22 May 2019

Profit growth and strong cash generation

Financial results

	Statutory			Underlying			
	31 March 2019	31 March 2018	Change	31 March 2019	31 March 2018	Footnote	Change
Revenue	£4,474.8m	£4,659.6m	–4.0 %	£5,160.6m	£5,362.8m	1	–3.8 %
Operating profit	£196.5m	£370.6m	–47.0 %	£588.4m	£584.6m	2	0.7 %
Profit before tax	£235.2m	£391.1m	–39.9 %	£517.9m	£512.5m	3	1.1 %
Basic earnings per share	39.5p	66.6p	–40.7 %	84.0p	83.0p	4	1.2 %

See page 2 for notes on the adjustments made to derive the underlying results of the Group and for all footnotes referred to in these tables.

	31 March 2019	31 March 2018	Footnote	Change
Operating cash flow	£617.8m	£495.2m		24.8%
Free cash flow (post pension payments)	£323.7m	£250.2m	5	29.4%
Net debt	£957.7m	£1,115.0m		–14.1%
Net debt/EBITDA	1.4x	1.6x	6	–0.2x
Combined order book and pipeline	£31bn	£31bn		flat
Full year dividend	30.0p	29.5p		1.7%

Financial highlights

- **Underlying revenue** of £5.2 billion, in line with guidance given in February 2019. Exits and disposals and lower activity in the short cycle parts of our business impacted revenue while performance across long term contracts remained strong. Organic underlying revenue growth at constant rates was -1.9% (-1.0% excluding exits)
- **Underlying operating profit** up 0.7% to £588 million
- **Margin** expansion reflects increased JV contribution, good contract performance and the exit of low margin businesses
- **Statutory revenue** down 4.0% with **statutory operating profit** of £197 million impacted by £161 million of exceptional costs: £41 million of operating profit exceptional costs recognised in the second half, mostly related to pensions as flagged in February 2019
- **Underlying basic EPS** up 1.2% to 84.0p
- **Cash performance:** underlying operating cash flow of £618m, with net capex of £149 million and cash conversion post capex of 104%. Free cash flow (including pension payments) was £324 million, £74 million higher year on year
- **De-gearing:** net debt £958 million, down £157 million year-on-year and represents 1.4x EBITDA, in line with our guidance
- **Full year dividend:** up 1.7% to 30.0p, reflecting our confidence in the prospects of the Group and sustained cash generation

Operational highlights

- Combined order book and pipeline stable at £31 billion
- Continued partnerships working with our customers to drive operational excellence
- Significant UK contract wins in the year: integration of new training technology across naval bases and air stations (MARTASS), Naval Design Partnership, commenced continuous production of submarine missile launch tube assemblies, DSG vehicle transformation additional scope, Dounreay Materials Test Reactor dismantling, new ten year Rail contracts
- Building strong positions in key long term projects: Dreadnought/Columbia Class nuclear submarine programmes, Hinkley Point C new build
- Continue to grow international businesses (now 30% of group revenue): large Marine win in Australia, aerial firefighting in Canada, mobilising aerial medical emergency services in Sweden and Norway
- Taking action: reshaped Oil and Gas business, restructured ahead of the end of Magnox contract, continued to exit non-strategic businesses

Outlook for the year ending 31 March 2020

- As previously highlighted, the year ending 31 March 2020 will be affected by a number of step downs (detailed on page 6). In total, these step downs will reduce revenue by £410 million and reduce operating profit by £63 million
- The Group's guidance reflects these step downs and the current market conditions, including the weakness in short cycle contracts experienced this financial year
- We expect underlying revenue to be around £4.9 billion
- We expect to maintain our underlying margin (incl. JVs) at between 10.7% and 11.0%
- Underlying operating profit is expected to be in the range of £515 million to £535 million
- Free cash flow (post pension payments) is expected to be over £250 million and we expect to continue to reduce net debt
- As with previous years, performance for the group will be weighted to the second half, especially for cash generation

Upcoming investor events

- We will hold a Capital Markets Day in London on 5 June 2019. This will set out the details of the Group's strategy, including the long term growth opportunities available to Babcock from our leadership positions in our three focus markets of defence, aerial emergency services and civil nuclear. We will discuss our strategy in detail, including milestones and medium term financial targets, to deliver for our shareholders. The day will include presentations from our senior executive team
- Our Annual General Meeting will be held on 18 July 2019 and our next trading update will be issued in September 2019

Chief Executive Archie Bethel said:

"We have delivered a robust performance this year, operating profit is in line with our expectations, we have sustained our strong margins and we have improved our cash generation.

More importantly for the delivery of our strategic goals and our future performance, we have sharpened our focus on our three key markets of defence, aerial emergency services and civil nuclear. We have strengthened our position in these areas with some important contract wins that partially offset the upcoming completion of the QEC contract and the loss of the Magnox contract and we have delivered further growth in our international businesses. In addition, we have exited low margin businesses outside of the three focus markets, which do not have synergy with the rest of the Group, and we have reshaped our oil and gas business.

Net debt reduction in the year enhances our balance sheet strength and we have again increased the dividend.

As we begin the new financial year we do not expect the wider market environment to be any less challenging than we have experienced this past year. However, Babcock's strength continues to be our focus, our position as a trusted partner in critical, complex areas of national importance, in both the UK and internationally, and our knowledge and expertise. The guidance we have issued today for the 2019/20 financial year reflects the market environment we face and the strengths we deploy in these markets.

As in 2018/19, in the coming year we will continue to build a stronger business platform for the future and I want to thank my colleagues across Babcock for their hard work this year and their commitment to the Group in the coming year".

Archie Bethel
Chief Executive

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Analysts and investors:

A meeting for investors and analysts will be held on 22 May 2019 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. A transcript of the presentation and Q&A will also be made available on our website.

Notes

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

1. Underlying revenue includes the Group's share of joint ventures and associates revenues.
2. Underlying operating profit includes IFRIC 12 investment income and joint ventures' and associates' operating profit but is before amortisation of acquired intangibles. Underlying operating profit excludes exceptional items of £161 million.
3. Underlying profit before tax is inclusive of pre-tax joint ventures and associates income but before amortisation of acquired intangibles and exceptional items.
4. Underlying basic earnings per share is before amortisation of acquired intangibles, and exceptional items, before the related tax effects and before the effect of corporate tax rate changes.
5. Includes pension payments in excess of income statement of £56 million.
6. Group net debt (excluding non-recourse JV debt) divided by underlying EBITDA, which includes our share of EBITDA from joint ventures.

Overview

Progress on our strategy

Our three focus markets are defence, aerial emergency services and civil nuclear. They account for over 70% of our revenue and offer sustainable growth opportunities built on our core strengths and leadership positions. As we focus on these markets, we are exiting a number of non-strategic businesses:

- Last year, we sold our civil infrastructure businesses and started to exit renewables
- In the first half of this year, we exited our North American mining and construction support business, scaled down the powerlines business in South Africa, and we sold our media services business for net proceeds of £26 million
- In the second half, we exited the Surrey Schools education business, UK Cabling, UK Telecoms Infrastructure Support and our South African powerlines business, all of which were in our Land sector. We also sold our 50% stake in the Helidax joint venture for €10 million (c.£9 million) in our Aviation sector

At the half year, we announced the reshaping of our Oil and Gas business to manage the overcapacity which exists in this market, along with changes to further improve the efficiency of the business.

International growth remains a core element of our strategy and our international businesses now represent 30% of Group revenue, compared to 28% last year.

Our focus markets

Our three focus markets have significant long term growth potential however current conditions remain challenging.

Our primary market is **UK Defence** where we provide critical assets and services to all of the UK's armed forces every day with the Ministry of Defence (MOD). We are the UK's second largest defence supplier and, as part of the Strategic Partnering Programme, we are working with the UK Government and MOD to ensure the needs of our armed forces are met as they grow in size and complexity. While we are well placed for long term growth in the UK defence market, growth each year is partly dependent on the phasing of MOD spend.

International Defence markets offer significant long term potential, both in terms of increased spend in current markets and expansion into new markets. During the year, we won a significant contract to maintain Australia's fleet of amphibious landing ships and in France, our flying training contract is performing well. Our pipeline of work includes many opportunities in international defence markets and we see this part of our business increasing in size and importance over the medium term.

Demand for increasingly complex and technical **Aerial Emergency Services** continues to grow across the world. As Europe's leading provider, we are well placed for growth and in April 2019 we started aerial firefighting operations in Canada, our first North American presence.

Civil Nuclear remains a significant long term growth opportunity as ageing power stations come offline and new power stations are built. However, some opportunities in this space have been delayed, for example Horizon stopping work on the Wylfa project. The Magnox decommissioning contract ends in August 2019 as the Nuclear Decommissioning Authority (NDA) takes over the contract and this will have a significant impact on our business as previously flagged.

Across these focus markets, organic revenue growth at constant rates and excluding exits, procurement and QEC was around 3%.

Operational performance

While the current challenging conditions have impacted short cycle work, we continue to make significant progress on our long-term contracts. Highlights in the year:

- Continued work on the UK's aircraft carriers with HMS Prince of Wales now structurally complete and HMS Queen Elizabeth completing her initial sea trials before her first maintenance period at our Rosyth dockyard
- The Type 23 frigate life-extension programme at our Devonport facilities continues at pace with five ships undergoing deep maintenance and structural upgrade work simultaneously
- The largest Revalidation and Assisted Maintenance Period (RAMP) ever undertaken at Devonport on a Trafalgar Class submarine and we are also progressing on the first life extension of the Vanguard Class of submarines
- The US/UK Common Missile Compartment programme has continued with the latest delivery of Babcock built missile tubes dispatched from our Rosyth facility and the contract expanded
- Won the contract to support the largest vessels in the Royal Australian Navy: two flagship Canberra Class Landing Helicopter Docks and their 12 associated amphibious landing crafts
- Won two pieces of additional work within DSG and we continue to support the British Army in support and delivery of training to around 20,000 service personnel
- New integrated IT systems for DSG progressing well to completion
- Awarded a contract in Australia for counter – chemical, biological, radiological, nuclear and explosive (C-CBRNE) asset management
- Selected as preferred bidder for a ten year contract for track and rail systems in Scotland followed by a contract for signalling work
- French military training support contract progressing well with all aircraft and simulators on site at the French Air Force base in Cognac
- Entered the North American aerial emergency services market following the award of a ten year contract for firefighting in Canada
- Commenced the mobilisation of our fixed wing air ambulance service in Norway where the first aircraft are completing medical fit-out
- Received the licence from the Office of Nuclear Regulation (ONR) to put the Bradwell site into care and maintenance
- Silo Maintenance Facility project at Sellafield was completed with an NDA category of 'Excellent'

Order book and pipeline

Our business is supported by a significant order book, based on signed contracts for work. This order book of around £17 billion (March 2018: £18 billion) provides a base level of revenue for the years ahead which is then added to with new business wins, contract growth and short cycle work. Our pipeline represents those bids formally in process, following our rigorous governance process. Our pipeline is currently around £14 billion, an increase of around £1 billion from a year ago following large additions in the year such as Marine training, UK defence fleet vehicles and some significant defence opportunities in Australia.

Dividend

The Board is recommending a final dividend of 22.9 pence (2018: 22.65 pence). If approved by shareholders at the AGM on 18 July 2019, this will give a total dividend for the year of 30.0 pence (2018: 29.5 pence), an increase of 1.7%. The final dividend will be paid on 9 August 2019 to shareholders on the register at 5 July 2019.

Financial performance

		31 March 2019	31 March 2018	Change + / –
Underlying revenue	Group	£4,474.8m	£4,659.6m	–4.0 %
	JV	£685.8m	£703.2m	–2.5 %
	Total	**£5,160.6m**	**£5,362.8m**	**–3.8 %**
Underlying operating profit	Group	£453.8m	£470.6m	–3.6 %
	JV	£134.6m	£114.0m	18.1 %
	Total	**£588.4m**	**£584.6m**	**0.7 %**
Underlying operating margin	Group	10.1 %	10.1 %	
	JV	19.6 %	16.2 %	
	Total	**11.4 %**	**10.9 %**	

Despite revenue behind our initial expectations, a strong margin performance across the Group delivered operating profit growth. This robust margin, combined with improved working capital, led to increased free cash flow which contributed to further debt reduction.

Underlying revenue for the year was 3.8% lower at £5,161 million, representing -1.9% organic revenue growth at constant exchange rates. This is below our expectations set out a year ago with the underperformance mainly coming in the short cycle parts of our business and not in the core long-term contract parts, which continued to perform well. Organic underlying revenue growth at constant rates and excluding exits, procurement and Queen Elizabeth Class (QEC) was 0.5%. The key elements for the lower underlying revenue in the year were:

- The £111 million impact of our programme of exits and disposals and the £38 million translation impact of exchange rates
- Lower activity in our Rail business as we entered the transition period to a replacement contract earlier than expected
- Lower revenue in our South African power business which was caused by delayed scheduled power station outages
- Lower levels of equipment pass-through procurement spend in our Land Defence businesses, where we do not control the level of spend

Our underlying operating profit performance was in line with our expectations at the beginning of the year at £588 million as we grew our underlying margin from 10.9% to 11.4%. This underlying margin expansion primarily reflects an increased profit contribution from joint ventures, resulting from improved contract performances. Group underlying margin (excluding joint ventures) was sustained at 10.1%, helped by better contract performances across the business, particularly in Aviation and Land, further cost savings and the mix impact of exiting lower margin businesses.

We continue to invest in building standardised IT systems and shared service centres for back office functions which, combined with procurement category management, help support our margin.

Net finance costs were £1.6 million lower year on year with a £0.9 million reduction in Group interest costs and a £2.6 million movement in the IAS 19 pension interest charge being offset by a £1.9 million increase in finance costs related to joint ventures. The £0.9 million reduction in Group interest costs reflects the benefit of reduced levels of debt offset by the impact of higher interest rates. If interest rates had been stable year on year, Group interest costs would have reduced by £1.6 million, with the reduction limited by our low marginal interest rate of around 1%.

The increase in Group underlying operating profit, combined with reduced finance costs and stable tax rates, resulted in 1.2% growth in underlying basic earnings per share.

On a statutory basis, revenue was £4,475 million, down 4.0%. The Group made a statutory operating profit of £197 million after the impact of exceptional charges of £161 million. Basic earnings per share (as defined by IAS 33) was 39.5 pence (2018: 66.6 pence) per share.

Our focus on cash generation continues to deliver with underlying operating cash flow of £618 million. This strong performance was led by an improved working capital position, with an inflow of £87 million compared to an outflow of £54 million last year.

Net capital expenditure was £149 million, an increase of £36 million on last year led by the timing of aircraft deposits and deliveries which will reverse in the next financial year as they are converted to operating leases. Operating cash conversion post net capex was 104%.

Free cash flow was £324 million (2018: £250 million), after pension payments in excess of the income statement of £56 million (2018: £47 million) and including dividends from joint ventures of £45 million (2018: £43 million).

The Group generated £158 million of net cash in the year after dividends paid of £153 million. This led to a reduction in net debt for the fourth year in a row to £958 million. Net debt to EBITDA (including our share of joint ventures' EBITDA) reduced to 1.4 times as expected. On a covenant basis, which compares net debt to Group EBITDA (excluding our share of joint ventures' EBITDA) plus joint venture dividends, our gearing reduced from 1.8x to 1.6x. Our share of debt held within joint ventures as at 31 March 2019 was £311 million (31 March 2018: £354 million). This debt mainly relates to the AirTanker joint venture. All JV debt is non-recourse to the Group.

Performance by sector

Marine: underlying revenue declined by 4.6%, mainly as a result of the continuing step down in QEC revenue and the impact of the exit of our renewables business. Organic underlying revenue growth at constant exchange rates excluding this exit and QEC was 0.1%. Underlying operating profit declined in line with underlying revenue with margins held broadly steady.

Land: underlying revenue declined by 12.4% with around half of the decline due to FX, business exits and disposals. Organic underlying revenue growth excluding exits at constant exchange rates was –6.2%. This decline reflects lower defence procurement, lower activity in our Rail business as we transition between control periods and a weak trading environment for our South African power business. Underlying operating profit benefited from improved contract performance year-on-year (in non-defence contracts), cost reduction, a strong contribution from our Holdfast (RSME) joint venture and property disposals.

Aviation: underlying revenue for the year increased by 11.1%, mainly due to aircraft and simulator revenue related to our Fomedec training support contract with the French Air Force. Underlying revenue in the second half of the year was lower year-on-year, partly due to reduced firefighting. The sector margin was maintained in the year, ahead of our expectation, with contract performance and cost reductions better than expected.

Cavendish Nuclear: underlying revenue for the year was down 0.6% with growth across our nuclear services businesses offset by an expected reduction in joint venture revenue. Underlying operating profit declined by 6.7% with a lower margin as we lapped strong contract performance in the previous year.

Underlying revenue by sector	31 March 2019	31 March 2018	Reported growth	Organic growth at constant FX rates	Organic growth at constant FX rates excluding exits
Marine	£1,706.6m	£1,788.9m	–4.6 %	–4.5 %	–3.1 %
Land	£1,620.2m	£1,849.1m	–12.4 %	–7.6 %	–6.2 %
Aviation	£1,135.5m	£1,022.1m	11.1%	11.9 %	11.9 %
Cavendish Nuclear	£698.3m	£702.7m	–0.6 %	–0.6 %	–0.6 %
Total	**£5,160.6m**	**£5,362.8m**	**–3.8 %**	**–1.9%**	**–1.0 %**

Underlying operating profit by sector	31 March 2019	31 March 2018	Reported growth	Organic growth at constant rates
Marine	£220.5m	£235.1m	–6.2 %	–6.1 %
Land	£146.0m	£140.1m	4.2 %	5.9 %
Aviation	£160.5m	£144.3m	11.2 %	12.0 %
Cavendish Nuclear	£64.2m	£68.8m	–6.7 %	–6.7 %
Unallocated	(£2.8m)	(£3.7m)	–24.3 %	–24.3 %
Total	**£588.4m**	**£584.6m**	**0.7 %**	**1.3 %**

Exceptional costs

We recognised £120 million of net exceptional charges in the first half of this year reflecting the reshaping of our Oil and Gas business, capacity reductions and restructuring across the Group and the costs of our programme of exits and disposals, partly offset by the gain on disposal of our Media business.

We recognised an additional net charge in the second half, including a charge of £3 million related to restructuring costs and a charge of £6 million relating to exits. These costs relate to additional exits and restructuring in our Land and Aviation sectors. An additional charge of £31 million related to an adjustment to our pension liabilities. Of this adjustment, £26 million related to equalising guaranteed minimum pension benefits for men and women and £5 million related to the bulk transfer of £110 million of liabilities to the Primary Civil Service pension scheme. In addition to this, we incurred an exceptional tax charge of £10 million in relation to the restructuring of the Group ahead of the UK exiting the European Union.

The total related net cash cost of all of these charges, excluding pensions, is expected to be around £26 million. This is after tax, disposals and expected helicopter sales. Total expected gross cash costs, excluding pensions, are expected to be around £86 million. The net cash cost this financial year was £11 million. We expect a net cash cost of around £28 million in the next financial year. Cash from expected asset sales is expected to lead to net cash inflows in future years.

Outlook

The next financial year is impacted by a number of significant factors, the combined impact of which is to reduce revenue by £410 million and reduce operating profit by £63 million. These impacts are:

- End of QEC contract: £80 million revenue impact, £2 million operating profit impact
- End of Magnox contract: £256 million revenue impact, £24 million operating profit impact
- Impact of exits and disposals: £74 million revenue impact, £10 million operating profit impact
- Normalisation of Holdfast (RSME) joint venture profit contribution: £17 million operating profit impact
- Brexit-related Aviation restructuring: £10 million operating profit impact

The Group's guidance reflects these step downs and the current market conditions, including the continued weakness in short cycle contracts experienced this financial year. Group guidance for the next financial year takes into account the risks associated with contract rebids, pipeline conversion and the fluctuations in the short cycle parts of the business.

Outlook for the year ending 31 March 2020:

- We expect underlying revenue to be around £4.9 billion
- We expect to maintain our underlying margin (incl. JVs) at between 10.7% and 11.0%
- Underlying operating profit is expected to be in the range of £515 million to £535 million
- Free cash flow (post pension payments) is expected to be over £250 million and we expect to continue to reduce net debt
- As with previous years, performance for the group will be weighted to the second half, especially for cash generation

This guidance does not take into account the impacts of IFRS 16 which are set out on page 19.

Outlook by sector:

- Marine: we expect good underlying revenue growth excluding the £80 million impact of the end of the QEC contract. We expect underlying margin to be slightly lower, reflecting contract mix and phasing
- Land: we expect slight underlying revenue growth excluding the £65 million impact of exits and disposals. Underlying margin is expected to be maintained excluding the normalisation of the Holdfast (RSME) joint venture profit contribution
- Aviation: we expect slight underlying revenue growth with a stable underlying margin, excluding the £10 million of Brexit-related costs
- Nuclear: we expect slight underlying revenue growth excluding the £256 million impact of the end of the Magnox contract. We expect a higher underlying margin, reflecting the changed business mix

The outlooks by sector are dependent on risks associated with contract rebids, pipeline conversion and the fluctuations in the short cycle parts of the businesses. These risks have been included in guidance for the Group as a whole. Across sectors, higher revenue growth will likely be at a lower margin, reflecting the lower margin in the early phases of new contracts and the lower margin of short cycle work.

Marine

		31 March 2019	31 March 2018	Change + / –
Underlying revenue	Group	£1,686.3m	£1,766.5m	–4.5 %
	JV	£20.3m	£22.4m	–9.4 %
	Total	**£1,706.6m**	**£1,788.9m**	**–4.6 %**
	Total excluding exits	***£1,705.6m***	***£1,762.9m***	***–3.3 %***
Underlying operating profit	Group	£217.2m	£231.3m	–6.1 %
	JV	£3.3m	£3.8m	–13.2 %
	Total	**£220.5m**	**£235.1m**	**–6.2 %**
Underlying operating margin	Group	12.9 %	13.1 %	
	JV	16.3 %	17.0 %	
	Total	**12.9 %**	**13.1 %**	

JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue

Financial review

Underlying revenue in our Marine sector declined by 4.6%. The decline is the result of the exit of the renewables business in the last financial year and the continued step down in revenue related to the Queen Elizabeth Class (QEC) aircraft carriers of around £60 million. Organic underlying revenue growth at constant exchange rates was -4.5%. Excluding QEC and the renewables exit, organic underlying revenue growth at constant exchange rates was 0.1%.

Underlying revenue was helped by increased activity on UK naval ships, including the life extension of Type 23 frigates and our fleet support services, and continued growth in our technology businesses. Offsetting this was the impact of the completion of building Irish offshore patrol vessels and lower levels of work for the Korean Navy's Jangbogo submarines ahead of the next phase. Underlying revenue was also impacted by changes in the expected phasing of infrastructure and equipment spend related to UK defence programmes, as we flagged in our July Trading Update. These programmes have now started in part.

Underlying operating profit declined by 6.2% with the underlying margin broadly maintained. This reflects the margin benefit of lower QEC and renewables revenue, which have low margins, offset by changes in business and contract mix.

Operational review

UK Defence

Revenue related to serving the UK defence market was lower in the year reflecting the step down in revenue from the QEC aircraft carrier programme. HMS Prince of Wales is now structurally complete and the commissioning of her on-board systems has started ahead of sea trials later this year. HMS Queen Elizabeth became increasingly operational, helped by Babcock providing expertise as part of the Marine Systems Support Partner (MSSP) contract. HMS Queen Elizabeth has since been welcomed back at Rosyth to complete her first dry-dock maintenance, including a hull survey and maintenance of underwater systems.

We continue to perform in line with expectations on our key contract, the Maritime Support Delivery Framework (MSDF), with continued efficiencies and cost reductions on track. We are in discussions with the MOD on the next five year period within our Terms of Business Agreement (TOBA) from 2020 until 2025, and expect to sign this Future Maritime Support Programme (FMSP) contract by the end of the calendar year.

The Type 23 frigate life-extension programme at our Devonport facilities continues at pace with five ships undergoing deep maintenance and structural upgrading work simultaneously. In the first half, we completed the fourth offshore patrol vessel for the Irish Navy at Appledore and have now exited the shipyard. We also completed significant work on the amphibious assault ship HMS Albion and helped prepare HMS Ocean as part of her sale to Brazil.

During the year, we saw growth in the volume of orders from the MOD to support Royal Navy operations for the Type 45 and QEC fleets and we are bidding for the Royal Navy's Type 31e general purpose light frigate programme after the process was restarted. Also in the period, we secured a five year Naval Design Partnership (NDP) contract with the MOD with options for extension. This important long-term contract provides leadership for the industry development of new naval platforms and mission systems on behalf of the MOD.

We had another busy year supporting the UK's submarine fleet. We completed the largest Revalidation and Assisted Maintenance Period (RAMP) ever undertaken at Devonport on a Trafalgar Class submarine and we are progressing on the first life extension of the Vanguard Class. We have now begun work on the infrastructure design for the deep maintenance of the Astute Class of submarines in Devonport in the mid-2020s.

Our work on the next generation of submarines continues with the first weapons handling system modules for the Dreadnought Class submarine programme delivered to the customer and a contract awarded to continue the development of the future support solution. The US/UK Common Missile Compartment programme has continued with the latest delivery of Babcock built complex missile tube assemblies dispatched from our Rosyth facility. The quality of the initial batch has led General Dynamics Electric Boat to extend their order, and our contract to supply missile tube assemblies now exceeds £230 million.

We continued to deliver training to the UK Navy and we have been down-selected as a bidder for Project Selborne, which will bring together multiple legacy contracts into a single arrangement for the training of Royal Navy personnel for the next 10-12 years. This will replace our existing training contract and offers increased scope. During the year, we also secured a five year Maritime Training Systems Through-Life Availability & Support Service (MARTASS) contract with the MOD to manage the integration of new training technology across naval bases and air stations.

International Defence

We support international defence markets from our UK operations and from our businesses in Australia, Canada, New Zealand and Oman.

In Australia, contract performance was strong throughout the year. Naval Ship Management (our 50% joint venture) was appointed to support the largest vessels in the Royal Australian Navy: two flagship Canberra Class Landing Helicopter Docks (LHD) and their 12 associated amphibious landing craft. Work will begin to sustain and support these vessels in July 2019 as part of a 15 year contract (five years plus two extensions) worth around AUD $1.5 billion.

In Canada, trading was broadly in line with last year. In the first half of the year, we secured a CAD $400m three year extension to our existing submarine support contract with the Canadian Department of National Defence for its fleet of four Victoria Class submarines. VISSC is the largest naval in service support contract in Canada and includes project management, refits and maintenance, capability upgrades, logistics, configuration/safety records and engineering support.

In our export markets, in addition to supplying missile tubes for the US Columbia Class submarine programme, we delivered the weapons handling system on time for integration into the first of S80 class Spanish submarines and opened an office in Korea to support the weapons handling system programme for the Jangbogo-III submarines. We also completed the capability upgrade on the first of three Estonian Navy minehunter vessels in the period.

Adjacent markets

In our adjacent markets of Energy and Marine, we secured the sale of a further eight of our patented ecoSMRT® systems, bringing the total sold to date to 23. ecoSMRT®, the liquefied natural gas (LNG) single mixed refrigerant (SMR) solution, developed in collaboration with HHI, is now the market leading solution for LNG boil-off gas management, attracting both global ship owners and shipyards.

Our Bernhard Schulte joint venture LNG gas supply vessel, Kairos, is operating successfully in the Baltic Sea region and performed her first ship-to-ship transfer of LNG in early March 2019.

Outlook for the year ending 31 March 2020

We expect good underlying revenue growth excluding the £80 million impact of the end of the QEC contract. The sector's underlying margin is expected to be slightly lower, reflecting contract mix and phasing.

Land

		31 March 2019	31 March 2018	Change + / –
Underlying revenue	Group	£1,560.0m	£1,760.4m	–11.4 %
	JV	£60.2m	£88.7m	–32.1 %
	Total	**£1,620.2m**	**£1,849.1m**	**–12.4 %**
	Total excluding exits and disposals	***£1,554.1m***	***£1,697.4m***	***–8.4 %***
Underlying operating profit	Group	£105.1m	£108.7m	–3.3 %
	JV	£40.9m	£31.4m	30.3 %
	Total	**£146.0m**	**£140.1m**	**4.2 %**
Underlying operating margin	Group	6.7 %	6.2 %	
	JV	67.9 %	35.4 %	
	Total	**9.0 %**	**7.6 %**	

JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue. The effect of this is that there is no revenue recognised in relation to our Holdfast (RSME) JV

Financial review

Underlying revenue in our Land sector was 12.4% lower than last year, with an £85.8 million impact from business exits and disposals and a £27.7 million impact from foreign exchange movements. Organic underlying revenue growth at constant exchange rates was -7.6%, or -6.2% adjusting for business exits.

Lower underlying revenues reflect reduced defence procurement activity, lower activity in our Rail business and power generation weakness in South Africa with no scheduled power station outages. JV revenue declined following lower levels of rail electrification work in our ABC joint venture. The profit contribution from ABC was mainly through the subcontract with Babcock and not in the joint venture.

Underlying operating profit increased to £146 million with the increase coming from a higher JV contribution. This mostly reflects cumulative contract profit performance in our Holdfast (RSME) joint venture, which will normalise next year resulting in a step down of £17 million. Underlying operating profit from Group operations was broadly flat despite the revenue decline. This margin expansion was helped by improved contract performances (in non-defence contracts) and continuous cost savings as well as improved profitability in our South African equipment business and a gain on the disposals of property.

Operational review

Defence

Revenue related to serving the UK defence market was lower in the year, mainly reflecting lower levels of procurement spend.

We have continued to provide key support services to the British Army in vehicle fleet management and training. During the year our Defence Support Group (DSG) business has been collaborating with the UK MOD to drive further operational improvements across the workshop and procurement activities and these initiatives, together with our investment in technology, provide a strong platform for further growth in the scope of DSG services. We won two pieces of additional work within DSG via amendments to our existing Service Provision and Transformation Contract in the year. We agreed a £72 million increase in scope to deliver UK and international maintenance to land equipment and cadet weapons in support to the UK 1 Division. From April 2019, we will deliver maintenance, repair and overhaul support to the British Army's protected mobility vehicle fleet.

Our ALC JV continues to perform well and we are bidding for Project MITER, an increased scope replacement which will come into operation in 2021.

We continue to support the British Army in support and delivery of training to around 20,000 service personnel and are engaging with the customer as they develop their Collective Training Transformation Programme. Our Holdfast (RSME) joint venture, which provides training to the Royal School of Military Engineering, continues to drive savings programmes.

Adjacent markets

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

In our adjacent market of **Rail**, trading was tough in the year as we experienced lower activity towards the end of a five year contract and there was a lower level of electrification. During the year, we won a £130 million eight year contract with Translink for the provision of rail services in Northern Ireland and we were selected as preferred bidder for the North Alliance (Scotland route) to deliver Network Rail's CP6/CP7 track and rail systems contracts. This ten year contract (initial five years with an option to extend) is worth up to £1 billion over a ten-year period, from August 2019 to 2029. We also won a £100 million framework contract for signalling in Scotland in the period.

The Land sector serves the **Land emergency services** market. During the year we received an extension to our fleet support contract for the Metropolitan Police Service valued at around £50 million and we have been working closely with the London Fire Brigade to support their effort to modernise its fleet to be low carbon and our training contract has continued to perform well. Our **apprentice training business** saw lower revenues this year following lower apprentice training volumes across the country. We made good progress across our **Airports** businesses in delivering a number of major projects at Heathrow and Gatwick to install new hold baggage screening machines. We were unsuccessful in our rebid for British Airways ground support equipment as the customer's business capital model changed.

Our business in **South Africa** had a mixed year with lower revenue, reflecting the difficult macroeconomic environment and the impact of Eskom difficulties. As previously highlighted, changes at Eskom have resulted in power station outage delays which impacted the business throughout the financial year, with no recovery in the second half. The Volvo equipment business supplying vehicles to the mining and construction industries has continued to perform excellently, gaining market share in a growing market and increasing profits. Our DAF truck franchise is also performing well and gaining market share.

Outlook for the year ending 31 March 2020

We expect slight underlying revenue growth excluding the £65 million impact of exits and disposals. Underlying margin is expected to be maintained excluding the normalisation of the Holdfast (RSME) joint venture profit contribution.

Aviation

		31 March 2019	31 March 2018	Change + / –
Underlying revenue	Group	£995.9m	£921.1m	8.1 %
	JV	£139.6m	£101.0m	38.2 %
	Total	**£1,135.5m**	**£1,022.1m**	**11.1 %**
Underlying operating profit	Group	£107.1m	£103.1m	3.9 %
	JV	£53.4m	£41.2m	29.6 %
	Total	**£160.5m**	**£144.3m**	**11.2 %**
Underlying operating margin	Group	10.8 %	11.2 %	
	JV	38.3 %	40.8 %	
	Total	**14.1 %**	**14.1 %**	

JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue

Financial review

Strong underlying revenue growth in our Aviation sector mainly relates to aircraft and simulator revenue on our Fomedec training support contract with the French Air Force. This growth was partly offset by lower firefighting activity in Southern Europe and the lapping of higher revenue at the end of last year from the completion of the initial phase of our UK Military Flying Training System subcontract. The phasing of Fomedec revenue combined with lower levels of firefighting resulted in broadly flat underlying revenues in the second half of this year.

Underlying operating profit increased to £161 million mainly due to an increased contribution from joint ventures. Profitability across the sector, both Group and joint ventures, was helped by improved contract performances and cost reduction programmes.

Operational review

UK Defence

Higher revenue this year was driven by our HADES contract, which provides technical support at 17 RAF air bases, becoming fully operational in September 2018 and also increased revenue from our Ascent training joint venture. Offsetting this, we saw lower revenues related to the UK Military Flying Training System (UKMFTS) subcontract following the finalisation of the initial phase last year.

During the period the bidding process for the RAF Air Support to Defence Operational Training (ASDOT) opportunity to provide adversary air combat training was cancelled by the MOD. This opportunity was in our pipeline at around £400 million.

International Defence

Revenue in our international defence markets grew strongly in the year driven by our Fomedec training support contract, with all aircraft and simulation devices on site at the French Air Force base in Cognac and accepted by the customer authority.

In March 2019, we sold our 50% share of Helidax to our joint venture partner for €10 million (£9 million). Our share of the JV net debt was £29 million. This has no impact on our other operations in France.

Expanding our services across international defence markets remains a key part of our strategy and reflects a significant part of our pipeline, including defence flying training opportunities in Canada and France.

Aerial Emergency Services

Revenue across our aerial emergency services markets grew over the year but was impacted by lower levels of firefighting.

Trading in Italy was down slightly, mainly reflecting lower firefighting activity levels. In France, we successfully rebid our largest medical emergency services contract, Samu PACA (Provence-Alpes-Côte d'Azur), while in Portugal, we won key rebids for both firefighting and medical emergency services. In Spain, we won some new bids but lost some rebids in medical emergency services and search and rescue in the second half of the year. In the first half we renewed SASEMAR, our flagship search and rescue contract along the Spanish coastline, for at least four years.

In the Nordics, mobilisation and operations for the air ambulance contract in Gothenburg, Sweden is proceeding on schedule and we were awarded a five year air ambulance contract in Finland. In Norway, we commenced the mobilisation of our fixed wing air ambulance service and the first aircraft are completing their medical fit-out. We expect to be operational in July 2019.

During the year, we restructured our European operations to comply with AOC ownership and control obligations. We will be reviewing how to make the new structure more efficient on an ongoing basis.

We have now entered the North American aerial emergency services market following the award of a ten year contract for aerial firefighting in Manitoba, Canada. We will manage, maintain and operate Manitoba's fleet of seven firefighting amphibious aircraft and provide three of our own aircraft. This business provides the platform for future aerial emergency services opportunities across North America.

Adjacent markets

Our Aviation business also serves the **oil and gas** market. Revenue across this market in the period grew slightly, helped by a pick-up in activity in the 'pay as you go' spot market, along with the addition of a new customer which offset the loss of another. Trading continues to be impacted by challenging industry conditions with oversupply and intense competition. We recently lost two contracts on price competition as we continue to ensure the business delivers value.

Outlook for the year ending 31 March 2020

We expect slight underlying revenue growth with a stable underlying margin, excluding the £10 million of Brexit-related costs.

Cavendish Nuclear

		31 March 2019	31 March 2018	Change + / -
Underlying revenue	Group	£232.6m	£211.6m	9.9 %
	JV	£465.7m	£491.1m	–5.2 %
	Total	**£698.3m**	**£702.7m**	**–0.6 %**
Underlying operating profit	Group	£27.2m	£31.2m	–12.8 %
	JV	£37.0m	£37.6m	–1.6 %
	Total	**£64.2m**	**£68.8m**	**–6.7 %**
Underlying operating margin	Group	11.7 %	14.7 %	
	JV	7.9 %	7.7 %	
	Total	**9.2 %**	**9.8 %**	

JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue

Financial review

As expected, Cavendish Nuclear's underlying revenue was broadly flat over the year with lower levels of decommissioning work being offset by good growth across nuclear services.

Underlying operating profit decreased with the margin declining to 9.2% despite a favourable mix impact of lower joint venture revenues. This decline mainly reflects the previous financial year benefiting from strong contract performance.

Operational review

Civil nuclear - decommissioning

Revenue from decommissioning work was lower than last year, reflecting lower levels of customer in-year funding.

Magnox, a joint venture with Fluor in which we have a 65% share, performed well over the year with similar levels of work to last year. We received the licence from the Office of Nuclear Regulation (ONR) to put the Bradwell site into care and maintenance which is a significant milestone as it is the first Magnox site to reach this target. All other key milestones on this twelve site UK-wide decommissioning contract are progressing to plan and we are preparing to hand back control to the NDA in August 2019 as the contract comes to an end. As set out in our half year announcement, we do not see any immediate material opportunities across Magnox sites beyond the end of the contract.

Dounreay, a joint venture with Jacobs and Aecom in which we have a 50% share, continues to deliver on its revised scope with the Waste Removal Project as part of the UK Government's strategy.

Civil nuclear - nuclear services

We saw strong growth across nuclear services this year with increased activity levels across our business offsetting the impact of the completion of the Silo Maintenance Facility project at Sellafield.

We saw good performance across our Sellafield projects, including Pile Fuel Cladding Silo and Design Services Alliance projects. Sellafield continues to be a key customer for our projects business, despite us not winning the Sellafield Programme and Project Partners (PPP) bid in the period, and we expect this to continue to be the case. During the year, the Silo Maintenance Facility project at Sellafield was completed, with an NDA category of 'Excellent'.

We delivered our element of the scheduled outage at the EDF Dungeness site on time and, during the period, we won the contract to carry out the dismantling and demolition of Dounreay's nuclear reactor as part of the final phase of decommissioning the Dounreay Materials Test Reactor.

Civil nuclear - new build

Revenue from services related to new builds is a small part of the sector today. Revenue grew in the year as a result of the expected ramp up of the Hinkley Point C project.

New build opportunities remain significant in the long term but medium term opportunities have been dampened by the decision earlier this year by Horizon to postpone the Wylfa project.

Outlook for the year ending 31 March 2020

We expect slight underlying revenue growth excluding the £256 million impact of the end of the Magnox contract. We expect a higher underlying margin, reflecting the changed business mix.

Financial review

Statutory to underlying reconciliation

		Joint ventures and associates							
	Statutory £m	Revenue and operating profit £m	Finance costs £m	Tax £m	IFRIC 12 income £m	Amortisation of acquired intangibles £m	Exceptional items £m	Change in tax rate £m	Underlying £m
31 March 2019									
Revenue	4,474.8	685.8							5,160.6
Operating profit	196.5	106.8			29.1	95.2	160.8		588.4
Share of profit from JV	83.8	(106.8)	24.1	20.9	(27.8)	5.8			–
Investment income	1.3				(1.3)				–
Net finance costs	(46.4)		(24.1)						(70.5)
Profit before tax	235.2	–	–	20.9	–	101.0	160.8	–	517.9
Tax	(35.4)			(20.9)		(21.5)	(16.7)	1.3	(93.2)
Profit after tax	199.8	–	–	–	–	79.5	144.1	1.3	424.7
Return on revenue	4.4%								11.4%
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%

Income statement

Statutory performance

Statutory revenue for the year was £4,474.8 million (2018: £4,659.6 million), a decline of 4.0%. There was a statutory operating profit of £196.5 million (2018: £370.6 million) and a statutory profit before tax of £235.2 million (2018: £391.1 million), reflecting the impact of exceptional charges of £160.8 million. Basic earnings per share, as defined by IAS 33, was 39.5 pence (2018: 66.6 pence) per share.

Underlying organic growth

	Marine £m	Land £m	Aviation £m	Nuclear £m	Unallocated £m	Total £m
Underlying revenue						
31 March 2018	1,788.9	1,849.1	1,022.1	702.7	–	5,362.8
Exchange adjustment	(2.4)	(27.7)	(8.0)	–	–	(38.1)
Disposals	–	(60.3)	–	–	–	(60.3)
Exits	(25.0)	(25.5)	–	–	–	(50.5)
Organic growth	(54.9)	(115.4)	121.4	(4.4)	–	(53.3)
31 March 2019	1,706.6	1,620.2	1,135.5	698.3	–	5,160.6
Underlying revenue growth	– 4.6 %	– 12.4 %	11.1 %	– 0.6 %	–	– 3.8 %
Organic growth at constant exchange rates	– 4.5 %	– 7.6 %	11.9 %	– 0.6 %		– 1.9 %
Organic growth excl. exits at constant exchange rates	– 3.1 %	– 6.2 %	11.9 %	– 0.6 %		– 1.0 %
Underlying operating profit						
31 March 2018	235.1	140.1	144.3	68.8	(3.7)	584.6
Exchange adjustment	(0.3)	(1.7)	(1.1)	–	–	(3.1)
Disposals	–	(0.6)	–	–	–	(0.6)
Organic growth	(14.3)	8.2	17.3	(4.6)	0.9	7.5
31 March 2019	220.5	146.0	160.5	64.2	(2.8)	588.4
Underlying operating profit growth	– 6.2 %	4.2 %	11.2 %	– 6.7 %	24.3 %	0.7 %
Organic growth at constant exchange rates	– 6.1 %	5.9 %	12.0 %	– 6.7 %	24.3 %	1.3 %

Disposal and exit adjustments remove the impact of business performance for affected businesses.

Underlying revenue performance

Underlying revenue for the year was £5,160.6 million (2018: £5,362.8 million), a decrease of 3.8%. Excluding exits, underlying organic revenue growth at constant exchange rates was -1.0%.

Although below our initial expectations, the underperformance was mainly in the short cycle parts of our business and not in the core long-term contract parts, which continued to perform well. Organic revenue growth at constant rates and excluding exits, procurement and Queen Elizabeth Class (QEC) was 0.5%. The key elements for the lower revenue in the year were:

- The £111 million impact of our programme of exits and disposals and the £38 million translation impact of exchange rates
- Lower activity in our Rail business as we entered the transition period to a replacement contract earlier than expected
- Lower revenue in our South African business which was caused by delayed scheduled power station outages
- Lower levels of equipment pass-through procurement spend in our Land Defence businesses, where we do not control the level of spend

As expected, the Marine sector saw lower revenue due to the step down in QEC revenue and the impact of the exit from our renewables business. Underlying organic revenue growth was -4.5% at constant exchange rates but grew by 0.1% excluding QEC and exits. The Land sector's underlying organic revenue growth at constant exchange rates was -7.6%, reflecting defence procurement activity, lower activity in our Rail business, a weak trading environment in our South African power business with no planned power station outages and an £86 million impact from business exits and disposals.

Aviation's underlying organic revenue growth at constant rates was 11.9%, primarily reflecting strong growth from the Fomedec contract as we delivered aircraft and simulators to the customer. Cavendish Nuclear's underlying organic revenue growth at constant rates was -0.6% with lower levels of decommissioning work offset by good growth across nuclear services.

Underlying revenue in the financial year was broadly spread evenly between the first and second half. For the next financial year, we expect a similar weighting.

Underlying operating profit performance

Despite the small decline in revenue, the Group's underlying operating profit grew by 0.7% to £588.4 million (2018: £584.6 million) with margin improving to 11.4% (2018: 10.9%). The margin expansion reflects the exit of low margin businesses, the increased contribution from joint ventures, and strong contract performances and continuous cost reduction in Land and Aviation. At constant exchange rates, organic growth in Group operating profit was 1.3%.

In the Marine sector, underlying operating profit decreased at a similar pace to revenue with margin remaining broadly flat at 12.9%. This reflects the negative impact of lower QEC and renewables revenue, which have low margins, offset by business mix and lower contract profit. The Land sector achieved higher underlying operating profit due to higher contributions from joint ventures, partly from cumulative contract profit performance pick-up in our Holdfast (RSME) joint venture. Operating profit was also helped by margin expansion in Group operations, helped by improved contract profit (in non-defence contracts), continuous cost savings, improved profitability in our South African equipment business and gains on property disposals.

The Aviation sector's underlying operating profit increased mainly due to an increased contribution from joint ventures. Profitability across the sector, both Group and joint ventures, was helped by improved contract profits. Cavendish Nuclear's underlying operating profit declined by 6.7%, mainly reflecting the previous financial year benefiting from strong contract performance.

Underlying operating profit in the financial year was weighted slightly to the second half. We expect a similar weighting in the next financial year.

Exceptional costs

Following a detailed strategic review, we recognised £120 million of exceptional charges in the first half of this year reflecting the reshaping of our Oil and Gas business, capacity reductions and restructuring across the Group and the costs of our programme of exits and disposals, partly offset by the gain on disposal of our Media business.

Following continuing difficulties in the oil and gas sector and with the continued lack of oil and gas demand for EC225/Super Puma aircraft, the Group initiated a strategic review over the summer of 2018. Competitor and leasing company difficulties, despite an improving oil price, meant the market has not recovered as had been hoped. The strategic review, completed at the time of the half year results announcement, resolved to manage the business for value including our existing asset base. As a result of the review, we took an asset impairment charge of £38 million to reduce owned oil and gas assets to their market value and recognised an onerous lease provision of £42 million against leased assets to reflect the cost of these commitments versus market rates.

In the first half we made some significant changes to surplus capacity across some business areas. In Marine, we announced the exit from the Appledore shipyard following the completion of work on Irish offshore patrol vessels and we rightsized capacity in other Marine facilities. In Land, we reduced surplus capacity in our Rail business ahead of our bid for the new CP6 contract and in Nuclear we restructured our business related to Magnox.

Our programme of business exits have associated costs. In the first half, these costs related to the exit of renewables, North American mining and construction support, media services and our powerlines business in South Africa.

In the second half of the year, we recognised additional charges including a charge of £3 million related to restructuring costs and a charge of £6 million relating to exits. These costs relate to additional exits and restructuring in our Land and Aviation sectors. An additional charge of £31 million related to an adjustment to our pension liabilities. Of this adjustment, £26 million related to equalising guaranteed minimum pension (GMP) benefits for men and women and £5 million related to the bulk transfer of £110 million of liabilities to the Primary Civil Service pension scheme. In addition to this, we incurred an exceptional tax charge of £10 million in relation to the restructuring of the Group ahead of the UK exiting the European Union.

The total related net cash cost of all of these charges, excluding pensions, is expected to be around £26 million. This is after tax, disposals and expected helicopter sales. Total expected gross cash costs, excluding pensions, are expected to be around £86 million. The net cash cost this financial year was £11 million. We expect a net cash cost of around £28 million in the next financial year. Cash from expected asset sales is expected to lead to net cash inflows in future years.

Exceptional costs summary

	H1 income statement charge	H2 income statement charge	31 March 2019 income statement charge
Oil and Gas			
– Asset impairment	£38.2m	£0.8m	£39.0m
– Onerous lease provisions	£42.1m	–	£42.1m
Oil and Gas total	**£80.3m**	**£0.8m**	**£81.1m**
Capacity reductions & restructuring	£39.6m	£2.8m	£42.4m
Exits	£15.7m	£5.7m	£21.4m
Business disposals	(£15.2m)	£0.4m	(£14.8m)
Subtotal	**£120.4m**	**£9.7m**	**£130.1m**
Pensions: GMP equalisation and bulk transfer	–	£30.7m	£30.7m
Total	**£120.4m**	**£40.4m**	**£160.8m**
Tax on exceptional costs within operating profit	(£19.8m)	(£6.9m)	(£26.7m)
Tax on Brexit related Aviation restructuring	–	£10.0m	£10.0m
Net	**£100.6m**	**£43.5m**	**£144.1m**

Finance costs

Total net finance costs reduced to £70.5 million (2018: £72.1 million) with a £0.9 million reduction in Group interest costs and a £2.6 million movement in the IAS 19 pension interest charge being offset by a £1.9 million increase in finance costs related to joint ventures. The £0.9 million reduction in Group interest costs reflects the benefit of reduced levels of debt offset by the impact of higher interest rates. If interest rates had been stable year on year, Group interest costs would have reduced by £1.6 million, with the reduction limited by our low marginal interest rate of around 1%.

Underlying profit before tax

Underlying profit before tax increased by 1.1% to £517.9 million (2018: £512.5 million) reflecting both the increased underlying operating profit and the lower net finance costs.

Tax charge

The underlying tax charge, including the Group's share of joint venture tax of £20.9 million (2018: £17.5 million), totalled £93.2 million (2018: £92.3 million), representing an effective underlying rate of tax of 18.0% (2018: 18.0%). The effective tax rate is calculated by using the Group's underlying profit before tax and therefore excludes the tax effect of amortisation of acquired intangibles, together with the tax credit in respect of exceptional items and the tax effect of changes in tax rates.

Pensions

The Group's net pension deficit moved to £28.0 million (2018: £5.0 million), with the increase in deficit due to a reduction in discount rates, an increase in inflation rates and a £26 million increase in liabilities related to an adjustment to our pension liabilities to equalise guaranteed minimum pension benefits for men and women. In addition, the bulk transfer of £110 million of liabilities to the Primary Civil Service pension scheme increased the deficit by £5 million. The projected pension charge within operating profit for 2019/20 is £43.2 million (2018/19: £42.7 million).

Amortisation of acquired intangibles

Amortisation of acquired intangibles was £95.2 million (2018: £98.1 million). This represents the amortisation of the value attributed on business acquisitions to customer relationships (both contractual and non-contractual) and acquired brands.

Exchange rates

The impact of foreign currency movements over the year resulted in a decrease in underlying revenue of £38.1 million and a corresponding £3.1 million decrease in underlying operating profit. The main currencies that impact our results are the Euro, the South African Rand and the Canadian Dollar:

- A 10% movement in the Euro against Sterling would affect full year underlying revenue by around £53 million and underlying operating profit by around £6 million
- A 10% movement in the South African Rand against Sterling would affect full year underlying revenue by around £33 million and underlying operating profit by around £2 million
- A 10% movement in the Canadian Dollar against Sterling would affect full year underlying revenue by around £14 million and underlying operating profit by around £1 million

Earnings per share

Underlying earnings per share for the year was 84.0 pence (2018: 83.0 pence), an increase of 1.2%. Basic continuing earnings per share, as defined by IAS 33, was 39.5 pence (2018: 66.6 pence).

Cash flow and net debt

The Group achieved its target of delivering pre-capital expenditure cash conversion of over 100% and around 80% post capital expenditure. Our cash generation over the past twelve months delivered a £157 million reduction in net debt to £958 million as of 31 March 2019. This represents a net debt to EBITDA ratio of 1.4 times EBITDA. The analysis below reconciles the management KPI for cash conversion.

	2019			2018
	Underlying £m	Exceptional items £m	Statutory £m	Statutory £m
Operating profit before amortisation of acquired intangibles	452.5	(160.8)	291.7	468.7
Amortisation, depreciation and impairments	108.6	29.3	137.9	104.3
Other non-cash items	(1.4)	(14.8)	(16.2)	4.3
Working capital (excluding excess retirement benefits)	86.8	22.1	108.9	(54.4)
Provisions	(28.7)	39.4	10.7	(27.7)
Operating cash flow	617.8	(84.8)	533.0	495.2
Cash conversion %	137%	–	183%	106%
Capital expenditure (net)	(148.5)	–	(148.5)	(112.7)
Operating cash flow after capital expenditure	469.3	(84.8)	384.5	382.5
Cash conversion % – after capital expenditure	104%	–	132%	82%
Interest paid (net)	(47.5)	–	(47.5)	(53.6)
Taxation	(86.9)	12.9	(74.0)	(74.3)
Dividends from joint ventures	44.6	–	44.6	42.9
Free cash flow before pension contribution in excess of income statement	379.5	(71.9)	307.6	297.5
Retirement benefit contributions in excess of income statement	(55.8)	30.7	(25.1)	(47.3)
Free cash flow after pension contribution in excess of income statement	323.7	(41.2)	282.5	250.2
Acquisitions and disposals net of cash/debt acquired	(0.8)	30.3	29.5	(0.2)
Investments in joint ventures	0.1	–	0.1	(6.0)
Movement in own shares	–	–	–	(4.2)
Dividends paid	(153.3)	–	(153.3)	(147.7)
Other	(0.5)	–	(0.5)	–
Exceptional cash movement	(10.9)	10.9	–	–
Net cash inflow	158.3	–	158.3	92.1

Net debt reconciliation	2019	2018
Opening net debt	(1,115.0)	(1,173.5)
Net cash inflow	158.3	92.1
Exchange difference	(1.0)	(33.6)
Closing net debt	(957.7)	(1,115.0)

Working capital outflow in 2018 includes a £50.4 million outflow in respect of Fomedec, the French air training contract, with an associated inflow in 2019.

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

	2019			2018
	Underlying £m	Exceptional items £m	Statutory £m	Statutory £m
Cash generated from operations	562.0	(54.1)	507.9	447.9
Retirement benefit contributions in excess of income statement	55.8	(30.7)	25.1	47.3
Operating cash flow	617.8	(84.8)	533.0	495.2

Cash performance

Underlying cash generated from operations was £562.0 million (2018: £447.9 million), from which the Group's operating cash flow calculation is derived. Underlying operating cash flow after movements in working capital was up 24.8% to £617.8 million (2018: £495.2 million), led by an improved working capital performance compared to last year. The Group achieved a conversion rate of underlying operating cash flow after movements in working capital and capital expenditure to underlying operating profit of 104% (2018: 82%).

Working capital

Total working capital cash inflows for the year, excluding excess retirement benefits, were £86.8 million compared to a £54.4 million outflow last year. The key drivers of this strong working capital performance were:

- The expected £50 million unwind of working capital related to our Fomedec contract. The financial year ended 31 March 2018 was impacted by Fomedec working capital outflows of £109.3 million in debtors offset by £58.9 million in creditors, with a net effect of a £50.4 million outflow. This effect unwound in full over this financial year.
- A £28 million reduction in trade receivables
- A £119 million reduction in total unbilled receivables, including the Fomedec reversal and a reduction within our Devonport business, partly offset by an increase in accrued income within DSG which is expected to reverse in the first half of the next financial year
- Trade creditors decreased but this was mostly offset by accruals
- An increase in inventory related to mobilising our Norway contract, Fomedec entering the operational phase, inventory build in South Africa and inventory build across markets in anticipation of the UK's exit from the European Union

We expect working capital for the next financial year to return to an outflow.

Provisions

Underlying operating cash flow includes £28.7 million of provision movements (2018: £27.7 million) relating to contracts, onerous leases, personnel (taxation and reorganisation) and property. The level of non-exceptional provision outflow in 2019/20 is expected to be around £15 million. During the period the net underlying credit to the income statement was £4.0 million.

Capital expenditure

Net capital expenditure during the year was £148.5 million (2018: £112.7 million) with the increase year-on-year led by the timing of aircraft deposits and deliveries which will reverse in the next financial year as they are converted to operating leases. Net capital expenditure comprises purchase of property plant and equipment of £194.3 million plus purchase of intangible assets of £32.7 million less proceeds on disposal of property plant and equipment of £78.5 million.

Capital expenditure for the year was 1.4 times the Group's depreciation and amortisation (excluding acquired intangibles) charge of £108.6 million. For the 2019/20 financial year, capital expenditure as a multiple of depreciation and amortisation is expected to be around 1.0 times.

Cash interest paid

Net Group cash interest paid, excluding that paid by joint ventures, was £47.5 million (2018: £53.6 million).

Pensions

Pension cash outflow in excess of the income statement charge excluding exceptionals was £55.8 million after allowing for contract balances (2018: £47.3 million). The Rosyth scheme negotiations are currently ongoing and will require increased funding. The regulatory environment around pensions remains difficult and this, combined with the uneven distribution of funding deficits between our three large schemes, will result in more volatility in pensions funding over the coming years despite the improved overall funding levels. For the next financial year the cash outflow in excess of the income statement charge is expected to increase. An estimate of the current technical provisions funding basis deficit is around £400 million, reflecting more prudent assumptions compared to IAS 19.

Taxation

Underlying cash tax payments of £86.9 million (2018: £74.3 million) increased, partly due to the settlement of a tax dispute in Spain relating to pre-acquisition activity.

Free cash flow

Underlying free cash flow, which includes pension payments in excess of the income statement charge, increased by 29.4% to £323.7 million (2018: £250.2 million), led by the strong working capital performance.

Free cash flow generation in the year was weighted to the second half of this financial year and we expect a similar weighting in the next financial year.

Dividends

During the period the Group received £44.6 million in dividends from its joint ventures (2018: £42.9 million). Cash dividends (including to minorities of £2.8 million) paid out in the year totalled £153.3 million (2018: £147.7 million). We expect dividends from joint ventures to be stable in the 2019/20 financial year.

Exceptional cash movement

There was a cash outflow of £10.9 million in the year related to exceptional charges.

Net debt

The Group's net cash inflow was £158.3 million (2018: £92.1 million). Net debt at 31 March 2019 was £958 million, a reduction of £157 million over the last twelve months (2018: £1,115 million). This gives a net debt to EBITDA ratio of 1.4 times (2018: 1.6 times).

Net debt to EBITDA

	31 March 2019 £m	31 March 2018 £m
Underlying operating profit	588.4	584.6
Depreciation	93.8	91.3
Amortisation of software and development costs	14.6	13.0
Non-controlling interests	(0.4)	(1.4)
EBITDA	696.4	687.5
Net debt	957.7	1,115.0
Net debt / EBITDA	1.4x	1.6x

Interest cover

	31 March 2019 £m	31 March 2018 £m
EBITDA (as above)	696.4	687.5
Finance costs	62.7	61.9
Finance income	(16.0)	(14.3)
Net group finance costs	46.7	47.6
Interest cover	14.9x	14.5x

ROIC and gearing

Return on invested capital (ROIC) is defined as underlying operating profit divided by net debt and shareholder funds excluding retirement deficits or surpluses. Post tax, ROIC for the year was 12.5%, an increase from 11.9% last year. This improvement reflects the underlying operating profit growth, strong cash generation in the year and the asset write downs.

	31 March 2019 £m	31 March 2018 £m
Underlying operating profit	588.4	584.6
Tax at 18.0%	(105.9)	(105.2)
Underlying operating profit post tax	482.5	479.4
Net debt	957.7	1,115.0
Shareholder funds	2,884.9	2,911.0
Retirement deficit	28.0	5.0
Invested capital	3,870.6	4,031.0
ROIC (pre-tax)	15.2%	14.5%
ROIC (post-tax)	12.5%	11.9%
Gearing (net debt / shareholder funds plus retirement deficit)	33%	38%

Pensions

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,582.2 million in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,610.2 million. The total accounting deficit, pre-tax, of the Group's combined defined benefit pension schemes showed an increase to £28.0 million (31 March 2018: £5.0 million). As at 31 March 2019, the key assumptions used in valuing pension liabilities were:

Discount rate	2.4% (31 March 2018: 2.6%)
Inflation rate (RPI)	3.2% (31 March 2018: 3.1%)

On 26 October, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The impact to our pension liabilities was an increase of £26 million.

In addition, the bulk transfer of £110 million of liabilities to the Primary Civil Service pension scheme increased the pension liabilities by £5 million.

IFRS 16

IFRS 16 is effective for the year ending 31 March 2020 and requires almost all operating leases to be capitalised on the balance sheet. Minimum future lease payments will be recognised as a lease liability with a corresponding right-of-use asset depreciated on a straight-line basis over the lease term. The operating lease charge will be replaced by a depreciation charge on the asset and an interest charge on the liability. For the Group, 78% of the operating lease balance relates to aircraft within the Aviation sector where, in the main, operating lease terms are matched to customer contract length.

On 1 April 2019 the Group recognised a lease liability of £606 million and a right-of-use asset of £559 million.

The estimated impact to the year ending 31 March 2020 is:

- Increase in operating profit of c.£25 million
- Increase in interest of c.£25 million
- Minimal impact to earnings per share
- Increase in EBITDA of c.£150 million
- Increases net debt to EBITDA by c.0.5x

Contingent liabilities

The Group's contingent liabilities are set out on page 23.

In February 2019, the Italian Competition Authority (the ICA) notified Babcock Mission Critical Services Italia SpA (BMCS Italia) of its decision to fine a number of companies, which provide helicopter services in Italy for anti-trust violations and are members of the Italian Helicopter Association (the Association). The ICA found that a number of companies, but not BMCS Italia, had engaged in bid-rigging activities in the aerial rotary wing fire-fighting sector, a sector in which BMCS Italia does not operate. At the same time, the ICA, after investigation, found that there was no bid-rigging in the helicopter emergency medical services sector, the sector in which BMCS Italia does operate. However, during the course of its investigation, the ICA became aware of a publicly available "tariff list" produced by the Association since 2001 and, on the basis of the list, decided to fine the members of the Association, including BMCS Italia. The fine for BMCS Italia was €51 million.

BMCS Italia has appealed the ICA's decision and has reasonable grounds to believe the court will either overturn the fine all together or substantially reduce it. Accordingly, no provision for settlement has been made as 31 March 2019 as the directors do not believe any settlement will be material.

Group income statement

For the year ended 31 March 2019	Note	2019 £m	2019 Total £m	2018 £m	2018 Total £m
Revenue[1]	2		4,474.8		4,659.6
Cost of revenue			(3,928.3)		(3,971.7)
Gross profit			546.5		687.9
Distribution expenses			(11.9)		(12.8)
Administration expenses			(338.1)		(304.5)
Operating profit before share of results of joint ventures and associates	2		196.5		370.6
Share of results of joint ventures and associates	2, 9		83.8		68.5
Group and joint ventures and associates					
Operating profit before amortisation of acquired intangibles		559.3		554.6	
Investment income		29.1		30.0	
Underlying operating profit[2]	2	588.4		584.6	
Amortisation of acquired intangibles	3	(101.0)		(103.9)	
Exceptional items	3	(160.8)		–	
Group investment income		(1.3)		(1.9)	
Joint ventures and associates finance costs		(24.1)		(22.2)	
Joint ventures and associates income tax expense		(20.9)		(17.5)	
Operating profit			280.3		439.1
Finance costs					
Investment income		1.3		1.9	
Retirement benefit interest	17	0.3		(2.3)	
Finance costs	4	(62.7)		(61.9)	
Finance income	4	16.0		14.3	
			(45.1)		(48.0)
Profit before tax	2		235.2		391.1
Income tax expense	5		(35.4)		(53.4)
Profit for the year			199.8		337.7
Attributable to:					
Owners of the parent			199.4		336.3
Non-controlling interest			0.4		1.4
			199.8		337.7
Earnings per share	6				
Basic			39.5p		66.6p
Diluted			39.4p		66.5p

1. Revenue does not include the Group's share of revenue from joint ventures and associates of £685.8 million (2018: £703.2 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 2019	Note	2019 £m	2018 £m
Profit for the year		199.8	337.7
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		(31.0)	(25.9)
Fair value adjustment of interest rate and foreign exchange hedges		(0.5)	(7.5)
Tax on fair value adjustment of interest rate and foreign exchange hedges		0.4	1.2
Hedging gains reclassified to profit or loss		(1.3)	1.4
Fair value adjustment of joint ventures and associates derivatives	9	1.8	24.3
Tax, including rate change impact, on fair value adjustment of joint ventures and associates derivatives	9	(0.3)	(7.4)
Items that will not be subsequently reclassified to income statement			
Remeasurement of retirement benefit obligations		(58.4)	49.7
Tax on remeasurement of retirement benefit obligations		10.4	(10.3)
Impact of change in UK tax rates		(0.4)	1.9
Other comprehensive income, net of tax		(79.3)	27.4
Total comprehensive income		120.5	365.1
Total comprehensive income attributable to:			
Owners of the parent		122.3	363.6
Non-controlling interest		(1.8)	1.5
Total comprehensive income		120.5	365.1

Group statement of changes in equity

For the year ended 31 March 2019	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 2017	303.4	873.0	768.8	30.6	757.9	(86.5)	22.6	2,669.8	22.4	2,692.2
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
Total comprehensive income/(loss)	–	–	–	–	151.0	0.1	(28.8)	122.3	(1.8)	120.5
Dividends	–	–	–	–	(150.5)	–	–	(150.5)	(2.8)	(153.3)
Share-based payments	–	–	–	–	2.4	–	–	2.4	–	2.4
Tax on shared-based payments	–	–	–	–	2.4	–	–	2.4	–	2.4
Transactions with non-controlling interests (note 20)	–	–	–	–	(2.0)	–	–	(2.0)	3.9	1.9
Net movement in equity	–	–	–	–	3.3	0.1	(28.8)	(25.4)	(0.7)	(26.1)
At 31 March 2019	303.4	873.0	768.8	30.6	998.2	(74.4)	(32.1)	2,867.5	17.4	2,884.9

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

Group balance sheet

As at 31 March 2019	Note	2019 £m	2018 £m
Assets			
Non-current assets			
Goodwill	8	2,584.2	2,600.9
Other intangible assets		448.9	529.3
Property, plant and equipment		1,014.3	1,028.4
Investment in joint ventures and associates	9	153.2	119.3
Loan to joint ventures and associates	9	42.5	27.8
Retirement benefits	17	226.9	240.1
Trade and other receivables	11	9.3	6.7
IFRIC 12 financial assets		15.5	17.8
Other financial assets	13	93.8	76.0
Deferred tax asset		150.9	104.0
		4,739.5	4,750.3
Current assets			
Inventories	10	196.5	181.4
Trade and other receivables	11	907.8	1,060.1
Income tax recoverable		11.1	15.4
Other financial assets	13	48.0	27.5
Cash and cash equivalents	16	275.2	286.3
		1,438.6	1,570.7
Total assets		6,178.1	6,321.0
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		692.9	721.6
Retained earnings		998.2	994.9
		2,867.5	2,892.9
Non-controlling interest		17.4	18.1
Total equity		2,884.9	2,911.0
Non-current liabilities			
Bank and other borrowings	16	1,357.6	1,485.2
Trade and other payables	12	2.0	2.3
Deferred tax liabilities		103.2	112.8
Other financial liabilities	13	9.3	5.0
Retirement liabilities	17	254.9	245.1
Provisions for other liabilities	14	40.5	61.1
		1,767.5	1,911.5
Current liabilities			
Bank and other borrowings	16	53.9	38.1
Trade and other payables	12	1,381.4	1,392.1
Income tax payable		22.1	21.7
Other financial liabilities	13	4.9	11.9
Provisions for other liabilities	14	63.4	34.7
		1,525.7	1,498.5
Total liabilities		3,293.2	3,410.0
Total equity and liabilities		6,178.1	6,321.0

Group cash flow statement

For the year ended 31 March 2019	Note	2019 £m	2018 £m
Cash flows from operating activities			
Operating profit before amortisation of acquired intangible and exceptional items		452.5	468.7
Amortisation of acquired intangible and exceptional items	3	(256.0)	(98.1)
Operating profit before share of results of joint ventures and associates	2	196.5	370.6
Depreciation and impairment of property, plant and equipment		123.1	91.3
Amortisation of intangible assets		110.0	111.1
Investment income	2	1.3	1.9
Equity share-based payments		2.4	6.4
Profit on disposal of subsidiaries, businesses and joint ventures and associates	19	(14.8)	–
Profit on disposal of property, plant and equipment		(5.4)	(4.1)
Loss on disposal of intangible assets		0.3	–
Cash generated from operations before movement in working capital		413.4	577.2
Increase in inventories		(34.0)	(19.5)
Decrease/(increase) in receivables		138.8	(137.4)
Increase in payables		4.1	102.6
Increase/(decrease) in provisions		10.7	(27.7)
Retirement benefit payments in excess of income statement		(25.1)	(47.3)
Cash generated from operations		507.9	447.9
Income tax paid		(74.0)	(74.3)
Interest paid		(63.1)	(67.9)
Interest received		15.6	14.3
Net cash flows from operating activities		386.4	320.0
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	19	29.5	(0.2)
Dividends received from joint ventures and associates		44.6	42.9
Proceeds on disposal of property, plant and equipment		78.5	70.0
Purchases of property, plant and equipment		(194.3)	(150.4)
Purchases of intangible assets		(32.7)	(32.3)
Investment in, loans to and interest received from joint ventures and associates	9	(14.6)	(1.5)
Net cash flows from investing activities		(89.0)	(71.5)
Cash flows from financing activities			
Dividends paid		(150.5)	(143.9)
Finance lease principal payments	16	(26.4)	(27.5)
Finance lease assets repaid	16	(19.4)	9.6
Bank loans repaid	16	(103.4)	(88.4)
Loans raised		–	121.9
Dividends paid to non-controlling interest		(2.8)	(3.8)
Transactions with non-controlling interests	20	(0.5)	(5.3)
Movement on own shares		–	(4.2)
Net cash flows from financing activities		(303.0)	(141.6)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(5.6)	106.9
Cash, cash equivalents and bank overdrafts at beginning of year		286.3	185.6
Effects of exchange rate fluctuations		(5.5)	(6.2)
Cash, cash equivalents and bank overdrafts at end of year	16	275.2	286.3

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 2019. They should be read in conjunction with the Annual Report for the year ended 31 March 2018, 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 2018, except as noted below and to comply with amendments to IFRS, none of which had a material impact on the consolidated results, financial position or cash flows of the Group.

Significant accounting policies

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

New and amended standards adopted by the Group

The Group applied the following standards and amendments for the first time for the period beginning on 1 April 2018:

- IFRS 9: 'Financial instruments'
- IFRS 15: 'Revenue from contracts with customers'

The impact of adoption of these standards and the key changes to the accounting policies are disclosed below.

The following standards and amendments to IFRSs became effective for the period beginning on 1 April 2018 and did not have a material impact on the consolidated financial statements:

- IFRIC 22: Foreign Currency Transactions and Advance Consideration;
- Classification and Measurement of Share-Based Payment Transactions - Amendments to IFRS 2;
- Annual Improvements 2014-2016 Cycle; and
- Transfers of Investment Property - Amendments to IAS 40.

(a) IFRS 9

The Group adopted IFRS 9 from 1 April 2018. In accordance with the transition provisions in the Standard, comparatives have not been restated.

Classification of financial assets

IFRS 9 requires the use of two criteria to determine the classification of financial assets: the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The Standard goes on to identify three categories of financial assets - amortised cost; fair value through profit or loss (FVTPL); and fair value through other comprehensive income (FVOCI).

The adoption of IFRS 9 has not impacted the measurement of the Group's financial assets: derivative financial assets continue to be held at FVTPL (except those subject to hedge accounting) and the Group's other financial assets continue to be held at amortised cost.

Impairment of financial assets

IFRS 9 introduces an expected credit loss approach to impairment. The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and contract assets.

No material adjustments to the Group's impairment provisions were made on transition to IFRS 9. The majority of trade receivables are with government, government backed institutions or blue chip corporations and as such credit risk is considered small, and where an appropriate approach was already applied to establish impairment provisions and the inclusion of specific expected credit loss considerations did not have a material impact.

Hedge accounting

Updated IFRS 9 hedge accounting requirements have not had a material impact on the Group, but additional disclosure requirements have been met.

(b) IFRS 15

The Group adopted IFRS 15: 'Revenue from contracts with customers' from 1 April 2018 using the fully retrospective approach. The accounting policies have been updated to reflect the five-step approach to revenue recognition required by IFRS 15. This resulted in no impact on the cumulative amount of revenue recognised at 1 April 2018 or for the year ended 31 March 2019.

Following adoption of IFRS 15, capitalised contract costs are now presented separately within trade and other receivables. These amounts were previously included within amounts due from customers for contract work.

2. Segmental information

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

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

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

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

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

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

2019	Marine £m	Land £m	Aviation £m	Cavendish Nuclear £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,706.6	1,620.2	1,135.5	698.3	–	5,160.6
Less: joint ventures and associates revenue	20.3	60.2	139.6	465.7	–	685.8
Revenue	1,686.3	1,560.0	995.9	232.6	–	4,474.8
Operating profit/(loss) before share of results of joint ventures and associates	178.6	42.3	(25.0)	21.6	(21.0)	196.5
Exceptional items	33.6	17.7	86.4	4.9	18.2	160.8
Acquired intangible amortisation	4.7	44.1	45.7	0.7	–	95.2
Operating profit*	216.9	104.1	107.1	27.2	(2.8)	452.5
IFRIC 12 investment income – Group	0.3	1.0	–	–	–	1.3
Share of operating profit – joint ventures and associates	3.3	39.5	27.0	37.0	–	106.8
Share of IFRIC 12 investment income – joint ventures and associates	–	1.4	26.4	–	–	27.8
Underlying operating profit	220.5	146.0	160.5	64.2	(2.8)	588.4
Share of finance costs – joint ventures and associates	(0.4)	(0.1)	(23.6)	–	–	(24.1)
Share of tax – joint ventures and associates	(1.3)	(7.1)	(5.3)	(7.2)	–	(20.9)
Acquired intangible amortisation – Group	(4.7)	(44.1)	(45.7)	(0.7)	–	(95.2)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.0)	(3.8)	–	–	(5.8)
Net finance costs – Group	–	–	–	–	(46.4)	(46.4)
Exceptional items	(33.6)	(17.7)	(86.4)	(4.9)	(18.2)	(160.8)
Profit before tax	180.5	75.0	(4.3)	51.4	(67.4)	235.2

* Before amortisation of acquired intangibles and exceptional items.

2. Segmental information (continued)

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/(loss) 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.

The analysis of revenue for the year ended 31 March 2019 and at 31 March 2018 is as follows:

	2019 £m	2018 £m
Sale of goods – transferred at a point in time	635.7	615.4
Sale of goods – transferred over time	61.8	25.8
Sale of Goods	697.5	641.2
Provision of services – transferred over time	3,768.6	4,010.3
Rental income	8.7	8.1
Revenue	4,474.8	4,659.6

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

The geographic analysis of revenue by origin of customer for the year ended 31 March 2019 and at 31 March 2018 is as follows:

	2019 £m	2018 £m
United Kingdom	2,954.3	3,159.0
Rest of Europe	649.4	586.1
Africa	353.6	413.5
North America	181.3	205.8
Australasia	189.2	162.8
Rest of World	147.0	132.4
Revenue	4,474.8	4,659.6

3. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Oil and Gas[1]						
– Asset impairment	39.0	–	–	–	39.0	–
– Onerous lease provisions	42.1	–	–	–	42.1	–
Oil and Gas – total	81.1	–	–	–	81.1	–
Capacity restructuring[2]	42.4	–	–	–	42.4	–
Exit[3]	21.4	–	–	–	21.4	–
Profit on disposal of subsidiaries and businesses (note 19)	(14.8)	–	–	–	(14.8)	–
Pension GMP equalisation and bulk transfer[4]	30.7	–	–	–	30.7	–
Exceptional items[5]	160.8	–	–	–	160.8	–
Exceptional tax items and tax on exceptional items[6]	(16.7)	–	–	–	(16.7)	–
Exceptional items – net of tax	144.1	–	–	–	144.1	–
Acquired intangible amortisation	95.2	98.1	5.8	5.8	101.0	103.9
Tax on acquired intangibles amortisation	(20.4)	(21.1)	(1.1)	(1.1)	(21.5)	(22.2)
Acquired intangible amortisation – net of tax	74.8	77.0	4.7	4.7	79.5	81.7

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

1. During the period the Oil and Gas business was reshaped to reflect the current market and to allow for the resultant business to optimise future cashflows. Assets and leases were marked to current market value to allow for sale, sub lease or alternate use. The total exceptional charge is £81.1 million and the cash costs are expected to be offset by tax effects and proceeds from the disposal of assets. Property, plant and equipment was written down by £29.3 million. For receivable impairments refer to note 11 for more information, and there are also minor impairments to inventory. Refer to note 14 for the onerous lease provisions.
2. Capacity reduction and restructuring costs reflect the rightsizing, restructuring and closure of businesses across the sectors including Appledore, Rail and Magnox. Refer to note 14 for related provision movements.
3. The Group continued with its strategy of exiting small low margin businesses. The costs of exiting renewables, North American mining and construction, scaling down powerlines (South Africa), mobile telecoms, infrastructure and cabling are reflected within exit costs. Refer to note 11 for related asset write downs.
4. On 26 October, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The past service costs totalling £25.9 million reflect our estimate of the extent to which the judgment crystallises additional liabilities for our pension schemes.

   The Group also recognised £4.8 million on off cost for settlement of a pension scheme liability (note 25).
5. £88.9 million of the exceptional charge has been charged through cost of revenue and the balance of £71.9 million through administration expenses.
6. The tax credit of £16.7 million on exceptional items includes a charge of £10.0 million as a result of a reorganisation in anticipation of Brexit.

4. Net finance costs

	2019 £m	2018 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	41.9	42.7
Finance leases	5.3	5.4
Amortisation of issue costs of bank loan	1.4	1.7
Other	14.1	12.1
Total finance costs	62.7	61.9
Finance income		
Bank deposits, loans and finance leases	16.0	14.3
Total finance income	16.0	14.3
Net finance costs	46.7	47.6

5. Income tax expense

The charge for taxation is after a tax credit of £16.7 million (2018: nil) relating to exceptional items, a tax credit of £20.4 million (2018: £21.1 million) relating to acquired intangible amortisation, of which £0.6 million (2018: £0.6 million) is included in share of profits from joint ventures and associates, and a tax charge of £1.3 million (2018: £1.3 million) relating to rate changes. The charge for taxation gives an underlying effective rate of 18.0% (2018: 18.0%), which is based on the estimated effective rate of tax for the full year ended 31 March 2019, and before the credits in respect of exceptionals, amortisation of acquired intangibles and rate changes.

6. Earnings per share

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

	2019 Number	2018 Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	505,165,728	504,881,495
Effect of dilutive potential ordinary shares: share options	947,702	858,150
Weighted average number of ordinary shares for the purpose of diluted EPS	506,113,430	505,739,645

Earnings

			2019			2018
	Earnings £m	Basic per share Pence	Diluted per share Pence	Earnings £m	Basic per share Pence	Diluted per share Pence
Earnings from continuing operations	199.4	39.5	39.4	336.3	66.6	66.5
Add back:						
Amortisation of acquired intangible assets, net of tax	79.5	15.7	15.7	81.7	16.2	16.2
Exceptional items, net of tax	144.1	28.5	28.5	–	–	–
Impact of change in statutory tax rates	1.3	0.3	0.3	0.8	0.2	0.2
Earnings before amortisation, exceptional items and other	424.3	84.0	83.9	418.8	83.0	82.9

7. Dividends

The Directors have proposed a final dividend of 22.9p per 60p ordinary share (2018: 22.65p per 60p ordinary share) and it will be paid on 9 August 2019 to shareholders registered on 5 July 2019, subject to approval at the Annual General Meeting on 18 July 2019. The full year declared dividend per share is 30.0p per 60p ordinary share (2018: 29.5p per 60p ordinary share).

8. Goodwill

	2019 £m	2018 £m
Cost		
At 1 April	2,608.0	2,615.9
On disposal of subsidiaries (note 19)	(9.4)	–
Exchange adjustments	(9.6)	(7.9)
At 31 March	2,589.0	2,608.0
Accumulated impairment		
At 1 April	7.1	7.1
On disposal of subsidiaries (note 19)	(2.3)	–
Impairment	–	–
At 31 March	4.8	7.1
Net book value at 31 March	2,584.2	2,600.9

During the year, goodwill was tested for impairment in accordance with IAS 36. The recoverable amount of the Group's goodwill was assessed by reference to value-in-use calculations derived from the three year budgeted cash flows, and extrapolated cash flows thereafter based on an estimated growth rate of 3.0% (2018: 3.0%). The process by which the budget is prepared, reviewed and approved benefits from historical experience, visibility of long term work programmes in relation to elements of the work undertaken for the UK government, available government spending information (both UK and overseas) and the Group's order book and bid pipeline.

A pre-tax discount rate in the range 9.5% to 10.5% (2018: 8.5% to 9.8%) was used in the value-in-use calculations. The Group's weighted average cost of capital post-tax is approximately 7.8% to 8.6% (2018: 7.0% to 8.0%).

Goodwill is allocated to the Group's cash-generating units (CGUs) as presented below. These align with the Group's operating segments and represent the lowest level in the Group at which goodwill is monitored.

	2019 £m	2018 £m
Marine	524.3	522.4
Land	889.7	900.0
Aviation	1,100.2	1,108.5
Nuclear	70.0	70.0
	2,584.2	2,600.9

Key assumptions in relation to the cashflows included in the value in use models are set out below:

Marine	Continuing delivery of work programmes with the UK Ministry of Defence.
Land	Continuing demand for large scale vehicle fleet management, equipment support and training from both military and civil customers, noting that significant elements of equipment support and training are the subject of long term contracts.
Aviation	Continuing delivery of long term contracts with the UK Ministry of Defence and growth in aerial emergency services worldwide where the Group has a number of leadership positions.
Nuclear	Continuing delivery of opportunities in the civil nuclear decommissioning programme together with maintenance of ongoing spend in provision of nuclear engineering services to operational power stations, and some growth in support of the UK new build programme.

The value in use calculations present significant headroom in respect of all the operating segments. Sensitivity analyses were carried out for each of the segments in relation to constraining the rate of growth of the budget cashflows by 28%, reducing the long term growth rate by 1% and increasing the discount rate used in the value in use calculations by 1%. In each case significant headroom remained for each segment. The sensitivities were also applied in the aggregate and in this case a marginal amount of headroom remained for Aviation and significant headroom remained for the other segments.

9. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
At 1 April	119.3	71.9	27.8	32.3	147.1	104.2
Disposal of joint venture and associates (note 19)	(6.6)	(1.8)	–	–	(6.6)	(1.8)
Repayments from joint ventures and associates	–	–	(2.3)	(4.5)	(2.3)	(4.5)
Investment in joint ventures and associates	–	6.9	10.8	–	10.8	6.9
Share of profits	83.8	68.5	–	–	83.8	68.5
Interest accrued and capitalised	–	–	6.5	0.9	6.5	0.9
Interest received	–	–	(0.3)	(0.9)	(0.3)	(0.9)
Dividends received	(44.6)	(42.9)	–	–	(44.6)	(42.9)
Fair value adjustment of derivatives	1.8	24.3	–	–	1.8	24.3
Tax on fair value adjustment of derivatives	(0.3)	(7.4)	–	–	(0.3)	(7.4)
Foreign exchange	(0.2)	(0.2)	–	–	(0.2)	(0.2)
At 31 March	153.2	119.3	42.5	27.8	195.7	147.1

Included within investment in joint ventures and associates is goodwill of £1.2 million (2018: £1.2 million).

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

	2019 £m	2018 £m
Marine	6.0	7.0
Land	77.4	49.1
Aviation	70.2	65.6
Nuclear	42.1	25.4
Net book value	195.7	147.1

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

Included within joint ventures and associates are:

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit/(loss)* £m	Total comprehensive income/(loss) £m	% interest held
2019							
Holdfast Training Services Limited	United Kingdom	46.3	(3.6)	80.6	28.4	23.6	74%
ALC (Superholdco) Limited	United Kingdom	19.1	–	19.3	11.3	8.3	50%
AirTanker Limited	United Kingdom	409.3	(390.6)	42.5	13.4	10.2	13%
AirTanker Services Limited	United Kingdom	32.9	–	43.7	5.0	3.1	22%
Ascent Flight Training (Holdings) Limited	United Kingdom	113.5	(98.7)	61.5	5.0	5.3	50%
Naval Ship Management (Australia) Pty Limited	Australia	5.2	(4.1)	23.7	4.2	2.9	50%
Cavendish Dounreay Partnership Limited	United Kingdom	39.4	(19.8)	110.5	7.8	6.2	50%
Cavendish Fluor Partnership Limited	United Kingdom	102.6	(80.2)	390.8	28.9	23.4	65%
ABC Electrification Limited	United Kingdom	2.6	–	50.7	(0.2)	(0.2)	33%
Other		21.8	–	33.9	3.0	1.0	
		792.7	(597.0)	857.2	106.8	83.8	
2018							
Holdfast Training Services Limited	United Kingdom	40.1	(14.0)	77.4	18.4	14.8	74%
ALC (Superholdco) Limited	United Kingdom	18.6	–	20.1	10.9	7.4	50%
AirTanker Limited	United Kingdom	421.0	(410.2)	29.9	4.0	2.6	13%
AirTanker Services Limited	United Kingdom	29.8	–	41.3	4.4	2.7	22%
Ascent Flight Training (Holdings) Limited	United Kingdom	116.5	(104.7)	48.0	3.1	5.2	50%
Naval Ship Management (Australia) Pty Limited	Australia	5.0	(4.3)	26.5	4.3	3.0	50%
Helidax S.A.S.	France	30.2	(24.7)	8.6	3.2	1.3	50%
Cavendish Dounreay Partnership Limited	United Kingdom	38.2	(24.8)	118.5	5.8	4.7	50%
Cavendish Fluor Partnership Limited	United Kingdom	100.1	(88.2)	395.6	31.8	25.8	65%
ABC Electrification Limited	United Kingdom	2.9	–	69.4	0.2	0.2	33%
Other		20.2	(4.6)	64.3	(0.2)	0.8	
		822.6	(675.5)	899.6	85.9	68.5	

- Before amortisation of acquired intangibles

Joint ventures and associates revenue excluding Group sub-contract revenue is £685.8 million (2018: £703.2 million).

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

None (2018: non) of the joint ventures or associates had material amounts of other comprehensive income or profits from discontinued operations and therefore the total comprehensive income noted in the table above is in line with profits from continuing operations.

Holdfast Training Services Limited and Cavendish Fluor Partnership Limited are equity accounted as unanimous decisions making is required over key decisions which drive the relevant activities of the business. Both the Holdfast Training Services Limited and Cavendish Fluor Partnership Limited joint arrangements are shown as joint ventures as the Group has the right to net assets of the joint arrangement rather than separate rights and obligations to the assets and liabilities of the joint arrangement respectively. Holdfast Training Services Limited and Cavendish Fluor Partnership Limited had other comprehensive income of £nil in the year (2018: £nil).

AirTanker Limited is shown as an associate due to the level of management input and the relative share ownership. AirTanker benefitted from an improved cumulative margin position in the year.

The Cavendish Fluor Partnership Limited is deemed material to the Group. All the assets and liabilities are current. Of the assets shown above £1.8 million (2018: £6.2 million) was cash and cash equivalents. During the year dividends of £12.9 million (2018: £24.2 million) were received. The retained profit is after income tax expense of £5.5 million (2018: £6.0 million).

10. Inventories

	2019 £m	2018 £m
Raw materials and spares	87.9	65.6
Work-in-progress	7.7	5.7
Finished goods and goods for resale	100.9	110.1
Total	196.5	181.4

11. Trade and other receivables

	2019 £m	2018 (restated) £m
Current assets		
Trade receivables	255.5	283.1
Less: provision for impairment of receivables	(6.0)	(4.9)
Trade receivables – net	249.5	278.2
Amounts due from customers for contract work	266.0	409.3
Accrued income	133.2	118.5
Capitalised contract costs	62.9	53.5
Contract assets	462.1	581.3
Retentions	9.1	9.4
Amounts due from related parties (note 22)	11.4	13.3
Other debtors	99.0	115.1
Prepayments	76.7	62.8
	907.8	1,060.1
Non-current assets		
Other debtors	9.3	6.7

Trade and other receivables are stated at amortised cost.

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

	Amounts due from customers for contract work £m	Accrued income £m	Capitalised contract costs £m	Contract assets £m
31 March 2018	462.8	118.5	–	581.3
Reclassification – IFRS 15 adoption	(53.5)	–	53.5	–
1 April 2018 – restated	409.3	118.5	53.5	581.3
Transfers from contract assets recognised at the beginning of the year to receivables	(394.7)	(112.5)	–	(507.2)
Increase due to work done not transferred from contract assets	264.5	128.5	–	393.0
Amounts capitalised	–	–	26.5	26.5
Amortisation of contract assets	–	–	(8.7)	(8.7)
Write down of contract assets	(14.4)	–	(6.3)	(20.7)
Other	–	(1.0)	–	(1.0)
Exchange adjustment	1.3	(0.3)	(2.1)	(1.1)
31 March 2019	266.0	133.2	62.9	462.1
31 March 2017	222.4	124.4	–	346.8
Reclassification – IFRS 15 adoption	(31.2)	–	31.2	–
31 March 2017 – restated	191.2	124.4	31.2	346.8
Transfers from contract assets recognised at the beginning of the year to receivables	(182.4)	(124.0)	–	(306.4)
Increase due to work done not transferred from contract assets	401.4	117.9	–	519.3
Amounts capitalised	–	–	29.5	29.5
Amortisation of contract assets	–	–	(6.1)	(6.1)
Exchange adjustment	(1.0)	0.3	(1.1)	(1.8)
31 March 2018	409.3	118.5	53.5	581.3

*As discussed in note 3, amounts due from customer have been written down in relation to the exit of small low margin businesses and capitalised contract costs have been written down as a result of the reshaping of our Oil and Gas business. Further to this, minor amounts in other debtors have been written down in relation to both the reshaping of our Oil and Gas business and the exit of small low margin businesses.

Under IFRS 15, contract mobilisation costs and costs of obtaining contracts are no longer presented within an overall contract balance with customers. These have therefore been reclassified at the date of transition to IFRS 15 (1 April 2018) from Amounts due from customers for contract work to a separate category called Capitalised contract costs.

No material revenue was recognised in 2019 from performance obligations satisfied in previous periods, arising from changes in stage of completion, or transaction price allocation (2018: No material revenue).

11. Trade and other receivables (continued)

Within the Group's order book £10.6 billion represents the transaction price allocated to unsatisfied or partially satisfied performance obligations. Management expects that 28% of the transaction price allocated to unsatisfied performance obligations as at 31 March 2019 will be recognised as revenue during the next reporting period. A further 48% of the transaction price allocated to unsatisfied performance obligations is expected to be recognised as revenue in years two to five after 31 March 2019. In addition there are £3.4 billion of orders where pricing is still to be finalised and £3.0 billion of orders within joint ventures and associates.

12. Trade and other payables

	2019 £m	2018 £m
Current liabilities		
Contract cost accruals	188.5	179.9
Amounts due to customers for contract work	192.8	173.4
Deferred income	40.0	60.0
Contract liabilities	421.3	413.3
Trade creditors	510.6	545.3
Amounts due to related parties (note 22)	1.0	0.8
Other creditors	63.9	84.6
Other taxes and social security	125.6	119.6
Accruals	259.0	228.5
	1,381.4	1,392.1
Non-current liabilities		
Other creditors	2.0	2.3

Included in creditors is £19.5 million (2018: £10.8 million) relating to capital expenditure which has therefore not been included in working capital movements within the cashflow.

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

	Contract cost accrual £m	Amounts due to customers for contract work £m	Deferred income £m	Contract liabilities £m
31 March 2018	179.9	173.4	60.0	413.3
Revenue recognised that was included in the contract liability balance at the beginning of the year	–	(143.8)	(56.4)	(200.2)
Increase due to cash received, excluding amounts recognised as revenue	–	168.5	37.4	205.9
Amounts accrued	183.7	–	–	183.7
Amounts utilised	(167.2)	–	–	(167.2)
Disposal	(6.0)	(4.1)	–	(10.1)
Exchange adjustment	(1.9)	(1.2)	(1.0)	(4.1)
31 March 2019	188.5	192.8	40.0	421.3
31 March 2017	186.0	180.4	66.9	433.3
Revenue recognised that was included in the contract liability balance at the beginning of the year	–	(168.2)	(66.9)	(235.1)
Increase due to cash received, excluding amounts recognised as revenue	–	161.4	60.1	221.5
Amounts accrued	181.0	–	–	181.0
Amounts utilised	(185.3)	–	–	(185.3)
Exchange adjustment	(1.8)	(0.2)	(0.1)	(2.2)
31 March 2018	179.9	173.4	60.0	413.3

13. Other financial assets and liabilities

	Fair value			
	Assets		Liabilities	
	2019 £m	2018 £m	2019 £m	2018 £m
Non-current				
US private placement – currency and interest rate swaps	75.2	47.7	1.0	–
Interest rate hedge	–	1.5	0.8	0.9
Other currency hedges	2.0	3.5	7.5	4.1
Financial derivatives	77.2	52.7	9.3	5.0
Finance leases granted	16.6	23.3	–	–
Total non-current other financial assets and liabilities	93.8	76.0	9.3	5.0
Current				
Interest rate hedge	–	–	0.1	0.2
Other currency hedge	3.7	4.3	4.8	11.7
Financial derivatives	3.7	4.3	4.9	11.9
Finance leases granted	44.3	23.2	–	–
Total current other financial assets and liabilities	48.0	27.5	4.9	11.9

The Group enters into forward foreign currency contracts to hedge the currency exposures that arise on sales, purchases, deposits and borrowings denominated in foreign currencies, as the transactions occur. There is no material ineffectiveness on any of the Group's hedging activities.

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

The fair values of the financial instruments are based on valuation techniques (level 2) using underlying market data and discounted cash flows.

The Group entered into a facility to sell its finance lease debtors on the FOMEDEC equipment supply contract. The Group analysed the terms of the facility and considers that the facility transfers substantially all the risks and rewards associated with the finance lease debtors. Finance lease debtors are derecognised at the date they are discounted by the bank. At 31 March 2019 the non-recourse balance was £137 million which will be recovered over approximately four years.

14. Provisions for other liabilities

	Insurance provisions (a) £m	Contract/ warranty (b) £m	Employee benefits and business reorganisation costs (c) £m	Property and other (d) £m	Expected credit losses £m	Total provisions £m
At 1 April 2018	1.0	12.8	45.7	36.3	–	95.8
On disposal of subsidiaries (note 19)	–	(0.7)	–	(0.2)	–	(0.9)
(Released)/charged to income statement	(0.5)	(2.3)	60.7	(2.9)	0.4	55.4
Utilised in year	–	(0.8)	(40.9)	(3.8)	–	(45.5)
Foreign exchange	–	(0.2)	(0.2)	(0.4)	(0.1)	(0.9)
At 31 March 2019	0.5	8.8	65.3	29.0	0.3	103.9

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

	2019 £m	2018 £m
Current	63.4	34.7
Non-current	40.5	61.1
	103.9	95.8

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

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

(c) The employee benefits and reorganisation costs arise mainly in relation to acquired businesses, personnel related costs and payroll taxes. £59.4 million of provisions were recognised in the year in respect of exceptional costs. At March 2019 there remains £26.7 million of provisions in respect of the reshaping of our Oil and Gas business (see note 3). In relation to capacity reductions and restructuring, as discussed in note 3, there remains £12.7 million in provisions at March 2019.

14. Provisions for other liabilities (continued)

(d) Property and other in the main relate to provisions for onerous leases, dilapidation costs and contractual obligations in respect of infrastructure.

Included within provisions is £9 million expected to be utilised over approximately ten years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

15. Movement in net debt

	2019 £m	2018 £m
(Decrease)/increase in cash in the year	(5.6)	106.9
Cash flow from the increase in debt and lease financing	(27.4)	(43.7)
Change in net funds resulting from cash flows	(33.0)	63.2
Finance leases – granted	176.6	28.1
Movement in joint ventures and associates loans	14.7	(4.5)
Foreign currency translation differences	(1.0)	(28.3)
Movement in net debt in the year	157.3	58.5
Net debt at the beginning of the year	(1,115.0)	(1,173.5)
Net debt at the end of the year	(957.7)	(1,115.0)

16. Changes in net debt

	31 March 2018 £m	Cash flow £m	Disposal of subsidiaries £m	Finance leases £m	Exchange movement £m	31 March 2019 £m
Cash and bank balances	286.3	(35.1)	29.5	–	(5.5)	275.2
Bank overdrafts	–	–	–	–	–	–
Cash, cash equivalents and bank overdrafts	286.3	(35.1)	29.5	–	(5.5)	275.2
Debt	(1,432.2)	103.4	–	–	(16.9)	(1,345.7)
Finance leases – received	(91.1)	26.4	–	–	(1.1)	(65.8)
Finance leases – granted	46.5	(157.2)	–	176.6	(5.0)	60.9
	(1,476.8)	(27.4)	–	176.6	(23.0)	(1,350.6)
Net debt before derivatives and joint ventures and associates loans	(1,190.5)	(62.5)	29.5	176.6	(28.5)	(1,075.4)
Net debt derivative	47.7	–	–	–	27.5	75.2
Joint ventures and associates loans	27.8	14.7	–	–	–	42.5
Net debt	(1,115.0)	(47.8)	29.5	176.6	(1.0)	(957.7)

17. Retirement benefits and liabilities

Analysis of movement in the Group balance sheet

	2019 £m	2018 £m
Fair value of plan assets (including reimbursement rights)		
At 1 April	4,734.9	4,676.2
Interest on assets	115.4	115.8
Actuarial gain on assets	137.2	60.8
Employer contributions	95.5	99.4
Employee contributions	0.5	0.7
Benefits paid	(339.4)	(218.0)
Settlements	(161.9)	–
At 31 March	4,582.2	4,734.9
Present value of benefit obligations		
At 1 April	4,739.7	4,780.5
Service cost	38.9	43.3
Incurred expenses	3.8	4.0
Interest cost	115.1	118.1
Employee contributions	0.5	0.7
Experience losses	38.2	29.6
Actuarial (gain)/loss – demographics	(47.2)	0.1
Actuarial loss/(gain) – financial	204.6	(18.6)
Benefits paid	(339.4)	(218.0)
Past service costs	25.9	–
Settlements	(169.9)	–
At 31 March	4,610.2	4,739.7
Present value of unfunded obligations	–	(0.2)
Net deficit at 31 March	28.0	5.0

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

	2019 £m	2018 £m
Current service cost	38.9	43.3
Incurred expenses	3.8	4.0
Past service costs	25.9	–
Settlements	(8.0)	–
Total included within operating profit	60.6	47.3
Net interest (credit)/cost	(0.3)	2.3
Total included within income statement	60.3	49.6

As at 31 March 2019 the key assumptions used in valuing pension liabilities were:

Discount rate	2.4% (31 March 2018: 2.6%)
Inflation rate (RPI)	3.2% (31 March 2018: 3.1%)

18. Acquisitions

There were no acquisitions in the current or previous year.

19 Disposals of subsidiaries, businesses and joint ventures and associates

In September 2018 the Group disposed of its media business for £28.7 million, which resulted in a profit of £14.0 million. In the second half of the year three further disposals were made for a total consideration of £11.4 million, which resulted in a profit on disposal of £0.8 million.

During the previous 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 £0.8 million (2018: £2.0 million).

	2019						2018		
	Babcock Media Services £m	Babcock 4S Limited £m	Powerlines £m	Helidax S.A.S £m	Previously disposed of business £m	Total £m	Schools Infrastructure Business £m	Previously disposed of business £m	Total £m
Goodwill	7.1	–	–	–	–	7.1	–	–	–
Investments in joint ventures and associates	–	–	–	6.6	–	6.6	1.8	–	1.8
Property, plant and equipment	1.4	–	3.6	–	–	5.0	–	–	–
Inventory	7.4	–	–	–	–	7.4	–	–	–
Current assets	4.0	0.5	–	–	–	4.5	–	–	–
Cash, cash equivalents and bank overdrafts	2.6	4.9	–	–	–	7.5	–	–	–
Current liabilities	(9.6)	(2.2)	–	–	–	(11.8)	0.3	–	0.3
Provisions	–	(0.9)	–	–	–	(0.9)	–	–	–
Net assets disposed	12.9	2.3	3.6	6.6	–	25.4	2.1	–	2.1
Disposal costs	1.8	1.3	–	–	–	3.1	0.6	–	0.6
Deferred consideration	–	–	(3.2)	–		(3.2)			
Profit on disposal of subsidiary	14.0	(1.5)	(0.1)	2.4	–	14.8	(0.9)	–	(0.9)
Sale proceeds	28.7	2.1	0.3	9.0	–	40.1	1.8	–	1.8
Sale proceeds less cash disposed of	26.1	(2.8)	0.3	9.0	–	32.6	1.8	–	1.8
Less costs paid in the period	(1.8)	(0.5)	–	–	(0.8)	(3.1)	–	(2.0)	(2.0)
Net cash inflow/(outflow)	24.3	(3.3)	0.3	9.0	(0.8)	29.5	1.8	(2.0)	(0.2)

20. Transactions with non-controlling interests

In September 2018, one of the Group's subsidiaries in South Africa, Babcock Ntuthuko Engineering, issued an additional 2.9% of its share capital to its non-controlling interest partner for £1.9 million. It also issued further restricted shares, which employ Notional Vendor Financing, to give the non-controlling interest partner 48.5% of the business. However, for as long as the Notional Vendor Amount is greater than zero the holders of the restricted shares shall not be entitled to receive any distributions.

In November 2018 Cognac Formation Aero France was created with a 10% non-controlling interest and the FOMEDEC business was transferred into this company.

During the previous 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. The £2.4 million was paid during the year to March 2019.

A reconciliation to the Group statement of changes in equity and the Group cash flow is shown below:

	Cash movements £m	Retained earnings £m	Non-controlling interest £m	Total equity £m
Babcock Ntuthuko Engineering	1.9	(0.2)	2.1	1.9
Cognac Formation Aero France	–	(1.8)	1.8	–
Scandinavian AirAmbulance AB	(2.4)			
Total	(0.5)	(2.0)	3.9	1.9

21. Related party transactions

Related party transactions for the year to 31 March 2019 are: sales to joint ventures and associates of £162.1 million (2018: £178.8 million) and purchases from joint ventures and associates of £0.4 million (2018: £0.5 million). The year end receivables balance was £11.4 million (2018: £13.3 million) and the payable balance was £1.0 million (2018: £0.8 million).

For annualised key management compensation, please refer to note 7 and the Remuneration report in the Annual Report for the year ended 31 March 2019.

For transactions with Group defined benefit pension schemes, please refer to note 17 above and note 25 in the Annual Report for the year ended 31 March 2019.

22. Adoption of IFRS 16, 'Leases'

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

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

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

The following practical expedients have been adopted on transition:

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

The financial impact of adopting the new standard may change from the current estimates detailed below due to:

- Changes in the Group's lease portfolio, with leases ending and starting frequently throughout the year
- Changes in assumptions relating to lease end dates and future lease payment amounts
- Foreign exchange differences

Impact on Financial Statements

On 1 April 2019:

- The Group will recognise a lease liability of £605.7 million and a right-of-use asset of £559.2 million, with a corresponding debit to retained earnings of £20.1 million net of a deferred tax asset of £5.0 million and a debit to provisions of £21.4 million in respect of onerous leases
- The vast majority of the lease liability relates to property and aircraft

For the year ending 31 March 2020:

- Operating profit is expected to increase by approximately £25 million as the depreciation charge is estimated to be lower than the operating lease charge under IAS 17. However, the increase in finance costs is expected to offset this, causing an immaterial decrease in profit before tax
- EBITDA is expected to increase by an estimated £150 million

The adoption of IFRS 16 does not impact the lending covenants of the Group's existing facilities as they are based on accounting standards applicable when the facilities were granted. The impact on the Group balance sheet at 1 April 2019 is reflected below:

	1 April 2019 £m
Assets	
Non-current assets	
Right-of-use assets	559.2
Deferred tax asset	5.0
Total assets	564.2
Equity and liabilities	
Equity attributable to owners of the parent	
Retained earnings	(20.1)
Total equity	(20.1)
Non-current liabilities	
Lease liabilities	510.6
Provisions	(6.7)
Total non-current liabilities	503.9
Current liabilities	
Lease liabilities	95.1
Provisions	(14.7)
Total current liabilities	80.4
Total equity and liabilities	564.2

23. Contingent liabilities

(a) In February 2019, the Italian Competition Authority (the ICA) notified Babcock Mission Critical Services Italia SpA (BMCS Italia) of its decision to fine a number of companies, which provide helicopter services in Italy for anti-trust violations and are members of the Italian Helicopter Association (the Association).

The ICA found that a number of companies, but not BMCS Italia, had engaged in bid-rigging activities in the aerial rotary wing fire-fighting sector, a sector in which BMCS Italia does not operate. At the same time, the ICA, after investigation, found that there was no bid-rigging in the helicopter emergency medical services sector, the sector in which BMCS Italia does operate.

However, during the course of its investigation, the ICA became aware of a publicly available "tariff list" produced by the Association since 2001 and, on the basis of the list, decided to fine the members of the Association, including BMCS Italia. The fine for BMCS Italia was €51 million.

BMCS Italia has appealed the ICA's decision and has reasonable grounds to believe the court will either overturn the fine all together or substantially reduce it. Accordingly, no provision for settlement has been made as at 31 March 2019 as the directors do not believe any likely settlement will be material.

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

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

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

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

24. Financial information

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

Statutory accounts for the year ending 31 March 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's Annual General Meeting.

The annual report for the year ending 31 March 2019 and this full year results statement were approved by the Board on 21 May 2019. The auditors have reported on the Annual Report for the year ended 31 March 2019 and 31 March 2018 and neither report was qualified and neither contained a statement under Section 498(2) or (3) of the Companies Act 2006.

Annual General Meeting 2019

This year's Annual General Meeting will be held on 18 July 2019 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 2019.

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

21 May 2019