreciation of right of use assets.

The net impact of these was to increase free cash flow by £8.2 million.

Operating cash flow

Underlying operating cash flow in the period was £601.7 million which includes a benefit of £129.4 million of right of use asset depreciation this year. Underlying operating cash flow after capital expenditure was £344.4 million, representing cash conversion of 83%. This compares to underlying operating cash flow after capital expenditure of £469.3 million last year, which included a significant contribution of over £50 million from working capital inflows related to our Fomedec contract.

Working capital

Total underlying working capital cash outflows for the period, excluding excess retirement benefits, were £26.8 million compared to a £86.8 million inflow last year, which benefited from the Fomedec working capital unwind. The working capital out flow this year represents a £23.0 million outflow in receivables and a £10.9 million outflow in inventories partly offset by a £7.1 million inflow in payables.

Within receivables, we saw increased capitalised contract costs related to Norway, Canada and the Type 31 frigate programme and VAT timing differences partly related to COVID-19. We made good progress this year on reducing amounts due for contract work but the reduction was less than expected as COVID-19 impacted invoicing to customers in the final month of the year. Trade receivables were slightly higher year-on-year as COVID-19 led to delays in customer receipts at the end of the year.

The Group factors receivables in its Southern European Aviation operations. At 31 March 2020, the level of factoring was similar to last year at around £100 million.

Within payables, lower activity levels were partly offset by higher contract cost accruals, due to the Type 31 programme, and an increase in advanced customer payments in our LGE business.

The outflow in inventory primarily relates to increased stock levels in our South African business reflecting the expected higher activity levels.

Provisions

Underlying operating cash flow includes a £19.4 million outflow due to underlying provision movements (2019: £28.7 million outflow) relating to contracts, onerous leases, personnel (taxation and reorganisation) and property. During the year £1.0 million of net underlying provisions were credited to the income statement. The level of non-exceptional provision outflow in the next financial year is expected to be around £10 million.

Capital expenditure

Excluding IFRS 16, net capital expenditure was £147.5 million in the year (2019: £148.5 million) comprised of gross capital expenditure of £174.6 million (2019: £227.0 million) and asset disposals, mainly related to the sale and leaseback of new aircraft of £27.1 million (2019: £78.5 million). Net capital expenditure of 1.5 times depreciation was slightly higher than last year and higher than the 1.0 times depreciation we had expected. This was due to lower assets disposals as COVID-19 led to some asset sales on delayed contracts in Southern Europe not completing as both lessors and customers experienced difficulties.

In addition to net capital expenditure, £128.1 million of additional operating leases were entered into in the period. This, less £18.3 million of onerous lease payments, led to £109.8 million of other IFRS 16 cash flows included within our underlying free cash flow. Onerous lease payments are not included in our underlying free cash flow as cash flows relating to what would have been onerous leases before the adoption of IFRS 16 continue to be considered exceptional.

Cash interest paid

Net Group cash interest paid, excluding that paid by joint ventures, was £71.4 million (2019: £47.5 million).

Taxation

Underlying cash tax payments of £62.6 million (2019: £86.9 million) decreased, reflecting lower underlying profit before tax and comparison to higher tax payments last year following the settlement of a tax dispute in Spain relating to pre-acquisition activity. In addition to this, we saw an increase in R&D tax credits received.

Pensions

Pension cash outflow in excess of the income statement charge excluding exceptionals was £70.2 million (2019: £55.8 million).

The uneven distribution of funding deficits between our three large schemes, will result in more volatility in pensions funding over the coming years. An estimate of the current technical provisions actuarial deficit for the three main schemes is around £500 million, predominantly reflecting discount rates based on UK gilts. This differs from the accounting valuation which is based on discounting using corporate bond yields where credit spreads have increased. This resulted in an IAS 19 position of a £145.2 million net surplus at 31 March 2020.

We expect to make additional pension payments into the Rosyth scheme of around £90 million over two years, with the starting point yet to be determined.

For the next financial year the cash outflow in excess of the income statement charge is expected to be around £75 million excluding the Rosyth additional payments, which will be treated as exceptional cash items.

Dividends

During the period the Group received £52.0 million in dividends from its joint ventures (2019: £44.6 million). Cash dividends (including to minorities of £1.8 million) paid out in the year totalled £153.9 million (2019: £153.3 million).

We expect dividends from joint ventures to be around £30 million in the next financial year before increasing in the following year.

Free cash flow

Free cash flow was £192.2 million compared to £323.7 million last year, primarily reflecting the lower operating profit and the movement in working capital described above.

Exceptional cash movement

There was a cash inflow of £23.1 million in the year with the proceeds from the sale of Context partly offset by exceptional cash costs relates to 2019 and 2020 exceptional charges.

Net debt

The Group's net cash inflow was £57.4 million (2019: £158.3 million). Net debt at 31 March 2020 was £1,594.9 million. Net debt excluding lease obligations was £922.1 million. This measure now excludes £40 million of lease obligations which were previously treated as finance leases.

Looking ahead at our forecasts for next year, we expect average net debt to be around £300 million higher than the year end position, reflecting the normal phasing of our business.

Net debt to EBITDA

We have redefined our net debt to EBITDA on a basis comparable to that used in the covenants for some of our debt. This gearing measure compares net debt (excluding non-recourse JV debt and all leases) to Group EBITDA (excluding our share of JV's EBITDA) plus joint venture dividends. The tables below show the calculation as well as the calculation on an IFRS 16 basis.

Net debt to EBITDA saw a small increase to 1.7 times this year with the reduction in EBITDA partially offset by higher joint venture dividends and lower net debt. This level remains below our covenant level of 3.5 times. On an IFRS 16 basis, net debt to EBITDA was 2.3 times.

Pre IFRS 16 (per debt covenants):

	31 March 2020 £m	31 March 2019 £m
Underlying operating profit excl. JVs (pre-IFRS 16)	393.8	452.5
Depreciation (pre-IFRS 16)	80.7	93.8
Amortisation of software and development costs	15.0	14.6
Group IFRIC 12 income	1.1	1.3
EBITDA	490.6	562.2
JV dividends	52.0	44.6
EBITDA + JV dividends	542.6	606.8
Net debt excl. lease obligations	922.1	957.7
Net debt / EBITDA	1.7x	1.6x

Post-IFRS 16:

	31 March 2020 £m
EBITDA + JV dividends (pre-IFRS 16)	542.6
IFRS 16 EBITDA adjustment	153.0
EBITDA + JV dividends (post-IFRS 16)	695.6
Net debt excl. leases payable	922.1
Leases payable	672.8
Net debt (post-IFRS 16)	1,594.9
Net debt / EBITDA	2.3x

Interest cover

Interest cover pre-IFRS 16 is another metric used in the covenants for some of our debt. This year interest cover was 11.3 times, lower than last year due to lower profits and a small increase in net finance costs following our refinancing in September 2019. The interest cover in the debt covenants is four times.

Pre IFRS 16 (per debt covenants):

	31 March 2020 £m	31 March 2019 £m
EBITDA + JV dividends (pre-IFRS 16) (as above)	542.6	606.8
Finance costs (pre-IFRS 16)	61.2	62.7
Finance income	(13.0)	(16.0)
Net group finance costs (pre-IFRS 16)	48.2	46.7
Interest cover	11.3x	13.0x

Return on invested capital (ROIC)

Return on invested capital (ROIC) is defined as underlying operating profit divided by net debt and shareholder funds excluding retirement deficits or surpluses. Post tax, ROIC for the year was 12.3%, a slight decrease from 12.5% last year. This small decrease primarily reflects lower underlying operating profit this year offset by the impairment of assets.

Pre IFRS 16:

	31 March 2020 £m	31 March 2019 £m
Underlying operating profit	500.6	588.4
Tax at 18.0%	(90.1)	(105.9)
Underlying operating profit post tax	410.5	482.5
Net debt excl. lease obligations	922.1	957.7
Shareholder funds	2,550.0	2,884.9
Retirement deficit / (surplus)	(145.2)	28.0
Invested capital	3,326.9	3,870.6
ROIC (pre-tax)	15.0%	15.2%
ROIC (post-tax)	12.3%	12.5%

Post-IFRS 16:

	31 March 2020 £m
Underlying operating profit	524.2
Tax at 18.0%	(94.4)
Underlying operating profit post tax	429.8
Net debt excl. lease obligations	922.1
Lease liabilities	672.8
Shareholder funds	2,550.0
Retirement deficit	(145.2)
Invested capital	3,999.7
ROIC (pre-tax)	13.1%
ROIC (post-tax)	10.7%

Pensions

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,411.3 million in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,266.1 million. The net accounting position, pre-tax, of the Group's combined defined benefit pension schemes moved from a deficit to a surplus of £145.2 million (31 March 2019: deficit of £28.0 million).

Discount rate	2.4% (31 March 2019: 2.4%)
Inflation rate (RPI)	2.6% (31 March 2019: 3.2%)

Going concern statement

The financial statements have been prepared on the going concern basis because the Directors have a reasonable expectation that the Group has adequate resources for a period of at least 12 months from the date of the approval of the financial statements and that there are no material uncertainties to disclose.

In assessing the appropriateness of the going concern basis of accounting, the Directors reviewed the resources available to the Group in the form of cash and committed facilities, which are the £775 million five year multi-currency revolving credit facility, the US$500 million loan notes, and the three tranches of notes (€550 million 1.75% notes, £300 million 1.875% notes and €550 million 1.375% notes) issued under the Group's Euro Bond programme, along with a baseline plan.

The baseline plan was adjusted to reflect a range of estimated impacts of COVID-19 on the Group over varying periods (three months, six months and twelve months). This adjusted baseline plan has then been subject to a further downside stress scenario. The Directors also considered mitigating actions, including deferral of non-essential capital and revenue expenditure as well as the deferral of dividends.

Having considered these matters, the Directors do not believe there are any material uncertainties to disclose in relation to the Group's ability to continue as a going concern.

Group income statement

	Note	2020 £m	2020 Total £m	2019 £m	2019 Total £m
Revenue[1]	2		4,449.5		4,474.8
Cost of revenue			(3,940.5)		(3,928.3)
Gross profit			509.0		546.5
Distribution expenses			(9.3)		(11.9)
Administration expenses			(344.3)		(352.9)
Goodwill impairment			(395.0)		–
Profit on disposal of subsidiaries			74.7		14.8
Operating (loss)/profit before share of results of joint ventures and associates	2		(164.9)		196.5
Share of results of joint ventures and associates	2, 9		58.6		83.8
Group and joint ventures and associates					
Operating profit before amortisation of acquired intangibles and exceptional items		497.2		559.3	
Investment income		27.0		29.1	
Underlying operating profit[2]	2	524.2		588.4	
Amortisation of acquired intangibles	3	(87.3)		(101.0)	
Exceptional items – Group	3	(500.8)		(160.8)	
Exceptional items – joint ventures and associates	3	(2.1)		–	
Investment income - Group		(1.1)		(1.3)	
Joint ventures and associates finance costs		(22.8)		(24.1)	
Joint ventures and associates income tax expense		(16.4)		(20.9)	
Operating (loss)/profit			(106.3)		280.3
Finance costs					
Investment income		1.1		1.3	
Retirement benefit interest	16	(0.1)		0.3	
Finance costs	4	(85.9)		(62.7)	
Finance income	4	13.0		16.0	
			(71.9)		(45.1)
(Loss)/profit before tax	2		(178.2)		235.2
Income tax expense	5		(15.0)		(35.4)
(Loss)/profit for the year			(193.2)		199.8
Attributable to:					
Owners of the parent			(195.2)		199.4
Non-controlling interest			2.0		0.4
			(193.2)		199.8
(Loss)/earnings per share	6				
Basic			(38.6)p		39.5p
Diluted			(38.6)p		39.4p

1. Revenue does not include the Group's share of revenue from joint ventures and associates of £422.2 million (2019: £685.8 million.)

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

Group statement of comprehensive income

	Note	2020 £m	2019 £m
(Loss)/profit for the year		(193.2)	199.8
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		(26.3)	(31.0)
Fair value adjustment of interest rate and foreign exchange hedges		(12.0)	(0.5)
Tax on fair value adjustment of interest rate and foreign exchange hedges		2.5	0.4
Hedging gains reclassified to profit or loss		–	(1.3)
Fair value adjustment of joint ventures and associates derivatives	9	(14.4)	1.8
Tax, including rate change impact, on fair value adjustment of joint ventures and associates derivatives	9	2.3	(0.3)
Items that will not be subsequently reclassified to income statement			
Remeasurement of retirement benefit obligations		99.9	(58.4)
Tax on remeasurement of retirement benefit obligations		(20.2)	10.4
Impact of change in UK tax rates		0.9	(0.4)
Other comprehensive income/(loss), net of tax		32.7	(79.3)
Total comprehensive (loss)/income		(160.5)	120.5
Total comprehensive (loss)/income attributable to:			
Owners of the parent		(160.4)	122.3
Non-controlling interest		(0.1)	(1.8)
Total comprehensive (loss)/income		(160.5)	120.5

Group statement of changes in equity

	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 2018	303.4	873.0	768.8	30.6	994.9	(74.5)	(3.3)	2,892.9	18.1	2,911.0
Total comprehensive income/(loss)	–	–	–	–	151.0	0.1	(28.8)	122.3	(1.8)	120.5
Dividends	–	–	–	–	(150.5)	–	–	(150.5)	(2.8)	(153.3)
Share-based payments	–	–	–	–	2.4	–	–	2.4	–	2.4
Tax on shared-based payments	–	–	–	–	2.4	–	–	2.4	–	2.4
Transactions with non-controlling interests	–	–	–	–	(2.0)	–	–	(2.0)	3.9	1.9
Net movement in equity	–	–	–	–	3.3	0.1	(28.8)	(25.4)	(0.7)	(26.1)
At 31 March 2019	303.4	873.0	768.8	30.6	998.2	(74.4)	(32.1)	2,867.5	17.4	2,884.9
Transition to IFRS 16	–	–	–	–	(22.4)	–	–	(22.4)	–	(22.4)
At 1 April 2019	303.4	873.0	768.8	30.6	975.8	(74.4)	(32.1)	2,845.1	17.4	2,862.5
Total comprehensive (loss)/income	–	–	–	–	(114.6)	(21.6)	(24.2)	(160.4)	(0.1)	(160.5)
Dividends	–	–	–	–	(152.1)	–	–	(152.1)	(1.8)	(153.9)
Share-based payments	–	–	–	–	2.9	–	–	2.9	–	2.9
Tax on shared-based payments	–	–	–	–	1.9	–	–	1.9	–	1.9
Own shares	–	–	–	–	(2.9)	–	–	(2.9)	–	(2.9)
Transactions with non-controlling interests	–	–	–	–	(0.2)	–	–	(0.2)	0.2	–
Net movement in equity	–	–	–	–	(265.0)	(21.6)	(24.2)	(310.8)	(1.7)	(312.5)
At 31 March 2020	303.4	873.0	768.8	30.6	710.8	(96.0)	(56.3)	2,534.3	15.7	2,550.0

The other reserve relates to the rights issue of new ordinary shares on 7 May 2014 and the capital redemption reserve relates to the issue and redemption of redeemable "B" preference shares in 2001.

Group statement of financial position

	Note	2020 £m	2019 £m
Assets			
Non-current assets			
Goodwill	8	2,171.3	2,584.2
Other intangible assets		379.5	448.9
Property, plant and equipment		951.1	1,014.3
Right of use assets		638.8	–
Investment in joint ventures and associates	9	148.0	153.2
Loan to joint ventures and associates	9, 15	48.6	42.5
Retirement benefit surpluses	16	325.3	226.9
IFRIC 12 financial assets		12.8	15.5
Other financial assets	12	21.5	93.8
Deferred tax asset		190.6	150.9
		4,887.5	4,730.2
Current assets			
Inventories		193.5	196.5
Trade and other receivables	10	930.8	917.1
Income tax recoverable		13.6	11.1
Other financial assets	12	153.9	48.0
Cash and cash equivalents	15	1,351.4	275.2
		2,643.2	1,447.9
Total assets		7,530.7	6,178.1
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital		303.4	303.4
Share premium		873.0	873.0
Capital redemption and other reserves		647.1	692.9
Retained earnings		710.8	998.2
		2,534.3	2,867.5
Non-controlling interest		15.7	17.4
Total equity		2,550.0	2,884.9
Non-current liabilities			
Bank and other borrowings	15	2,050.0	1,357.6
Lease liabilities	15	534.8	–
Trade and other payables	11	2.1	2.0
Deferred tax liabilities		115.2	103.2
Other financial liabilities	12	35.6	9.3
Retirement benefit deficits	16	180.1	254.9
Provisions for other liabilities	13	30.4	40.5
		2,948.2	1,767.5
Current liabilities			
Bank and other borrowings	15	400.1	53.9
Lease liabilities	15	138.0	–
Trade and other payables	11	1,366.3	1,381.4
Income tax payable		5.9	22.1
Other financial liabilities	12	9.0	4.9
Provisions for other liabilities	13	113.2	63.4
		2,032.5	1,525.7
Total liabilities		4,980.7	3,293.2
Total equity and liabilities		7,530.7	6,178.1

Group cash flow statement

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Operating profit before amortisation of acquired intangible and exceptional items		417.4	452.5
Amortisation of acquired intangible and exceptional items	3	(582.3)	(256.0)
Operating (loss)/profit before share of results of joint ventures and associates	2	(164.9)	196.5
Depreciation and impairment of property, plant and equipment		94.2	123.1
Depreciation and impairment of right of use assets		143.6	–
Amortisation of intangible assets		96.5	110.0
Goodwill impairment		395.0	–
Investment income	2	1.1	1.3
Equity share-based payments		2.9	2.4
Profit on disposal of subsidiaries, businesses and joint ventures and associates	18	(74.7)	(14.8)
Loss/(profit) on disposal of property, plant and equipment		3.3	(5.4)
Loss on disposal of intangible assets		0.2	0.3
Cash generated from operations before movement in working capital and retirement benefit payments		497.2	413.4
Increase in inventories		(10.9)	(34.0)
(Increase)/decrease in receivables		(8.4)	138.8
Increase in payables		7.4	4.1
Increase in provisions		62.4	10.7
Retirement benefit payments in excess of income statement		(73.5)	(25.1)
Cash generated from operations		474.2	507.9
Income tax paid		(72.4)	(74.0)
Interest paid		(84.9)	(63.1)
Interest received		13.5	15.6
Net cash flows from operating activities		330.4	386.4
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	18	101.6	29.5
Dividends received from joint ventures and associates		52.0	44.6
Proceeds on disposal of property, plant and equipment		30.1	78.5
Purchases of property, plant and equipment		(145.5)	(194.3)
Purchases of intangible assets		(29.1)	(32.7)
Investment in, loans to and interest received from joint ventures and associates	9	(6.4)	(14.6)
Net cash flows from investing activities		2.7	(89.0)
Cash flows from financing activities			
Dividends paid		(152.1)	(150.5)
Lease payments		(175.0)	(26.4)
Lease assets repaid		19.9	(19.4)
Bank loans repaid		(140.0)	(103.4)
Loans raised and facilities drawn down		1,202.4	–
Dividends paid to non-controlling interest		(1.8)	(2.8)
Transactions with non-controlling interests		–	(0.5)
Movement on own shares		(2.9)	–
Net cash flows from financing activities		750.5	(303.0)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	14	1,083.6	(5.6)
Cash, cash equivalents and bank overdrafts at beginning of year		275.2	286.3
Effects of exchange rate fluctuations		(10.1)	(5.5)
Cash, cash equivalents and bank overdrafts at end of year	15	1,348.7	275.2

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 2020. They should be read in conjunction with the Annual Report for the year ended 31 March 2019, which was prepared in accordance with International Financial Reporting Standards (IFRS) 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 2019, except as noted below and to comply with amendments to IFRS.

Significant accounting policies

The significant accounting policies adopted by the Group are set out below. They have been applied consistently throughout the year and the comparative period except as specified below.

New and amended standards adopted by the Group

The Group applied the following standards and amendments for the first time for the period beginning on 1 April 2019:

- IFRS 16, 'Leases'.

The impact of the adoption of this standard and the key changes to the accounting policies are disclosed below.

- IFRS 9, 'Financial Instruments', amended.

The following standards and amendments to IFRSs became effective for the period beginning on 1 April 2019 and did not have a material impact on the consolidated financial statements:

- IAS 19, 'Employee Benefits', amendment. The amendment related to treatment of plan amendments, curtailments and settlements.
- IFRIC 23, 'Uncertainty over Income Tax Treatments'.
- Annual improvement 2015-2017 Cycle. This included clarifications on IFRS 3, IFRS 11, IAS 12 and IAS 23.

The following standards, amendments and interpretations are not yet effective and the impact on the Group's operations is not expected to be material.

- IFRS 3, 'Business Combinations', amended effective from 1 January 2020. The amendment related to the definition of a business on a combination.
- IAS 1, 'Presentation of Financial Statements', and IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', amended effective from 1 January 2020 related to the definition of material.
- IFRS 17, 'Insurance Contracts', effective 1 January 2021.

IFRS 16, 'Leases'

IFRS 16 'Leases' became effective from 1 January 2019 and replaces IAS 17, 'Leases' as the definitive accounting standard for the recognition, measurement and disclosure of leases. The Group adopted the standard from 1 April 2019.

Under the new standard, the Group has now recognised almost all leases, where the Group is a lessee, on the statement of financial position as the distinction between finance leases and operating leases has been removed. Both short-term leases and low-value leases are exempt from IFRS 16, and instead their lease payments continue to be recognised as expenses on a straight-line basis. The approach for lessors has remained largely unchanged.

Transition

The Group has adopted the modified retrospective transition approach, with the right-of-use assets measured at the amount of the lease liability on the date of transition for the majority of leases. The lease liability was calculated as the present value of the minimum lease payments on the date of transition. For a number of high value property and aircraft leases however, the right-of-use assets have been calculated as if the leases had always existed and their value on the date of transition is measured as the present value of the minimum lease payments at the inception date less accrued depreciation and any impairments. The difference between the right-of-use assets and lease liabilities on the date of transition is taken to retained earnings. Comparative figures have not been restated for the year ended 31 March 2019.

The following practical expedients have been adopted on transition:

- Single discount rates have been applied to portfolios of leases with similar characteristics
- IFRS 16 has only been applied to contracts that were previously classified as leases
- For leases with onerous lease provisions recognised against them immediately prior to the date of transition, the provisions have been utilised and offset against the right-of-use assets on the date of transition
- Initial direct costs have been excluded from the measurement of right-of-use assets on the date of transition
- The lease term has been determined with the use of hindsight where the contract contains options to extend the lease

Subsequent measurement

Right-of-use assets are held at cost less accumulated depreciation and impairment. Where leases are deemed to be onerous, the right of use asset is impaired, with the impairment determined in line with IAS 36, "Impairment of Assets". Depreciation is charged on a straight-line basis over the full length of the lease.

Lease liabilities decrease over time by the net of lease payments made and the interest accrued. Interest is charged to the income statement as the effect of discounting the future lease payments is unwound.

1. Basis of preparation and significant accounting policies (continued)

IFRS 16, 'Leases' (continued)

As a lessor, the Group recognises assets held under a lease in the statement of financial position as an asset. The lease payment receivable is treated as finance income and a repayment of principal including initial direct costs. Finance income is allocated over the lease term, with the gross receivable being reviewed for impairment on a regular basis.

2. Segmental information

The Group has four reporting segments, determined by reference to the goods and services they provide and the markets they serve.

Marine – through life support of naval ships and infrastructure in the UK and internationally.

Nuclear – through life support of submarines and complex engineering services in support of major decommissioning programmes and projects, training and operation support, new build programme management and design and installation in the UK.

Land – large scale critical vehicle fleet management, equipment support and training for military and civil customers worldwide.

Aviation – critical engineering services to defence and civil customers worldwide, including pilot training, equipment support, airbase management and operation of aviation fleets delivering emergency and offshore services.

The Group chief executive, the chief operating decision maker as defined by IFRS 8, monitors the results of these reporting segments and makes decisions about the allocation of resources. The Group's business in South Africa meets the definition of an operating segment, as defined by IFRS 8. However the business represents less than 10% of the Group's revenues, profits and assets and, as permitted by IFRS 8, the Group includes the business in the Land sector reporting segment on the basis that they have similar economic characteristics (assessed with reference to their operating profit margins) and that the nature of the services provided, the type of customer and the methods used to deliver services are similar to those of the Land sector.

On 1 April a single Nuclear operating segment was established by combining our naval nuclear business, included within the Marine operating segment, with our civil nuclear business within the Nuclear operating segment. The 2019 comparative has been restated for the reallocation.

31 March 2020	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,206.9	1,110.9	1,553.6	1,000.3	–	4,871.7
Less: joint ventures and associates revenue	43.1	212.5	18.9	147.7	–	422.2
Revenue	1,163.8	898.4	1,534.7	852.6	–	4,449.5
Operating (loss)/profit before share of results of joint ventures and associates	207.7	94.2	49.6	(513.9)	(2.5)	(164.9)
Exceptional items	(72.5)	19.5	14.2	538.1	1.5	500.8
Acquired intangible amortisation - Group	5.3	0.4	35.8	40.0	–	81.5
Operating profit*	140.5	114.1	99.6	64.2	(1.0)	417.4
IFRIC 12 investment income – Group	0.2	–	0.9	–	–	1.1
Share of operating profit – joint ventures and associates	3.3	12.2	32.0	32.3	–	79.8
Share of IFRIC 12 investment income – joint ventures and associates	–	–	1.4	24.5	–	25.9
Underlying operating profit	144.0	126.3	133.9	121.0	(1.0)	524.2
Share of finance costs – joint ventures and associates	(0.5)	–	0.3	(22.6)	–	(22.8)
Share of tax – joint ventures and associates	(1.1)	(2.5)	(7.0)	(5.8)	–	(16.4)
Acquired intangible amortisation – Group	(5.3)	(0.4)	(35.8)	(40.0)	–	(81.5)
Share of acquired intangible amortisation – joint ventures and associates	–	–	(2.0)	(3.8)	–	(5.8)
Net finance costs – Group	–	–	–	–	(73.0)	(73.0)
Exceptional items – Group	72.5	(19.5)	(14.2)	(538.1)	(1.5)	(500.8)
Exceptional items – joint ventures and associates	–	(2.1)	–	–	–	(2.1)
(Loss)/profit before tax	209.6	101.8	75.2	(489.3)	(75.5)	(178.2)

* Before amortisation of acquired intangibles.

2. Segmental information (continued)

31 March 2019	Marine (restated) £m	Nuclear (restated) £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,086.0	1,318.9	1,620.2	1,135.5	–	5,160.6
Less: joint venture and associate revenue	20.3	465.7	60.2	139.6	–	685.8
Revenue	1,065.7	853.2	1,560.0	995.9	–	4,474.8
Operating profit/(loss) before share of results of joint ventures and associates	110.4	89.8	42.3	(25.0)	(21.0)	196.5
Exceptional items - Group	22.5	16.0	17.7	86.4	18.2	160.8
Acquired intangible amortisation - Group	4.7	0.7	44.1	45.7	–	95.2
Operating profit*	137.6	106.5	104.1	107.1	(2.8)	452.5
IFRIC 12 investment income – Group	0.3	–	1.0	–	–	1.3
Share of operating profit – joint ventures and associates	3.3	37.0	39.5	27.0	–	106.8
Share of IFRIC 12 investment income – joint ventures and associates	–	–	1.4	26.4	–	27.8
Underlying operating profit	141.2	143.5	146.0	160.5	(2.8)	588.4
Share of finance costs – joint ventures and associates	(0.4)	–	(0.1)	(23.6)	–	(24.1)
Share of tax – joint ventures and associates	(1.3)	(7.2)	(7.1)	(5.3)	–	(20.9)
Acquired intangible amortisation – Group	(4.7)	(0.7)	(44.1)	(45.7)	–	(95.2)
Share of acquired intangible amortisation – joint ventures and associates	–	–	(2.0)	(3.8)	–	(5.8)
Net finance costs – Group	–	–	–	–	(46.4)	(46.4)
Exceptional items - Group	(22.5)	(16.0)	(17.7)	(86.4)	(18.2)	(160.8)
Profit before tax	112.3	119.6	75.0	(4.3)	(67.4)	235.2

* Before amortisation of acquired intangibles and exceptional items.

The analysis of revenue for the year ended 31 March 2020 is as follows:

	2020 £m	2019 £m
Sale of goods – transferred at a point in time	607.5	635.7
Sale of goods – transferred over time	101.6	61.8
Sale of Goods	709.1	697.5
Provision of services – transferred over time	3,734.3	3,768.6
Rental income	6.1	8.7
Revenue	4,449.5	4,474.8

The sale of goods at a point in time is mainly in the Land sector. This includes revenue subject to judgement as to whether the Group operates as principal or agent. The sale of goods over time is in the Marine sector. Provision of services over time is across all sectors.

The geographic analysis of revenue by origin of customer for the years ended 31 March 2020 and 2019 are as follows:

	2020 £m	2019 £m
United Kingdom	2,998.9	2,954.3
Rest of Europe	509.0	649.4
Africa	358.0	353.6
North America	198.5	181.3
Australasia	196.1	189.2
Rest of World	189.0	147.0
Revenue	4,449.5	4,474.8

3. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Aviation						
– Goodwill impairment	395.0	–	–	–	395.0	–
– Asset impairment	22.2	39.0	–	–	22.2	39.0
– Right-of-use asset impairment	14.2	–	–	–	14.2	–
– Onerous contracts	17.0	–	–	–	17.0	–
– Onerous lease provisions	–	42.1	–		–	42.1
– Exit of Ghana and Congo	7.1	–	–	–	7.1	–
– Aviation restructuring	26.5	–	–	–	26.5	–
– Aviation other	55.8	–	–	–	55.8	–
Total Aviation	537.8	81.1	–	–	537.8	81.1
Restructuring	24.3	42.4	–	–	24.3	42.4
Exit and disposals	(61.3)	6.6	2.1	–	(59.2)	6.6
Pension GMP equalisation and bulk transfer	–	30.7	–	–	–	30.7
Exceptional items	500.8	160.8	2.1	–	502.9	160.8
Exceptional tax items and tax on exceptional items	(25.7)	(16.7)	(0.4)	–	(26.1)	(16.7)
Exceptional items – net of tax	475.1	144.1	1.7	–	476.8	144.1
Acquired intangible amortisation	81.5	95.2	5.8	5.8	87.3	101.0
Tax on acquired intangibles amortisation	(17.3)	(20.4)	(1.1)	(1.1)	(18.4)	(21.5)
Acquired intangible amortisation – net of tax	64.2	74.8	4.7	4.7	68.9	79.5

* Included with the asset impairment charge of £22.2 million is £13.5 million relating to the impairment of property, plant and equipment

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

Aviation market

Our Aviation sector operates in the defence, emergency services and oil and gas markets. While the defence market has remained robust, and the emergency services market remains attractive in the medium term, the oil and gas market deteriorated significantly during the year. Two of the three large providers of helicopter services who operate worldwide in oil and gas emerged from Chapter 11 bankruptcy protection with reduced debt and written-down assets. This effectively reset global market pricing levels and forced us to respond quickly to remain competitive. Furthermore, with a significant fall in the price of oil, we do not expect any recovery in this market any time soon.

Aviation: Goodwill impairment

The further deterioration in the oil and gas market contributed significantly to our review of goodwill in the Aviation sector, which relates to the acquisition of Avincis in 2014. As a result of this review, we have taken an impairment charge of £395.0 million to reflect revised estimates of the future performance of the sector given the change in market conditions.

Aviation: Oil and Gas

We have written down assets in our oil and gas business by £22.2 million and recognised costs of £31.2 million in relation to the impairment of right of use assets and onerous customer contracts. We also exited our oil and gas businesses in Ghana and Congo and incurred charges of £7.1 million in relation to this.

Aviation: Restructuring

The impact of trading in our oil and gas aviation business combined with the impact of delays in our aerial emergency services business led us to take action to reduce the cost base as a whole for the Aviation sector, creating a simplified European structure to create an agile business competitive for the medium term. The Aviation restructuring charge was £26.5 million and includes substantial redundancy costs.

Aviation: Other (including Italy anti-trust fine)

Other charges in our Aviation sector relate to a fine in Italy and associated legal costs, plus additional costs from our Brexit-related restructure in addition to those recognised in the prior financial year.

We have recognised a provision of £46 million in respect of a €51 million fine issued by the Italian Competition Authority to our subsidiary, Babcock Mission Critical Services Italia S.p.A (“BMCS Italy”) following an unsuccessful first instance court decision. This matter was previously a contingent liability to the Group. The fine relates to a publicly available “tariff list” dating back to 2001 produced by a trade association of which BMCS Italy was a member. BMCS Italy does not accept the basis of this decision. In particular, BMCS Italy is convinced that the tariff list never related to the helicopter emergency medical services ("HEMS") and, indeed, this lack of relevance was explicitly stated on the front of the list from 2012, two years prior to the acquisition of BMCS Italy by Babcock in 2014. BMCS Italy will appeal this decision.

Restructuring

This relates to restructuring programmes outside the Aviation section. The end of the Magnox contract in our civil nuclear business and the ongoing trading environment in the UK civil nuclear market has led us to take action to reduce the cost base of our civil nuclear business as well. The Nuclear restructuring charge was £16.5 million. We have also further restructured our Rail business. The total restructuring cost of £24.3m includes substantial redundancy costs.

3. Exceptional items and acquired intangible amortisation (continued)

Exits and disposals

The total net credit related to exits and disposals was £59.2 million, consisting of a £74.7 million gain on the sale of Context partially offset by additional costs from exits in the last financial year and the costs of exiting areas of our nuclear manufacturing business.

4. Net finance costs

	2020 £m	2019 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	45.6	41.9
Lease interest	28.2	5.3
Amortisation of issue costs of bank loan	2.1	1.4
Other	10.0	14.1
Total finance costs	85.9	62.7
Finance income		
Bank deposits, loans and leases	13.0	16.0
Total finance income	13.0	16.0
Net finance costs	72.9	46.7

5. Income tax expense

The charge for taxation of £15.0 million (2019: £35.4 million) is after including an exceptional tax credit of £25.7 million (2019: £16.7 million), a tax credit of £17.3 million (2019: £20.4 million) relating to acquired intangible amortisation and a credit of £1.2 million (2019: £1.3 million) in respect of deferred tax rate changes. Additionally, there are credits of £0.4 million (2019: nil) (exceptional items) and £1.1 million (2019: £1.1 million) (acquired intangible amortisation) included in the share of profit from JVs and associates. The charge for taxation gives an underlying effective rate of 18.0% (2019: 18.0%).

The European Commission decided during 2019 that certain aspects of the UK Finance Company Partial Exemption ("FCPE") rules constituted partial State Aid for the period from 2013 to 2018. The Group has been applying the FCPE rules to certain intra-group interest income earned in that period. The Group submitted an appeal against the decision in September 2019, the UK Government having, by then, also appealed the decision. Regardless of the outcome of these appeals, the Group believes the risk of a potential liability to be remote, and that, in any event, such a liability would be immaterial.

6. (Loss)/earnings per share

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

	2020 Number	2019 Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	505,284,584	505,165,728
Effect of dilutive potential ordinary shares: share options	872,749	947,702
Weighted average number of ordinary shares for the purpose of diluted EPS	506,157,333	506,113,430

Earnings

			2020			2019
	Earnings £m	Basic per share Pence	Diluted per share Pence	Earnings £m	Basic per share Pence	Diluted per share Pence
(Loss)/earnings from continuing operations	(195.2)	(38.6)	(38.6)	199.4	39.5	39.4
Add back:						
Amortisation of acquired intangible assets, net of tax	68.9	13.6	13.6	79.5	15.7	15.7
Exceptional items, net of tax	476.8	94.3	94.3	144.1	28.5	28.5
Impact of change in statutory tax rates	(1.2)	(0.2)	(0.2)	1.3	0.3	0.3
Earnings before amortisation, exceptional items and other	349.3	69.1	69.1	424.3	84.0	83.9

7. Dividends

The Directors have deferred a decision on a final dividend in respect of the financial year ended 31 March 2020 until further notice (2019: 22.9p per 60p ordinary share).

8. Goodwill

	2020 £m	2019 £m
Cost		
At 1 April	2,589.0	2,608.0
On disposal of subsidiaries (note 18)	(20.6)	(9.4)
Exchange adjustments	2.7	(9.6)
At 31 March	2,571.1	2,589.0
Accumulated impairment		
At 1 April	4.8	7.1
On disposal of subsidiaries (note 18)	–	(2.3)
Impairment	395.0	–
At 31 March	399.8	4.8
Net book value at 31 March	2,171.3	2,584.2

During the year, goodwill was tested for impairment in accordance with IAS 36. The recoverable amount of the Group's goodwill was assessed by reference to value-in-use calculations derived from the Group's three–year budget risk adjusted cash flows, a further year from the Group's strategy plan and extrapolated cash flows thereafter based on an estimated long term growth rate of 2.0% (2019: 3.0%). The process by which the budget and strategy plan is prepared, reviewed and approved benefits from historical experience, visibility of long–term work programmes in relation to work undertaken for the UK government, available government spending information (both UK and overseas), the Group's £35 billion order book and bid pipeline and the Group's significant tracking pipeline which monitors opportunities prior to release of tenders. The Group's FY21 budget cash flows include an assessment of the impact of COVID -19. Recognising the current economic uncertainties the Group has reduced the long term growth rate used to value the extrapolated cash flows from 3% to 2%, equivalent to no growth in real terms.

The Group's weighted average cost of capital post-tax is approximately 7.8% to 8.2% (2019: 7.8% to 8.6%). This equates to a pre-tax discount rate in the range 9.5% to 10.0% (2019: 9.5% to 10.5%) and a rate within this range, other than in relation to the Aviation CGU as set out below, was used in the value-in-use calculations.

Goodwill is allocated to the Group's cash-generating units (CGUs) as presented below. These align with the Group's operating segments and represent the lowest level in the Group at which goodwill is monitored. A single Nuclear operating segment was established on 1 April 2019 by combining our naval nuclear business, included within the Marine operating segment, with our civil nuclear business and goodwill of £163 million was reallocated from the Marine operating segment to the Nuclear operating segment based on a relative value in use calculation at that date. The 2019 comparative has been restated for the reallocation.

	2020 £m	2019 (restated) £m
Marine	341.7	361.2
Nuclear	233.1	233.1
Land	887.1	889.7
Aviation	709.4	1,100.2
	2,171.3	2,584.2

Key assumptions in relation to the risk adjusted budget and strategy plan cash flows included in the value in use models are set out below, noting that the budget cash flows include an assessment of the impact of COVID-19:

Marine	Continuing delivery of work programmes with the UK Ministry of Defence.
Nuclear	Continuing delivery of naval nuclear services to the UK government under long term contracts. Continuing delivery of opportunities in the civil nuclear decommissioning programme together with maintenance of ongoing spend in provision of nuclear engineering services to operational power stations.
Land	Continuing demand for large scale vehicle fleet management, equipment support and training from both military and civil customers, noting that significant elements of equipment support and training are the subject of long–term contracts.
Aviation	Continuing delivery of long–term contracts with the UK Ministry of Defence and growth in aerial emergency services worldwide where the Group has a number of leadership positions. Reflecting the low oil price and the highly competitive oil and gas market, no improvement is expected in this area.

8. Goodwill (continued)

The value in use calculations present significant headroom in respect of all the CGUs other than Aviation. There are no reasonably possible changes in assumptions for all CGUs other than Aviation which could give rise to the recoverable amount being lower than the carrying amount. In this respect it would require long term growth of nil (effectively negative growth of 2% in real terms), together with discount rates of 58%, 46% and 14% to eliminate the headroom in the Marine, Nuclear and Land CGUs respectively. The directors do not consider these to be plausible assumptions.

Recognising the current economic conditions and market expectations, particularly in oil and gas, the directors revised the estimate of risk adjusted cash flows expected from the Aviation CGU and additionally, in consideration of CGU specific risk factors, used an increased discount rate of 10.9% (2019:10%) to determine the value in use. These revisions, together with the reduced long term growth rate applied to all CGUs, resulted in an impairment of £395 million.

The recoverable amount of Aviation goodwill continues to be subject to sensitivities. An increase in the discount rate of 25bps would decrease value in use by £46 million and a reduction in the long term growth rate of 25bps would decrease value in use by £34 million. A reduction of £10 million in the operating profit of the continuing year used to extrapolate cash flows would result in a reduction in value in use by £79 million. Accordingly, reasonably possible changes exist which would give rise to a further impairment.

9. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
At 1 April	153.2	119.3	42.5	27.8	195.7	147.1
Disposal of joint ventures and associates	–	(6.6)	–	–	–	(6.6)
Loans repaid by joint ventures and associates	–	–	(0.7)	(2.3)	(0.7)	(2.3)
Investment in joint ventures and associates	0.3	–	5.5	10.8	5.8	10.8
Share of profits	58.6	83.8	–	–	58.6	83.8
Amounts accrued and capitalised	–	–	3.8	6.5	3.8	6.5
Interest received	–	–	(2.5)	(0.3)	(2.5)	(0.3)
Dividends received	(52.0)	(44.6)	–	–	(52.0)	(44.6)
Fair value adjustment of derivatives	(14.4)	1.8	–	–	(14.4)	1.8
Tax on fair value adjustment of derivatives	2.3	(0.3)	–	–	2.3	(0.3)
Foreign exchange	–	(0.2)	–	–	–	(0.2)
At 31 March	148.0	153.2	48.6	42.5	196.6	195.7

Included within investment in joint ventures and associates is goodwill of £1.2 million (2019: £1.2 million).

The total investment in and loans to joint ventures and associates is attributable to the following segments:

	2020 £m	2019 £m
Marine	5.8	6.0
Nuclear	25.6	42.1
Land	90.6	77.4
Aviation	74.6	70.2
Net book value	196.6	195.7

9. Investment in and loans to joint ventures and associates (continued)

Included within joint ventures and associates are:

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit/(loss)* £m	Total comprehensive income/(loss) £m	% interest held
2020							
Holdfast Training Services Limited	United Kingdom	61.5	(5.7)	69.3	18.4	14.4	74%
ALC (Superholdco) Limited	United Kingdom	34.4	(14.5)	18.9	14.6	11.2	50%
AirTanker Limited	United Kingdom	405.1	(394.2)	38.2	9.8	7.1	13%
AirTanker Services Limited	United Kingdom	35.5	(5.1)	40.2	4.4	2.6	22%
Ascent Flight Training (Holdings) Limited	United Kingdom	94.6	(69.7)	85.9	18.0	14.8	50%
Naval Ship Management (Australia) Pty Limited	Australia	13.9	(12.4)	48.0	3.7	2.6	50%
Cavendish Dounreay Partnership Limited	United Kingdom	38.7	(16.0)	99.8	6.9	5.5	50%
Cavendish Fluor Partnership Limited	United Kingdom	3.3	–	130.1	5.2	2.2	65%
Other		45.0	(17.8)	15.7	(1.2)	(1.8)	
		732.0	(535.4)	546.1	79.8	58.6	
2019							
Holdfast Training Services Limited	United Kingdom	46.3	(3.6)	80.6	28.4	23.6	74%
ALC (Superholdco) Limited	United Kingdom	19.1	–	19.3	11.3	8.3	50%
AirTanker Limited	United Kingdom	409.3	(390.6)	42.5	13.4	10.2	13%
AirTanker Services Limited	United Kingdom	32.9	–	43.7	5.0	3.1	22%
Ascent Flight Training (Holdings) Limited	United Kingdom	113.5	(98.7)	61.5	5.0	5.3	50%
Naval Ship Management (Australia) Pty Limited	Australia	5.2	(4.1)	23.7	4.2	2.9	50%
Cavendish Dounreay Partnership Limited	United Kingdom	39.4	(19.8)	110.5	7.8	6.2	50%
Cavendish Fluor Partnership Limited	United Kingdom	102.6	(80.2)	390.8	28.9	23.4	65%
ABC Electrification Limited	United Kingdom	2.6	–	50.7	(0.2)	(0.2)	33%
Other		21.8	–	33.9	3.0	1.0	
		792.7	(597.0)	857.2	106.8	83.8	

* Before amortisation of acquired intangibles.

Joint ventures and associates revenue excluding Group sub-contract revenue is £422.2 million (2019: £685.8 million).

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed.

None (2019: none) of the joint ventures or associates had material amounts of other comprehensive income or profits from discontinued operations and therefore the total comprehensive income noted in the table above is in line with profits from continuing operations.

Holdfast Training Services Limited and Cavendish Fluor Partnership Limited are equity accounted as unanimous decision making is required over key decisions which drive the relevant activities of the business. Both the Holdfast Training Services Limited and Cavendish Fluor Partnership Limited joint arrangements are shown as joint ventures as the Group has the right to net assets of the joint arrangement rather than separate rights and obligations to the assets and liabilities of the joint arrangement respectively. Holdfast Training Services Limited and Cavendish Fluor Partnership Limited had other comprehensive income of £nil in the year (2019: £nil). The Magnox decommissioning contract being delivered by the Cavendish Flour Partnership Limited completed on 31 August 2019.

AirTanker Limited is included as an associate due to the level of management input and the relative share ownership.

Ascent Flight Training (Holdings) Limited benefitted from an improved cumulative margin position in the year.

No joint ventures and associates are deemed individually material to the Group.

10. Trade and other receivables

	2020 £m	2019 £m
Current assets		
Trade receivables	283.6	255.5
Less: provision for impairment of receivables	(7.0)	(6.0)
Trade receivables – net	276.6	249.5
Amounts due from customers for contract work	242.3	266.0
Accrued income	108.6	133.2
Capitalised contract costs	80.8	62.9
Contract assets	431.7	462.1
Retentions	8.1	9.1
Amounts due from related parties (note 19)	2.9	11.4
Other debtors	127.9	108.3
Prepayments	83.6	76.7
	930.8	917.1

Trade and other receivables are stated at amortised cost.

Significant changes in contract assets during the year are as follows:

	Amounts due from customers for contract work £m	Accrued income £m	Capitalised contract costs £m	Contract assets £m
31 March 2019	266.0	133.2	62.9	462.1
Transfers from contract assets recognised at the beginning of the year to receivables	(240.1)	(118.7)	–	(358.8)
Increase due to work done not transferred from contract assets	222.4	104.8	–	327.2
Amounts capitalised	–	–	39.3	39.3
Amortisation of contract assets	–	–	(9.9)	(9.9)
Write down of contract assets*	(4.6)	(8.7)	(0.2)	(13.5)
Other	–	(2.2)	(5.3)	(7.5)
Exchange adjustment	(1.4)	0.2	(6.0)	(7.2)
31 March 2020	242.3	108.6	80.8	431.7

31 March 2018	462.8	118.5	–	581.3
Reclassification – IFRS 15 adoption	(53.5)	–	53.5	–
1 April 2018 – restated	409.3	118.5	53.5	581.3
Transfers from contract assets recognised at the beginning of the year to receivables	(394.7)	(112.5)	–	(507.2)
Increase due to work done not transferred from contract assets	264.5	128.5	–	393.0
Amounts capitalised	–	–	26.5	26.5
Amortisation of contract assets	–	–	(8.7)	(8.7)
Write down of contract assets*	(14.4)	–	(6.3)	(20.7)
Other	–	(1.0)	–	(1.0)
Exchange adjustment	1.3	(0.3)	(2.1)	(1.1)
31 March 2019	266.0	133.2	62.9	462.1

*The asset write downs are included in exceptional charges in Note 3; amounts due from customers for contract work relate to business exits and accrued income relates to the Aviation sector.

11. Trade and other payables

	2020 £m	2019 £m
Current liabilities		
Contract cost accruals	222.8	188.5
Amounts due to customers for contract work	207.3	192.8
Deferred income	32.8	40.0
Contract liabilities	462.9	421.3
Trade creditors	474.3	510.6
Amounts due to related parties (note 19)	0.7	1.0
Other creditors	80.8	63.9
Other taxes and social security	125.2	125.6
Accruals	222.4	259.0
	1,366.3	1,381.4
Non-current liabilities		
Other creditors	2.1	2.0

Included in creditors is £6.1 million (2019: £19.5 million) relating to capital expenditure which has therefore not been included in working capital movements within the cash flow.

Significant changes in contract liabilities during the year are as follows:

	Contract cost accrual £m	Amounts due to customers for contract work £m	Deferred income £m	Contract liabilities £m
31 March 2019	188.5	192.8	40.0	421.3
Revenue recognised that was included in the contract liability balance at the beginning of the year	–	(141.1)	(38.5)	(179.6)
Increase due to cash received, excluding amounts recognised as revenue	–	158.0	33.9	191.9
Amounts accrued	219.2	–	–	219.2
Amounts utilised	(182.1)	–	–	(182.1)
Disposal	–	–	(1.2)	(1.2)
Exchange adjustment	(2.8)	(2.4)	(1.4)	(6.6)
31 March 2020	222.8	207.3	32.8	462.9

31 March 2018	179.9	173.4	60.0	413.3
Revenue recognised that was included in the contract liability balance at the beginning of the year	–	(143.8)	(56.4)	(200.2)
Increase due to cash received, excluding amounts recognised as revenue	–	168.5	37.4	205.9
Amounts accrued	183.7	–	–	183.7
Amounts utilised	(167.2)	–	–	(167.2)
Disposal	(6.0)	(4.1)	–	(10.1)
Exchange adjustment	(1.9)	(1.2)	(1.0)	(4.1)
31 March 2019	188.5	192.8	40.0	421.3

12. Other financial assets and liabilities

	Fair value			
	Assets		Liabilities	
	2020 £m	2019 £m	2020 £m	2019 £m
Non-current				
US private placement – derivative	–	75.2	–	–
US private placement – interest rate swaps	–	–	–	1.0
8 year Eurobond September 2027 – derivative	–	–	6.1	–
8 year Eurobond September 2027 – interest rate swaps	–	–	17.0	–
Interest rate hedge	–	–	0.8	0.8
Other currency hedges	14.6	2.0	11.7	7.5
Financial derivatives	14.6	77.2	35.6	9.3
Leases granted	6.9	16.6	–	–
Total non-current other financial assets and liabilities	21.5	93.8	35.6	9.3
Current				
US private placement – derivative	95.5	–	–	–
US private placement – interest rate swaps	9.2	–	–	–
Interest rate hedge	–	–	0.1	0.1
Other currency hedge	17.5	3.7	8.9	4.8
Financial derivatives	122.2	3.7	9.0	4.9
Leases granted	31.7	44.3	–	–
Total current other financial assets and liabilities	153.9	48.0	9.0	4.9

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. There is no material ineffectiveness on any of the Group's hedging activities.

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 are based on valuation techniques (level 2) using underlying market data and discounted cash flows.

13. Provisions for other liabilities

	Insurance provisions (a) £m	Contract/ warranty (b) £m	Employee benefits and business reorganisation costs (c) £m	Property and other (d) £m	Expected credit losses £m	Total provisions £m
At 1 April 2020	0.5	8.8	65.3	29.0	0.3	103.9
IFRS 16 transition	–	–	(17.1)	(4.1)	–	(21.2)
Disposal of subsidiaries	–	–	–	(0.3)	–	(0.3)
Net charge to income statement	–	9.4	56.0	45.4	0.1	110.9
Utilised in year	0.1	(0.9)	(42.9)	(4.8)	–	(48.5)
Foreign exchange	–	–	(0.4)	(0.8)	–	(1.2)
At 31 March 2020	0.6	17.3	60.9	64.4	0.4	143.6

Included within net charge to income statement is £111.7 million relating to exceptional items, with £10.3 million relating to contract/warranty, £53.8 million relating to employee benefits and business reorganisation, and £47.6 million relating to property and other.

13. Provisions for other liabilities (continued)

Provisions have been analysed between current and non-current as follows:

	2020 £m	2019 £m
Current	113.2	63.4
Non-current	30.4	40.5
	143.6	103.9

(a) The insurance provisions arise in the Group's captive insurance company, Chepstow Insurance Limited. They relate to specific claims assessed in accordance with the advice of independent actuaries.

(b) The contract/warranty provisions relate to onerous contracts (see note 3) and warranty obligations on completed contracts and disposals.

(c) The employee benefits and reorganisation costs arise mainly in relation to restructuring (see note 3), acquired businesses, personnel related costs and payroll taxes.

(d) Property and other in the main relate to provisions for the fine in Italy (see note 3), dilapidation costs and contractual obligations in respect of infrastructure. Onerous lease provisions have been utilised and offset against right-of-use assets as part of the IFRS 16 transition (refer to note 17).

Included within provisions is £5 million expected to be utilised over approximately ten years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

14. Movement in net debt

	2020 £m	2019 £m
Increase /(decrease) in cash in the year	1,083.6	(5.6)
Cash flow from the increase in debt and lease financing	(937.3)	(27.4)
Change in net funds resulting from cash flows	146.3	(33.0)
Debt disposed of with subsidiaries	3.1	–
Additional lease obligations	(128.1)	–
Leases – granted	30.0	176.6
Movement in joint ventures and associates loans	6.1	14.7
Foreign currency translation differences	(53.8)	(1.0)
Transition to IFRS 16	(640.8)	–
Movement in net debt in the year	(637.2)	157.3
Net debt at the beginning of the year	(957.7)	(1,115.0)
Net debt at the end of the year	(1,594.9)	(957.7)

15. Changes in net debt

	31 March 2019 £m	Cash flow £m	Disposal of subsidiaries £m	Additional leases £m	Transition to IFRS 16 £m	Exchange movement £m	31 March 2020 £m
Cash and bank balances	275.2	985.0	101.6	–	–	(10.4)	1,351.4
Bank overdrafts	–	(3.0)	–	–	–	0.3	(2.7)
Cash, cash equivalents and bank overdrafts	275.2	982.0	101.6	–	–	(10.1)	1,348.7
Debt	(1,345.7)	(1,062.4)	–	–	–	(39.3)	(2,447.4)
Leases – payable	(65.8)	175.0	3.1	(128.1)	(640.8)	(16.2)	(672.8)
Leases – granted	60.9	(49.9)	–	30.0	–	(2.4)	38.6
	(1,350.6)	(937.3)	3.1	(98.1)	(640.8)	(57.9)	(3,081.6)
Net debt before derivatives and joint ventures and associates loans	(1,075.4)	44.7	104.7	(98.1)	(640.8)	(68.0)	(1,732.9)
Net debt derivative	75.2	–	–	–	–	14.2	89.4
Joint ventures and associates loans	42.5	6.1	–	–	–	–	48.6
Net debt	(957.7)	50.8	104.7	(98.1)	(640.8)	(53.8)	(1,594.9)

16. Retirement benefits and liabilities

Analysis of movement in the Group statement of financial position.

	2020 £m	2019 £m
Fair value of plan assets (including reimbursement rights)		
At 1 April	4,582.2	4,734.9
Interest on assets	104.8	115.4
Actuarial gain on assets	(36.1)	137.2
Employer contributions	110.9	95.5
Employee contributions	0.3	0.5
Benefits paid	(270.5)	(339.4)
Settlements	(80.3)	(161.9)
At 31 March	4,411.3	4,582.2
Present value of benefit obligations		
At 1 April	4,610.2	4,739.7
Service cost	33.7	38.9
Incurred expenses	3.7	3.8
Interest cost	104.9	115.1
Employee contributions	0.3	0.5
Experience losses	29.2	38.2
Actuarial (loss)/gain – demographics	14.8	(47.2)
Actuarial gain/(loss) – financial	(180.0)	204.6
Benefits paid (including transfers)	(270.5)	(339.4)
Past service costs	–	25.9
Settlements	(80.2)	(169.9)
At 31 March	4,266.1	4,610.2
Net surplus/(deficit) at 31 March	145.2	(28.0)

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

	2020 £m	2019 £m
Current service cost	33.7	38.9
Incurred expenses	3.7	3.8
Past service costs	–	25.9
Settlements	–	(8.0)
Total included within operating profit	37.4	60.6
Net interest cost/(credit)	0.1	(0.3)
Total included within income statement	37.5	60.3

As at 31 March 2020 the key assumptions used in valuing pension liabilities were:

Discount rate	2.4% (31 March 2019: 2.4%)
Inflation rate (RPI)	2.6% (31 March 2019: 3.2%)

17. IFRS 16, 'Leases'

IFRS 16, 'Leases' became effective from 1 January 2019 and replaced IAS 17, 'Leases' as the definitive accounting standard for the recognition, measurement and disclosure of leases. The Group adopted the standard from 1 April 2019.

Under the new standard, lessees recognise almost all leases on the statement of financial position as the distinction between finance leases and operating leases is removed. Both short-term leases and low-value leases are exempt from IFRS 16, and instead their lease payments can be recognised as expenses on a straight-line basis. The approach for lessors remains largely unchanged.

The Group adopted the modified retrospective transition approach, with the right-of-use assets measured at the amount of the lease liability on the date of transition for the majority of leases. The lease liability was calculated as the present value of the minimum lease payments on the date of transition. For a number of high value property and aircraft leases however, the right-of-use assets have been calculated as if the leases had always existed and their value on the date of transition was measured as the present value of the minimum lease payments at the inception date less accrued depreciation and any impairments. The difference between the right-of-use assets and lease liabilities on the date of transition was taken to retained earnings. Comparative figures have not been restated for the year ended 31 March 2019.

The Group has completed its transition to IFRS 16 and has taken advantage of permitted expedience to exclude leases under £5,000, leases of less than one year and service contracts in place at the date of transition

The weighted average incremental borrowing rate applied by the Group to the lease liabilities on 1 January 2019 was 3.99%.

The adoption of IFRS 16, 'Leases' does not impact the covenants of the Group's existing borrowing facilities as they are all based on IAS17, 'Leases'. The impact on the Group statement of financial position at 1 April 2019 is set out below:

	As At 1 April 2019 £m
Assets	
Non-current assets	
Right-of-use assets	592.7
Deferred tax asset	5.0
Other receivables	(0.4)
Total assets	597.3
Equity and liabilities	
Equity attributable to owners of the parent	
Retained earnings	(22.3)
Total equity	(22.3)
Non-current liabilities	
Lease liabilities	533.7
Provisions	(6.7)
Total non-current liabilities	527.0
Current liabilities	
Lease liabilities	107.1
Provisions	(14.5)
Total current liabilities	92.6
Total equity and liabilities	597.3

Following a detailed review of the new IFRS 16 transition balances an adjustment has been made to both right-of-use assets and lease liabilities to the balances previously disclosed, primarily reflecting hindsight on lease extensions.

18. Disposals of subsidiaries, businesses and joint ventures and associates

On 5 March 2020 the Group disposed of Context Information Security Limited for £107.1 million, which resulted in a profit on disposal of £74.7 million.

During the previous year the Group disposed of its media business for £28.7 million, which resulted in a profit of £14.0 million. A further three disposals were made for a total consideration of £11.4 million, which resulted in a profit on disposal of £0.8 million.

During both the current and the previous year the Group paid certain accrued costs on previously disposed of businesses of £0.8 million (2019: £0.8 million).

			2020						2019
	Context Information Security Limited £m	Previously disposed of businesses £m	Total £m	Babcock Media Services £m	Babcock 4S Limited £m	Powerlines £m	Helidax S.A.S £m	Previously disposed of businesses £m	Total £m
Goodwill	20.6	–	20.6	7.1	–	–	–	–	7.1
Investments in joint ventures and associates	–	–	–	–	–	–	6.6		6.6
Other intangible assets	4.0	–	4.0	–	–	–	–	–	–
Property, plant and equipment	1.6	–	1.6	1.4	–	3.6	–	–	5.0
Right-of-use assets	2.3	–	2.3	–	–	–	–	–	–
Inventory	–	–	–	7.4	–	–	–	–	7.4
Current assets	6.7	–	6.7	4.0	0.5	–	–	–	4.5
Cash, cash equivalents and bank overdrafts	1.8	–	1.8	2.6	4.9	–	–	–	7.5
Lease liabilities	(3.1)	–	(3.1)	–	–	–	–	–	–
Current liabilities	(3.7)	–	(3.7)	(9.6)	(2.2)	–	–	–	(11.8)
Taxation	(0.4)	–	(0.4)	–	–	–	–	–	–
Provisions	(0.3)	–	(0.3)	–	(0.9)	–	–	–	(0.9)
Net assets disposed	29.5	–	29.5	12.9	2.3	3.6	6.6	–	25.4
Disposal costs	2.9	–	2.9	1.8	1.3	–	–	–	3.1
Deferred consideration	–	–	–	–	–	(3.2)	–		(3.2)
Profit on disposal of subsidiary	74.7	–	74.7	14.0	(1.5)	(0.1)	2.4	–	14.8
Sale proceeds	107.1	–	107.1	28.7	2.1	0.3	9.0	–	40.1
Sale proceeds less cash disposed of	105.3	–	105.3	26.1	(2.8)	0.3	9.0	–	32.6
Less costs paid in the year	(2.9)	(0.8)	(3.7)	(1.8)	(0.5)	–	–	(0.8)	(3.1)
Net cash inflow/(outflow)	102.4	(0.8)	101.6	24.3	(3.3)	0.3	9.0	(0.8)	29.5

19. Related party transactions

Related party transactions for the year to 31 March 2020 are: sales to joint ventures and associates of £134.9 million (2019: £162.1 million) and purchases from joint ventures and associates of £nil million (2019: £0.4 million). The year end receivables balance was £2.9 million (2019: £11.4 million) and the payable balance was £0.7 million (2019: £1.0 million).

For annualised key management compensation, please refer to note 7 and the Remuneration Report in the Annual Report for the year ended 31 March 2020.

For transactions with Group defined benefit pension schemes, please refer to note 16 above and note 26 in the Annual Report for the year ended 31 March 2020.

20. Contingent liabilities

In the normal course of business the Group is subject to certain claims and litigation against it. Other than elsewhere disclosed, as at 31 March 2020, the Group is not subject to any litigation that the directors believe may result in a material loss. Certain aspects of specific issues are set out below:

(a) Pursuant to the Rosyth Dockyard privatisation agreement, the MOD will share in the net proceeds of sale or development of the dockyard following planning enhancement, on terms set out in the asset purchase agreement between the RRDL and the MOD dated 30 January 1997. By way of security for the MOD's rights to such share, the Company has granted a fixed charge (standard security) over the dockyard in favour of the Authority.

(b) The Group has given certain indemnities and warranties in the course of disposing of businesses and companies and in completing contracts. The Group believes that any liability in respect of these is unlikely to have a material effect on the Group's financial position.

(c) The Group is involved in disputes and litigation which have arisen in the course of normal trading. The Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position.

(d) As part of its role in the Submarine Enterprise Performance Program, the Group has provided a £9 million financial guarantee for a supplier to ensure continuity of supply.

21. Subsequent events

Holdfast Training Services Limited

In June 2020, the Group completed the sale of its 74% shareholding in Holdfast Training Services Limited ("Holdfast") to HICL Infrastructure PLC ("HICL") for a cash consideration of £85 million.

Holdfast was a joint venture in the Babcock Group created in 2008 to undertake a 30-year contract for the Ministry of Defence to provide training infrastructure and services for the Royal School of Military Engineering ("RSME"). Babcock will continue to provide services for RSME on its existing subcontract.

Italy competition fine

During May 2020 the Group lost a first instance decision in relation to a €51 million fine imposed by the Italian Competition Authority during February 2019 on its subsidiary Babcock Mission Critical Services Italia S p A ("BMCS Italy"). The Group had reasonable grounds to believe that the court would overturn the fine or substantially reduce it and the matter was therefore previously reported as a contingent liability. BMCS Italy will appeal the decision but given the loss of the first instance decision the Group has recognised a provision of £46 million in respect of the fine and related legal costs. Further details of this matter are included in note 3.

Details on dividends are given in note 7. There are no further material events subsequent to 31 March 2020 that require disclosure.

22. Financial information

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

Statutory accounts for the year ending 31 March 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered following the Company's Annual General Meeting.

The Annual Report for the year ending 31 March 2020 and this full year results statement were approved by the Board on 11 June 2020. The auditors have reported on the Annual Report for the years ended on 31 March 2020 and 2019 and neither report was qualified and neither contained a statement under Section 498(2) or (3) of the Companies Act 2006.

Annual General Meeting 2020

This year's Annual General Meeting will be held on Tuesday, 4 August 2020 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 published at the beginning of July 2020. It is expected that in the light of the current UK Government restrictions on public gatherings that the AGM will be run as a closed meeting at the Company's registered office.

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 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, many of which are beyond Babcock's control that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Nor are they indicative of future performance and Babcock's actual results of operations and financial condition and the development of the industry and markets in which Babcock operates may differ materially from those made in or suggested by the forward-looking statements. You should not place undue reliance on forward-looking statements because such statements relate to events and depend on circumstances that may or may not occur in the future. Except as required by law, Babcock is under no obligation to update (and will not) or keep current the forward-looking statements contained herein or to correct any inaccuracies which may become apparent in such forward-looking statements.

Forward-looking statements reflect Babcock's judgement at the time of preparation of this announcement and are not intended to give any assurance as to future results.

Approved by the Board and signed on behalf of the Directors by:

Archie Bethel
Chief Executive

Franco Martinelli
Group Finance Director

11 June 2020