# Babcock International Group PLC full year results for the year ended 31 March 2014

# 19 May 2014

## Strong, broad-based growth creates a strong platform for the future

| Continuing operations - underlying | March 2014 | March 2013 (restated†) | Change |
|---|---|---|---|
| Revenue* | £3,547.6m | £3,243.5m | + 9% |
| Operating profit** | £377.9m | £345.6m | + 9% |
| Profit before tax*** | £316.1m | £275.0m | + 15% |
| Basic earnings per share**** | 70.3p | 62.2p | + 13% |
| Continuing and discontinued operations basic earnings per share **** | 70.3p | 62.4p | + 13% |
| **Continuing operations - statutory** | | | |
| Revenue | £3,321.0m | £3,029.4m | + 10% |
| Operating profit | £233.1m | £203.5m | + 15% |
| Profit before tax | £218.8m | £181.8m | + 20% |
| Basic earnings per share | 50.1p | 43.9p | + 14% |
| Continuing and discontinued operations basic earnings per share | 50.1p | 39.7p | + 26% |

| | March 2014 | March 2013 (restated†) | Change |
|---|---|---|---|
| Net debt | £533.7 | £499.5m | |
| Net debt/ebitda | 1.3 x | 1.3 x | |
| Order book | £11.5bn | £12bn | |
| Full year dividend†† | 21.4 p | 19.0 p | + 13% |

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

†March 2013 has been restated to reflect the adoption of IAS19 R 2011 and the inclusion of loans to joint ventures within net debt

†† Adjusted to reflect the Rights Issue

### Operational Highlights

- Growth driven by strong underlying operational performance – business model and strategy well suited to current economic environment
  - 9% growth in underlying revenue (11% at constant exchange rates)
  - 9% growth in underlying operating profit (11% at constant exchange rates)
- Cash conversion of 103%, net debt at £533.7 million; net debt:ebitda 1.3 times
- Significant future opportunities being progressed – bid pipeline £17.5 billion (2013: £15.5 billion); order book continues to provide excellent visibility of future revenue
- Acquisition of the Avincis Group, completed post year-end, supports strategic growth objectives and brings market leading business delivering mission-critical services into the Group
- Sustained focus on creating value for shareholders
  - 13% increase in basic underlying eps to 70.3p
  - 13% increase in full year dividend after adjusting for Rights Issue

### Peter Rogers, Chief Executive commented

"Babcock maintained its record of delivering strong revenue and profit growth with all our divisions making progress, building on our leading position in engineering support services. We produced a top-class financial performance, driving strong cash flow and cash conversion, delivering another year of growth in shareholder value.

Our markets remain buoyant and we enter the new financial year with a powerful platform for further growth in the UK and overseas. Building on the strong growth in revenue and earnings delivered in the 2013/14 financial year, the Board is confident the Group will continue to make further strong progress in the 2014/15 financial year."

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## Analysts and investors

A meeting for investors and analysts will be held on 19 May 2014 at 8:30 am at Holborn Bars, 138-142 Holborn, London, EC1N 2NQ.

The presentation will be webcast live at www.babcockinternational.com and subsequently will be available on demand from mid-afternoon on 19 May 2014. To dial-in to the presentation, please call +44 (0)20 3059 8125 (please allow 15 minutes to register for both the webcast and the call).

# Introduction

## Overview

The Group has maintained its momentum and by consistently following its strategy has continued to build on the progress made in recent years. The 2013/14 results have delivered a 9% increase in underlying revenue and 9% increase in underlying operating profit, demonstrating the strength of our underlying operations and our ability to deliver successful support solutions for our customers. Continuing to focus on delivering efficiencies for our customers as well as maintaining stringent controls over our own overheads, the Group operating margin has remained stable at 10.7%. The Group continues to have a secure financial base which is key to supporting the our future growth ambitions and we have continued to invest in bidding activities to deliver future organic growth. During the 2013/14 financial year our businesses have continued their successful track record of winning contracts to deliver long-term complex and critical support for our customers and over the year maintained a win rate, by value, of around 45%. Most notably, on 31 March 2014, our subsidiary Cavendish Nuclear, with its joint venture partner Fluor, was announced as preferred bidder for the management and decommissioning of the 12 Magnox and Research Sites, one of the largest and most significant civil nuclear decommissioning contracts to be awarded by the NDA. This establishes Cavendish Nuclear as the UK's leading nuclear engineering support business. Further strengthening Babcock's position as a key support partner to the London Fire Brigade, the Critical Assets business unit has been successful in its bid to support the London Fire Brigade's fleet of over 500 vehicles and 5,000 pieces of equipment for the next 21 years.

As well as investing in bidding activities, during the year the Group spent over £60 million on acquisitions strengthening and enhancing the Group's capabilities and providing entry points into new geographies. In addition, on 27 March 2014, Babcock announced the acquisition of the Avincis Group, a leading provider of emergency, mission-critical helicopter and fixed-wing services for c £900 million. The acquisition, which completed on 16 May 2014, not only creates an exciting new opportunity for the Group to move into a new market but, we believe, also creates significant growth opportunities for both businesses. The acquisition was funded through a 5 for 13 Rights Issue of 139,259,204 new ordinary shares.

## Dividend

This year underlying basic earnings per share increased by 13% to 70.3 pence (2013: 62.2 pence) and the Group continued to deliver strong cash flows, achieving a cash conversion rate of 103% (2013: 119%). Looking forward, the order book and bid pipeline remain strong giving us excellent visibility of future revenue and further growth opportunities.

The Board's confidence in the long-term future of our business remains strong and we are therefore delighted to recommend a 14% increase in the final dividend per share for 2014 of 16.4 pence per share (2013: 14.4 pence per share). This will give a total dividend for the year of 21.4 pence per share (2013: 19.0 pence per share), an increase of 13%. The final dividend will be paid on 12 August 2014 to shareholders on the register at 4 July 2014.

As a result of the new ordinary shares created by the Rights Issue in respect of the acquisition of Avincis, which started trading on 7 May 2014, the dividend numbers and the comparatives referred to above have been adjusted accordingly.

Babcock has had a consistent dividend policy for a number of years that, over the medium-term, the dividend should be covered on average between 2.5 and 3 times by underlying basic earnings per share. Following completion of the Avincis acquisition and taking into account the availability of distributable reserves and cash as well as the enlarged Group's working capital and investment requirements, the Board intends to maintain this policy.

## Order book and bid pipeline

Over the past year we have retained the excellent visibility we have of our future revenues which is a key feature of our business. This is based on the long-term contracts and partnering agreements which form the basis of our order book.

The order book at the end of 2013/14 stood at £11.5 billion (2013: £12.0 billion), slightly down on the end of the previous financial year but stable on the 2013/14 half year position. With a number of significant contract announcements coming in the final quarter of the 2013/14 financial year and in the first part of the 2014/15 financial year that are still at preferred bidder stage, we expect the order book to increase significantly during the first half of this financial year, as final signature on these contracts is achieved. In addition, we continue discussions with the Ministry of Defence (MoD) about the introduction of the Maritime Support Deliver Framework within the Marine and Technology division, expected to complete in mid-2014, and which is expected to add a further c £2 billion to the order book. As we start the 2014/15 financial year we have over 60% of Babcock's (excluding Avincis) anticipated revenue for this year already contracted and over 30% for the 2015/16 financial year.

Going forward, the order book of Avincis, whose acquisition was completed on 16 May 2014, will also be added to the Group's total order book. At the end of December 2013, Avincis had an order book of £1.9 billion, which provided visibility of 85% of its anticipated revenue for its next financial year and 56% visibility for the year after.

The bid pipeline currently stands at £17.5 billion (2013: £15.5 billion). This is slightly below the declared bid pipeline of £18.5 billion announced at the time of the Interim Management Statement on 11 February 2014, adjusting for a number of recent contract announcements where our bids were unsuccessful, including Network Rail's switches and crossing frameworks and Tranche 1 of the Next Generation Estates Contracts. With the significant value of bids recently announced that have not yet reached final contract signature, bids at preferred bidder stage, that will transfer to the order book during the first half, stand at c £3 billion. The majority of the bids in the pipeline continue to be new business, with rebids representing only 11%, and, reflecting the complexity of the contracts we are competing for, 75% of the pipeline comprises bids with a total contract value of over £100 million. The bid pipeline is supported by tracking opportunities of c £14 billion.

# Introduction continued

The Avincis business also brings with it a pipeline of opportunities at both bidding and tracking stages which stood at c £5.9 billion at 31 December 2013. Of this we would expect around £600 million to be added to the bid pipeline. However, as bidding timetables for Avincis' contracts are significantly shorter than for traditional Babcock contracts, we expect a more rapid movement of bids from tracking into the pipeline and, if successful, into the order book.

## Outlook

Our business model, the scale of our operations, the depth and breadth of our experience and our track record of delivering operational and financial efficiencies provide an excellent platform to benefit from the positive markets which continue to offer us medium and long-term opportunities in both the UK and overseas. The strength of the order book and bid pipeline continue to provide excellent visibility.

During the year, the Group has won a number of important contracts and has made a significant investment in acquisitions, strengthening the existing capabilities of the Group as well as creating opportunities in new markets and geographies.

The acquisition of Avincis meets Babcock's strategic objectives as it brings into the Group a market-leading business with a strong growth platform and its combination with Babcock will generate even greater growth opportunities and value creation for our shareholders.

Building on the strong growth in revenue and earnings delivered in the 2013/14 financial year, the Board is confident the Group will continue to make further strong progress in the 2014/15 financial year.

# Financial review

*In this review, unless otherwise stated, revenue, operating profit, operating margin, net finance costs, profit before tax and earnings per share refer to results before amortisation of acquired intangibles and exceptional items. Revenue, operating profit, operating margins and net finance costs also include the Group's share of equity accounted joint ventures (jv) and associates. Operating profit and operating margin include investment income arising under IFRIC 12 (Accounting for Service Concession Arrangements) which is presented as financial income in the Income Statement. Collectively these adjustments are made to derive the underlying operating results of the business. All numbers are stated before the effect of UK tax rate changes. The underlying figures provide a consistent measure of business performance year to year thereby enabling comparison and understanding of Group financial performance.*

## Statutory to underlying reconciliation

| | | Joint ventures and associates | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Continuing operations – statutory £m | Revenue and operating profit £m | Finance costs £m | Tax £m | IFRIC 12 income £m | Amortisation of acquired intangibles £m | Change in UK tax rate £m | Exceptional items £m | Continuing operations – underlying £m |
| **31 March 2014** | | | | | | | | | |
| Revenue | 3,321.0 | 226.6 | | | | | | | 3,547.6 |
| Operating profit | 233.1 | 21.9 | | | 38.8 | 59.2 | | 24.9 | 377.9 |
| Share of profit from jv | 20.9 | (21.9) | 25.1 | 7.0 | (37.3) | 6.2 | | | – |
| Investment income | 1.5 | | | | (1.5) | | | | – |
| Net finance costs | (36.7) | | (25.1) | | | | | | (61.8) |
| Profit before tax | 218.8 | – | – | 7.0 | – | 65.4 | – | 24.9 | 316.1 |
| Tax | (30.8) | | | (7.0) | | (15.2) | (2.4) | | (55.4) |
| Profit after tax | 188.0 | – | – | – | – | 50.2 | (2.4) | 24.9 | 260.7 |
| **31 March 2013** | | | | | | | | | |
| Revenue | 3,029.4 | 214.1 | | | | | | | 3,243.5 |
| Operating profit | 203.5 | 21.2 | | | 40.2 | 66.4 | | 14.3 | 345.6 |
| Share of profit from jv | 18.0 | (21.2) | 29.2 | 6.3 | (38.5) | 6.2 | | | – |
| Investment income | 1.7 | | | | (1.7) | | | | – |
| Net finance costs | (41.4) | | (29.2) | | | | | | (70.6) |
| Profit before tax | 181.8 | – | – | 6.3 | – | 72.6 | – | 14.3 | 275.0 |
| Tax | (18.0) | | | (6.3) | | (17.4) | (1.2) | (2.7) | (45.6) |
| Profit after tax | 163.8 | – | – | – | – | 55.2 | (1.2) | 11.6 | 229.4 |

## Income statement – continuing operations

Total revenue for the year was £3,547.6 million (2013: £3,243.5 million) which represents growth of 9% (2013: 6%). Adjusting for movements in foreign exchange growth was 11% (2013: 7%).

The Marine and Technology division saw headline revenue growth of 15% and organic growth of 13% before acquisitions and at constant exchange rates. Organic growth was driven by increased volumes in the UK on the Queen Elizabeth aircraft carrier programme and the refit of HMS Ocean as well as increased work programmes in Canada on the submarine programme. The division also saw an increase in commercial activities for oil and gas customers. LGE, acquired in the third quarter of the 2012/13 financial year, delivered strong growth in the year, increasing from £9.7 million to £42.5 million, contributing to the division's total growth. Revenue for the Defence and Security division increased by 4% reflecting a good performance from the Future Strategic Tanker Aircraft (FSTA) joint venture as well as increased infrastructure activities in both the UK and Germany which offset a reduction in revenue following completion of construction activities at the Royal School of Military Engineering and soft FM activities on the Fleet Outsourcing Activities Project (FOAP) training contract. The Support Services division delivered total revenue growth of 10% and 7% organic growth. Cavendish Nuclear experienced strong growth in decommissioning activities and the Critical Assets business unit benefited from enhanced contracts with Heathrow Airport Ltd secured at the beginning of the financial year. The Rail business has also seen strong demand for overhead line and special project works. The acquisition of Conbras Ltda (Conbras) in the first half of the year has added £26 million to total growth for the division. For the International division, in South Africa, strong demand for all the business's activities has delivered organic growth in local currency of 18%, although the effect of exchange rate movements in the South African Rand has resulted in revenue in Sterling terms in line with the previous financial year.

Underlying operating profit increased by 9% to £377.9 million (2013: £345.6 million) which gave a Group operating return on revenue of 10.7% (2013: 10.7%). Excluding the effect of foreign exchange movements growth in operating profit was 11% (2013: 15%).

The Marine and Technology division experienced 13% growth in operating profits of which 11% was organic; this resulted in an operating margin of 11.2% broadly in line with last year (2013: 11.4%). Margins for technology, commercial and international activities remain strong balancing UK naval marine margins of around 10%. For the Defence and Security division income arising from increased revenue from infrastructure activities as well as FSTA joint venture activities (which partly offset reductions in other joint venture activities)

# Financial review continued

increased margins to 13.9% (2013: 13.4%). Operating profit in the Support Services division increased by 3% with operating margins reducing to 8.2% (2013: 8.8%) as previously highlighted, resulting from the early phases of a number of long-term contracts combined with significant bidding and business development costs. Operating profit in the International division increased by 13% in local currency terms but was 6% lower in Sterling terms, reflecting the adverse impact of a weak South African Rand. This resulted in an operating margin of 8.4% (2013: 8.9%).

Charges to exceptional items were £24.9 million (2013: £14.3 million) and comprised the following items

| | 2013/14 £m | 2012/13 £m |
|---|---|---|
| Acquisition costs | 24.9 | – |
| Reorganisation costs | – | 14.5 |
| Profit on disposal of subsidiaries | – | (0.2) |
| Total | 24.9 | 14.3 |

Acquisition costs relate to the acquisition of the Avincis Group announced on 27 March 2014. 2013 reorganisation costs represent the costs of combining IT networks, rationalisation of property and redundancy costs following the acquisition of VT in 2010/11.

*Amortisation of acquired intangibles* of £65.4 million (2013: £72.6 million) represents the amortisation of the value attributed on business acquisitions, customer relationships (both contractual and non-contractual) and acquired brands. The value is amortised over its estimated useful life, which in the case of relationships currently does not exceed ten years, by reference to the duration of contracts in hand at the time of acquisition and for non-contractual customer relationships, the risk adjusted value of potential future orders from existing customers with an average estimated duration. In relation to brands, the asset life is dependent on the market characteristics of the business acquired.

*Net finance costs* were £61.8 million (2013: £70.6 million) and include the Group's share of joint venture net interest expense of £25.1 million (2013: £29.2 million) and the IAS 19 pension finance charge of £10.9 million (2013: £11.8 million). Joint venture finance costs are primarily related to financing structures on the FSTA and UK Military Flying Training System (MFTS) Private Finance Initiative (PFI) contracts which decreased year-on-year following favourable movements on debt hedging instruments. Joint venture finance costs, excluding the effect of movement in hedging instruments, will increase as the PFI continues to deliver assets into service for the customer. 2013/14 saw three tanker aircraft delivered, with the related non-recourse debt drawn down under the PFI facilities. We expect further aircraft to be constructed and delivered over the coming year and this element of net finance costs to increase. Finance costs on the Group's own facilities were £25.8 million (2013: £29.6 million) in line with the decrease in the average amount drawn on the Group's revolving credit facility and improved finance terms.

*Profit before tax, amortisation of acquired intangibles and exceptional charges* increased by 15% to £316.1 million (2013: £275.0 million). The associated tax charge, including the Group's share of joint venture tax of £7.0 million (2013: £6.3 million), totalled £55.4 million (2013: £45.6 million) representing an effective rate of tax of 18% (2013: 17%). The effective tax rate is calculated by using the Group's underlying profit before tax and therefore excludes the tax effect of amortisation and exceptional charges.

*Continuing underlying earnings per share* for the year was 70.3 pence (2013: 62.2 pence) an increase of 13%. Basic earnings per share as defined by IAS 33 was 50.1 pence (2013: 43.9 pence) per share an increase of 14%.

In order to finance the acquisition of the Avincis Group and to ensure the Group maintains sufficient financial headroom for growth opportunities, the Group undertook a Rights Issue of 139,259,204 new ordinary shares which was completed on 6 May 2014. To provide a comparison for future years, underlying earnings per share for 2013/14 has been adjusted to 62.1 pence to take into account the increase in the number of shares and the bonus issue of shares.

## Acquisitions and disposals

During the 2013/14 financial year, in support of our strategic growth objectives, the Group has made a number of acquisitions which have added to our capabilities and will enable us to expand our international presence. For the year, net acquisition spend, after disposals, totalled £61.8 million (2013 income: £45.8 million).

In July 2013, the Support Services division acquired Conbras in Brazil for a cash consideration of £18.2 million plus deferred consideration of £4.4 million. In December 2013, the division also acquired Skills2Learn, a specialist in the delivery of virtual reality and e-learning based training, for £5.8 million plus deferred consideration of £1.5 million and in January 2014 the National Training Institute (NTI) in Oman for £12.3 million. In December 2013, the Marine and Technology division acquired Context Information Security (ContextIS) for £29 million plus deferred consideration of £4 million payable in 2016.

During the period the Group received a deferred consideration of £4.2 million on the disposal of the UKAEA Pension Administration Office which was sold in December 2012.

The Group completed the acquisition of the Avincis Group on 16 May 2014, following receipt of the Rights Issue funds of £1.1 billion. Shareholder approval was received on 16 April 2014 and all relevant regulatory clearances were obtained prior to completion.

# Financial review continued

## Cash flow and net debt

| | 2013/14 £m | 2012/13 £m |
|---|---|---|
| Cash generated from operations | 279.5 | 293.4 |
| Capital expenditure (net) | (68.3) | (53.7) |
| Interest paid (net) | (31.8) | (30.5) |
| Taxation | (55.8) | (45.8) |
| Free cash flow | 123.6 | 163.4 |
| Acquisitions and disposals net of cash/debt acquired | (63.1) | 40.8 |
| Investments in joint ventures | 5.2 | (30.2) |
| Movement in own shares | 0.7 | (2.2) |
| Dividends received from joint ventures and associates | 4.8 | 7.1 |
| Joint venture and associate loans | (0.5) | 26.2 |
| Dividends paid | (101.0) | (86.7) |
| Other | (3.9) | (1.7) |
| Net cash (outflow)/inflow | (34.2) | 116.7 |
| Opening net debt * | (499.5) | (616.2) |
| Closing net debt * | (533.7) | (499.5) |

* net debt includes interest bearing loans to joint ventures of £50.6 million (2013: £51.1 million) and comparatives have been restated accordingly.

*Cash generated from operations* was £279.5 million (2013: £293.4 million) and represents a conversion rate of 103% (2013: 119%). Capital expenditure of £68.3 million (2013: £53.7 million) was primarily focused on the upgrade of dockyard facilities in the Marine and Technology division, as well as investment in new cyber-security systems and IT infrastructure across the Group. We have also purchased additional equipment for the South African crane hire business and have invested in vehicles and infrastructure to support contract wins during the period.

In addition to the normal investment in dockyard facilities, following the acquisition of Avincis in May 2014, the Group will invest further in IT infrastructure, cyber-security systems and enterprise software as well as assets necessary to support business growth. As a result, capital expenditure for 2014/15 is expected to be around 1.5 times annual depreciation of £80 million.

Working capital cash outflows (excluding retirement benefits and exceptional items) were £51.3 million in the year (2013:£3.6 million inflow) with higher activity levels increasing debtors and stock, partly offset by creditors. We expect a similar working capital profile in the 2014/15 financial year. Net Group cash interest paid was £31.8 million (2013: £30.5 million), the increase resulting from lower receipts on joint venture loans. We expect the cash interest charge in this financial year to be around £60 million, reflecting the increase in the Group's debt levels over the year following the acquisition of Avincis, which completed in May 2014.

After taxation payments of £55.8 million (2013: £45.8 million), free cash flow was £123.6 million (2013: £163.4 million) representing a free cash flow yield on 31 March 2014 of 3% (2013: 4%), the reduction being partly driven by the increase in share price over the year. We expect the cash tax charge for this financial year to increase in line with the income statement charge.

Acquisitions and disposals totalling £63.1 million comprise the purchase during the year of Conbras, Skills2Learn, National Training Institute and Context IS and the deferred receipt for the UKAEA Pension Administration office which was sold in December 2012. Dividends received from joint ventures during the period totalled £4.8 million (2013: £7.1million). Cash dividends (including to minorities of £4.3 million) paid out in the year totalled £101.0 million (2013: £86.7 million).

Group net cash outflow was £34.2 million (2013: £116.7 million inflow) increasing total net debt to £533.7 million (31 March 2013: £499.5 million, 30 September 2013: £521.2 million).

## Return on invested capital (ROIC)

We define ROIC as earnings before financing costs and tax, excluding exceptional charges, divided by equity plus net debt, excluding retirement benefit deficits. For the year 2013/14, ROIC was 20.7% (2013: 20.0%). Measured against the current weighted average pre-tax cost of capital of c 10%, the track record of performance demonstrates the Group's ability to generate value enhancing rates of return today and in the long-term.

# Financial review continued

## Pensions

### Cash contributions

| | 13/14 £m | 12/13 £m |
|---|---|---|
| Future service contributions | 49.0 | 53.3 |
| Deficit recovery | 43.6 | 39.3 |
| Longevity swap | 4.2 | 5.0 |
| Pension pre-payments (net) | - | (20.0) |
| Total cash contributions – employer | 96.8 | 77.6 |

The total cash contributions expected to be paid by the Group into the defined benefit pension schemes in 2014/15 are £94.6 million. £51.2 million is in respect of the cost of future service accrual of which £32.7 million in Marine and Technology is recovered via contractual terms. Of the balance, £4.2million of the contributions are in respect of the three longevity swaps transacted for each of the largest schemes during 2009/10 to mitigate the financial impact of increasing longevity, leaving £39.2 million to be funded from other Group contracts.

### Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £3,220.1 million, net of longevity swaps, in comparison to a valuation of the liabilities based on AA corporate bond yields of £3,487.7 million representing a 92% funding level.

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

| | Devonport | | Babcock | | Rosyth | |
|---|---|---|---|---|---|---|
| | 13/14 | 12/13 | 13/14 | 12/13 | 13/14 | 12/13 |
| Discount rate % | 4.5 | 4.4 | 4.5 | 4.4 | 4.5 | 4.4 |
| Rate of increase in pensionable salaries % | 2.4 | 2.6 | 2.4 | 2.6 | 2.4 | 2.6 |
| Rate of increase in pensions in payment % | 2.2 | 2.4 | 3.0 | 3.0 | 3.4 | 3.4 |
| Life expectancy of male currently aged 65 years | 21.7 | 21.6 | 22.8 | 22.8 | 19.3 | 17.7 |

The total accounting deficit, pre deferred tax, at 31 March 2014, was £267.7 million (2013: £261.1 million) and the expected IAS 19 net periodic benefit cost in 2014/15 is £57.9 million (2013/14: £60.2 million).

Actions taken during the year to mitigate further volatility of assets and liabilities include the continued hedging of inflation and interest rate changes.

# Operating review

## Marine and Technology

| | | 31 March 2014 | 31 March 2013 | Change + / – |
|---|---|---|---|---|
| Revenue | Group | £1,364.6 m | £1,193.8m | + 14% |
| | Jv | £12.7m | £7.8m | + 63% |
| | total | £1,377.3m | £1,201.6 m | + 15% |
| Operating profit | Group | £152.9 | £136.0m | + 12% |
| | Jv | £1.0 | £0.6m | + 67% |
| | Total | £153.9m | £136.6m | + 13% |
| Operating margin | Group | 11.2% | 11.4% | |
| | Jv | 7.9% | 7.7% | |
| | Total | 11.2% | 11.4% | |

### Market overview

The UK market remains positive with long-term contracts in place to support critical Ministry of Defence (MoD) assets and major programmes, such as those for the Successor future deterrent submarine and Type 26 warship, are creating significant opportunities that are well-suited to our capabilities.

The UK Royal Navy (RN) warship support market remains stable with the MoD's 2012-2022 Equipment Plan forecasting an expenditure of around £17.4 billion on surface ships over the next ten years. With the Surface Ship Support Alliance (SSSA) operating effectively, the RN's future plans present opportunities for vessel life-extension and capability enhancement. We anticipate the MoD will ultimately utilise the SSSA to support all complex warship platforms, safeguarding Babcock's market position. Increased activity and opportunity is evident in international naval markets, such as the United Arab Emirates (UAE) which are striving to implement a fleet-wide class management through-life support solution (similar to the SSSA).

The UK submarine market also presents Babcock with significant opportunities as the recognised lead support partner, with a planned MoD investment of around £35.8 billion over ten years. The MoD's plan for Her Majesty's Naval Base (HMNB) Clyde to become the main operating base for all classes of submarine along with the establishment of a Submarine Centre of Specialisation presents opportunities to develop our support offering at Clyde in our role as the lead industrial partner at the naval base. In addition, there is growing demand for submarine training in the UK and internationally. Along with growing our UK presence in this market, we are currently tracking and bidding a number of potential international training opportunities.

There are opportunities in the commercial marine, offshore renewables and oil and gas markets. This is reflected in a change to our divisional structure and the formation of a new Energy and Marine Services (EMS) business dedicated to growing our presence in these markets. The commercial marine market presents significant opportunities to build close relationships with customers and gain fleet contracts for vessel refits. The oil and gas market is a growth area for EMS. Ageing offshore production infrastructure and a predicted increase in demand for gas transportation is generating significant opportunities for the division. These are all aligned to our engineering, design and manufacturing capabilities.

Internationally, in Canada, we anticipate opportunities in the medium-term from the Government's National Shipbuilding Procurement Strategy which outlines planned expenditure of Can$36.6 billion. We have opportunities in the supply of complex equipment, design services and through-life support. We are pursuing a number of nearer-term opportunities for vessel support and life extension with the Canadian Coast Guard.

In Australia, the future submarine project continues to gain momentum. The implementation of the Rizzo and Coles Reviews continues to create opportunities for support solutions in both surface ship and submarine fleets, and our Group Maintenance Contract for the ANZAC Class is into its second year and performing well.

In New Zealand, a revised Dockyard Management Contract presents a significant opportunity for us to extend our current contract.

### Financial review

The division reported a total increase in revenue of 15% to £1,377.3 million (2013: £1,201.6 million). Organic growth, before acquisitions and at constant exchange rates, was 13%. Organic growth was driven by increased volumes in the UK on the Queen Elizabeth aircraft carrier programme and the refit of HMS Ocean as well as increased work programmes in Canada on the submarine programme. The division also saw an increase in commercial activities for oil and gas customers. The acquisition of LGE, completed in the final quarter of the 2012/13 financial year delivered strong growth this year, increasing from £9.7 million to £42.5 million, contributing to the division's total growth.

Total operating profit for the division increased by 13% to £153.9 million (2013: £136.6 million), of this 11% was organic growth. This results in an operating margin for the division of 11.2%, broadly in line with the previous year (2013: 11.4%). Margins achieved for technology, commercial and international activities remain strong, balancing UK naval marine margins of around 10%.

### Operational review

The Terms of Business Agreement (ToBA) is a long-term partnering agreement that provides the Marine and Technology division with a predictable, stable programme of work in surface ship and submarine deep maintenance and support as well as maintaining our position as the MoD's strategic partner at the naval bases in Devonport and Clyde. We retain a strong market position in the through-life support of the UK submarine fleet as sole provider of both deep and in-service maintenance. We are a crucial member of the Submarine Enterprise Performance Programme (SEPP) and together with the MoD, BAE Systems and Rolls Royce we continue to deliver on-going reductions in operating costs while maximising UK submarine fleet availability.

# Operating review continued

In the past year we have successfully supported both the Trafalgar and Vanguard Class submarines through our Devonport and Clyde operations. HMS Vengeance's three and a half year, £350 million Long Overhaul Period (Refuel), is well underway at Devonport, with the new fuel installation complete and the refit progressing on schedule. We are also supporting the Astute Class into service, delivering a range of products and services from weapons handling and launch systems to crew training. We continue to support the design phase of the Successor future deterrent submarine programme and are actively involved in the long-term technical engineering support as well as providing the key tactical weapons launch system for the programme.

Following the announcement in 2013 that the MoD had identified both Devonport and Rosyth as its preferred locations for submarine dismantling, our Nuclear Operations team continues to develop the infrastructure design and safety case for the programme. Once regulatory approval is received, the next stage will be the demonstration of the dismantling process on one of the defueled submarines at Rosyth. Babcock has received indication that approval may take 18 to 24 months. Following a successful demonstrator project, the dismantling of the submarines is planned to take place at both our Rosyth and Devonport facilities.

Our UK surface ship activities continue to include the delivery of the Queen Elizabeth (QE) Class aircraft carriers as a partner in the Aircraft Carrier Alliance (ACA). With the structural assembly phase of the first QE Class, HMS Queen Elizabeth, now complete, focus has shifted to fitting out the assembled ship with vital electrical and mechanical systems. The next planned significant milestone is the flooding of the dock in mid-2014 when the ship will float for the first time. Meanwhile work on the second of the QE Class, HMS Prince of Wales, is well underway at all the ACA build facilities, including our facilities in Rosyth and Appledore. During the year the ACA agreed a revised target cost contract with the MoD to complete both the QE Class aircraft carriers. This includes a 50:50 risk share arrangement to provide greater cost performance incentives. The maximum risk for Babcock is unchanged and will be limited to the loss of our profit opportunity. The revised contract reflects the increased maturity of the build programme and the greater certainty this provides for the final cost.

In addition to its work on the QE Class project, our Appledore facility is involved in the design, construction and commissioning of two Offshore Patrol Vessels for the Irish Department of Defence, with the first ship now delivered.

We are working with the MoD and our partners to bring all support for complex surface ships, including the QE Class and replacement frigates, into the SSSA; sustaining and growing our future position. This year we have successfully delivered four vessel refits for the RN and work is underway on a further four, including deep maintenance of the principal RN helicopter carrier, HMS Ocean.

We have been successfully managing the delivery of services at HMNBs Devonport and Clyde under the Warship Support Modernisation Initiative (WSMI) for the past 12 years. Under the framework of our 15-year ToBA, this contract is to be superseded by the Maritime Support Delivery Framework (MSDF) which is currently being discussed with the MoD. This new five-year contract is expected to be secured by mid-2014 and will create a platform for us to deliver further cost savings and operational improvements while providing a mechanism for us to develop our role in both naval bases.

We continue to pursue and secure work in key commercial markets utilising our unique mix of engineering skills and facilities. This is something we will progress further over the coming year, while continually developing and enhancing both our skills base and facilities to meet growing demands.

In the past year, work began on 74 subsea modules for BP's Quad 204 project and we aim to build on this success by securing further contracts with other major players in the North Sea. In the commercial marine market we achieved a challenging vessel refit programme for Bibby Offshore on its Polaris Dive Support Vessel and have expanded our position in the UK oil and gas offshore support market through the provision of 'walk to work' contracts for various oil majors, most notably TOTAL. We have also seen continued growth in our concept design partnership with Shell. The continued integration of LGE Process, acquired in 2013, has been a particular success, with a year one order book exceeding £130 million and an increase in staffing levels in the order of 30%. Our services to South Korea through this sector and, in parallel, in developing key systems for South Korea's new class of submarines, have grown significantly during the year and are progressing well.

Our independent Technology Consultancy group has achieved continued organic growth, particularly in the areas of systems engineering and safety assurance. In December 2013 we acquired ContextIS, a specialist consultancy in cyber-security, working in defence and commercial sectors in the UK, Australia and Europe. The business now sits alongside our other consultancy businesses and will help to support growth in the UK and overseas.

In Canada, we were awarded a five-year extension to our Victoria In-Service Support Contract (VISSC) to refit and maintain the Victoria Class submarine fleet. Under this contract we successfully undocked our first submarine, HMCS Chicoutimi, after three years of an extended docking work period, significantly increasing our in-country capacity and capability for future support of Canadian submarine and surface ship programmes. VISSC includes a number of extension options that could bring the contract duration to 15 years and we expect Government investment in the Canadian Coast Guard fleet and Naval Surface Ships to create a range of growth opportunities for us. In early 2014 we successfully secured a contract for the refit of the first of two Canadian Coast Guard heavy icebreakers, Louis S. St-Laurent, with our partner shipyard, Chantier Davie, strengthening our position in the market.

The Australian Government is committed to the progressive reform of its naval support activities and a number of opportunities aligned to our support capabilities continue to arise. We are engaged in further phases of the Submarine Propulsion, Energy, Support and Integration Facility (SPESIFy) for the Australian Defence Materiel Organisation; we have delivered Mark 32 Launchers for all three Australian Air Warfare Destroyers and our contract to support the ANZAC class frigates is going from strength to strength. We were unsuccessful in our bid to support the Canberra Class amphibious ships. We continue to be a Tier 1 supplier and strategic partner to the New Zealand Defence Force and negotiations are underway to extend our dockyard management contract for a further five years.

## Divisional outlook

In the UK, as a result of our ToBA and our current market positions we continue to have excellent visibility of future revenue streams. Our unrivalled expertise allows us to work alongside the MoD and Royal Navy as they seek to maximise availability of their assets and achieve best value for money. We continue to develop our position in the commercial marine and energy markets, and our organisational restructure allows us better to deliver further growth in these markets.

# Operating review continued

Internationally, our presence is growing. We continue to strengthen our relationship with governments who are seeking to achieve increased financial efficiency for naval equipment and infrastructure support and maximised availability of their submarine and surface ship fleets.

We believe the outlook for the Marine and Technology division is positive with significant opportunities in the bidding and tracking pipeline driving long-term growth in the UK and internationally.

## Defence and Security

| | | 31 March 2014 | 31 March 2013 | Change +/– |
|---|---|---|---|---|
| Revenue | group | £736.8m | £709.4m | + 4% |
| | jv | £115.8m | £110.8m | + 5% |
| | total | £852.6m | £820.2m | + 4% |
| Operating profit | group | £75.4m | £66.0m | + 14% |
| | jv | £43.2m | £44.2m | – 2% |
| | total | £118.6m | £110.2m | + 8% |
| Operating margin | group | 10.2% | 9.3% | |
| | jv | 37.3% | 39.9% | |
| | total | 13.9% | 13.4% | |

### Market overview

The Government's Defence Reform agenda has gathered pace over the past year with a continued drive for outsourcing of support to defence operations stimulated by the ongoing requirement for efficiencies and savings in defence and the wider public sector. We anticipate continued demand from across the Armed Forces and their supporting organisations for our core capabilities: training, equipment support and infrastructure management, as the MoD progresses toward Future Force 2020.

Our focus remains on retaining our UK market leading position through successfully competing for rebids and extensions of our existing services and in developing solutions for the current programme of major UK MoD outsourcing competitions. The Government's commitment to further efficiencies and savings indicates that budgetary pressure on defence will continue to prevail and further outsourcing is a likely means of delivery. As we have greater visibility of training, logistics and infrastructure programmes we now estimate addressable markets across defence to be in excess of £4 billion per annum out to 2020.

During 2013 several major MoD outsourcing opportunities have come to market and we are well placed to benefit, evidenced by our position as one of two consortia bidding for the Logistics, Commodities and Services Transformation (LCST) contract where we are teamed with DHL and our qualification as a potential acquirer of the Defence Support Group (DSG).

We continue to upgrade our market offering to match the emergent needs of the defence customer. This includes the development of e-learning techniques, smart task and resource scheduling and the further integration of our Defence Infrastructure business to provide a deeper and broader offering across the defence and adjacent sectors. This has reinforced our business model, which is built on strong customer relationships with the armed forces and MoD and has enhanced value for both the customer and ourselves, while proving highly adaptable to meet changing requirements – for example, optimising the re-basing and training of military personnel following the withdrawal from Germany and Afghanistan and military training and equipment support for both regular and reserve forces.

Along with our domestic markets, where we have a very healthy domestic pipeline, we are pursuing opportunities internationally, with a particular focus on Canada, Australia, the Middle East and Europe. We continue to review these markets for first generation outsourcing opportunities where customers have similar value perceptions to our UK customers and demand high quality, output or availability based contracts for complex fixed and mobile assets. We expect to increase our investment in these markets during the next twelve months.

### Financial review

Revenue for the Defence and Security division, including the Group's share of joint venture revenue, increased by 4% to £852.6 million (2013: £820.2 million). This reflects a good performance from the Future Strategic Tanker Aircraft (FSTA) joint venture as well as increased infrastructure activities in both the UK and Germany which offset a reduction in revenue following completion of construction activities at the Royal School of Military Engineering and soft FM activities on the Fleet Outsourcing Activities Project (FOAP) training contract.

Total operating profit for the division increased by 8% to £118.6 million (2013: £110.2 million) mainly driven by increased revenue from infrastructure activities described above as well as income arising from the FSTA joint venture partly offsetting reductions in other joint venture activities. Operating margins for the division increased to 13.9% (2013: 13.4%).

### Operational overview

Our Air business has continued to manage its output to meet customer requirements. In our support to UK MoD military flying training we have delivered at the elementary, basic and advanced stages of flying training. We have had to be both flexible and responsive to meet the changing output demand for operational aircrew through the flying training system and we are now seeing student numbers beginning to increase. This is expected to continue with the addition of international defence training requirements which has resulted in the continuation in-service of the older Hawk T1 aircraft. We have expressed an interest in competing for a further five year support contract for the T1 and this will complement the competition for the newer Hawk T2 support in which we are already engaged.

# Operating review continued

During the year the business successfully managed an engineering issue with the Grob Tutor aircraft used to deliver the Light Aircraft Flying Task contract. Following the grounding of the fleet in 2013, full fleet availability was restored before the end of the calendar year and with careful stewardship of available aircraft, the impact on MoD aircrew training was minimised.

The UKMFTS joint venture, Ascent, and the FSTA joint venture have both had successful years. Ascent has continued to manage Royal Navy (RN) observer training and Advanced Fast Jet training through its facilities at RAF Barkston Heath, RAF Valley and RNAS Culdrose. The competition to deliver future fixed wing training capability at elementary and basic level is now well-advanced. Air Tanker has also continued to mature its operational delivery and full Air-to-Air capability is planned to be delivered during 2014. In the air transport role, the Voyager tanker aircraft has taken on the responsibility for maintaining the Afghanistan and Falkland Island air bridges and the MoD was able to withdraw the VC-10 aircraft from service as planned.

The Air business has continued to develop opportunities internationally and in new market areas. We have extended our rotary wing capability by winning an MoD contract to support the Apache helicopter. Whilst relatively small, our success in securing this contract in a competitive environment underpins our customer's trust in our delivery. Internationally, we are pursuing opportunities in the Middle East including an opportunity to deliver support to the Royal Air Force of Oman fleet of Super Lynx helicopters.

In our Defence Infrastructure business strong operational delivery on the UK Regional Prime Contracts (RPC) has continued and we have delivered significant additional contract services including several large capital projects such as the resurfacing of the RAF Scampton runway ahead of the Dambusters' 70th anniversary commemoration. Ahead of the award of the Next Generation Estates Contracts (NGEC) our two RPC contracts have been extended, securing an additional £100 million of core contract revenue, until the commencement of the new contracts

During the year we submitted six bids to the Defence Infrastructure Organisation (DIO) for the four regional and two national NGEC contracts. At the time of this announcement we await decisions on the South West, Central and South East regional contracts. We are currently incumbent on the South West RPC and East RPC which is being incorporated into the Central NGEC. We were unsuccessful in our bids for the two national contracts (Training and Housing) and the fourth regional contract covering Scotland and Northern Ireland.

In Germany, the integrated estates management contract for the British Forces continues to deliver strongly, with the team supporting the Army's drawdown programme with the managed closure of the Rheindalen and Münster bases in late 2013. We have also worked closely with the Army and DIO to help consolidate service delivery as the estate shrinks, with additional scope being added to the contract, including energy management, waste management and snow and ice clearance. Further work continues to provide additional support to other UK forces' establishments across Europe.

Future opportunities with the DIO in the UK include the provision of support to the United States Visiting Forces and Project Hestia, an integrated base support opportunity programme. Overseas, the business is developing a growing relationship with the Canadian Department of National Defence as they move towards an outsourced estate management delivery model. In Australia we are pursuing a number of opportunities to establish an integrated asset management offering alongside the Marine and Technology division.

The Land business continues successful delivery of the Phoenix contract to the MoD, providing 14,500 white fleet leased vehicles and 250,000 vehicle rental hires in the year. We have made improvements to this service following the MoD wide deployment of our online booking and scheduling system and the introduction of 12,000 telematics units providing assured vehicle usage and driver behaviour data. Our management of vehicle procurement service has seen us manage the competitions for 6,555 replacement vehicles since the start of the contract and has delivered significant savings to the customer. Our continuous hire team have also seen success during the year winning contracts for the provision of coaches, trailers and other vehicles, with a total value of £30 million.

Our primary business development focus is on two significant outsourcing programmes. In December 2013 the MoD launched the sale of the DSG; the MoD's capability for delivering maintenance and spares support to the Army's tracked and wheeled vehicles. The customer's sale programme indicates that completion is anticipated to be during late calendar 2014, with a service commencement date in the first quarter of calendar 2015. The disposal includes a service provision contract, for up to 15 years, as the exclusive provider of through-life maintenance, repair and overhaul and support for the current armoured and key support vehicles. Our extensive fleet management experience and equipment support capabilities ensure we are well placed to compete for this opportunity.

Also during 2013 the MoD started the competition for the LCST programme to outsource the procurement, warehousing and distribution services for commodities such as food, clothing, medical and general supplies as well as the wider operation of distribution and storage facilities across the military supply chain. We are partnered with DHL in a 50/50 joint venture to address this opportunity which we currently expect to have a total contract value of around £5 billion over a 13 year period.

We continue to deliver training for regular and reserves personnel within the Army. The mix of our courses continues to change as we respond to the shifting operational needs of the Army. We are currently the sole source bidder for the Defence College of Technical Training Electro-Mechanical Training Contract which includes the integration of Bordon and Arborfield Schools and we expect to achieve contract award for an initial five year period by July 2014.

Through our Holdfast contract, the regeneration of infrastructure at the Royal School of Military Engineering is well advanced. Refurbishment of accommodation blocks and construction of new training and support buildings has been completed and the remainder of the programme, including Single Living Accommodation will be complete by January 2015.

Our delivery of training for the RN during the year included successful completion of the second year of the FOAP training contract. This was achieved below the target cost through the implementation of continuous efficiency improvement measures. International ship crew training programmes continue with the completion of courses for the Brazilian Navy and the Royal Navy of Oman and we maintain our focus on developing international markets.

In the Security sector we continue to drive significant business improvements which place the business in a strong position for the rebidding exercise during 2014, when the current contract will be sub-divided into three separate service streams. The scope of these procurements may offer the opportunity for the business to expand its services across the wider Government Security community.

# Operating review continued

## Divisional outlook

We have positioned our business to address the changing needs of our principal customer – the UK MoD. In addition, we are increasing our focus on international opportunities where we believe we can leverage our UK expertise and capabilities. Our track record of delivering operational and financial efficiencies leaves the Defence and Security division well placed to benefit from its bid pipeline of significant opportunities in the UK defence sector.

# Support Services

| | | 31 March 2014 | 31 March 2013 | Change + /– |
|---|---|---|---|---|
| Revenue | group | £942.0m | £848.2m | + 11% |
| | jv | £98.1m | £95.5m | + 3% |
| | total | £1,040.1m | £943.7m | + 10% |
| Operating profit | group | £70.1m | £68.0m | + 3% |
| | jv | £15.0m | £14.9m | + 1% |
| | total | £85.1m | £82.9m | + 3% |
| Operating margin | group | 7.4% | 8.0% | |
| | jv | 15.3% | 15.6% | |
| | total | 8.2% | 8.8% | |

## Market overview

The markets served by the Support Services division continue to remain attractive. The underlying pick up in GDP growth across the UK, combined with a continuing desire by existing and potential customers to reduce their costs and maximise service levels, is driving strong demand for out-sourced solutions.

The impact of imminent or recently changed regulatory control periods, for example in the power and rail sectors, is driving change and the division is responding by continually updating its knowledge of our core markets and customers to ensure we position our services optimally.

Customers continue to market test the services that they have outsourced. We are addressing this challenge by developing innovative solutions and growing the scope of services that we offer our customers to maximise value and maintain returns.

## Financial review

The Support Services division reported total revenue of £1,040.1 million (2013: £943.7 million) an increase of 10% of which 7% was organic growth. Cavendish Nuclear experienced strong growth in decommissioning activities and the Critical Assets business unit benefited from enhanced contracts with Heathrow Airport Ltd secured at the beginning of the financial year. The Rail business has also seen strong demand for overhead line and special project works. The acquisition of Conbras, completed in the first half of the year, has added £26 million to total growth for the division.

Operating profit for the division was £85.1 million (2013: £82.9 million) an increase of 3%. As anticipated, as a result mainly of the early phases of a number of new long-term contracts combined with significant bidding and business development costs, operating margins for the division reduced to 8.2% (2013: 8.8%).

## Operational review

Cavendish Nuclear, Babcock's wholly owned subsidiary, continues to strengthen its position as the UK's leading supplier to the nuclear industry in the UK and overseas and has made significant progress during the year. Its focus remains on targeted sectors including site operations and maintenance, decommissioning and new build.

The key success of the year was the Nuclear Decommissioning Authority (NDA) naming the Cavendish Fluor Partnership, a joint venture with Fluor, as the preferred bidder for the contract to decommission and clean up the Magnox and Research sites. Allowing for changes to the bid scope, the total contract value is expected to be around £4.2 billion for 13.5 years. Over the full term of the contract, this contract value represents savings of more than £1.5 billion to the UK tax payers. This is a complex long-term contract based over 12 sites and its award is a clear demonstration of Cavendish Nuclear's trusted reputation within the nuclear decommissioning sector. A Transition Agreement was signed on 15 April 2014 and the formal award of the contract for the new Parent Body Organisation (PBO) and Site Licence Company Agreements is planned for 1 September 2014.

Cavendish Nuclear has continued to perform well in its role as the PBO at Dounreay where key milestones have been achieved in the decommissioning of the Fuel Recycling areas and the construction of low level waste vaults. Good progress has been made on complex programme areas such as reactor decommissioning and shaft clean up. Silo fuel shipments continue to be successfully made to Sellafield.

Cavendish Nuclear continues to strengthen its position at Sellafield and it has experienced increased demand for its services. The Silo Maintenance Facility Phase 2 design was completed significantly ahead of schedule and Phase 3 funding has been approved by the NDA and Department for Environment and Climate Change with a contract award anticipated early in the new financial year. Cavendish Nuclear is now into the second year of the Design Services Alliance framework and it is currently involved in over 100 projects, a number of which are critical to the high hazard reduction programme. Progress has been excellent with significant growth in design and engineering services with revenues more than double those of the first year. Ongoing tender activity includes the re-launched BEPPS/DIF contract and the tender for an anticipated 10 year renewal of the Sellafield Analytical Services contract (where Cavendish Nuclear has been the incumbent for the previous four years).

## Operating review continued

At the Atomic Weapons Establishment, decommissioning on behalf of the MoD continues to progress well with strong delivery achieved on all projects.

Cavendish Nuclear continues to develop opportunities and relationships in the nuclear new build sector. Its relationship with EDF remains strong and the submission of the final phase of the bid documentation for the Balance of Nuclear Island contract for the new Hinkley Point C power station was made in March 2014.

The business is also assisting Hitachi-GE Nuclear Energy with the development of its strategy for the construction of the Advanced Boiling Water Reactors at the Horizon Nuclear Power sites at Wylfa and Oldbury and has recently been awarded an engineering framework contract to support Horizon in scoping activities for the project.

Within the power generation support sector, Cavendish Nuclear has supported EDF's achievement of the highest generation output for many years. Discussions with EDF for the lifetime support contract for its fleet of eight UK nuclear stations are continuing and these are expected to conclude during 2014.

Internationally, Cavendish Nuclear is expanding activities in Japan, to include nuclear decommissioning at nuclear sites including Fukushima, alongside the existing work in support of the decommissioning of the Tokai Magnox reactor. Cavendish Nuclear continues to pursue the opportunity for the management and operations of the Chalk River facilities in Canada.

Our Critical Services business (formerly known as Mobile Assets) delivered another strong performance with 19% organic revenue growth.

Following the contract award from Heathrow Airports Limited (HAL) in 2013, Babcock is now responsible for the operations and maintenance of the baggage handling systems across the entire Heathrow campus, delivering an integrated cost-reducing solution. We are also bidding for a range of baggage system upgrades and replacement projects across all terminals. The British Airways ground support equipment contract is performing well, with significant reductions to the cost base of maintenance of equipment whilst maintaining high availability of equipment.

Within Critical Assets, the Mining and Construction business has continued to build its position in the UK and overseas. Following the June 2013 contract with Aggregate Industries, (a subsidiary of Holcim Group) to manage its 400-strong fleet of heavy mobile equipment in the UK, we have also won a £2 million contract to support a further Holcim subsidiary, Rail Freight Services Ltd. From May 2014 Babcock will be responsible for Lafarge's Readymix fleet in Western Canada. This is a ten year contract across a fleet of c 700 assets.

Babcock has been announced as the preferred bidder on a 21 year, £300 million contract to provide fleet management to the London Fire Brigade's (LFB) fleet of 500 vehicles and 50,000 pieces of specialist equipment. This followed the initial award of an 18 month interim contract in 2012.

Elsewhere in the division, our Skills and Learning business has made a significant investment in its training capability over the past 12 months to strengthen and build on its position as a leader in this market.

Our contracts continue to perform well and there have been a number of significant achievements this year, including: the award of a major extension and scope expansion to our work with Volkswagen Group UK worth £32 million (including apprenticeship funding) over four years, winning a new contract with Asda for delivery of the 'Logistics Services Apprenticeship Programme', extension of our EDF Energy contract providing an Advanced Apprenticeship Programme for nuclear technicians, and securing a two-year extension to our contract with BMW to provide technical apprentices, commercial and leadership training.

Babcock's in-house training consultancy team is advising customers on their skills requirements, analysing their training needs and translating business priorities into operational learning programmes. Our new contract with Urenco to deliver a managed learning service will utilise our online learning management system, giving the customer more control and ownership of its training and development needs.

Our acquisition of award-winning digital learning company, Skills2Learn, complements our practical and classroom based training provision and enables us to deliver more innovative, efficient and cost effective training for all our customers. We also acquired the Oman based National Training Institute, which provides high-quality bespoke HSE and vocational technical training to the energy, oil and gas and construction sectors. This additional capability will enable us to pursue significant opportunities with both current and new customers.

We continue to invest in training infrastructure to support our customers. We expanded our Automotive Training Academy in Milton Keynes with the introduction of state-of-the-art specialist paint and body facilities and we expect to open two new dedicated training facilities for the LFB in 2014. These new LFB facilities will enable us to deliver extended carbonaceous, search and rescue and incident command training.

The quality of our training delivery was recognised this year with a number of industry awards and accreditations, including 'Best Vocational Education Provider of the Year' at the Education Investor awards; 'Training Partnership of the Year' in SEMTA's 'Best of British Engineering' awards; and 'Outstanding Achiever of the Year' for one of our BMW apprentices.

Outside our core growth areas - nuclear, complex fleet management and training – the division has continued to grow, winning new contracts and further developing our capabilities.

Babcock's Rail, Power and Communications businesses were brought together as Network Engineering to leverage common skills and capabilities and provide value in a range of very competitive markets.

Through our joint venture with Alstom and Costain, ABC Electrification (ABC), the Rail business has secured two of Network Rail's National Electrification Programme framework contracts covering the Central (London North Western, South) and Wales and Western regions. These contracts have an estimated value of £900 million to the joint venture, which is shared equally amongst the partners. Babcock has had further success on the Edinburgh Glasgow Improvement Programme – winning a number of work packages both independently and

# Operating review continued

with the ABC joint venture. On 12 May Network Rail announced that Babcock had been selected to deliver conventional plain line track works across three of its regions. The new frameworks cover Western, Wales and Wessex; Scotland and LNW South and are expected to be worth a total of around £200 million over a five year period from 2014-19. The Rail business was unsuccessful in its bid for the Northern Region switches and crossings framework for Network Rail.

Recently, the Power team has recorded several important wins. These include a National Grid Onshore Underground Cabling Decommissioning contract; and a place on the National Grid EPC Overhead Line Framework. We are also very pleased to have secured a framework contract from Scottish and Southern Energy for major overhead transmission line works in the North of Scotland and three significant schemes from Scottish Power.

Our Integrated Services business, which delivers integrated facilities management, broadcast support and educational improvement services, continues to perform well.

The acquisition of Brazilian facilities management company, Conbras, in July 2013 gave Babcock its first entry point into the Brazilian market. Conbras provides a broad range of facilities services, mainly to large private sector companies with substantial, and relatively complex, facilities including data centres and office buildings. This business is now fully integrated into the division with the local management team all remaining with the business. With additional business development support from the UK, the focus is now on extending Conbras' current capabilities into new sectors and developing new business opportunities in training and programme management.

In the UK, the BBC World Service contract is performing well above contract expectations by broadcasting 50% more hours than originally forecast.

In the Education sector, Local Authorities continue to seek innovative partnerships to drive more targeted and efficient delivery of education services. Babcock is well placed in this environment and the high quality of our joint venture partnership models with Surrey and Devon County Councils was recognised at the Education Investor awards, where we were awarded 'Best Education Partnership of the Year'.

Devon schools continue to achieve excellent outcomes and are improving faster than elsewhere in England, with over 86% of schools in Devon now 'Good' or 'Outstanding' according to the latest Ofsted inspection. Our joint venture with Surrey County Council continues to deliver solid results with improved performance of schools in Surrey across all key stages. We also continue to invest in the development of new education products and capabilities to meet the emerging needs of our customers.

### Divisional outlook

We remain confident that the division is well placed to deliver on its growth aspirations.

In the UK, the recovering economy and our customers' ongoing need to manage their cost reduction challenges, whilst protecting and enhancing service levels, has seen a strong demand for our technical expertise.

Outside the UK, we are continuing to respond to international opportunities to meet specific customer's requirements and also continuing to build our international capabilities as part of the wider Group's development.

## International

| | | 31 March 2014 | 31 March 2013 | Change + / - |
|---|---|---|---|---|
| Revenue | total | £277.6m | £278.0m | 0 % |
| Operating profit | total | £23.2m | £24.7m | -6% |
| Operating margin | total | 8.4% | 8.9% | |

### Market overview

The South African economy during the 2013/14 financial year has been dominated by the weakness of the local currency when compared to its major trading partners. Forecast GDP for South Africa dropped from an anticipated 2.8% to 2.2% and Rand weakness has further contributed to a rise in imported inflation that has directly impacted consumer spending. Despite these challenging headwinds, the markets served by Babcock in South Africa have seen growth. Energy demand in particular has remained at prior year levels and has been characterised by breakdowns and extended outage periods as Eskom, South Africa's power utility, works hard to meet demand before new build power stations come on stream. This has created demand for our power generation support business both in breakdown and preventative maintenance opportunities as well as life-extension programmes on the aging fleet of existing generators. The early start of spend on the infrastructure programme and growth in Mozambique have led to increased demand for the plant hire division. Mining is still affected by labour unrest but coal mining, where the business is strong, continues to increase production.

### Financial review

Revenue for the division in local currency grew by 18% with strong demand for all the South African operations. The effect of movement in the South African Rand has resulted in reported revenue in line with the previous year at £277.6 million (2013: £278.0 million). In Sterling terms, operating profit in the International division reduced by 6% to £23.2 million (2013: £24.7 million) but increased 13% in local currency terms. This resulted in an operating margin of 8.4% (2013: 8.9%).

### Operational overview

In spite of challenges in the mining industry, the construction and mining sector has seen growth of approximately 5%. During the year we have been able to take advantage of this this growth and increase our market share by almost 3% in South Africa. This, combined with the successful opening of new branches in Mozambique and Zambia and the launch of the "value brand" Volvo Chinese product, has resulted in a good year for equipment sales and service.

# Operating review continued

During 2013/14 we built on our relationship with the Volvo Corporation and were awarded the aftermarket support contract for Volvo Penta in South Africa. The new business unit has performed well in the year and should to continue to grow steadily. The DAF automotive division managed to improve revenue by over 50% and has opened a new dealership in the centre of the main coal production region to take advantage of the coal supply routes.

The demand for electricity in South Africa continues to grow significantly. As a result, Eskom has continued to delay preventative maintenance outages on aging power stations which has led to increased breakdown and engineering activities for our power generation support services unit. Project efficiency gains in this unit created extra resource and generated extra revenue. The increased activity on these power stations has also provided increased opportunities for the Rentals business unit through increased mechanical gear hire. The Target Cranes acquisition has been fully integrated and has achieved improved safety standards as well as market share growth in the Southern Cape region. Transmission line contract wins in the latter half of the year for the Powerlines business has resulted in the business ending the year with a strong order book for construction projects in 2014.

## Divisional outlook

For the South African business, looking forward our primary focus for the coming year will be on continued market share growth in the automotive and construction sectors in both our local and export markets. In the power generation market we hope to continue to extend our support service operations. After two years of limited activity in the powerline market, we are encouraged by recent wins and believe the shortage of lines to and from new power stations will give us further opportunities to grow. In addition we continue to identify new opportunities where we can build on Group expertise in new markets for the division.

# Principal risks and management controls

The key risks and uncertainties shown on pages 17 to 21 are those the Board considers to be of greatest significance to Babcock as it stands today. They have the potential materially and adversely to affect Babcock's business and the delivery of its strategy. For each risk there is a description of the possible impact of the risk on the Group should it occur, and the mitigation and control processes in place to manage the risk.

This list is likely to change over time as different risks take on larger or smaller significance. The size, complexity and spread of Babcock's businesses and the continually changing environment in which the Group operates also means that the list cannot be an exhaustive list of all significant risks that could affect the Group. Risks and uncertainties which affect or are likely to affect businesses in general, and are not specific to the Group, are not set out as key risks, but Babcock, in common with other businesses, faces those risks too.

## How Babcock manages risk

Babcock has an established system of risk management and internal control processes which operate through all levels of the Group's business. Throughout the year the Board, through the Audit and Risk Committee, critically evaluates and reviews major risks faced by the Group and the controls and mitigation plans in place intended to manage and reduce their potential impact and ensure that the assets and reputation of the Group are protected.

The Group's risk management and internal control systems can only seek to manage, not eliminate, the risk of failure to achieve business objectives, as any system can only provide reasonable, not absolute, assurance against material misstatement or loss.

## Key risks, risk mitigation and controls

In this section "Group" means the enlarged Babcock Group including the Avincis which will be integrated within the governance and controls systems of the Babcock Group.

### Risk - Reliance on large contracts with a relatively limited number of major clients, including clients affected by political and public spending decisions, means we are exposed to political risks, damage to our reputation or the reputation of other outsourcing businesses (and thus outsourcing itself), or our ceasing to meet customer or regulatory requirements for doing business with them can have serious adverse consequences.

#### Description

Babcock's customers are mainly large, complex organisations, typically central or local government departments (notably the UK Ministry of Defence), other public sector bodies or commercially owned entities in sectors subject to specific regulation. Many of them rely, to a greater or lesser extent, on public funding. These customers may be affected by financial, budgetary, regulatory or political constraints which could have a significant impact on the size, scope, timing and duration of contracts and orders with/placed by them and therefore on the level of business which the Group will derive from such customers. In addition, because of their size, these customers have considerable bargaining power and have the ability to cancel contracts without, or on, short notice, often without cause or exert pressure to secure their renegotiation. Inevitably, reliance on a relatively limited number of customers and contracts carries risks.

National and local government policy changes and public spending constraints are potentially material risks for the Company as they could result in delays in placing work, pressure on pricing or margins, withdrawal of projects, early termination of contracts, lower contract spend than anticipated or adoption of less favourable contracting models. These customers set demanding criteria for eligibility for contracting with them, the cost of compliance with which can be significant. Damage to Babcock's reputation, whether justified or not, or to the reputation of outsourcing itself as a business model by reason of reputational or performance issues with other suppliers has the potential, given a relatively narrow customer base and the size of contracts at stake, to impact severely our ability to win or retain significant business streams.

Given its particular importance as a customer of the Group, reductions in the Ministry of Defence's budget or changes in its defence policy or spending priorities (such as changes to policy on continuous at sea deterrence or successors to existing nuclear deterrence capabilities or submarine or surface ship strength or capabilities) may adversely affect the Group's business if those reductions or changes result in the delay, cancellation, abandonment or significant reduction in scope of activities that may otherwise have been available for the Group to participate in. The UK government is due to undertake a Strategic Defence and Security Review in 2015 after the general election due in 2015 and such a review may have material short or longer-term consequences for the Babcock Group's business with the Ministry of Defence.

#### Impact

- Failure to meet, obtain or retain the necessary eligible status or regulatory requirements to contract with such major customers could substantially impact entire business areas.
- The loss, or cancellation of, or failure to renew any of these large contracts or the withdrawal of anticipated opportunities due to customer policy changes could have a materially adverse effect on the Group's financial results.
- A loss of reputation for any reason, either generally or with a specific major customer, could lead to a significant loss of existing or future business.

#### Risk mitigation and control process

- The Company has extensive and regular dialogue with key customers, involving as appropriate, the Chief Executive, Divisional Chief Executives and other members of the senior management team.
- The Company actively monitors actual and potential political and other developments that might affect its customers.
- The Company seeks to have and keep up to date a clear understanding of ongoing regulatory requirements and to maintain good working relationships with regulators.
- The Company seeks to obtain a clear understanding of customer needs, plans and constraints and monitors customer policy developments and potential developments closely.
- The Company aims to be innovative and responsive in helping customers meet their needs and challenges and this may lead to opportunities rather than risks in relation to budget cuts.

## Principal risks and management controls continued

- Senior management at Group and divisional level are keenly aware of reputational risks, which can come from many sources. Our risk control procedures relating to contract performance, anti-bribery and corruption, health and safety performance and other matters that could impact our reputation are described elsewhere in this risk management section.

### Risk: Scottish independence and associated uncertainties and knock-on effects.

#### Description

If the Scottish independence referendum to be held in September 2014 results in a majority vote in favour of independence, the consequences for the Group's businesses cannot be predicted with certainty. Regardless of the ultimate impact, there is likely to be a lengthy period of uncertainty which may itself have adverse consequences for the Group's business, financial condition, operating results or prospects. There may also be a medium term knock-on effect on the nature, timing and scope of the policies and procurement plans of the United Kingdom, especially in defence terms, the impact of which cannot be predicted with certainty.

#### Impact

Potential adverse consequences on the Group's Scottish business include:

- A significant long-term reduction in revenue at HMNB Clyde and the inability to win contracts for the Royal Navy at Rosyth;
- In the case of Avincis a reduction in demand for offshore crew-change helicopter services due to less investment in the North Sea;
- New Scottish regulatory and ownership regimes for the rail and nuclear industries and the aviation sector (plus health and safety as a whole) may have consequences for the Group's rail and nuclear businesses in Scotland and the Avincis business in the North Sea.

#### Risk mitigation and control process

The Group will monitor developments closely.

### Risk: Contracts carry strict performance conditions with which Babcock must comply within the tendered price.

#### Description

Contracts entered into by the Group are generally complex and lengthy, and are subject to various performance conditions which must be adhered to throughout the life of the contract. Failure to meet the performance criteria of a contract can lead to compensation arrangements being triggered, or the contract might not be capable of completion within the tendered price or at a lower margin than anticipated (or even at a loss).

#### Impact

- Failure to meet performance conditions set out in the contract could result in the cancellation of a contract resulting in claims for loss and reputational damage for the Company.
- Poor performance against a contract will undermine the Company's ability to win any future rebids for work.
- Poor performance may result in significant financial loss or significantly lower returns than expected.

#### Risk mitigation and control process

- Forward looking management reviews are in operation to ensure contracts are being operated profitably and are being properly accounted for.
- Contractual performance is continually under review. Major contracts have risk identification and management processes in place. Significant risks will be tracked on risk registers. Failure to maintain required contractual performance or contract delivery targets will be highlighted at an early stage.
- A review of contract performance takes place at a business unit, divisional and a Senior Group Executive level as appropriate.

### Risk: Failure to realise the pipeline of opportunities and secure rebids.

#### Description

Failure to realise the pipeline of opportunities and secure rebids for existing contracts can involve significant wasted costs, missed opportunities and loss of revenue. Bidding for large and complex contracts can be time-consuming and is expensive, as can be mobilising on new contract wins. Also, by their nature, large, longer- term contracts are irregular and relatively infrequent in coming to market. The Group may also face competition in the bidding process from either existing competitors or new market entrants.

#### Impact

- Unsuccessful major bids or rebids can involve significant wasted bid costs.
- The inability to secure a major new contract can represent a significant missed opportunity for growth.
- Losing rebids can mean the loss of a significant existing revenue and profit stream.
- The loss of a bid or rebid can impact on the Group's strategic objectives.
- Contracting on unacceptable commercial terms in order to secure new business or resecure existing business could undermine future profitability and sustainability of business growth.
- The Group may face expense, delay or loss of awarded contracts if their competitors protest or challenge awards of contracts to the Group.

#### Risk mitigation and control process

- The Company has a clear business strategy to target a large bid pipeline and will only tender bids for those contracts with clear alignment with the Group strategy and in which the Company stands a realistic chance of success.

## Principal risks and management controls continued

- Group policies and procedures set a commercial, financial and legal framework for all bids.
- Senior Divisional and Group executives regularly review the Group's performance on major bids, which are subject to multiple 'gating' (evaluation) points for approval to proceed to the next stage.
- Management target the allocation of resources to areas where the opportunities for winning business or retaining existing business are highest.

### Risk: Operations carrying significant health and safety or environmental risks.

#### Description

Many of Babcock's operations, if not properly managed and conducted, entail the risk of significant harm to employees, third parties, members of the public or the environment. The operations of helicopters, involve an inherent degree of risk which is compounded by the nature of Avincis's helicopter services that often involves low altitude flying in adverse climatic or operational conditions or terrains.

#### Impact

- Serious accidents can have a major impact on the lives of those employees involved as well as their families, friends, colleagues and communities.
- In the event that such an incident is caused or perceived to be caused, or contributed to, by the operational or other failings of a Group company, this could subject the Group to legal claims, resulting in the payment of substantial damages not all of which will be insured, interruption of services to customers and serious damage to the reputation of the business concerned and the wider Group.
- Incidents involving other operators in the sector concerned, such as other helicopter operators, may also adversely impact customer confidence generally and lead to reductions in demand.
- Such incidents could lead to groundings of particular types of aircraft temporarily or for longer periods and this may have an adverse impact on the ability of the business to perform its contracts for which the aircraft were required or involve greater cost in doing so.
- As well as legal claims the Group may be subject to financial loss through fines by regulators, suspension or loss of licences, disqualification from future tenders and adverse media attention and scrutiny.
- A major incident at a Babcock controlled location may restrict the ability of the Company to continue business and fulfil contractual obligations.

#### Risk mitigation and control process

- Avincis's fleet of aircraft is modern with sophisticated ground monitoring systems and up-to-date on-board flight systems. Avincis aims to have one of the best safety practices in the industry through its 'MissionSafe' programme.
- Health, safety and environmental performance are absolute priorities for Babcock and receive close and continuous attention and oversight from the senior management team as well as at an operational level.
- There is a specific health, safety and environmental governance structure in place. Employees may report any areas of concern or incidents of non-compliance to a confidential whistleblowing hotline.
- Reports are regularly received on health, safety and environmental performance by Divisional Boards. The Board and Group Executive Committee receive half-yearly reviews of performance and the regular operational reports submitted at each of their meetings address health, safety and environment incidents on an on-going basis; the Chief Executive also reports directly and promptly to the Board on any significant matters.
- Health and safety and environmental professionals are employed throughout business divisions. External consultants are utilised to give advice on best practice and help evaluate and design management led improvement initiatives.
- Staff are rigorously and continually educated and trained to ensure the potential for mistakes and accidents is minimised.
- Babcock has insurance policies in place as well as business continuity plans in the event of a major incident. Avincis also has aviation insurance cover in place and continually improves and updates its safety processes and systems.
- Unsatisfactory health, safety or environmental performance can lead to reduction or annulment of executive bonuses.

### Risk: The Group's businesses depend on their ability to attract, develop, train and retain experienced senior management, business development teams and highly skilled employees.

#### Description

The Group's continuing success will depend on the Group's ability to plan for management succession and to attract, develop, train and retain qualified and experienced management and business development executives. The Group's success also depends on its ability to recruit, develop, train and retain highly skilled and suitably qualified employees, who represent a substantial amount of the Group's intellectual capital, to serve customers effectively. Competition for skilled personnel in the industries in which Group operates is intense. Employees who are highly trained are likely to remain a limited resource for the foreseeable future. Identifying, recruiting and training personnel require substantial resources.

## Principal risks and management controls continued

### Impact

- A loss of one or more of the members of the Group's senior management without adequate replacement could have a material adverse effect on the prospects for or performance of the Group.
- Insufficient experienced business development or bidding resources can impair the ability of the Group to achieve strategic aims and financial targets or the inability to pursue business in new areas.
- If the Group fails to recruit and retain qualified employees, in particular suitably qualified and experienced engineers, technicians, pilots and other specialist skills groups, including by failing to maintain compensation awards at an appropriate level, this could lead to a failure to fulfil contractual obligations, the inability to pursue business in new areas or a loss of reputation, any of which could have a material adverse effect on the business, financial condition or operating or financial results of the Group.
- Risk mitigation and control process
- High priority and significant resources are given to recruiting skilled professionals, training and development, succession planning and talent management generally.
- The Group Organisation and Development Director reports regularly to the Board and Group Executive Committee on succession planning, executive management/talent training and development and on graduate recruitment.
- The Nominations Committee and Board, as appropriate, debate management succession issues on a regular basis and also use external advice where appropriate.
- Apprentice and graduate recruitment programmes are run throughout all business units.

## Risk: IT and security

### Description

The ability of the Group to be able to deliver secure IT and other information assurance systems designed to protect personal data or customer or company confidential information is a key factor for customers. Despite controls to ensure the confidentiality of such information, the Group may breach restrictions or may be subject to attack from computer programmes or malicious or hostile third parties that attempt to penetrate the network security and misappropriate confidential information and there is no guarantee that the Group's security measures will be sufficient to prevent breaches or cyber attacks. In addition, the risk of loss of information or data by other means due to a failure to keep it safe at all times and within the custody or control is a risk that cannot be entirely eliminated.

### Impact

- Any breach or compromise of security or a breach of security at a physical site could lead to loss of reputation, disruptions in business operations and inability to meet contractual obligations and have an adverse effect on the Group's ability to win future contracts and, as a result, on results of operations and overall financial condition.

### Risk mitigation and control process

- Babcock has made and will continue to maintain, a significant investment in enhancing IT security and security and information awareness generally.
- There is a formal security and information assurance governance structure in place to oversee and manage cyber-security and similar risks.
- Senior Group and Divisional level security committees meet on a regular basis to discuss areas of concern throughout the Group and security related projects in the light of perceived threats.
- The Group Finance Director (who is the Group's Senior Information Risk Owner) reports to the Board at least quarterly regarding Group security and information assurance matters generally, and will make ad hoc reports in the interim should any significant incident occur.

## Risk: The Group has significant defined benefit pension schemes

### Description

Defined benefit schemes provide for a specified level of pension benefit to members, the cost of which is met from both member and employer contributions paid into pension scheme funds and the investment returns made in those funds over time. The level of contributions required to meet pension obligations is actuarially determined based on various assumptions, which are subject to change, such as life expectancy of members, investment returns, inflation etc. If, based on the assumptions being used at any time, assets in the pension scheme are judged to be insufficient to meet the calculated cost of the pension obligations there can be a significant shortfall, which the scheme trustees may require to be made up or secured by increased contributions from employers and/or employees, additional cash payments from employers and/or guarantees or other security to be provided by employers. The most significant impact can occur due to differences between the actual and assumed investment returns and changes in the assumption for life expectancy.

Also, the Group must comply with IAS 19 when accounting for its defined benefit schemes. IAS 19 requires corporate bond related discount rates to be used to value the pension liabilities. This is likely to lead to variations from year-to-year due to a mismatch with the investments held in the pension schemes and because of variations in the yields available on corporate bonds and inflationary expectations. This in turn can materially affect the pensions charge in the income statement in the Group's accounts from year-to-year as well as the value of the difference between the assets and the liabilities shown on the Group's balance sheet, leading to significant accounting volatility. Future accounting, regulatory and legislative changes may also adversely impact on valuations and costs.

# Principal risks and management controls continued

### Impact

- Should the assets in the pension scheme be judged insufficient to meet liabilities the employer may be liable for increased contributions. This may reduce the cash available to meet the Group's other obligations or business needs, and may restrict the future growth of the business.
- Accounting standards for pensions related liabilities can lead to significant accounting volatility from year to year due to take account of macro-economic circumstances beyond the control of the Company.

### Risk mitigation and control process

- There is continuous strategic monitoring and evaluation by Group senior management of both the assets and liabilities of the pension scheme and, as appropriate, the execution of mitigation opportunities.
- The Group Pensions Manager, reporting to the Group Finance Director, keeps strategic pension matters under close review and reports regularly to the Executive Committee and/or the Board.
- The Company seeks to have a constructive and open relationship with the schemes' trustees with a view to working together to mitigate and manage these long-term risks.
- A long term investment strategy and risk framework has been agreed with scheme trustees intended to reduce the impact of the schemes' exposure to changes in inflation and interest rates. Longevity swaps are used to reduce the impact of the Schemes' exposure to increasing life expectancy.

## Risk: Integration of new acquisitions including Avincis – The Group has experienced growth through acquisitions, the financial benefits of these acquisitions may not be realised as quickly and as efficiently as expected if there is difficulty in integrating them.

### Description

The Avincis Group will need to be integrated into the internal management and other reporting requirements of the Babcock Group. Babcock may encounter difficulties when seeking so to integrate the Avincis Group, as a result of differences in organisational structure, IT systems, language, management and local cultures and management and operational issues. The Avincis Group itself has grown by acquisition of a number of companies which carries its own integration risks.

### Impact

- If such integration difficulties are significant, this could adversely affect the business, financial condition, results of operations or prospects of the Group.
- The diversion of management attention to integration issues and other difficulties encountered could adversely affect the Group's business.
- Post-acquisition performance may not meet the financial performance expected and could therefore not justify the price paid and could adversely affect the Group's future results and financial position.

### Risk mitigation and control process

- We seek to carry out due diligence as far as we are able and carry out a detailed valuation process based on information available and our knowledge of the marketplace.
- All acquisition processes are overseen by the Board and no acquisition may be completed without formal approval of the Board.
- Integration risk is considered at an early stage as part of the review of acquisition opportunities and integration planning takes place before completion of the acquisition.
- The Group has what it considers to be a good track record in and experience of integrating acquisitions both large and small.

# Group income statement

| For the year ended 31 March 2014 | Note | 2014 £m | 2014 Total £m | 2013 (restated) £m | 2013 (restated) Total £m |
|---|---|---|---|---|---|
| Total revenue | | 3,547.6 | | 3,243.5 | |
| Less: joint ventures and associates revenue | | 226.6 | | 214.1 | |
| Group revenue | 2 | | 3,321.0 | | 3,029.4 |
| Group | | | | | |
| Operating profit before amortisation of acquired intangibles and exceptional items | 2 | 317.2 | | 284.2 | |
| Amortisation of acquired intangibles | 2, 3 | (59.2) | | (66.4) | |
| Exceptional items | 3 | (24.9) | | (14.3) | |
| Group operating profit | | | 233.1 | | 203.5 |
| Joint ventures and associates | | | | | |
| Share of operating profit | | 21.9 | | 21.2 | |
| Investment income | | 37.3 | | 38.5 | |
| Amortisation of acquired intangibles | 3 | (6.2) | | (6.2) | |
| Finance costs | | (25.1) | | (29.2) | |
| Income tax expense | | (7.0) | | (6.3) | |
| Share of results of joint ventures and associates | | | 20.9 | | 18.0 |
| Group and joint ventures and associates | | | | | |
| Operating profit before amortisation of acquired intangibles and exceptional items | | 339.1 | | 305.4 | |
| Investment income | | 38.8 | | 40.2 | |
| Underlying operating profit* | 2 | 377.9 | | 345.6 | |
| Amortisation of acquired intangibles | | (65.4) | | (72.6) | |
| Exceptional items | | (24.9) | | (14.3) | |
| Group investment income | | (1.5) | | (1.7) | |
| Joint ventures and associates finance costs | | (25.1) | | (29.2) | |
| Joint ventures and associates income tax expense | | (7.0) | | (6.3) | |
| Group operating profit plus share of joint ventures and associates | | | 254.0 | | 221.5 |
| Finance costs | | | | | |
| Investment income | | 1.5 | | 1.7 | |
| Retirement benefit interest | | (10.9) | | (11.8) | |
| Finance costs | | (35.2) | | (38.7) | |
| Finance income | | 9.4 | | 9.1 | |
| | | | (35.2) | | (39.7) |
| Profit before tax | 2 | | 218.8 | | 181.8 |
| Income tax expense | 4 | | (30.8) | | (18.0) |
| Profit for the year from continuing operations | | | 188.0 | | 163.8 |
| Discontinued operations | | | | | |
| Loss for the year from discontinued operations attributable to owners of the parent | | | – | | (15.2) |
| Profit for the year | | | 188.0 | | 148.6 |
| Attributable to: | | | | | |
| Owners of the parent | | | 180.5 | | 142.7 |
| Non-controlling interest | | | 7.5 | | 5.9 |
| | | | 188.0 | | 148.6 |
| Earnings per share from continuing operations | 5 | | | | |
| Basic | | | 50.1p | | 43.9p |
| Diluted | | | 49.8p | | 43.4p |
| Earnings per share from continuing and discontinued operations | 5 | | | | |
| Basic | | | 50.1p | | 39.7p |
| Diluted | | | 49.8p | | 39.2p |

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

# Group statement of comprehensive income

| For the year ended 31 March 2014 | 2014 £m | 2013 (restated) £m |
|---|---|---|
| Profit for the year | 188.0 | 148.6 |
| Other comprehensive income | | |
| Items that may be subsequently reclassifield to income statement | | |
| Currency translation differences | (19.5) | (0.8) |
| Fair value adjustment of interest rate and foreign exchange hedges | (2.2) | 1.2 |
| Tax on fair value adjustment of interest rate and foreign exchange hedges | 0.5 | (0.3) |
| Fair value adjustment of joint venture and associates derivatives | 23.1 | (23.0) |
| Tax on fair value adjustment of joint venture and associates derivatives | (5.3) | 5.5 |
| Items that will not be subsequently reclassified to income statement | | |
| Remeasurement of retirement benefit obligations | (43.0) | (16.2) |
| Tax on remeasurement of retirement benefit obligations | 9.9 | 3.9 |
| Impact of change in UK tax rates | (9.5) | (3.1) |
| Other comprehensive loss, net of tax | (46.0) | (32.8) |
| Total comprehensive income | 142.0 | 115.8 |
| Total comprehensive income attributable to: | | |
| Owners of the parent | 137.8 | 111.0 |
| Non-controlling interest | 4.2 | 4.8 |
| Total comprehensive income | 142.0 | 115.8 |

# Group statement of changes in equity

| For the year ended 31 March 2014 | Share capital £m | Share premium £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 2012 | 215.5 | 873.0 | 30.6 | (160.9) | (41.9) | (4.9) | 911.4 | 8.6 | 920.0 |
| Total comprehensive income/(loss) | – | – | – | 127.2 | (16.6) | 0.4 | 111.0 | 4.8 | 115.8 |
| Shares issued in the financial year | 1.7 | – | – | – | – | – | 1.7 | – | 1.7 |
| Dividends | – | – | – | (83.6) | – | – | (83.6) | (3.1) | (86.7) |
| Share-based payments | – | – | – | 8.6 | – | – | 8.6 | – | 8.6 |
| Tax on shared-based payments | – | – | – | 6.5 | – | – | 6.5 | – | 6.5 |
| Acquisition of non-controlling interest | – | – | – | – | – | – | – | 19.8 | 19.8 |
| Disposal of non-controlling interest | – | – | – | – | – | – | – | 0.4 | 0.4 |
| Transaction with non-controlling interest | – | – | – | (4.6) | – | – | (4.6) | (8.7) | (13.3) |
| Own shares and other | – | – | – | (3.9) | – | – | (3.9) | – | (3.9) |
| Net movement in equity | 1.7 | – | – | 50.2 | (16.6) | 0.4 | 35.7 | 13.2 | 48.9 |
| At 31 March 2013 | 217.2 | 873.0 | 30.6 | (110.7) | (58.5) | (4.5) | 947.1 | 21.8 | 968.9 |
| At 1 April 2013 | 217.2 | 873.0 | 30.6 | (110.7) | (58.5) | (4.5) | 947.1 | 21.8 | 968.9 |
| Total comprehensive income/(loss) | – | – | – | 137.9 | 16.1 | (16.2) | 137.8 | 4.2 | 142.0 |
| Dividends | – | – | – | (96.7) | – | – | (96.7) | (4.3) | (101.0) |
| Share-based payments | – | – | – | 12.2 | – | – | 12.2 | – | 12.2 |
| Tax on shared-based payments | – | – | – | 3.3 | – | – | 3.3 | – | 3.3 |
| Own shares and other | – | – | – | 0.7 | – | – | 0.7 | – | 0.7 |
| Net movement in equity | – | – | – | 57.4 | 16.1 | (16.2) | 57.3 | (0.1) | 57.2 |
| At 31 March 2014 | 217.2 | 873.0 | 30.6 | (53.3) | (42.4) | (20.7) | 1,004.4 | 21.7 | 1,026.1 |

# Group balance sheet

| As at 31 March 2014 | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| Assets | | | |
| Non-current assets | | | |
| Goodwill | | 1,609.6 | 1,563.0 |
| Other intangible assets | | 275.8 | 299.2 |
| Property, plant and equipment | | 252.1 | 248.9 |
| Investment in joint ventures and associates | 7 | 52.3 | 18.6 |
| Loan to joint ventures and associates | 7 | 50.6 | 51.1 |
| Retirement benefits | 12 | 15.2 | 10.1 |
| Trade and other receivables | | 1.2 | 0.5 |
| IFRIC 12 financial assets | | 20.5 | 22.2 |
| Other financial assets | 8 | – | 45.1 |
| Deferred tax asset | | 46.6 | 43.4 |
| | | 2,323.9 | 2,302.1 |
| Current assets | | | |
| Inventories | | 105.9 | 73.9 |
| Trade and other receivables | | 577.5 | 519.0 |
| Income tax recoverable | | 28.0 | 8.6 |
| Other financial assets | 8 | 9.6 | 3.5 |
| Cash and cash equivalents | 11 | 86.3 | 97.1 |
| | | 807.3 | 702.1 |
| Total assets | | 3,131.2 | 3,004.2 |
| Equity and liabilities | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | | 217.2 | 217.2 |
| Share premium | | 873.0 | 873.0 |
| Capital redemption and other reserves | | (32.5) | (32.4) |
| Retained earnings | | (53.3) | (110.7) |
| | | 1,004.4 | 947.1 |
| Non-controlling interest | | 21.7 | 21.8 |
| Total equity | | 1,026.1 | 968.9 |
| Non-current liabilities | | | |
| Bank and other borrowings | 11 | 649.4 | 684.0 |
| Trade and other payables | | 9.2 | 7.9 |
| Deferred tax liabilities | | 2.4 | 4.0 |
| Other financial liabilities | | 12.3 | 10.0 |
| Retirement liabilities | 12 | 282.9 | 271.2 |
| Provisions for other liabilities | | 95.0 | 115.2 |
| | | 1,051.2 | 1,092.3 |
| Current liabilities | | | |
| Bank and other borrowings | 11 | 17.7 | 8.8 |
| Trade and other payables | | 974.4 | 884.4 |
| Other financial liabilities | 8 | 11.7 | 7.2 |
| Provisions for other liabilities | | 50.1 | 42.6 |
| | | 1,053.9 | 943.0 |
| Total liabilities | | 2,105.1 | 2,035.3 |
| Total equity and liabilities | | 3,131.2 | 3,004.2 |

# Group cash flow statement

| For the year ended 31 March 2014 | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Cash generated from operations | 9 | 279.5 | 293.4 |
| Income tax paid | | (55.8) | (45.8) |
| Interest paid | | (36.5) | (38.7) |
| Interest received | | 4.7 | 8.2 |
| Net cash flows from operating activities | | 191.9 | 217.1 |
| Cash flows from investing activities | | | |
| Disposal of subsidiaries and joint ventures and associates, net of cash disposed | 14 | 0.7 | 68.0 |
| Dividends received from joint ventures and associates | | 4.8 | 7.1 |
| Proceeds on disposal of property, plant and equipment | | 4.2 | 6.2 |
| Purchases of property, plant and equipment | | (37.4) | (52.7) |
| Purchases of intangible assets | | (16.1) | (6.6) |
| Investment in, loans to and interest received from joint ventures and associates | | 5.2 | (30.2) |
| Transactions with non-controlling interest | 15 | – | 1.3 |
| Acquisition of subsidiaries net of cash acquired | 13 | (62.5) | (22.2) |
| Net cash flows from investing activities | | (101.1) | (29.1) |
| Cash flows from financing activities | | | |
| Dividends paid | | (96.7) | (83.6) |
| Finance lease principal payments | | (3.5) | (3.7) |
| Loans repaid | | (1.0) | (101.1) |
| Dividends paid to non-controlling interest | | (4.3) | (3.1) |
| Net proceeds on issue of shares | | – | 1.7 |
| Movement on own shares | | 0.7 | (3.9) |
| Net cash flows from financing activities | | (104.8) | (193.7) |
| Net (decrease)/increase in cash, cash equivalents and bank overdrafts | | (14.0) | (5.7) |
| Cash, cash equivalents and bank overdrafts at beginning of year | | 90.6 | 98.4 |
| Effects of exchange rate fluctuations | | (5.4) | (2.1) |
| Cash, cash equivalents and bank overdrafts at end of year | 11 | 71.2 | 90.6 |

# Notes to the consolidated financial statements

## 1. Basis of preparation and significant accounting policies

The financial information has been extracted from the Annual Report, including the audited financial statements for the year ended 31 March 2014. They should be read in conjunction with the Annual Report for the year ended 31 March 2013, which has been prepared in accordance with IFRS's as adopted by the European Union. The accounting policies used and presentation of these consolidated financial statements are consistent with those in the Annual Report for the year ended 31 March 2013, except as noted below and the definition of net debt has changed to include loans to joint ventures and associates. This resulted in a reduction of £50.6 million (2013: £51.1 million).

Standards, amendments and interpretations effective in 2013 with minimal or no impact on the Group with the exception of IAS 19 (amendment):

IFRS 7 (amendment), 'Financial instruments; disclosure – Offsetting financial assets and liabilities', effective 1 January 2013;

IFRS 1 (amendment), 'First time adoption' on government loans, effective 1 January 2013;

IAS 19 (amendment), 'Employee benefits', effective 1 January 2013. The impact on the results for the year ended 31 March 2013 has been to reduce operating profit by £31.0 million, increase finance costs by £11.8m, and reduce the taxation charge by £10.3 million, resulting in an overall decrease in earnings per share of 9.1 pence. There was no impact on the net retirement liability. The comparative figures have been restated accordingly;

2012 Annual improvements.

## 2. Segmental information

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

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

* Before amortisation of acquired intangibles and exceptional items.

# Notes to the consolidated financial statements continued

## 2. Segmental information (continued)

| 2013 | Marine and Technology (restated) £m | Defence and Security (restated) £m | Support Services (restated) £m | International £m | Unallocated (restated) £m | Continuing operations: Total continuing operations (restated) £m | Discontinued operations: International £m | Total: Group Total (restated) £m |
|---|---|---|---|---|---|---|---|---|
| Total revenue | 1,201.6 | 820.2 | 943.7 | 278.0 | – | 3,243.5 | 38.9 | 3,282.4 |
| Less: joint ventures and associates revenue | 7.8 | 110.8 | 95.5 | – | – | 214.1 | – | 214.1 |
| Group revenue | 1,193.8 | 709.4 | 848.2 | 278.0 | – | 3,029.4 | 38.9 | 3,068.3 |
| Operating profit* – Group | 136.0 | 65.0 | 67.3 | 24.7 | (8.8) | 284.2 | 1.1 | 285.3 |
| IFRIC 12 investment income – Group | – | 1.0 | 0.7 | – | – | 1.7 | – | 1.7 |
| Share of operating profit – joint ventures and associates | 0.6 | 14.3 | 6.3 | – | – | 21.2 | – | 21.2 |
| Share of IFRIC 12 investment income – joint ventures and associates | – | 29.9 | 8.6 | – | – | 38.5 | – | 38.5 |
| Underlying operating profit | 136.6 | 110.2 | 82.9 | 24.7 | (8.8) | 345.6 | 1.1 | 346.7 |
| Share of finance costs – joint ventures and associates | – | (20.0) | (9.2) | – | – | (29.2) | – | (29.2) |
| Share of tax – joint ventures and associates | (0.2) | (4.7) | (1.4) | – | – | (6.3) | – | (6.3) |
| Acquired intangible amortisation – Group | (11.7) | (12.1) | (42.6) | – | – | (66.4) | – | (66.4) |
| Share of acquired intangible amortisation – joint ventures and associates | – | (5.8) | (0.4) | – | – | (6.2) | – | (6.2) |
| Net finance costs – Group | – | – | – | – | (41.4) | (41.4) | – | (41.4) |
| Exceptional items – Group | – | – | – | – | (14.3) | (14.3) | (18.2) | (32.5) |
| Group profit before tax | 124.7 | 67.6 | 29.3 | 24.7 | (64.5) | 181.8 | (17.1) | 164.7 |

* Before amortisation of acquired intangibles and exceptional items

## 3. Exceptional items and acquired intangible amortisation

| | Group 2014 £m | Group 2013 £m | Joint ventures and associates 2014 £m | Joint ventures and associates 2013 £m | Total 2014 £m | Total 2013 £m |
|---|---|---|---|---|---|---|
| Continuing operations | | | | | | |
| Acquisition costs | 24.9 | – | – | – | 24.9 | – |
| Profit on disposal of subsidiaries (note 14) | – | (0.2) | – | – | – | (0.2) |
| Reorganisation cost | – | 14.5 | – | – | – | 14.5 |
| Exceptional items | 24.9 | 14.3 | – | – | 24.9 | 14.3 |
| Acquired intangible amortisation | 59.2 | 66.4 | 6.2 | 6.2 | 65.4 | 72.6 |
| Continuing total | 84.1 | 80.7 | 6.2 | 6.2 | 90.3 | 86.9 |
| Discontinued operations | | | | | | |
| Loss on disposal of subsidiaries (note 14) | – | 8.9 | – | – | – | 8.9 |
| Provision for costs on previous years disposals (note 14) | – | 9.3 | – | – | – | 9.3 |
| Discontinued total | – | 18.2 | – | – | – | 18.2 |

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

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

Reorganisation costs, in the previous year, relate to the integration of Babcock International Group PLC and VT Group plc which is now complete.

In 2013 the loss on disposal of subsidiaries relates to the VT US disposal. £5 million reflects recycling of foreign exchange rate fluctuations from date of acquisition to completion of sale. The balance relates to movements in the disposal balance sheet since the year end and provisions against future claims and costs.

Previous year disposal losses arise from long-term property liabilities retained as part of past disposals.

# Notes to the consolidated financial statements continued

## 4. Income tax expense

Taxation in respect of Group profit before tax, acquired intangible amortisation and exceptional items totalled £55.4 million (2013: £45.6 million) including the Group's share of JV income tax of £8.4 million (2013: £7.8 million). The effective rate of income tax, which is calculated by reference to the Group's underlying profit before tax and the associated tax charge (excluding prior year items) was17.5% (2013: 16.6%).

## 5. Earnings per share

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

### Number of shares

| | 2014 Number | 2013 Number |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic EPS | 360,262,890 | 358,912,359 |
| Effect of dilutive potential ordinary shares: share options | 3,204,338 | 4,084,538 |
| Weighted average number of ordinary shares for the purpose of diluted EPS | 363,467,228 | 362,996,897 |

### Earnings

| | 2014 Earnings £m | 2014 Basic per share Pence | 2014 Diluted per share Pence | 2013 Earnings (restated) £m | 2013 Basic per share (restated) Pence | 2013 Diluted per share (restated) Pence |
|---|---|---|---|---|---|---|
| Continuing operations | | | | | | |
| Earnings from continuing operations | 180.5 | 50.1 | 49.8 | 157.9 | 43.9 | 43.4 |
| Add back: | | | | | | |
| Amortisation of acquired intangible assets, net of tax | 50.3 | 14.0 | 13.8 | 55.2 | 15.4 | 15.2 |
| Exceptional items, net of tax | 24.9 | 6.9 | 6.8 | 11.6 | 3.2 | 3.2 |
| Impact of change in UK tax rate | (2.4) | (0.7) | (0.7) | (1.2) | (0.3) | (0.3) |
| Earnings before discontinued operations, amortisation, exceptional items and other | 253.3 | 70.3 | 69.7 | 223.5 | 62.2 | 61.5 |
| Discontinued operations | | | | | | |
| Earnings from discontinued operations | – | – | – | (15.2) | (4.2) | (4.2) |
| Add back: | – | – | – | | | |
| Amortisation of acquired intangible assets, net of tax | – | – | – | – | – | – |
| Exceptional items, net of tax | – | – | – | 16.0 | 4.4 | 4.4 |
| Earnings from discontinued operations before amortisation, exceptional items and other | – | – | – | 0.8 | 0.2 | 0.2 |
| Continuing and discontinued operations | | | | | | |
| Earnings from continuing and discontinued operations | 180.5 | 50.1 | 49.8 | 142.7 | 39.7 | 39.2 |
| Add back: | | | | | | |
| Amortisation of acquired intangible assets, net of tax | 50.3 | 14.0 | 13.8 | 55.2 | 15.4 | 15.2 |
| Exceptional items, net of tax | 24.9 | 6.9 | 6.8 | 27.6 | 7.6 | 7.6 |
| Impact of change in UK tax rate | (2.4) | (0.7) | (0.7) | (1.2) | (0.3) | (0.3) |
| Earnings before amortisation, exceptional items and other | 253.3 | 70.3 | 69.7 | 224.3 | 62.4 | 61.7 |

# Notes to the consolidated financial statements continued

## 6 Dividends

The Directors have proposed a final dividend of 16.4p per 60p ordinary share (2013: 14.4p per 60p ordinary share as adjusted for the Rights Issue) and it will be paid on 12 August 2014 to shareholders registered on 4 July 2014, subject to approval at the Annual General Meeting on 21 July 2014. The full year declared dividend per share is 21.4p per 60p ordinary share (2013: 19.0p per 60p ordinary share as adjusted for the Rights Issue).

## 7. Investment in and loans to joint ventures and associates

| | Investment in joint ventures and associates | | Loans to joint ventures and associates | | Total | |
|---|---|---|---|---|---|---|
| | 2014 £m | 2013 £m | 2014 £m | 2013 £m | 2014 £m | 2013 £m |
| At 1 April | 18.6 | 19.3 | 51.1 | 24.9 | 69.7 | 44.2 |
| Loans to/(repayments from) joint ventures and associates | – | – | (1.5) | 28.3 | (1.5) | 28.3 |
| Investment in joint ventures and associates | (0.1) | 5.9 | – | – | (0.1) | 5.9 |
| Share of profits | 20.9 | 18.0 | – | – | 20.9 | 18.0 |
| Interest accrued | – | – | 4.6 | 1.8 | 4.6 | 1.8 |
| Interest received | – | – | (3.6) | (3.9) | (3.6) | (3.9) |
| Dividend received | (4.8) | (7.1) | – | – | (4.8) | (7.1) |
| Fair value adjustment of derivatives | 23.1 | (23.0) | – | – | 23.1 | (23.0) |
| Tax on fair value adjustment of derivatives | (5.3) | 5.5 | – | – | (5.3) | 5.5 |
| Foreign exchange | (0.1) | – | – | – | (0.1) | – |
| At 31 March | 52.3 | 18.6 | 50.6 | 51.1 | 102.9 | 69.7 |

## 8. Other financial assets and liabilities

| | Fair value | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| | 2014 £m | 2013 £m | 2014 £m | 2013 £m |
| Non-current | | | | |
| US private placement – currency and interest rate swaps | – | 45.1 | 3.5 | – |
| Non-controlling interest put option | – | – | 8.8 | 10.0 |
| Total non-current other financial assets and liabilities | – | 45.1 | 12.3 | 10.0 |
| Current | | | | |
| Interest rate hedges | – | – | 6.7 | 3.1 |
| Other currency hedges | 9.6 | 3.5 | 5.0 | 4.1 |
| Total current other financial assets and liabilities | 9.6 | 3.5 | 11.7 | 7.2 |

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

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

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

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

# Notes to the consolidated financial statements continued

## 9. Reconciliation of operating profit to cash generated from operations

| | 2014 £m | 2013 (restated) £m |
|---|---|---|
| Cash flows from operating activities | | |
| Operating profit before amortisation of acquired intangible and exceptional items | 317.2 | 284.2 |
| Amortisation of acquired intangible and exceptional items | (84.1) | (80.7) |
| Group operating profit | 233.1 | 203.5 |
| Pre-tax loss from discontinued operations | – | (17.1) |
| Depreciation of property, plant and equipment | 40.0 | 37.4 |
| Amortisation of intangible assets | 66.7 | 73.6 |
| Investment income | 1.5 | 1.7 |
| Equity share-based payments | 12.2 | 8.6 |
| Loss/(profit) on disposal of subsidiaries | – | 18.0 |
| Loss/(profit) on disposal of property, plant and equipment | 0.3 | (4.1) |
| Loss on disposal of intangible assets | – | 1.1 |
| Operating cash flows before movement in working capital | 353.8 | 322.7 |
| (Increase)/decrease in inventories | (43.7) | 1.4 |
| (Increase)/decrease in receivables | (67.6) | (34.8) |
| Increase/(decrease) in payables | 91.3 | 48.5 |
| Decrease in provisions | (31.3) | (11.5) |
| Exceptional items – acquisition costs incurred not paid | 24.2 | – |
| Retirement benefit payments in excess of income statement | (47.2) | (32.9) |
| Cash generated from operations | 279.5 | 293.4 |

## 10. Movement in net debt

| | 2014 £m | 2013 £m |
|---|---|---|
| (Decrease)/increase in cash in the year | (14.0) | (5.7) |
| Cash flow from the decrease in debt and lease financing | 4.5 | 104.8 |
| Change in net funds resulting from cash flows | (9.5) | 99.1 |
| Loans and finance leases acquired with subsidiaries | (1.3) | (6.3) |
| New finance leases | (19.0) | (0.6) |
| Movement in joint venture and associates loans | (0.5) | 26.2 |
| Foreign currency translation differences and other | (3.9) | (1.7) |
| Movement in net debt in the year | (34.2) | 116.7 |
| Net debt at the beginning of the year | (499.5) | (616.2) |
| Net debt at the end of the year | (533.7) | (499.5) |

## 11. Changes in net debt

| | 31 March 2013 £m | Cash flow £m | Acquisitions and disposals £m | New finance leases £m | Exchange/ other movement £m | 31 March 2014 £m |
|---|---|---|---|---|---|---|
| Cash and bank balances | 97.1 | (4.9) | (0.1) | – | (5.8) | 86.3 |
| Bank overdrafts | (6.5) | (9.0) | – | – | 0.4 | (15.1) |
| Cash, cash equivalents and bank overdrafts | 90.6 | (13.9) | (0.1) | – | (5.4) | 71.2 |
| Debt | (681.7) | 1.0 | (1.3) | – | 48.8 | (633.2) |
| Finance leases | (4.6) | 3.5 | – | (19.0) | 1.3 | (18.8) |
| | (686.3) | 4.5 | (1.3) | (19.0) | 50.1 | (652.0) |
| Net debt before derivatives | (595.7) | (9.4) | (1.4) | (19.0) | 44.7 | (580.8) |
| Net debt derivative | 45.1 | – | – | – | (48.6) | (3.5) |
| Joint venture and associate loans | 51.1 | (0.5) | – | – | – | 50.6 |
| Net debt | (499.5) | (9.9) | (1.4) | (19.0) | (3.9) | (533.7) |

# Notes to the consolidated financial statements continued

## 12. Retirement benefits and liabilities

Analysis of movement in the Group balance sheet

| | 2014 Total £m | 2013 (restated) Total £m |
|---|---|---|
| Fair value of plan assets (including reimbursement rights) | | |
| At 1 April | 3,204.8 | 2,782.7 |
| (Settlements)/transfers in | (3.3) | 3.9 |
| Interest on assets | 135.5 | 131.5 |
| Interest on reimbursement rights | (4.4) | (6.0) |
| Actuarial gain/(loss) on assets | (79.1) | 319.1 |
| Actuarial (gain)/loss on reimbursement rights – demographics | 18.6 | 25.5 |
| Actuarial (gain)/loss on reimbursement rights – financial | 4.2 | (21.9) |
| Experience gains/(loss) on reimbursement rights | (19.2) | 26.6 |
| Employer contributions | 96.8 | 77.6 |
| Employee contributions | 5.4 | 5.1 |
| Benefits paid | (139.2) | (139.5) |
| Exchange differences | – | 0.2 |
| At 31 March | 3,220.1 | 3,204.8 |
| Present value of benefit obligations | | |
| At 1 April | 3,465.8 | 3,039.9 |
| (Settlements)/ transfers in | (3.3) | 3.9 |
| Service cost | 44.0 | 41.8 |
| Incurred expenses | 5.3 | 3.0 |
| Interest cost | 142.2 | 137.3 |
| Employee contributions | 5.4 | 5.1 |
| Experience (gain)/losses | 35.8 | 59.1 |
| Actuarial (gain)/loss – demographics | 35.7 | 77.2 |
| Actuarial (gain)/loss – financial | (104.0) | 237.8 |
| Benefits paid | (139.2) | (139.5) |
| Exchange differences | – | 0.2 |
| At 31 March | 3,487.7 | 3,465.8 |
| Present value of unfunded obligations | (0.1) | (0.1) |
| Net deficit at 31 March | (267.7) | (261.1) |

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

| | 2014 Total £m | 2013 (restated) Total £m |
|---|---|---|
| Current service cost | 44.0 | 41.8 |
| Incurred expenses | 5.3 | 3.0 |
| Total included within operating profit | 49.3 | 44.8 |
| Net interest cost | 10.9 | 11.8 |
| Total included within income statement | 60.2 | 56.6 |

The change in pension costs as a result of revisions to IAS 19 Revised are shown in note 1.

As at 31 March 2014 the key assumptions used in valuing pension liabilities were:

| | |
|---|---|
| Discount rate | 4.5% (31 March 2013: 4.4% |
| Inflation rate (RPI) | 3.3% (31 March 2013: 2.8%) |

# Notes to the consolidated financial statements continued

## 13 (a). Acquisitions – current year

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

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

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

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

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

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

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

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

| | Conbras | | Context | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Book value of assets acquired £m | Provisional fair value acquired £m | Book value of assets acquired £m | Provisional fair value acquired £m | Book value of assets acquired £m | Provisional fair value acquired £m | Book value of assets acquired £m | Provisional fair value acquired £m |
| Acquired intangibles* | – | 9.3 | – | 13.5 | – | 5.5 | – | 28.3 |
| Intangible assets | 0.1 | – | 0.2 | 0.2 | – | – | 0.3 | 0.2 |
| Property plant and equipment | 0.3 | 0.3 | 0.4 | 0.4 | 1.6 | 1.2 | 2.3 | 1.9 |
| Investments | 0.1 | – | – | – | 0.3 | – | 0.4 | – |
| Deferred tax | (0.7) | (2.7) | (0.1) | (3.1) | – | (0.7) | (0.8) | (6.5) |
| Income tax | 0.2 | 0.2 | – | (0.1) | (0.2) | (0.2) | – | (0.1) |
| Cash, cash equivalents and bank overdraft | 1.3 | 1.3 | 0.7 | 0.7 | 1.4 | 1.4 | 3.4 | 3.4 |
| Bank Loan | (1.3) | (1.3) | – | – | – | – | (1.3) | (1.3) |
| Current assets | 9.1 | 8.9 | 2.9 | 2.9 | 4.2 | 3.8 | 16.2 | 15.6 |
| Current and non-current liabilities | (6.1) | (6.8) | (1.9) | (2.0) | (2.0) | (2.0) | (10.0) | (10.8) |
| Provisions | – | (2.7) | – | (0.2) | (0.7) | (2.4) | (0.7) | (5.3) |
| Net assets acquired | 3.0 | 6.5 | 2.2 | 12.3 | 4.6 | 6.6 | 9.8 | 25.4 |

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

Cash outflow to acquire businesses net of cash acquired:

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

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

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

# Notes to the consolidated financial statements continued

## 13 (b). Acquisitions – prior year

During the previous financial year, on 1 June 2012 the Group acquired a controlling interest of 52% of Target Cranes (Pty) Limited (Target) a company based in South Africa involved in the rental of mobile cranes . The transaction was made via an exchange of shares and with Target also acquiring the assets and liabilities of the Plant division of Babcock Africa Services (Pty) Limited.

During the previous year, on 28 December 2012 the Group acquired the entire business of Liquid Gas Equipment Limited (LGE) a company based in Scotland that designs and builds plants for processing, storage and handling of liquid gasses and is the market leader in the supply of these solutions to the marine and onshore liquid gas sectors.

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

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

| | LGE £m | Target £m | Other £m | Total £m |
|---|---|---|---|---|
| Cost of acquisition | | | | |
| Cash paid | 25.2 | – | 2.0 | 27.2 |
| Deemed consideration | – | 19.8 | – | 19.8 |
| Purchase consideration | 25.2 | 19.8 | 2.0 | 47.0 |
| Fair value of assets acquired (see below) | 3.2 | 16.7 | 2.0 | 21.9 |
| Goodwill | 22.0 | 3.1 | – | 25.1 |

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

| | LGE | | Target | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Book value of assets acquired £m | Provisional fair value acquired £m | Book value of assets acquired £m | Provisional fair value acquired £m | Book value of assets acquired £m | Provisional fair value acquired £m | Book value of assets acquired £m | Provisional fair value acquired £m |
| Goodwill | 8.9 | – | – | – | – | – | 8.9 | – |
| Acquired intangibles* | – | 18.1 | – | – | – | 2.0 | – | 20.1 |
| Property plant and equipment | – | – | 23.3 | 25.6 | – | – | 23.3 | 25.6 |
| Deferred tax | – | (3.9) | (4.6) | (5.5) | – | – | (4.6) | (9.4) |
| Income tax | – | – | 0.1 | (0.2) | – | – | 0.1 | (0.2) |
| Cash, cash equivalents and bank overdraft | 3.8 | 3.8 | 1.2 | 1.2 | – | – | 5.0 | 5.0 |
| Finance leases | – | – | (6.3) | (6.3) | – | – | (6.3) | (6.3) |
| Inventory | – | – | 0.1 | 0.1 | – | – | 0.1 | 0.1 |
| Current assets | 6.8 | 6.3 | 3.0 | 2.3 | – | – | 9.8 | 8.6 |
| Current and non-current liabilities | (16.7) | (18.2) | (0.5) | (0.5) | – | – | (17.2) | (18.7) |
| Provisions | (2.9) | (2.9) | – | – | – | – | (2.9) | (2.9) |
| Net assets acquired | (0.1) | 3.2 | 16.3 | 16.7 | – | 2.0 | 16.2 | 21.9 |

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

Cash outflow to acquire businesses net of cash acquired:

| | LGE £m | Target £m | Other £m | Total £m |
|---|---|---|---|---|
| Purchase consideration paid in cash | 25.2 | – | 2.0 | 27.2 |
| Cash, cash equivalents and bank overdrafts | (3.8) | (1.2) | – | (5.0) |
| Cash outflow/(inflow) in period | 21.4 | (1.2) | 2.0 | 22.2 |

The revenue and operating profit of acquired businesses since the date of acquisition and as if they had been acquired on 1 April 2012 are:

| | LGE | | Target | |
|---|---|---|---|---|
| | Since date of acquisition £m | For full year £m | Since date of acquisition £m | For full year £m |
| Revenue | 9.7 | 41.2 | 8.0 | 10.2 |
| Operating profit | (0.7) | 1.5 | 3.2 | 3.8 |

Mark-to-market losses on forward exchange contracts of £0.7 million are included above within LGE Process since date of acquisition as the contracts are deemed ineffective since acquisition.

# Notes to the consolidated financial statements continued

## 14. Disposals and held for sale

There were no disposals during the year. However, the deferred consideration on the UKAEA Pension Administration Office disposal was received and the Group paid various costs relating to previously disposed of businesses.

During the previous year, in July 2012 the Group completed the disposal of its holding in VT Services Inc (the US defence business), the net assets of which had been disclosed as held for sale at 31 March 2012.

During the previous year on 5 December 2012 the Group sold the trade and assets of the UKAEA Pension Administration Office that had been acquired as part of the UKAEA Limited acquisition in 2009.

During the previous year in January 2013 the Group disposed of its interest in the Waste business.

| | 2014 £m | 2013 £m |
|---|---|---|
| Goodwill | – | 3.4 |
| Other intangible assets | – | 0.1 |
| Cash, cash equivalents and bank overdrafts | – | 2.6 |
| Non-controlling interests | – | 0.4 |
| Held for sale assets and liabilities | – | 62.2 |
| Translation adjustment recycled from translation reserve | – | 4.9 |
| Net assets disposed/held for sale | – | 73.6 |
| (Loss)/profit on disposal of subsidiary | – | (18.0) |
| Other disposal costs accrued/deferred consideration | 4.2 | 19.4 |
| Sale proceeds | 4.2 | 75.0 |
| Sale proceeds less cash disposed of | 4.2 | 72.4 |
| Less costs paid in the year | (3.5) | (4.4) |
| Net cash inflow/(outflow) | 0.7 | 68.0 |

## 15. Transactions with non-controlling interests

There were no transactions with non-controlling interests in the current year. The following are the transactions for the previous year 2013:

| | Increase/ (decrease) in retained earnings £m | Increase/ (decrease) in non-controlling interests £m | Cash outflow/ (inflow) £m |
|---|---|---|---|
| Following the acquisition of Target Cranes, a further 12.4% of shares were purchased, in cash, from the non-controlling interest for £5.1 million. This resulted in a net gain on non-controlling interest of £4.0 million. | 4.0 | (9.1) | 5.1 |
| Following the acquisition of Target Cranes, an agreement was reached for a put option providing the non-controlling interest shareholders the right to force the Group to purchase further shares. The option exercise price is a multiple of EBITDA. The put option liability is shown as non-current Other financial liabilities on the balance sheet. (See below) | (14.6) | – | – |
| The non-controlling interest in one of the Group's subsidiaries has been acquired with the vendor paying £6.4 million. | 6.0 | 0.4 | (6.4) |
| Transactions with non-controlling interests – 2013 | (4.6) | (8.7) | (1.3) |

The £14.6 million shown above reflects the option at inception which will be revalued at period ends.

## 16. Related party transactions

Related party transactions in the year are: sales to joint ventures and associates of £276.1 million (2013: £261.7 million) and purchases from joint ventures and associates of £0.2 million (2013: £19.5 million). The year end receivables balance was £13.5 million (2013: £19.7 million) and the payables balance was £0.5 million (2013: £0.5 million). In addition, there were sales with related parties by means of common directors of £11.9 million (2013: £9.3 million) and purchases from related parties by means of common directors of £0.4 million (2013: 0.1 million). The receivables balance was £1.3 million (2013: £0.9 million).

## 17. Financial information

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

Statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 will be delivered following the Company's Annual General Meeting.

The Annual Report for the year ended 31 March 2014 and this preliminary statement were approved by the Board on XX May 2014. The auditors have reported on the Annual Report for the year ended 31 March 2014 and 31 March 2013 and neither report was qualified and neither contain a statement under section 498(2) or (3) of the Companies Act 2006.

## Annual General Meeting 2014

This year's Annual General Meeting will be held on 21 July 2014 at 12.00 pm. Details of the resolutions to be proposed at that meeting will be included in the Notice of Annual General Meeting that will be sent to shareholders in June 2014.

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

## Forward-looking statements

Certain statements in this announcement are forward-looking statements. Such statements may relate to Babcock's business, strategy and plans. Statements that are not historical facts, including statements about Babcock's or its management's beliefs and expectations, are forward-looking statements. Words such as 'believe', 'anticipate', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', and variations of these words and similar future or conditional expressions are intended to identify forward-looking statements but are not the exclusive means of doing so. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions, some known and some unknown, that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements, many of which are beyond Babcock's control. Please see pages 15 to 19 which set out some of these risks and uncertainties. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Nor are they indicative of future performance and Babcock's actual results of operations and financial condition and the development of the industry and markets in which Babcock operates may differ materially from those made in or suggested by the forward-looking statements. You should not place undue reliance on forward-looking statements because such statements relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements reflect Babcock's judgement at the time of preparation of this announcement and are not intended to give any assurance as to future results. Except as required by law, Babcock is under no obligation to update (and will not) or keep current the forward-looking statements contained herein or to correct any inaccuracies which may become apparent in such forward-looking statements.

## Directors' responsibility statement

This full year results announcement complies with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Conduct Authority. The full year results announcement is the responsibility of, and has been approved by, the Directors of Babcock International Group PLC.

The responsibility statement below has been prepared in connection with the Company's full Annual Report for the year ended 31 March 2014 and is repeated here solely for the purpose of complying with DTR 6.3.5. Certain parts thereof are not included in this announcement.

The Directors of Babcock International Group PLC confirm that to the best of their knowledge

- the financial statements prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole, and
- the Strategic Report and Directors' Report contained on pages 2 to 122 of the Annual Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

On behalf of the Board

**Peter Rogers**
Group Chief Executive

**Bill Tame**
Group Finance Director

19 May 2014