Babcock International Group PLC
full year results for the year ended 31 March 2018

23 May 2018

Sustaining profitable growth

Financial highlights

Statutory	March 2018	March 2017	Change
Revenue	£4,659.6m	£4,547.1m	+2.5 %
Operating profit	£370.6m	£359.6m	+3.1 %
Profit before tax	£391.1m	£362.1m	+8.0 %
Basic earnings per share	66.6p	61.8p	+7.8 %

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

* Underlying revenue includes the Group's share of joint ventures and associates revenues.

** Underlying operating profit includes IFRIC 12 investment income and joint ventures and associates operating profit but is before amortisation of acquired intangibles and exceptional items.

*** Underlying profit before tax is inclusive of pre-tax joint ventures and associates income but before amortisation of acquired intangibles and exceptional items.

**** Underlying basic earnings per share is before amortisation of acquired intangibles and exceptional items, before the related tax effects and before the effect of corporate tax rate changes.

Underlying			
Revenue*	£5,362.8m	£5,216.6m	+2.8 %
Operating profit**	£584.6m	£574.8m	+1.7 %
Profit before tax***	£512.5m	£494.8m	+3.6 %
Basic earnings per share****	83.0p	80.1p	+3.6 %
Net debt	£1,115.0m	£1,173.5m	–5.0%
Net debt/EBITDA	1.6x	1.8x	–11.1 %
Order book	£18.0bn	£19.0bn	–5.3 %
Bid pipeline	£13.0bn	£10.5bn	+23.8 %
Full year dividend	29.5p	28.15p	4.8 %

Financial highlights

- 2.8% growth in underlying revenue (2.8% organic growth at constant currency)
- 1.7% growth in underlying operating profit (1.6% organic growth at constant currency)
- 3.6% growth in underlying profit before tax
- £31 billion order book and bid pipeline
- 76% of underlying revenue in place for 2018/19; 50% for 2019/20
- Cash conversion of 106% pre capital expenditure, 82% post capital expenditure;
  116% pre capital expenditure, 92% post capital expenditure excluding one-year impact of FOMEDEC contract
- Net debt down 5% to £1,115.0 million; net debt to EBITDA ratio reduced from 1.8 to 1.6 times
- 3.6% increase in underlying basic earnings per share
- 4.8% increase in full year dividend

Operational highlights

- First year of operating in realigned sector structure, Technology Group established
- International underlying revenues increased to 28% of Group total
- Aircraft carriers: HMS Queen Elizabeth delivered to the Royal Navy, HMS Prince of Wales named and undocked at Rosyth
- Successful delivery of Royal School of Military Engineering benchmarking programme
- Military flight training: UK training started at new school at RAF Cranwell; French FOMEDEC contract mobilisation on track
- Played crucial role in extinction of major fires across Southern Europe
- Formal agreement reached on Magnox; Sellafield PFCS under budget and ahead of schedule
- Completed IFRS 15 review confirmed no impact on results following adoption

Chief Executive Archie Bethel said:

"I am pleased to report another year of further progress on all fronts. Underlying revenue and profits increased to record levels with excellent cash generation, and we further strengthened the balance sheet by reducing our net debt while increasing our dividend for the seventeenth consecutive year. We ended the year with an order book and bid pipeline worth £31 billion, which supports our future growth prospects.

"We have always been a specialist engineering services company with a strong UK heritage but the changes we have made in the last couple of years are beginning to deliver meaningful benefits. Our new sector structure is making a real difference, we are increasingly focused on our core business areas of defence, emergency services and civil nuclear, and are on track to exceed our target of having 30% of the Group's underlying revenue coming from international markets by 2022.

"We expect to make further progress this year and are confident about Babcock's longer-term prospects which are underpinned by our technical expertise, unique infrastructure and a sustainable business model which is increasingly relevant to our key customers in non-cyclical and highly regulated markets"

Archie Bethel
Chief Executive

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Analysts and investors

A meeting for investors and analysts will be held on 23 May 2018 at 9.00 am at FTI Consulting, London.

The presentation will be webcast live at www.babcockinternational.com/Investors and subsequently will be available on demand at www.babcockinternational.com/Investors/Results-and-Presentations from mid-afternoon on 23 May 2018.

To dial into the presentation, please call +44 (0)20 3059 5868 or +44 20 3059 5868 (all other locations)

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

Introduction

Overview

Babcock enjoyed another successful year in 2017/18, with underlying revenue, operating profit and profit before tax at record levels. The Group delivered growth of 2.8% in underlying revenue, 1.7% in underlying operating profit and 3.6% growth in underlying profit before tax. This has resulted in a 3.6% growth in underlying basic earnings per share.

On a statutory basis, revenue for the year was £4,659.6 million (2017: £4,547.1 million), up 2.5%. Statutory operating profit increased by 3.1% to £370.6 million (2017: £359.6 million). Statutory profit before tax increased by 8.0% to £391.1 million (2017: £362.1 million), reflecting the net profit growth from joint ventures and associates and a reducing finance cost. Basic earnings per share, as defined by IAS 33, was 66.6 pence (2017: 61.8 pence) per share, an increase of 7.8%.

Our focus remains on delivering returns and cash and on strengthening the balance sheet. We have further reduced net debt and have achieved targeted cash conversion of 106% before capex (2017: 115%) and 82% after capex (2017: 86%). Excluding the one-year effect on working capital outflow of the French Airforce pilot training contract (FOMEDEC), this represents cash conversion of 116% before capex and a five-year high conversion rate of 92% after capex.

This improved financial and operational performance, delivered in a year when the political and economic environment has created concern and uncertainty, demonstrates the stability and quality of our business. Babcock has unique market positions in many areas with a broad base of loyal customers whom we support through thick and thin.

Over the last fifteen years or so, Babcock has steadily established strong long term positions in three major markets: defence, emergency services and civil nuclear – initially in the UK but increasingly worldwide. These three long term markets currently account for over 70% of our underlying revenue and will be the main focus of growth over the next few years.

This strategy is supported by the realignment of the Group into four sectors – Marine, Land, Aviation and Cavendish Nuclear – at the beginning of the financial year. The realignment was implemented quickly and smoothly and has brought added clarity and transparency to our operations and financial results. It has brought together our capabilities and our specific sector expertise and experience, equipping us to compete for contracts which we would not otherwise have been able to pursue. Importantly, the realignment has helped us to transition from our old ways of working into an organisation which is structured to take our business model outside the UK and create a compelling proposition for new customers.

This focus on international markets has seen our non-UK business growing to 28% of Group underlying revenue (2017: 25%) without any change to overall Group margin, positioning us to beat our target of securing 30% by 2022. Australia and South Africa have been established as our first international 'home countries', recognising that they are delivering Babcock solutions across multiple sectors. We have secured a number of important new contracts in Spain, Australia, Sweden, Oman and Norway, and mobilisation for the French Airforce pilot training contract at Cognac, France is well advanced in preparation for the service starting later this year.

We have also established a new Technology Group, focused on driving technology transfer across the four sectors. Technology is playing an ever more important role in delivering innovative support and sustainment solutions across the Group – and technology and data are at the heart of our operating solutions. We have designed the weapons handling and discharge systems for every UK submarine ever built, and are the technical authority for a number of classes of ships and submarines in the UK and Canada – and are often the partner of choice to introduce new helicopters to the market. We have developed and operate sophisticated training simulations to help train French and UK military pilots. We use Augmented and Virtual Reality to enhance our training and smart through-life sustainment solutions and are a technology application partner. We recently won a contract to provide specialist equipment for Sellafield which will utilise our unique engineering expertise at Rosyth and in Cavendish Nuclear – this is the kind of complex engineering work which really plays to our strengths.

We continue to successfully deliver major projects, and after twelve years are now in the final stages of the UK's Queen Elizabeth Class Aircraft Carrier build programme. This year saw two significant milestones in this landmark project – HMS Queen Elizabeth was officially handed over to the Royal Navy, and her sister ship, HMS Prince of Wales, was formally named and floated out of the build dock.

We also completed a review of our contracts against the new IFRS 15 accounting standard, and were able to confirm at the half year that adoption of the standard will not result in changes to our contract control and revenue recognition processes.

Finally, we continue to focus on continuous improvement of our Health and Safety performance, and once again had an excellent year achieving even higher standards across the Group.

Operational performance

We have made significant progress and provided critical support to customers dealing with exceptional issues in a number of long term contracts, including:

- UKMFTS flying training started at the new training school, RAF Cranwell
- Successful delivery of the Royal School of Military Engineering (RSME) benchmarking programme
- Supported the Metropolitan Police and London Fire Brigade through a challenging period
- Delivered first batch of Missile Launch Tube Assemblies for the new Dreadnought Class of Trident nuclear submarines
- Naval Service Apprenticeships scheme awarded Oustanding rating from OFSTED
- Four vessel OPV contract for Irish Naval Service approaches successful completion
- In Oman, Duqm JV: successful completion of first packages of marine support work for the US Navy
- Reached formal agreement on hand back of Magnox contract to BEIS at the end of August 2019
- At the Sellafield nuclear facility, Pile Fuel Cladding Silo decommissioning project is progressing well
- FOMEDEC French Airforce pilot training contract on track

Contract awards

Order intake remained strong in the period, with over £4.5 billion of new contracts added to the order book. Contracts secured include:

- HADES, a new contract to provide technical support services at 17 RAF bases
- 10-year Sellafield nuclear decommissioning contract to provide 'Glovebox' equipment
- First orders received for patented ecoSMRT® liquid natural gas marine transportation system
- Renewed core firefighting contract in Italy for a further seven years
- Selected as preferred bidder for renewal of significant Spanish aerial search and rescue contract (SASEMAR)
- Further Type 23 frigate life extension awards: HMS Lancaster and Richmond
- Hinkley Point C: new contract from EDF to deliver training for the new build nuclear plant
- Naval support contracts for Collins Class submarines and ANZAC Class frigates
- Australian Defence Force ground support equipment.

Long term visibility continues to be one of our consistent strengths, with the combined order book and bid pipeline growing to around £31 billion (2017: c £30 billion). This provides clear visibility of future underlying revenues, with 76% of underlying revenue already secured for 2018/19 and 50% for 2019/20. The bid pipeline continues to be supported by a buoyant tracking pipeline of opportunities which have yet to formally come to market.

During the year, we maintained our win rates, achieving success in over 40% of our bids for new contracts, and over 90% for renewals.

Dividend

This year, underlying basic earnings per share increased by 3.6%. The Group continued to strengthen the balance sheet and achieved its target of delivering pre capital expenditure cash conversion of over 100%. Together with a combined order book and bid pipeline of around £31 billion, this enables the Board to remain confident in the long term future of our business and it therefore is recommending a 4.6% increase in the final dividend per share for 2018 of 22.65 pence (2017: 21.65 pence). If approved by shareholders at the AGM on 19 July 2018, this will give a total dividend for the year of 29.5 pence per share (2017: 28.15 pence per share), an increase of 4.8%. The final dividend will be paid on 10 August 2018 to shareholders on the register at 29 June 2018.

Outlook

The revenue visibility provided by around £31 billion of secured orders and near term opportunities offers continued prospects for growth in line with previous expectations for this year and over the medium term. The Board is confident that the Group will achieve low mid-single digit organic revenue growth with broadly stable margins in 2018/19, despite the scheduled step downs in the Aircraft Carrier and Magnox decommissioning programmes. The Group expects continuing good cash generation and is targeting a net debt to EBITDA ratio of 1.4 times at the end of the current financial year.

2018/19 sector outlook:

- Marine: low to mid single digit underlying revenue growth with stable margins.
- Land: underlying revenue flat with stable margins
- Aviation: strong underlying revenue growth but mix of business will result in a softening margin
- Cavendish Nuclear: underlying revenue flat with stable margins

Operational review

Marine

		31 March 2018	31 March 2017	Change + / –
Underlying revenue	group	£1,766.5 m	£1,873.8 m	–5.7 %
	jv	£22.4 m	£27.8 m	–19.4 %
	total	£1,788.9 m	£1,901.6 m	–5.9 %
Underlying operating profit	group	£231.3 m	£227.0 m	+1.9 %
	Jv	£3.8 m	£6.9 m	–44.9 %
	total	£235.1 m	£233.9 m	+0.5 %
Underlying operating margin	group	13.1 %	12.1 %	
	jv	17.0 %	24.8 %	
	total	13.1 %	12.3 %	

Market overview

The Marine sector's core UK naval market has remained stable, with the Ministry of Defence (MOD)'s 10-year Equipment Plan forecasting a planned spend of £20 billion over the next decade on procurement and support for surface ships, including the Queen Elizabeth Class (QEC) aircraft carriers, and Type 26 and Type 31e frigates; and £44 billion on submarine programmes, including the new Dreadnought Class submarines.

In the UK, we provide 100% of submarine and 75% of surface fleet refits at our own facilities. Our Terms of Business Agreement with the MOD defines our position as the MOD's strategic support partner at both HMNB Devonport and HMNB Clyde and enables us to support the transition of HMNB Clyde to be the UK submarine centre of specialisation from 2021. Additionally, our experience of delivering technical training to more than 30,000 service personnel each year gives us a strong platform to grow our training business in the UK and internationally.

With increasing but ever-present pressure on support budgets, the MOD continues to work closely with industry partners to deliver better military capability and value for money in a sustainable and affordable way. This includes seeking opportunities for industry to expand its role in the delivery of core support capabilities. The UK's Modernising Defence Programme, due later in 2018, should provide a welcome clarification of the wider future naval support programme.

Launched in September 2017, the UK National Shipbuilding Strategy represents a step change in the Government's approach to naval ship procurement, presenting immediate opportunities for the design and build of five Type 31e frigates and up to three Future Solid Support Ships as well as providing a platform to develop our position in the growing global light frigate market.

Internationally, the Canadian Government has published its revised defence policy confirming its commitment to life-extend the existing fleet of four Victoria Class submarines and invest in a range of new build marine requirements, including 15 new surface combatants and a range of Coast Guard vessels. These programmes are likely to increase the demand for technically complex naval support services. In Oman, the overall market environment remains positive, and we expect more contracts over the course of 2018. In Europe, we see potential future opportunities from a number of submarine programmes which are currently in the early concept phases. In New Zealand, the defence force intends to acquire around NZ$3 billion of marine capability over the next 14 years.

The UK and international specialised manufacturing markets continue to provide opportunities within defence, civil nuclear, decommissioning and commercial marine, including programmes like the UK Dreadnought and US Columbia Class submarine build, North Sea decommissioning and civil nuclear new build with Cavendish Nuclear.

The gas equipment market continues to provide a strong pipeline of future opportunities for our new technologies in Gas Supply Vessels and Liquefied Natural Gas (LNG) handling. We see opportunities in the liquefied gas carrier market driven by demand from major economies such as China, Korea, India and Africa.

Financial review

Marine revenues excluding the QEC Aircraft Carriers grew by 1% in the year with UK and international naval marine growing well and the Technology business gaining orders towards the year end which provide a good start to 2018/19. Including QEC revenues, Marine underlying revenue decreased 5.9% to £1,788.9 million (2017: £1,901.6 million).

In the UK, Technology equipment orders delayed in financial year 2017/18 are now forthcoming, and there is increasing demand for our complex technology applications such as ecoSMRT®. The large, one-off, QEC build and assembly programme is on schedule for completion in FY20. During the year major programme milestones were passed; HMS Queen Elizabeth was handed over to the Royal Navy for sea trials and HMS Prince of Wales was undocked; as such QEC revenue declined 45% to £163 million (2017: £294 million). QEC step down in 2018/19 is expected to be around £90 million as the further milestones are passed. International Naval saw good growth in the year with progress across contracts in Australia, New Zealand, South Korea and Canada.

Efficiency and contract performance, combined with a change of mix with the reduction in QEC volumes, allowed margins to improve to 13.1% (2017: 12.3%) despite an increased pension cost. Margins excluding the QEC effect were flat year on year with profit flat overall.

Operational review

UK naval marine

Babcock is successfully operating 23 naval support projects for the UK Royal Navy and we are on track to deliver the cost and performance requirements at HMNBs Clyde and Devonport through our five-and-a-half year Maritime Support Delivery Framework (MSDF) agreement. We have also achieved significant milestones on the Type 23 Frigate Life Extension programme having completed the first three of the planned 13 vessel programme. We have also completed work on a range of in-service submarines including a major work package for the first of the seven Astute Class submarines, HMS Astute.

At our unique Devonport Dockyard facility, we are continuing to progress the first life extension package for the Vanguard Class ballistic missile submarines whilst, at Rosyth, the first submarine dismantling project is now underway.

We are leading 'Team 31' - a group of industry leaders, including Thales, with the capability to deliver a competitive design and build solution for the MOD's new Type 31e general purpose frigate, destined for both UK and export markets. The project is expected to be awarded in 2019.

As a leading member of the Aircraft Carrier Alliance, we were delighted to see the first of these iconic vessels, HMS Queen Elizabeth, enter service with the Royal Navy in December 2017. The second vessel, HMS Prince of Wales, was named at our Rosyth facility in September 2017 and is now afloat while we complete the vessel and begin systems testing. At our Appledore facility, the fourth Offshore Patrol Vessel for the Irish Naval Service was floated out in March 2018, with commissioning expected in summer 2018.

As part of our contracted commitments under MSDF, and recognising that the QEC project is nearing completion, we are undertaking a headcount reduction programme across the business aimed at ensuring that we are ready to respond to the growth challenge whilst meeting our customer commitments and supporting our financial forecasts. A total of 1,100 redundancies have been announced across the business with the vast majority of the reductions likely to be achieved through voluntary means.

We are approaching completion of the first block of missile launch tube assemblies for the UK Dreadnought and US Columbia submarine programmes, and have already started work on the second. We have prequalified to bid for assemblies for the US Virginia Class submarine programme.

We have extended our Royal Navy training contract to 2020, worth c £60 million, and have successfully completed the delivery of a new suite of training tools to enable the Royal Navy to train the next generation of naval engineers. We have also augmented our Future Training Unit, increasing our support offering for the aircraft carriers.

International naval marine

In Canada, our Victoria In-Service Support Contract continues to meet expectations, and we are providing support to all Royal Canadian Navy submarines, in particular HMCS Corner Brook, which is currently in refit, to be followed by HMCS Victoria. Additionally, we are examining the potential to offer a similar complex support capability to other Canadian federal vessels (Navy and Coast Guard).

In Australia, while Government studies begin on potential life extension of the Collins Class submarines, our sustainment contract with the Australian Submarine Corporation was renewed with a five-year programme. Our capability in submarine life extension should create further opportunities on the Collins Class programme whilst we continue to work with both Naval Group and Lockheed Martin in equipment supply and sustainment options for the Australian SEA1000 Future Submarine programme. Technical support capabilities are critical selection criteria and will demand the transfer of know-how to Babcock Australia, which will increasingly become the focus for delivery of all contracted solutions.

Our NSM JV extended its contract to provide support to the Royal Australian Navy's ANZAC Class frigates for a further five years. Within the wider Warship Asset Management Agreement, the programme is designed to ensure the frigates stay in service until 2031.

In Oman, we have undertaken deployed support periods for Royal Navy vessels as well as a number of vessels for the US Navy and US Military Sealift Command. The unique strategic location of the Duqm facility will provide a number of opportunities to build our relationship with the US and other international navies.

In South Korea, we secured a contract to deliver Weapons Handling and Launch Systems for the third Jangbogo III submarine and have opened a facility in Busan to support ongoing projects and future growth.

Technology

We have mobilised to provide both an equipment support capability and a technical authority service for the platform systems fitted to the Type 45 Destroyer and QEC aircraft carriers. We have also delivered significant improvements in performance from our Equipment Management Operations Centre (EMOC) across a range of equipment support contracts with the UK MOD.

Within our analytics business, we have been successful in providing secure collaboration and information management capability to the UK's Naval Marine enterprise. We have helped Network Rail transform their management of asset-related data. We continue to push our technical capabilities into new sectors, including helping United Utilities develop their asset management strategy by embedding predictive analytics into their decision-making process. Additionally, we have had a record level of demand for our cyber products and incident response services and supported our financial services customers through the establishment of offices in New York and Frankfurt.

In our Energy and Marine business we have maintained market share of around 50% in the LPG sector and have secured our first orders for our proprietary system ecoSMRT® in LNG reliquefaction. Our After Market Operational Support Services for ship owners, which includes plant performance monitoring and analysis, control system upgrades and obsolescence control, is progressing well. Highlights include the successful delivery of 22 LPG ships, including our first LPG projects in China and successful patents for our VentGasCooler technology in South Korea, China, Japan, Vietnam and USA.

The last 12 months have also seen Babcock deliver on the E-On Rampion and Ørsted Hornsea 1 offshore renewable contracts from our Rosyth base, with one element of the Siemens Beatrice contract complete and the second element to be delivered shortly. There are no current plans to pursue further opportunities in this market.

Outlook

Through our ToBA and strong relationship with the MOD, we continue to have excellent visibility of the UK future naval support programme of work. We are continuing to apply new and innovative technologies, thereby increasing the scale and scope of engineering support that we are able to deliver, not just from the UK, but as a global support provider.

Outside our core defence business we continue to see opportunities to apply our expertise in complex and critical engineering in adjacent commercial marine and energy markets, both in the UK and internationally. We believe the outlook for the Marine sector is positive, with a strong bidding and tracking pipeline of growth opportunities in the UK and our established international markets, complemented by our continually increasing intellectual property and internal capability.

We expect a c £90 million step down in QEC revenue in 2018/19, and overall we expect low to mid single digit underlying revenue growth with stable margins.

Land

		31 March 2018	31 March 2017	Change +/–
Underlying revenue	group	£1,760.4 m	£1,685.4 m	+4.4 %
	jv	£88.7 m	£126.3 m	–29.8 %
	total	£1,849.1 m	£1,811.7 m	+2.1 %
Underlying operating profit	group	£108.7 m	£113.0 m	–3.8 %
	jv	£31.4 m	£26.7 m	+17.6 %
	total	£140.1 m	£139.7 m	+0.3 %
Underlying operating margin	group	6.2 %	6.7 %	
	jv	35.4 %	21.1 %	
	total	7.6 %	7.7 %	

Market overview

We continue to see demand for fleet management, equipment support and technical training services in the UK and overseas, particularly for customers with critical and complex fleets in the defence and civil sectors.

In our Defence business, we continue to build our relationship with the British Army through our strategic partnership for equipment support and individual training. We use enhanced data and analytics to inform their decisions on equipment support solutions and we have developed innovative solutions to support planning for major change programmes. We see opportunities to provide fleet management and equipment support solutions to new 'blue light' emergency services customers in the UK and overseas. Our investment in strategic fleet management capabilities and decision support and data analytics has positioned us strongly in this sector.

We experience continuing demand for our specialist technical training services. The introduction of the Apprenticeship Levy in 2017 has had a significant impact on the market for apprentice training. Whilst SMEs have reduced their uptake of new apprentices, larger firms are seeking support from large-scale providers such as Babcock to enable them to extract maximum value from the levy by optimising the mix of training they provide.

In our Rail business, we continue to support Network Rail and expect this relationship to continue as they move into Control Period 6 from April 2019, which will see the delivery of a £47 billion five-year expenditure plan.

In South Africa, political uncertainty has remained which has significantly impacted economic growth, however we have seen a resurgence in the mining markets with international demand driving production output and demand for our specialist mining equipment. The latter part of the year saw some political leadership changes relating to Eskom, the state owned power facility, which has brought some stability to the landscape.

Financial review

The Land sector underlying revenue grew 2.1% to £1,849.1 million (2017: £1,811.7 million) as Defence and South Africa performed well. Organic growth at constant exchange rates was 2.3% in the period. DSG is progressing well, with discussions to transition into an availability based contract ongoing. South Africa has benefited from improved commodity pricing in the equipment business and continuing strong demand from its main power customer.

Organic underlying operating profit at constant exchange rates increased 1% to £140.1 million (2017: £139.7 million). Operating margin for the sector was broadly stable at 7.6% (2017: 7.7%). There was some weakness in Rail as previously flagged as the Control Period 5 slows down in anticipation of Control Period 6, and some disruption in apprentice training as the new Government levy regime is introduced. This was largely offset by performance in the South Africa business and the Royal School of Military Engineering (RSME) JV.

Operational review

The Land sector continues to perform well in its chosen markets, providing critical services to civil and military organisations worldwide. It remains focused on its core capabilities, providing vital support for its customers' large-scale fleets of complex vehicles and equipment, and delivering high quality technical training to our customers' workforces.

Defence

In our Defence business, we have also provided around 300 vehicles as part of the Army's deployment in Estonia, demonstrating our ability to meet changing demands. We continued our work building the Warrior Capability Sustainment Programme demonstration vehicles for Lockheed Martin and were awarded a further year's extension of maintenance to the Protected Mobility Vehicle Fleet. We have recruited and trained two units of sponsored reserves, who work for Babcock each day, but who can be deployed as soldiers by the British Army. This capability has been used as part of the Whole Force Approach, supporting the Army's equipment repair in Canada.

Following our contract extension, last summer, to provide critical asset support to British Forces Germany up to their planned drawdown in March 2020, we have now been awarded an extension to our service delivery in Italy, supporting the European Support Group, in their role for NATO. Babcock Australia was awarded the Australian Defence Force ground support equipment asset management services contract, which is due to begin operations in the first half of 2018/19.

Our Defence Training business continues to perform well, delivering over 20,000 training days to the British Army. We successfully concluded the benchmarking of the RSME PPP contract, and have implemented the service transformation which will provide the MOD with around £80 million of further efficiencies over the rest of the contract.

We continue to develop training technology. We have designed and delivered a £2 million virtual reality system for the Electro-Mechanical training contract and have started to use data and analytics to support service improvements and drive further efficiencies. Our close relationship with the Royal Electrical and Mechanical Engineers (REME) continues, as we prepare for their move to the new Apprenticeship Standard for REME engineers later this year.

Our ALC joint venture, which provides construction vehicles for the MOD, has performed strongly, with high demand for the service throughout the year. We are working on a bid to bring together the construction vehicle fleet and the mechanical handling fleet. The contract to deliver fleet services for the MOD's 17,000 administrative vehicles, Phoenix II, continues to progress, with the integration of the fleets in Germany, the rest of Europe, and the MOD Military Police. Enhanced capabilities are being evaluated for future implementation that will deliver greater efficiencies for our customer through better utilisation of the fleet.

Emergency services and training

We have continued to provide strong support and high levels of equipment availability to UK emergency services customers in a challenging year. In September, we were awarded a 12-month extension to our contract with the Metropolitan Police Service (MPS), ensuring continuation of service delivery until the MPS announce the preferred bidder for its future fleet management contract later this year. In parallel, Babcock Vehicle Engineering (formerly MacNeillie) extended its contract with the MPS to provide vehicle conversions. Further progress has been made, assisting London Fire Brigade in modernising its fleet of vehicles and appliances under its asset replacement programme. Throughout the year, we have engaged with a number of international emergency services customers and in the year ahead we anticipate participating in competitive programmes to provide fleet management services outside the UK.

In our civil training business, we were successful in our bid to deliver training services for the Project Management Office of EDF Energy's Hinkley Point C construction project. We will provide systems and assurance to ensure that site personnel are suitably qualified and experienced to operate on this key engineering project, and will procure and deliver related training. Operational performance on our training contract for the London Fire Brigade has been strong and we are in early discussions with a range of other emergency services customers around their training needs, all of which are also impacted by the introduction of the Apprentice Levy.

Our engineering and technical training contracts continue to perform well, and we have seen encouraging account growth with some of our key customers, such as Network Rail. We won a contract with Jaguar Land Rover for their technical apprenticeship programme in the UK. We now train over 500 Jaguar Land Rover apprentices each year across a range of technical, commercial and manufacturing specialisms. We see further potential training opportunities with other UK automotive sector customers.

Despite challenging weather conditions throughout the winter, our fleet management team also delivered strong operational performance to our Heathrow airport customers, and is participating in competitive tenders to extend these relationships, with preferred bidder announcements expected during FY19. In Australia, the Qantas ground support equipment contract became operational on 1 July 2017, and the focus is now on rolling out new systems and processes to improve availability and performance.

Our Airports baggage operations business had a second year of record performance and has successfully secured a two-year extension to the Heathrow baggage system maintenance contract. In addition to delivering baggage operations at Heathrow and Schiphol, our team has also delivered baggage upgrade projects at a number of major UK airports and secured new contracts at Heathrow, Gatwick and Birmingham.

Networks and equipment support

In Network Engineering, our Rail business continues to experience a slowdown as we approach the end of Network Rail's Control Period 5 in March 2019. We will begin bidding for Control Period 6 shortly. Our on-track joint venture SB Rail successfully rebid a National Plant contract, with our share worth around £70 million, which will see its fleet of machines contracted until 2025.

Our work on Translink's seven-year signalling and telecommunications contract is progressing well, with further framework opportunities being explored in Northern Ireland. Our ABC joint venture successfully completed the electrification of Scotland's busiest rail route between Edinburgh and Glasgow as part of an alliance with Network Rail and Morgan Sindall.

The Power business delivered a full programme of work, including three major overhead line refurbishment projects for National Grid and a number of complex schemes for Western Power Distribution. Tenders won during autumn and winter mean a substantially full order book for the coming year, with the focus already on the pipeline for FY20 and beyond.

South Africa

All of the African businesses, with the exception of our transmission line operation, have grown significantly during the year with underlying revenue growth being 21% over prior year in local currency. The stand out performer has been our Equipment business that has grown 38% over prior year on the back of market share won and new products launched. The power generation business has grown 16% over prior year and the truck business has met budget expectations.

Outlook

Our specialist experience and technical capability in delivering critical fleet management and technical training solutions places us in a strong position to capitalise on the outsourcing opportunities that are emerging, both in the UK and internationally.

In Defence, we expect our strong working relationship with the UK MOD to continue as the next generation of programmes is determined, and we have identified equipment support opportunities for European defence customers. We expect Holdfast joint venture profits in 2018/19 to step down by £5-10 million.

In the civil sector we will continue to expand our footprint with key UK customers for equipment support and training services and we are pursuing several similar opportunities in European markets.

2018/19 underlying revenue is expected to be flat with stable margins.

Aviation

		31 March 2018	31 March 2017	Change +/–
Underlying revenue	group	£921.1 m	£793.1 m	+16.1 %
	jv	£101.0 m	£80.9 m	+24.8 %
	total	£1,022.1 m	£874.0 m	+16.9 %
Underlying operating profit	group	£103.1 m	£106.9 m	–3.6 %
	jv	£41.2 m	£38.6 m	+6.7 %
	total	£144.3 m	£145.5 m	–0.8 %
Underlying operating margin	group	11.2 %	13.5 %	
	jv	40.8 %	47.7 %	
	total	14.1 %	16.6 %	

Market overview

Our business covers both military and civil aviation, with several sector-wide capabilities including technology, safety and training. Our competitors range from large multi-national aviation companies to smaller localised competitors, particularly in our civil aviation business.

Our focus in military is the delivery of airbase support, training support and aircraft engineering support to UK and European customers including France and Spain. The Royal Air Force is undergoing a period of ground-breaking training and estate transformation and the UK Military Flying Training System (UKMFTS) is moving into the operational training phase. We expect to see a number of major programmes developing in the UK military air domain to support the broad range of new capabilities and platform investments as well as legacy fleets of helicopters and training aircraft.

European defence aviation markets are developing, with an increasing desire to engage with non-OEMs for support and training capabilities such as our FOMEDEC contract in France. European air forces are procuring latest generation combat aircraft and live flying training is an increasingly expensive activity, with fewer, and increasingly obsolescent, training assets available. Simulation and synthetic training is becoming more prominent. Broader international markets show strong growth potential and we see increasing interest in our full life-cycle offering and capabilities, which we are already delivering in the UK, France and Spain.

In our civil aviation business, aerial Emergency Medical Services (EMS) is a large and growing global market providing complex and critical services. Babcock is the second largest EMS provider in the world with around 10% of the market and the leading position in all markets where we operate. We see an increasingly complex medical care market, with an estimate of global spend between £2-3 billion annually. Search and Rescue is a small part of our business today, but with a multi-billion global market, only 20% of which is currently outsourced, we believe it presents significant opportunities.

Babcock is one of the world’s leading providers of fixed-wing and rotary-wing firefighting services. Wildfires are becoming a serious global issue, increasing in frequency and ferocity annually, as the world saw last year. Current operations primarily rely on unsophisticated small operators with limited capability and technology enhancement. With our scale and investment Babcock is beginning to professionalise the sector and will develop a global deployable model offering technology-based differentiated services.

In the commoditised oil and gas helicopter market we are a relatively small operator, with roughly 4% of the global market share. Competition in this area remains intense.

Financial review

The Aviation sector had a year of strong growth with underlying revenue up 16.9% to £1,022.1 million (2017: £874.0 million). Organic growth at constant exchange rates was 15.6%. Both UK and European Defence alongside Emergency Services were strong drivers of growth with contract wins throughout the year. Our training support contract with the French air force, FOMEDEC, is progressing well with revenue and cash improving. Aircraft delivery will be completed during 2018/19 with the customer accepting finance leases, which will then be converted into cash through our signed securitisation agreements with a major French bank. UK training programmes are also progressing well, and we expect our prudent margin recognition to build towards Group levels as risks are retired and project milestones are met.

Despite a strong year of revenue growth, underlying operating profit decreased marginally to £144.3 million (2017: £145.5 million). As defence contracts build to Group margin levels, our oil and gas helicopter business continues to underperform in a deteriorating and saturated market environment, and is furthered hampered by H225 helicopter costs. Aviation margin for the year was 14.1% (2017: 16.6%), a reduction from the previous year, which benefitted from the end of long-term contracts at a closing phase of margin recognition. Emergency Services continues to deliver healthy margins.

Operational review

UK military air

The UK Military Air business secured a key new contract in November 2017 with the award of the £160 million Royal Air Force (RAF) HADES contract. The contract went live on 1 April 2018 and provides a wide range of technical support to 17 RAF stations employing over 800 people. In support of the UKMFTS, Babcock has programme-managed the commissioning of 10 new facilities comprising five training buildings and five hangars used for aircraft storage, aircraft maintenance and simulator housing.

These facilities will now be used by Ascent (a Babcock joint venture) alongside the recently procured fleets of new aircraft to deliver a world class training programme for all future military pilots. Looking forward, the business is currently preparing a bid for the RAF Air Support to Defence

Operational Training (ASDOT) opportunity to provide adversary air combat training in partnership with experienced military air training provider Elbit Systems.

European military air

As our European Military Air business approaches its first anniversary, it has delivered on its key targets and positioned itself successfully to execute its strategy. The mobilisation of FOMEDEC has progressed well to reach critical milestones including the successful first qualification test flight, the laying of the foundation stone on the simulator building, the relocation of the team to the site in Cognac and signing of the securitisation agreement. We are developing strategic military OEM relationships across Europe, including with Leonardo and Airbus. Helidax, our helicopter pilot training contract, continues to perform well in France and our European pipeline continues to develop with more strategic opportunities of scale.

Aerial emergency services

We are a leading provider of aerial EMS, both in existing territories and in new countries. Earlier this year we were awarded a contract by the Norwegian Government to provide high-specification fixed-wing air ambulance services across Norway for an initial six years, with options to extend by a further five years. We continue to drive technological innovation in markets characterised by world-leading standards, with the aim of continuously delivering operational excellence and safety, improving patient outcomes, and consequently the efficiency of health agencies. In Italy we enhanced our service by introducing night operations in several Italian regions, as well as starting new trials to integrate Remotely Piloted Aircraft System technology into EMS. In Spain, we successfully renewed EMS contracts, including a new service covering the Canary Islands, while in France we are delivering multi-base operations for the South West contract. We will continue to deliver as we grow our global presence and reputation as a leading EMS provider. Also in Spain, we have been selected by the Spanish Safety Maritime Agency (SASEMAR), part of the Public Works Ministry of Spain, as preferred bidder for the renewal of a nationally significant aerial search and rescue contract worth around £160 million for the first four years.

Last summer, Southern Europe experienced the worst forest fires in over five years. Since the start of the 2017 firefighting season, we have supported the extinction of 613 fires in Spain alone, with more than 17,000 flight hours and 72,500 water drops from our aircraft. In addition, the Italian Government's fleet of amphibious firefighting aircraft, which we operate and maintain, played a crucial role in the extinction of major fires in Portugal and Southern France. Babcock participated in the European Union firefighting pool in these two countries. We were a trusted partner to local, regional and national governments all over Europe throughout this complex firefighting campaign. We also successfully renewed a number of contracts for nationwide and regional services in Spain. Deep engagements on high standards of health and safety have resulted in a safe campaign. Investing in innovation and cutting edge technology is positioning Babcock as a leading company on firefighting resources.

Oil and gas

Whilst the Oil and Gas business is a small part of the Aviation sector, it continues to be impacted by challenging industry conditions, with options to use aircraft in other lines of business being explored. Our operational delivery however remains strong with significant focus on safety where we continue our work as a founding member of HeliOffshore and customer satisfaction remains positive.

Outlook

Our prospects are strong in our chosen markets of UK Military, European Military, EMS and Firefighting. We have an excellent pipeline of opportunities in UK Military as the RAF introduces new platforms and needs increased training and cost effective ways of supporting them. Our new European Military Aviation business has quickly established a pipeline of new training related opportunities. EMS remains an area of ever increasing demand and, after an incredibly busy summer in 2017, we look to add new technical capability in our Firefighting business to improve the capacity and effectiveness of this service.

We expect strong underlying revenue growth in 2019 but that the mix of business will result in a softening margin.

Cavendish Nuclear

		31 March 2018	31 March 2017	Change + / -
Underlying revenue	group	£211.6 m	£194.8 m	+8.6 %
	jv	£491.1 m	£434.5 m	+13.0 %
	total	£702.7 m	£629.3 m	+11.7 %
Underlying operating profit	group	£31.2 m	£32.3 m	–3.4 %
	jv	£37.6 m	£29.1 m	+29.2 %
	total	£68.8 m	£61.4 m	+12.1 %
Underlying operating margin	group	14.7 %	16.6 %	
	jv	7.7 %	6.7 %	
	total	9.8 %	9.8 %	

Market overview

The civil nuclear market in the UK continues to progress. The global energy market is still impacted by relatively low prices, which has resulted in pressure on decision making for new major programmes both in the UK and internationally as the wider industry seeks further investment. We have seen an increase in Tier 2 and 3 decommissioning projects issued for tender, despite budgetary pressures, and there is still opportunity within the UK new build programmes. We are currently bidding in excess of £1.6 billion of new Tier 2 and Tier 3 work across new build, decommissioning and international markets.

In the UK, the Nuclear Decommissioning Authority (NDA) is currently determining the structure of Magnox decommissioning work following the end of the initial contract in August 2019, which is expected to provide further potential opportunities for the sector. The sector is also investigating entering into new markets where it can deploy its programme management, decommissioning and hazard management expertise in other highly regulated industries.

Financial review

Cavendish Nuclear saw strong growth during the year in underlying organic revenue and underlying operating profit as both the Projects business and the Decommissioning JVs performed well. Underlying organic revenue increased 11.7% to £702.7 million (2017: £629.3 million). New build activity has increased at Hinkley Point C and Decommissioning JVs have increased volume at both Magnox and Dounreay. As previously flagged we expect the step down in Magnox revenue to be around £60 million in 2018/19 as decommissioning progresses.

Strong growth in underlying organic operating profit of 12.1% delivered profit of £68.8 million (2017: £61.4 million). Project margins were softer on prudent profit recognition during the ramp up stages of newly awarded contracts with some additional IT costs following the implementation of new systems. The Decommissioning JVs saw margin increase and we expect the Magnox margin to remain at current levels until contract completion in August 2019.

Operational review

Throughout the year the sector's long-term contracts continued to perform well, with the Decommissioning JVs delivering on schedule. We have seen a wide selection of technical contract wins including full life-cycle decommissioning solutions for Magnox sites, major design contracts, complex module fabrication and waste package flasks for Sellafield, additional maintenance projects for the EDF AGR fleet and new packages of work from Hinkley Point C.

Decommissioning JVs

During the year we reached successful agreements with the NDA for the termination of the Magnox contract, our joint venture with Fluor. The productive negotiations resulted in commercial arrangements for the period until contract completion in August 2019. Performance at the 12 sites continues aligned with our commitments and schedule, with milestones achieved in line with expectations and a continued focus on delivering cost effective solutions to the decommissioning programme. The NDA is undergoing a review and the intended operational arrangements for Magnox beyond August 2019 are still to be determined, but we believe our continued strong operational performance and technical expertise combined with experience on the Magnox sites put us in a good position to benefit from any new opportunities. Additionally we are working with the NDA, under the Nuclear Sector Deal, to accelerate up to two demonstrator projects for reactor dismantling in 2020.

Key operational deliverables include completing all remaining work at Bradwell to deliver site closure, continued defueling of Wylfa, commencement of the construction phase for the SGHWR reactor core removal, construction of interim storage at Chapel Cross, Hinkley and Harwell, and progression of removal of the two remaining waste streams in the Berkeley vaults. Magnox will also be focused on delivering the required throughput improvements in the commissioned waste processing plants at Berkeley, Trawsfynedd, Hunterston, Dungeness and Harwell. Asbestos remediation and removal, as well as the management of deteriorating asset conditions, remain priorities across the sites.

The joint venture contract at Dounreay, Europe's most complex decommissioning project, is delivering to the revised scope associated with the Exotics Waste Removal Project as part of the UK Government's strategy. The site operations team has also removed fuel elements from the Fast Reactor, the first time that this has been completed in several decades, representing a significant milestone for the contract. The restructuring is on track, including a reduction in headcount in order that costs and skillsets match the requirements of the future decommissioning programme.

Projects

Our Projects performance remains strong and we have achieved multiple critical milestones either on or ahead of target across the business. At Sellafield, we continue to deliver exemplary performance preparing the aging facility for waste retrieval. On the Pile Fuel Cladding Silo (PFCS) project, a joint venture with Bechtel, we have successfully installed all of the 'Magnificent Six' 12.4 tonne doors (playing a key role in reducing hazard at the site), cut six penetrations, removed the concrete monoliths, sealed the doors and handed over to Sellafield under budget and ahead of schedule. The strong performance in the design frameworks at Sellafield continues to be rewarded with additional new scope.

In December, we were awarded the Sellafield 'Glovebox' contract to design and fabricate technically complex engineering solutions for the treatment, handling and management of nuclear materials. The contract, valued at around £100 million, is currently being mobilised. Following the success of synergies with the Marine sector in delivering the PFCS project, the expertise and unique equipment in technical fabrication at Rosyth will again be employed for this 10-year framework contract.

As we leverage our position as a lifetime partner with EDF, we continue to provide for their generating fleet, providing critical reactor core analysis allowing the plant life extension of the AGR reactors, maintenance and outage support. During the year we delivered a planned outage at Dungeness on time and on budget.

Internationally there has been significant management focus on developing the Japanese business, with Cavendish Nuclear established as the leading UK decommissioning expert with both the Japanese Government and industry.

As a result, we successfully completed a contract for Japan Atomic Power Company and are working on bidding preparations for the upcoming Tokai Bunker project. Fukushima work has also been delivered in support of Hitachi GE Nuclear Energy (HGNE) with the potential for expanded scope and follow on work packages. Cavendish Nuclear is currently the only non-Japanese company to participate in HGNE's seven-strong Fukushima Fuel Debris Removal team.

At the beginning of the year we transitioned from Early Works Involvement to an Early Works Contract, covering supply chain engagement for long lead time materials, design work and preparations for site mobilisation for the new build work on the Balance of Nuclear Island mechanical installation for Hinkley Point C. The sector also continues to provide a range of engineering and design support for Horizon Nuclear Power's Wylfa Newydd project, including support to Menter Newydd for the design of the radiation waste facilities, under contract to Menter Newydd's partner, JGC.

Outlook

The outlook for next year looks strong with underlying revenue growth expected in the Nuclear Services business from recent new contract wins, the development of new products and services for our EDF business and an expectation of new opportunities coming from the UK Atomic Weapons Establishment.

This growth will offset revenue step-downs from the Magnox and Dounreay joint ventures as decommissioning works progress in line with the agreed programme. The New Build and Japan businesses will continue to grow as projects start to mobilise, and the sector is expected to benefit from securing projects, inward investment and a continuing focus on efficiency.

2018/19 underlying revenue is expected to be flat with stable margins.

Statutory to underlying reconciliation

		Joint ventures and associates						
	Statutory £m	Revenue and operating profit £m	Finance costs £m	Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Change in tax rate £m	Underlying £m
31 March 2018								
Revenue	4,659.6	703.2						5,362.8
Operating profit	370.6	85.9			30.0	98.1		584.6
Share of profit from jv	68.5	(85.9)	22.2	17.5	(28.1)	5.8		–
Investment income	1.9				(1.9)			–
Net finance costs	(49.9)		(22.2)					(72.1)
Profit before tax	391.1	–	–	17.5	–	103.9	–	512.5
Tax	(53.4)			(17.5)		(22.2)	0.8	(92.3)
Profit after tax	337.7	–	–	–	–	81.7	0.8	420.2
Return on revenue	8.0%							10.9%
31 March 2017								
Revenue	4,547.1	669.5						5,216.6
Operating profit	359.6	72.8			29.7	112.7		574.8
Share of profit from jv	56.7	(72.8)	24.6	14.2	(28.5)	5.8		–
Investment income	1.2				(1.2)			–
Net finance costs	(55.4)		(24.6)					(80.0)
Profit before tax	362.1	–	–	14.2	–	118.5	–	494.8
Tax	(46.5)			(14.2)		(26.4)	0.5	(86.6)
Profit after tax	315.6	–	–	–	–	92.1	0.5	408.2
Return on revenue	7.9%							11.0%

Income statement

Statutory revenue for the year was £4,659.6 million (2017: £4,547.1 million), an increase of 2.5%. Statutory operating profit increased by 3.1% to £370.6 million (2017: £359.6 million). Statutory profit before tax increased by 8.0% to £391.1 million (2017: £362.1 million), reflecting the net profit growth from joint ventures and associates and a reducing finance cost. Basic earnings per share, as defined by IAS 33, was 66.6 pence (2017: 61.8 pence) per share, an increase of 7.8%.

Underlying revenue for the year was £5,362.8 million (2017: £5,216.6 million), an increase of 2.8%. The Babcock businesses, excluding acquisitions, delivered underlying revenue growth at constant exchange rates of 2.8% (2017: 4.9%). The largest contributors to this growth were the Aviation and Cavendish Nuclear sectors which reported underlying organic revenue growth at constant exchange rates of 15.6% and 11.7% respectively, with continued progress in Aviation Defence contracts, further Emergency Services contract wins and in Cavendish Nuclear where additional work in the Projects business combined with continuing progress in the Decommissioning JVs.

Marine sector underlying organic revenue declined 5.6% at constant exchange rates reflecting the step down in QEC revenue during the year. Excluding the step down in QEC revenue, the sector achieved underlying organic revenue growth of 1.3% at constant exchange rates with International and UK Naval growing well.

The Land sector's underlying organic revenue at constant exchange rates grew by 2.3% in the year. Good performances in Defence and South Africa were largely offset by a slowdown in Rail as the Network Rail Control Period 5 slowed into its final year and some slowing in apprentice training as the new government levy scheme transitioned during the year.

Total underlying operating profit across the Group increased by 1.7% to £584.6 million (2017: £574.8 million). At constant exchange rates, Babcock achieved organic growth in operating profit of 1.6%, with the Group's operating margin stable at 10.9% (2017: 11.0%). Improving Marine margins were offset by declining Aviation margins.

In the Marine sector, underlying operating profit increased by 0.5%, with margin improvement driven by contract performance, efficiency and the removal of low margin QEC revenue partially offset by an increase in pension costs.

The Land sector achieved a 0.3% increase in underlying operating profit, with South Africa and Defence (including the RSME JV) offsetting revenue shortfalls in Rail and apprentice training.

The Aviation sector's underlying operating profit declined by 0.8%, with continued pressure in the oil and gas sector on contract renewals and H225 costs offset by the increased revenues in the Military air and Emergency Services business.

The Cavendish Nuclear sector's underlying operating profit grew by 12.1% with both the Projects businesses and the Decommissioning JVs showing good growth.

Total net finance costs reduced to £72.1 million (2017: £80.0 million) reflecting reductions in net debt and pensions interest, together with some favourable movement on Ascent JV swap valuations. The Group net finance costs reduced to £47.6 million (2017: £49.0 million) and we expect these to reduce further in future, in line with the decrease in the average amount drawn on the Group's revolving credit facilities at a marginal rate of around 1%. The Group's share of joint venture net interest expense reduced to £22.2 million (2017: £24.6 million), largely

reflecting favourable swap valuations within the Ascent JV. The IAS 19 pension finance charge was £2.3 million (2017: £6.4 million) as expected.

Underlying profit before tax increased by 3.6% to £512.5 million (2017: £494.8 million). The associated tax charge, including the Group's share of joint venture tax of £17.5 million (2017: £14.2 million), totalled £92.3 million (2017: £86.6 million), representing an effective underlying rate of tax of 18.0% (2017: 17.5%). The effective tax rate is calculated by using the Group's underlying profit before tax and therefore excludes the tax effect of amortisation of acquired intangibles. We expect the effective underlying rate of tax to be around 18% in 2018/19. The Group's net pension deficit reduced to £5.0 million (2017: £104.5 million), as growth assets performed well along with continuing annual deficit contributions. The projected pension charge within operating profit for 2018/19 is £44.1 million (2017/18: £47.3 million), a £3.2 million cost decrease which will be enhanced by a £2.8 million reduction in retirement benefit interest.

Amortisation of acquired intangibles was £103.9 million (2017: £118.5 million). This represents the amortisation of the value attributed on business acquisitions to customer relationships (both contractual and non-contractual) and acquired brands.

Half year income statement phasing for 2018/19 is expected to be similar to the phasing in 2017/18.

Underlying Organic Growth

	Marine £m	Land £m	Aviation £m	Nuclear £m	Unallocated £m	Total £m
Underlying revenue						
31 March 2017	1,901.6	1,811.7	874.0	629.3	–	5,216.6
Exchange adjustment	(5.8)	2.1	11.4	–	–	7.7
Disposals	–	(7.2)	–	–	–	(7.2)
Organic growth	(106.9)	42.5	136.7	73.4	–	145.7
31 March 2018	1,788.9	1,849.1	1,022.1	702.7	–	5,362.8
Underlying revenue growth	(5.9%)	2.1%	16.9%	11.7%	–	2.8%
Organic growth at constant exchange rates	(5.6%)	2.3%	15.6%	11.7%	–	2.8%
Underlying operating profit						
31 March 2017	233.9	139.7	145.5	61.4	(5.7)	574.8
Exchange adjustment	(0.7)	0.9	2.3	–	(0.1)	2.4
Disposals	–	(1.8)	–	–	–	(1.8)
Organic growth	1.9	1.3	(3.5)	7.4	2.1	9.2
31 March 2018	235.1	140.1	144.3	68.8	(3.7)	584.6
Underlying operating profit growth	0.5%	0.3%	(0.8%)	12.1%	–	1.7%
Organic growth at constant exchange rates	0.8%	0.9%	(2.4%)	12.1%	–	1.6%

Exchange rates

The impact of foreign currency movements over the year resulted in an increase in underlying revenue of £7.7 million and a corresponding £2.4 million increase in underlying operating profit. A 10% movement in the Euro against Sterling would affect full year revenue by around £50 million and operating profit by £5 million. A 10% movement in the Rand would affect full year revenue by around £38 million and operating profit by £2 million. A 10% movement in Canadian Dollars would affect full year revenue by around £15 million and operating profit by £2 million.

Earnings per share

Underlying earnings per share for the year was 83.0 pence (2017: 80.1 pence), an increase of 3.6%. Basic continuing earnings per share, as defined by IAS 33, was 66.6 pence (2017: 61.8 pence) an increase of 7.8%.

Cash flow and net debt

The Group has once again achieved its target of delivering pre capital expenditure cash conversion of over 100% and around 80% post capital expenditure. The cash flow has delivered a net debt to EBITDA reduction to 1.6 times at the year end and we expect to continue to reduce the net debt to EBITDA ratio to around 1.4 times by the end of 2018/19. We continue to focus on the generation of cash and cash conversion remains an important key performance indicator (KPI) for the Group. The analysis below reconciles the management KPI for cash conversion.

	2018 £m	2017 £m
Operating profit before amortisation of acquired intangibles	468.7	472.3
Amortisation and depreciation	104.3	92.3
Other non-cash items	4.3	13.7
Working capital (excluding excess retirement benefits and FOMEDEC)	(4.0)	(7.7)
FOMEDEC	(50.4)	–
Provisions	(27.7)	(28.4)
Operating cash flow	495.2	542.2
Cash conversion % /– excluding FOMEDEC	106%/116%	115%
Capital expenditure (net)	(112.7)	(134.9)
Operating cash flow after capital expenditure	382.5	407.3
Cash conversion % – after capital expenditure, /excluding FOMEDEC	82%/92%	86%
Interest paid (net)	(53.6)	(51.6)
Taxation	(74.3)	(61.5)
Dividends from joint ventures	42.9	26.7
Free cash flow before pension contribution in excess of income statement	297.5	320.9
Retirement benefit contributions in excess of income statement	(47.3)	(38.2)
Free cash flow after pension contribution in excess of income statement	250.2	282.7
Acquisitions and disposals net of cash/debt acquired	(0.2)	(30.5)
Issue of shares	–	0.9
Investments in joint ventures	(6.0)	2.1
Movement in own shares	(4.2)	(7.8)
Dividends paid	(147.7)	(133.8)
Net cash (outflow)/ inflow	92.1	113.6
Net debt reconciliation		
Opening net debt	(1,173.5)	(1,228.5)
Net cash inflow	92.1	113.6
Exchange difference/other	(33.6)	(58.6)
Closing net debt	(1,115.0)	(1,173.5)

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

	2018 £m	2017 £m
Cash generated from operations	447.9	504.0
Retirement benefit contributions in excess of income statement	47.3	38.2
Operating cash flow	495.2	542.2

Cash generated from operations was £447.9 million (2017: £504.0 million), from which the Group's operating cash flow calculation is derived. Operating cash flow after movements in working capital was down 8.7% to £495.2 million (2017: £542.2 million), however this was principally due to the FOMEDEC contract cash flows of £50.4 million which will reverse in 2018/19. Excluding these, operating cash flow was £545.6 million and represents a conversion rate of operating profit to cash of 116% (2017: 115%).

Working capital cash outflows during the period, excluding excess retirement benefits, were £4.0 million (2017: £7.7 million) excluding FOMEDEC. These contract-driven modest working capital cash outflows over the last two years are better than expected and may see some reversal in 2018/19. FOMEDEC working capital outflows were £109.3 million in debtors offset by £58.9 million in creditors, with a net effect of a £50.4 million outflow which will reverse in 2018/19. The FOMEDEC working capital will reverse in the first half of 2018/19 as a result of finance leases accepted by the government customer and some securitisation proceeds from the sale of the first finance leases offset by supplier payments. In the second half the balance of finance leases will be sold and outstanding supplier payments made.

The cash outflow includes £27.7 million of provision movements (2017: £28.4 million) relating to contracts (primarily pain share/gain share and warranties), onerous leases, personnel (taxation and reorganisation) and property. There has been some acceleration of the settlement of contract matters, which is expected to occur again in 2018/19. The level of provision outflow in 2018/19 is expected to be similar to

2017/18, after which we expect the provisions balance to stabilise. During the year there was a £9 million income statement charge to provisions and over the last eight financial years the cumulative net provisions charge was £19.7 million and averaged 0.8% of underlying operating profit.

Net capital expenditure, including new finance leases, during the year was £112.7 million (2017: £134.9 million). The Group achieved a conversion rate of operating cash flow after movements in working capital and capital expenditure to operating profit of 82% (2017: 86%); excluding FOMEDEC we achieved a conversion rate of 92%, a five-year high. Capital expenditure for the year was 1.1 times the Group's depreciation and amortisation charge of £104.3 million. For the 2018/19 financial year capital expenditure will be around 1.2 times depreciation. Net Group cash interest paid, excluding that paid by joint ventures, was £53.6 million (2017: £51.6 million), which reflects the refinancing of the Group's debt and the timing of due payments.

Pension cash outflows in excess of income statement charge were £47.3 million (2017: £38.2 million). Guidance for 2018/19 is an outflow of around £50 million. However, the pension environment has deteriorated in the year and, combined with the uneven distribution of funding deficits between the three large schemes, may see more volatility in pensions funding, although funding levels have improved.

Cash taxation payments of £74.3 million (2017: £61.5 million) increased due to increased overseas profits and prior year utilisation of overseas tax losses, but benefited from pension deficit payments in the UK.

Free cash flow pre-excess pension payments and FOMEDEC improved to £347.9 million (2017: £320.9 million), up 8.4%, representing a free cash flow yield at 31 March 2018 of 10.3% (2017: 7.2%). Free cash flow post excess pension payments and FOMEDEC increased to £300.6 million (2017: £282.7 million), up 6.3%.

During the year the Group received £42.9 million in dividends from its joint ventures (2017: £26.7 million). Cash dividends (including to minorities of £3.8 million) paid out in the year totalled £147.7 million (2017: £133.8 million). The Group expects dividends from its joint ventures to increase to around £45 million in 2018/19 and around £50 million in 2019/20.

Group net cash inflow was £92.1 million (2017: £113.6 million inflow), decreasing total net debt at 31 March 2018 to £1,115 million (31 March 2017: £1,174 million). This gives a net debt to EBITDA ratio of 1.6 times (31 March 2017: 1.8 times).

Half year cash flow phasing for 2018/19 is expected to be at a similar level to 2017/18, with the exception of the FOMEDEC reversion.

Return on Invested Capital (ROIC)

We define ROIC as underlying earnings before financing costs, divided by the average of opening and closing equity plus net debt, excluding retirement benefit deficits. ROIC, pre tax, was 14.5% (2017: 14.5%). Post tax ROIC was 11.9% (2017: 11.9%). This compares to the Group's current weighted average cost of capital of c7.5%. The Group continues to focus on capital employed and on improving returns, and management compensation includes this as a performance measure.

Net debt to EBITDA

	March 2018 £m	March 2017 £m
Underlying operating profit	584.6	574.8
Depreciation	91.3	82.4
Amortisation of software and development costs	13.0	7.6
Non-controlling interests	(1.4)	(3.8)
EBITDA	687.5	661.0
Net debt	1,115.0	1,173.5
Net debt/EBITDA	1.6x	1.8x

Pensions

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,734.9 million in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,739.9 million. The total accounting deficit, pre-tax, of the Group's combined defined benefit pension schemes showed a decrease to £5.0 million (31 March 2017: £104.5 million). As at 31 March 2018, the key assumptions used in valuing pension liabilities were:

Discount rate	2.6% (31 March 2017: 2.6%)
Inflation rate (RPI)	3.1% (31 March 2017: 3.2%)

Group income statement

For the year ended 31 March 2018	Note	2018 £m	2018 £m	2017 £m	2017 £m
Revenue[1]	2		4,659.6		4,547.1
Cost of revenue			(3,971.7)		(3,883.0)
Gross profit			687.9		664.1
Distribution expenses			(12.8)		(13.0)
Administration expenses			(304.5)		(291.5)
Operating profit before share of results of joint ventures and associates	2		370.6		359.6
Share of results of joint ventures and associates			68.5		56.7
Group and joint ventures and associates					
Operating profit before amortisation of acquired intangibles		554.6		545.1	
Investment income		30.0		29.7	
Underlying operating profit[2]	2	584.6		574.8	
Amortisation of acquired intangibles		(103.9)		(118.5)	
Group investment income		(1.9)		(1.2)	
Joint ventures and associates finance costs		(22.2)		(24.6)	
Joint ventures and associates income tax expense		(17.5)		(14.2)	
Operating profit			439.1		416.3
Finance costs					
Investment income		1.9		1.2	
Retirement benefit interest		(2.3)		(6.4)	
Finance costs		(61.9)		(60.4)	
Finance income		14.3		11.4	
			(48.0)		(54.2)
Profit before tax	2		391.1		362.1
Income tax expense	3		(53.4)		(46.5)
Profit for the year			337.7		315.6
Attributable to:					
Owners of the parent			336.3		311.8
Non-controlling interest			1.4		3.8
			337.7		315.6
Earnings per share	4				
Basic			66.6p		61.8p
Diluted			66.5p		61.7p

1. Revenue does not include the Group's share of revenue from joint ventures and associates of £703.2 million (2017: £669.5 million).

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

Group statement of comprehensive income

For the year ended 31 March 2018	2018 £m	2017 £m
Profit for the year	337.7	315.6
Other comprehensive income		
Items that may be subsequently reclassified to income statement		
Currency translation differences	(25.9)	88.8
Fair value adjustment of interest rate and foreign exchange hedges	(6.1)	4.3
Tax on fair value adjustment of interest rate and foreign exchange hedges	1.2	(0.9)
Fair value adjustment of joint ventures and associates derivatives	24.3	2.6
Tax, including rate change impact, on fair value adjustment of joint ventures and associates derivatives	(7.4)	(0.5)
Items that will not be subsequently reclassified to income statement		
Remeasurement of retirement benefit obligations	49.7	66.8
Tax on remeasurement of retirement benefit obligations	(10.3)	(13.3)
Impact of change in UK tax rates	1.9	1.1
Other comprehensive income, net of tax	27.4	148.9
Total comprehensive income	365.1	464.5
Total comprehensive income attributable to:		
Owners of the parent	363.6	458.0
Non-controlling interest	1.5	6.5
Total comprehensive income	365.1	464.5

Group statement of changes in equity

For the year ended 31 March 2018	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Owners of the parent £m	Non-controlling interest £m	Total equity £m
At 1 April 2016	302.5	873.0	768.8	30.6	519.2	(92.0)	(63.6)	2,338.5	17.8	2,356.3
Total comprehensive income	–	–	–	–	366.3	5.5	86.2	458.0	6.5	464.5
Shares issued in year	0.9	–	–	–	–	–	–	0.9	–	0.9
Dividends	–	–	–	–	(132.5)	–	–	(132.5)	(1.3)	(133.8)
Share-based payments	–	–	–	–	15.0	–	–	15.0	–	15.0
Tax on shared-based payments	–	–	–	–	(0.8)	–	–	(0.8)	–	(0.8)
Transactions with non-controlling interests	–	–	–	–	(1.5)	–	–	(1.5)	(0.6)	(2.1)
Own shares and other	–	–	–	–	(7.8)	–	–	(7.8)	–	(7.8)
Net movement in equity	0.9	–	–	–	238.7	5.5	86.2	331.3	4.6	335.9
At 31 March 2017	303.4	873.0	768.8	30.6	757.9	(86.5)	22.6	2,669.8	22.4	2,692.2
At 1 April 2017										
Total comprehensive income/(loss)	–	–	–	–	377.5	12.0	(25.9)	363.6	1.5	365.1
Dividends	–	–	–	–	(143.9)	–	–	(143.9)	(3.8)	(147.7)
Share-based payments	–	–	–	–	6.4	–	–	6.4	–	6.4
Tax on shared-based payments	–	–	–	–	1.9	–	–	1.9	–	1.9
Transactions with non-controlling interests	–	–	–	–	(0.7)	–	–	(0.7)	(2.0)	(2.7)
Own shares and other	–	–	–	–	(4.2)	–	–	(4.2)	–	(4.2)
Net movement in equity	–	–	–	–	237.0	12.0	(25.9)	223.1	(4.3)	218.8
At 31 March 2018	303.4	873.0	768.8	30.6	994.9	(74.5)	(3.3)	2,892.9	18.1	2,911.0

Group balance sheet

As at 31 March 2018	Note	2018 £m	2017 £m
Assets			
Non-current assets			
Goodwill		2,600.9	2,608.8
Other intangible assets		529.3	608.0
Property, plant and equipment		1,028.4	1,036.9
Investment in joint ventures and associates	6	119.3	71.9
Loan to joint ventures and associates	6	27.8	32.3
Retirement benefits	11	240.1	193.5
Trade and other receivables		6.7	29.4
IFRIC 12 financial assets		17.8	20.0
Other financial assets	7	76.0	152.6
Deferred tax asset		104.0	113.1
		4,750.3	4,866.5
Current assets			
Inventories		181.4	159.2
Trade and other receivables		1,060.1	885.4
Income tax recoverable		15.4	16.5
Other financial assets	7	27.5	11.9
Cash and cash equivalents	10	286.3	191.4
		1,570.7	1,264.4
Total assets		6,321.0	6,130.9
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital		303.4	303.4
Share premium		873.0	873.0
Capital redemption and other reserves		721.6	735.5
Retained earnings		994.9	757.9
		2,892.9	2,669.8
Non-controlling interest		18.1	22.4
Total equity		2,911.0	2,692.2
Non-current liabilities			
Bank and other borrowings	10	1,485.2	1,398.1
Trade and other payables		2.3	3.7
Deferred tax liabilities		112.8	134.6
Other financial liabilities	7	5.0	9.7
Retirement liabilities	11	245.1	298.0
Provisions for other liabilities		61.1	90.3
		1,911.5	1,934.4
Current liabilities			
Bank and other borrowings	10	38.1	154.3
Trade and other payables		1,392.1	1,297.6
Income tax payable		21.7	11.1
Other financial liabilities	7	11.9	4.3
Provisions for other liabilities		34.7	37.0
		1,498.5	1,504.3
Total liabilities		3,410.0	3,438.7
Total equity and liabilities		6,321.0	6,130.9

Group cash flow statement

For the six months ended 30 March 2018

For the year ended 31 March 2018	Note	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from operations	8	447.9	504.0
Income tax paid		(74.3)	(61.5)
Interest paid		(67.9)	(63.0)
Interest received		14.3	11.4
Net cash flows from operating activities		320.0	390.9
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	13	(0.2)	(0.6)
Dividends received from joint ventures and associates		42.9	26.7
Proceeds on disposal of property, plant and equipment		70.0	71.9
Purchases of property, plant and equipment		(150.4)	(175.9)
Purchases of intangible assets		(32.3)	(30.9)
Investment in, loans to and interest received from joint ventures and associates		(1.5)	2.4
Acquisition of subsidiaries net of cash acquired	12	–	(24.7)
Net cash flows from investing activities		(71.5)	(131.1)
Cash flows from financing activities			
Dividends paid		(143.9)	(132.5)
Finance lease principal payments		(27.5)	(26.4)
Finance lease assets repaid		9.6	5.2
Bank loans repaid		(88.4)	(334.7)
Loans raised		121.9	250.0
Dividends paid to non-controlling interest		(3.8)	(1.3)
Net proceeds on issue of shares		–	0.9
Transactions with non-controlling interests		(5.3)	(2.1)
Movement on own shares		(4.2)	(7.8)
Net cash flows from financing activities		(141.6)	(248.7)
Net increase in cash, cash equivalents and bank overdrafts		106.9	11.1
Cash, cash equivalents and bank overdrafts at beginning of year		185.6	168.8
Effects of exchange rate fluctuations		(6.2)	5.7
Cash, cash equivalents and bank overdrafts at end of year	10	286.3	185.6

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 2018. They should be read in conjunction with the Annual Report for the year ended 31 March 2017, which has been prepared in accordance with IFRSs as adopted by the European Union. The accounting policies used and presentation of these consolidated financial statements are consistent with those in the Annual Report for the year ended 31 March 2017, except as noted below.

Standards, amendments and interpretations that are not yet effective, and their impact on the Group's operations, is currently being assessed but is not expected to be significant:

- IFRS 2, 'Share based payments', effective 1 January 2018;
- IFRS 9, 'Financial Instruments', effective from 1 January 2018 and endorsed by the EU. The Group has reviewed the differences between IFRS 9 and the current accounting policies under IAS 39. IFRS 9 introduces new classification and measurement models for financial assets and methodology for impairment of financial assets, but this will not have a material effect on the measurement basis of the Group's financial assets. The Group will amend its methodology for impairment of trade receivables and contract assets; however the net impact of applying these changes to the impairment model will be immaterial, particularly given the high proportion of government customers.
- FRS 15, 'Revenue from contracts with customers', effective from 1 January 2018 and endorsed by the EU, identifies performance obligations in contracts with customers, allocates the transaction price to the performance obligations and recognises revenue as the performance obligations are satisfied. We have completed a detailed review of all significant contracts and the results of our review indicate that IFRS 15 is not expected to result in any change to the timing of revenue or profit recognition on service provision contracts or long-term service contracts. This assessment reflects, amongst other matters, that the Group's contracting arrangements meet the requirements set out in IFRS 15 to satisfy performance obligations and recognise revenue over time. The review also indicated that the new standard will not introduce any change to the Group's revenue recognition policy in relation to revenue from the sale of goods not under service provision contracts or long-term service contracts. The standard does however increase disclosure requirements for both the annual report and interim financial statements.
- 2016 Annual improvements, effective 1 January 2018.

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

- IFRS 16, 'Leases', effective from 1 January 2019 and endorsed by the EU. Currently, operating leases are not recognised on the balance sheet and the impact of this standard will be to recognise a lease liability and right of use asset on the Group's balance sheet in relation to most leases currently classified as operating leases. The change will result in an improvement in operating profit, with the depreciation of the right of use asset being less than the current operating lease charge. This will however be offset by an increase in interest charge with the net position dependent on the average lease maturity on adoption. The Group is still assessing the exemptions to be applied, including transition options, and the impact on systems and processes.
- 2017 Annual improvements, effective 1 January 2019

2. Segmental information

The segments reflect the accounting information reviewed by the Executive Committee which is the Chief Operating Decision Maker (CODM). The 2017 comparatives are being presented for the first time in the new reporting sector structure.

31 March 2018	Marine £m	Land £m	Aviation £m	Cavendish Nuclear £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,788.9	1,849.1	1,022.1	702.7	–	5,362.8
Less: joint venture and associate revenue	22.4	88.7	101.0	491.1	–	703.2
Revenue	1,766.5	1,760.4	921.1	211.6	–	4,659.6
Operating profit before share of results of joint ventures and associates	225.6	59.7	58.9	30.1	(3.7)	370.6
Acquired intangible amortisation	5.3	47.5	44.2	1.1	–	98.1
Operating profit*	230.9	107.2	103.1	31.2	(3.7)	468.7
IFRIC 12 investment income – Group	0.4	1.5	–	–	–	1.9
Share of operating profit – joint ventures and associates	3.8	29.9	14.6	37.6	–	85.9
Share of IFRIC 12 investment income – joint ventures and associates	–	1.5	26.6	–	–	28.1
Underlying operating profit	235.1	140.1	144.3	68.8	(3.7)	584.6
Share of finance costs – joint ventures and associates	–	(0.9)	(21.3)	–	–	(22.2)
Share of tax – joint ventures and associates	(1.3)	(5.4)	(3.7)	(7.1)	–	(17.5)
Acquired intangible amortisation – Group	(5.3)	(47.5)	(44.2)	(1.1)	–	(98.1)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.0)	(3.8)	–	–	(5.8)
Net finance costs – Group	–	–	–	–	(49.9)	(49.9)
Profit before tax	228.5	84.3	71.3	60.6	(53.6)	391.1

* Before amortisation of acquired intangibles and exceptional items.

2. Segmental information (continued)

31 March 2017	Marine £m	Land £m	Aviation £m	Cavendish Nuclear £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,901.6	1,811.7	874.0	629.3	–	5,216.6
Less: joint venture and associate revenue	27.8	126.3	80.9	434.5	–	669.5
Revenue	1,873.8	1,685.4	793.1	194.8	–	4,547.1
Operating profit before share of results of joint ventures and associates	216.4	66.2	51.8	30.9	(5.7)	359.6
Acquired intangible amortisation	9.9	46.3	55.1	1.4	–	112.7
Operating profit*	226.3	112.5	106.9	32.3	(5.7)	472.3
IFRIC 12 investment income – Group	0.7	0.5	–	–	–	1.2
Share of operating profit – joint ventures and associates	6.9	25.2	11.6	29.1	–	72.8
Share of IFRIC 12 investment income – joint ventures and associates	–	1.5	27.0	–	–	28.5
Underlying operating profit	233.9	139.7	145.5	61.4	(5.7)	574.8
Share of finance costs – joint ventures and associates	–	(1.4)	(23.2)	–	–	(24.6)
Share of tax – joint ventures and associates	(2.1)	(3.9)	(2.3)	(5.9)	–	(14.2)
Acquired intangible amortisation – Group	(9.9)	(46.3)	(55.1)	(1.4)	–	(112.7)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.0)	(3.8)	–	–	(5.8)
Net finance costs – Group	–	–	–	–	(55.4)	(55.4)
Profit before tax	221.9	86.1	61.1	54.1	(61.1)	362.1

* Before amortisation of acquired intangibles and exceptional items

Exceptional items are those items which are exceptional in nature or size. These include material acquisition costs and reorganisation costs. There were no exceptional costs in the year nor in the previous year.

3. Income tax expense

Taxation in respect of Group underlying profit before tax and acquired intangible amortisation totalled £92.3 million (2017: £86.6 million) including the Group's share of jv income tax of £17.5 million (2017: £14.2 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) was 18.0% (2017: 17.5%).

4. Earnings per share

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

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	504,881,495	504,571,769
Effect of dilutive potential ordinary shares: share options	858,150	737,251
Weighted average number of ordinary shares for the purpose of diluted EPS	505,739,645	505,309,020

Earnings

	2018			2017		
	Earnings £m	Basic per share Pence	Diluted per share Pence	Earnings £m	Basic per share Pence	Diluted per share Pence
Earnings from continuing operations	336.3	66.6	66.5	311.8	61.8	61.7
Add back:						
Amortisation of acquired intangible assets, net of tax	81.7	16.2	16.2	92.1	18.2	18.2
Impact of change in statutory tax rates	0.8	0.2	0.2	0.5	0.1	0.1
Earnings before amortisation, exceptional items and other	418.8	83.0	82.9	404.4	80.1	80.0

5. Dividends

The Directors have proposed a final dividend of 22.65p per 60p ordinary share (2017: 21.65p per 60p ordinary share) and it will be paid on 10 August 2018 to shareholders registered on 29 June 2018, subject to approval at the Annual General Meeting on 19 July 2018. The full year declared dividend per share is 29.5p per 60p ordinary share (2017: 28.15p per 60p ordinary share).

6. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
At 1 April	71.9	39.9	32.3	32.6	104.2	72.5
Disposal of joint venture and associates	(1.8)	–	–	–	(1.8)	–
Repayments from joint ventures and associates	–	–	(4.5)	–	(4.5)	–
Investment in joint ventures and associates	6.9	(1.0)	–	–	6.9	(1.0)
Share of profits	68.5	56.7	–	–	68.5	56.7
Interest accrued	–	–	0.9	1.1	0.9	1.1
Interest received	–	–	(0.9)	(1.4)	(0.9)	(1.4)
Dividend received	(42.9)	(26.7)	–	–	(42.9)	(26.7)
Fair value adjustment of derivatives	24.3	2.6	–	–	24.3	2.6
Tax on fair value adjustment of derivatives	(7.4)	(0.5)	–	–	(7.4)	(0.5)
Foreign exchange	(0.2)	0.9	–	–	(0.2)	0.9
Total	119.3	71.9	27.8	32.3	147.1	104.2

7. Other financial assets and liabilities

	Fair value			
	Assets		Liabilities	
	2018 £m	2017 £m	2018 £m	2017 £m
Non-current				
US private placement – currency and interest rate swaps	47.7	127.6	–	–
Interest rate hedges	1.5	6.5	0.9	1.2
Other currency hedges	3.5	1.7	4.1	3.3
Non-controlling interest put option	–	–	–	5.2
Financial instruments	52.7	135.8	5.0	9.7
Finance leases granted	23.3	16.8	–	–
Total non-current other financial assets and liabilities	76.0	152.6	5.0	9.7
Current				
Interest rate hedges	–	–	0.2	0.2
Other currency hedges	4.3	1.1	11.7	4.1
Financial instruments	4.3	1.1	11.9	4.3
Finance leases granted	23.2	10.8	–	–
Total current other financial assets and liabilities	27.5	11.9	11.9	4.3

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

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

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

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

In South Africa the Group operates its own finance company to facilitate the sale of DAF vehicles. It obtains external borrowings and sells vehicles on finance leases to external customers. At the year end the present value of the minimum lease receivable amounted to £37.2 million (2017: £27.6 million), these were split as £13.9 million (2017: £10.8 million) due within one year and £23.3 million (2017: £16.8 million) between one and five years. In addition there is £9.3 million due with one year in respect of our FOMEDEC contract.

8. Reconciliation of operating profit to cash generated from operations

	2018 £m	2017 £m
Cash flows from operating activities		
Operating profit before amortisation of acquired intangible and exceptional items	468.7	472.3
Amortisation of acquired intangible and exceptional items	(98.1)	(112.7)
Group operating profit before share of results of joint ventures and associates	370.6	359.6
Depreciation of property, plant and equipment	91.3	82.4
Amortisation of intangible assets	111.1	122.6
Investment income	1.9	1.2
Equity share-based payments	6.4	15.0
Loss on disposal of intangible assets	–	0.3
Profit on disposal of property, plant and equipment	(4.1)	(2.8)
Operating cash flows before movement in working capital	577.2	578.3
Increase in inventories	(19.5)	(0.4)
Increase in receivables	(137.4)	(78.3)
Increase in payables	102.6	71.0
Decrease in provisions	(27.7)	(28.4)
Retirement benefit payments in excess of income statement	(47.3)	(38.2)
Cash generated from operations	447.9	504.0

9. Movement in net debt

	2018 £m	2017 £m
Increase in cash in the year	106.9	11.1
Cash flow from the (increase)/decrease in debt and lease financing	(43.7)	91.0
Change in net funds resulting from cash flows	63.2	102.1
Loans and finance leases acquired with subsidiaries	–	(5.2)
New finance leases – granted	28.1	14.8
Movement in joint venture and associates loans	(4.5)	(0.3)
Foreign currency translation differences and other	(28.3)	(56.4)
Movement in net debt in the year	58.5	55.0
Net debt at the beginning of the year	(1,173.5)	(1,228.5)
Net debt at the end of the year	(1,115.0)	(1,173.5)

10. Changes in net debt

	At 31 March 2017 £m	Cash flow £m	New finance leases £m	Exchange/ other movement £m	31 March 2018 £m
Cash and bank balances	191.4	101.1	–	(6.2)	286.3
Bank overdrafts	(5.8)	5.8	–	–	–
Cash, cash equivalents and bank overdrafts	185.6	106.9	–	(6.2)	286.3
Debt	(1,428.4)	(46.8)	–	43.0	(1,432.2)
Finance leases – received	(118.2)	27.5	–	(0.4)	(91.1)
Finance leases – granted	27.6	(9.6)	28.1	0.4	46.5
	(1,519.0)	(28.9)	28.1	43.0	(1,476.8)
Net debt before derivatives and joint venture and associate loans	(1,333.4)	78.0	28.1	36.8	(1,190.5)
Net debt derivative	127.6	(14.8)	–	(65.1)	47.7
Joint venture and associate loans	32.3	(4.5)	–	–	27.8
Net debt	(1,173.5)	58.7	28.1	(28.3)	(1,115.0)

11. Retirement benefits and liabilities

Analysis of movement in the Group balance sheet

	2018 £m	2017 £m
Fair value of plan assets (including reimbursement rights)		
At 1 April	4,676.2	3,824.8
Interest on assets	115.8	127.1
Actuarial gain on assets	60.8	821.7
Employer contributions	99.4	77.0
Employee contributions	0.7	1.8
Benefits paid	(218.0)	(176.2)
At 31 March	4,734.9	4,676.2
Present value of benefit obligations		
At 1 April	4,780.5	4,027.7
Service cost	43.3	34.9
Incurred expenses	4.0	3.9
Interest cost	118.1	133.5
Employee contributions	0.7	1.8
Experience losses / (gain)	29.6	(13.2)
Actuarial gain – demographics	0.1	(29.6)
Actuarial (gain)/loss – financial	(18.6)	797.7
Benefits paid	(218.0)	(176.2)
At 31 March	4,739.7	4,780.5
Present value of unfunded obligations	(0.2)	(0.2)
Net deficit at 31 March	5.0	104.5

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

	2018 £m	2017 £m
Current service cost	43.3	34.9
Incurred expenses	4.0	3.9
Total included within operating profit	47.3	38.8
Net interest cost	2.3	6.4
Total included within income statement	49.6	45.2

As at 31 March 2018 the key assumptions used in valuing pension liabilities were:

Discount rate	2.6% (31 March 2017: 2.6%)
Inflation rate (RPI)	3.1% (31 March 2017: 3.2%)

12. Acquisitions

There were no acquisitions in the current year.

During the previous year, in April 2016 the Group acquired 100% of Heli Aviation GmbH for £5.7 million plus acquired loans of £5.2 million giving a total cost of £10.9 million.

Deferred consideration of £19.0 million was paid in the previous year in respect of DSG, Scandinavian AirAmbulance AB, Context Information Services Limited and Skills2Learn Limited.

13. Disposals

During the year the Group disposed of its schools infrastructure business, which resulted in a loss of £0.9 million.

During both the current and the previous year the Group paid certain accrued costs on previously disposed of businesses of £2.0 million (2017: £0.6 million).

14. Transactions with non-controlling interests

During the year the put option in respect of the non-controlling interest in Scandinavian AirAmbulance AB was exercised resulting in the Group paying £5.3 million plus deferring a further payment of £2.4 million for a year, in order to acquire the balance of the share capital in that company.

15. Related party transactions

Related party transactions for the year are: sales to joint ventures and associates of £178.8 million (2017: £184.9 million) and purchases from joint ventures and associates of £0.5 million (2017: £0.9 million). The year end receivables balance was £13.3 million (2017: £17.2 million) and the payables balance was £0.8 million (2017: £1.6 million).

For annualised key management compensation, please refer to note 6 and the Remuneration report in the Annual Report for the year ended 31 March 2018.

For transactions with Group defined benefit pension schemes, please refer to note 11 above and note 24 in the Annual Report for the year ended 31 March 2018.

16. Financial information

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

Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the Company's Annual General Meeting.

The Annual Report for the year ended 31 March 2018 and this preliminary statement were approved by the Board on 22 May 2018. The auditors have reported on the Annual Report for the year ended 31 March 2018 and 31 March 2017 and neither report was qualified and neither contained a statement under Section 498(2) or (3) of the Companies Act 2006.

Annual General Meeting 2018

This year's Annual General Meeting will be held on 19 July 2018 at 11.00 am. Details of the resolutions to be proposed at that meeting will be included in the Notice of Annual General Meeting that will be sent to shareholders in June 2018.

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

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

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

Archie Bethel
Chief Executive

Franco Martinelli
Group Finance Director

22 May 2018