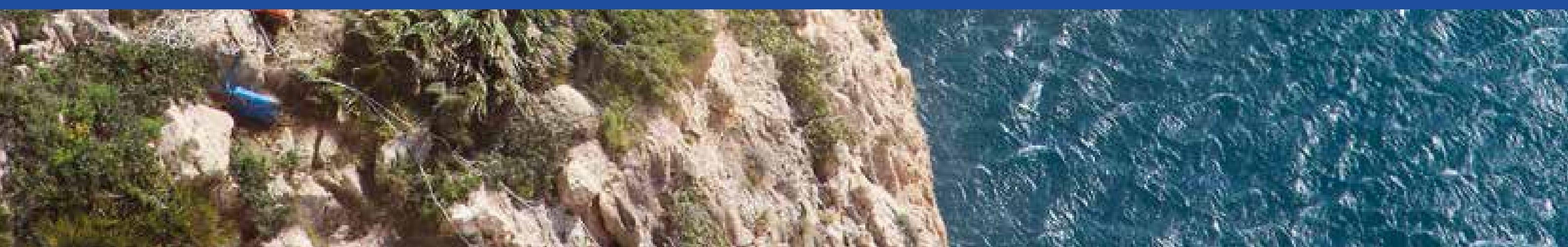
babcock™

The trusted partner

Annual Report and Accounts 2019

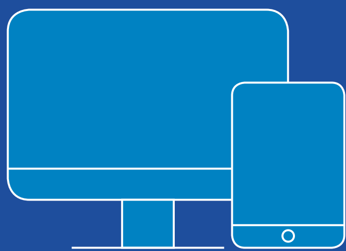


The trusted partner.

Babcock is a leading provider of critical, complex engineering services which support national defence, save lives and protect communities.

We focus on three highly regulated markets – defence, aerial emergency services and civil nuclear – delivering vital services and managing complex assets in the UK and internationally.

We are a trusted partner who understands the key roles that our technology, our expertise, our infrastructure and our assets play in ensuring our customers can deliver. We share risk with them in delivering innovation, and we share the benefits.

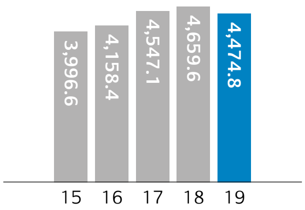


babcockinternational.com

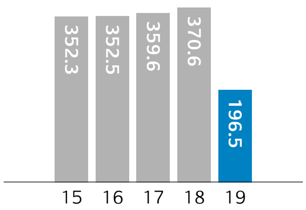
A partner for progress

Statutory results

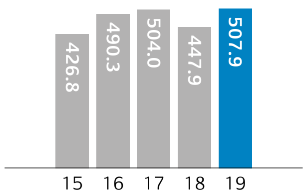
Group revenue
£4,474.8m
-4%



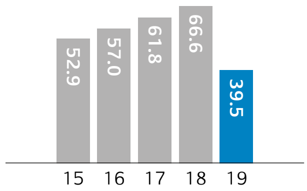
Operating profit
£196.5m
-47%



Cash from operations
£507.9m
+13%

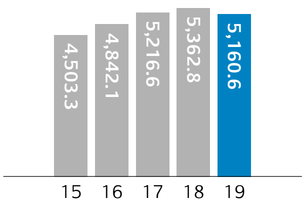


Basic earnings per share
39.5p
-41%

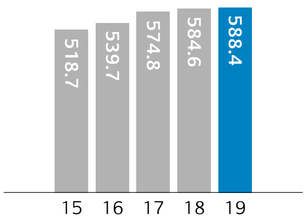


Underlying results*

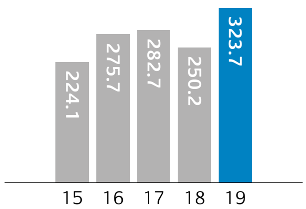
Group revenue
£5,160.6m
-4%



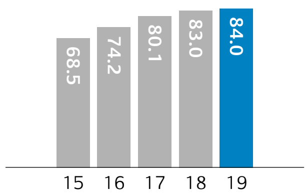
Operating profit
£588.4m
+1%



Free cash flow
£323.7m
+29%



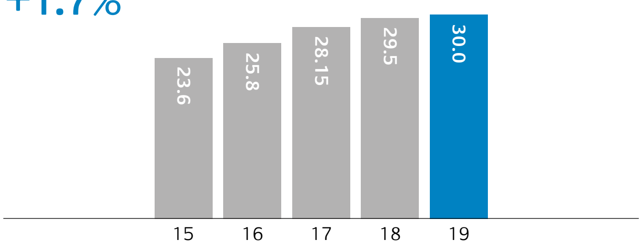
Basic earnings per share
84.0p
+1%



Strengthening the Group

We have continued to deliver across new and existing contracts, demonstrating the quality of our operations and the resilience of our business. Our combined order book and pipeline of £31 billion supports the future of our business. This year, we also took action to strengthen the Group, including reshaping our Oil and Gas business, and restructuring across the Group.

Full year dividend
30.0p
+1.7%



*Underlying

The adjustments described below, collectively, are made to derive the underlying operating results of the Group. The underlying figures provide a consistent measure of business performance year to year. They are used by management to measure operating performance and as a basis for forecasting and the Group believes they are used by investors in analysing business performance.

Throughout the Strategic report, unless otherwise stated, revenue, operating profit, operating margin, net finance costs, profit before tax and earnings per share refer to results before amortisation of acquired intangibles and exceptional items. Underlying revenue, operating profit, operating margins and net finance costs also include the Group's share of equity accounted joint ventures and associates. Underlying operating profit and operating margin include investment income arising under IFRIC12 which is presented as financial income in the Income Statement. A reconciliation of statutory to underlying results is set out on page 29.

Building an engineering champion

Mike Turner CBE, Chairman

"A great business which can and will go on to achieve so much more."

I write this, my final Chairman's review, with a mixture of pride and regret. Pride because of the extraordinary growth of the Company over the 10 years since I became Chairman; regret because I am leaving a great business which can and will go on to achieve so much more for our shareholders and other stakeholders as we build on our growth platform in the years ahead.

I have been involved with Babcock for most of the last 23 years. When I first joined the Board in the late 1990s, the Company was one of the many fallen British industrial giants struggling to secure its future. We were just taking our first step into engineering services through the acquisition of the Rosyth yard from the UK Government.

When I returned in 2008 from BAE Systems to succeed Babcock's inspirational chairman, the late Gordon Campbell, the Company had just acquired Devonport and was immersed in implementing Gordon's vision to become a leader in the growing market for engineering services.

We had a long way to go. Babcock was a mid-sized company with annual revenues of £1.56 billion, underlying pre-tax profits of £95.5 million, basic earnings per share of 33.4 pence and was paying a full-year dividend of 11.5 pence per share. The share price when I became Chairman was 340 pence, struggling in the aftermath of the financial crisis.

This year, our revenue was £5.2 billion, underlying operating profit was £588 million, basic earnings were 84 pence and we are recommending a final dividend of 22.9 pence, making a total full year dividend of 30.0 pence – the 17th successive year that we have increased the dividend.

Our international revenues last year exceeded the entire Group revenues in 2008, due to the combination of the carefully-targeted export of our defence know-how and the very significant contribution of the aerial emergency services business we acquired with Avincis five years ago.

Trusted to deliver

Our financial stability and the cash-generative power of our business are reflected in our continued deleveraging since Avincis. Our excellent prospects are embodied in our immensely strong order book and pipeline of £31 billion.

These numbers reflect the outstanding leadership of our executive team, led first by Peter Rogers and Bill Tame and now by Archie Bethel and Franco Martinelli. They would be the first to acknowledge that Babcock's sustained success has been made possible by the dedication, commitment and skill of our people. They have earned our right to be trusted to deliver.

I believe the single metric that says most about Babcock's high quality of business and earnings is our underlying Group margin, which remains in double-digits and which increased last year to 11%. This level of margin highlights the vast gulf between Babcock and the commoditised outsourcers with which we were inappropriately grouped before our recent move to the FTSE Aerospace and Defence sector.

Babcock earns its margin through our pre-eminent position as the UK leader in critical, technology-based engineering services and our track record of improving service and reducing costs for our customers, with whom we nurture long-standing, close relationships.

Decision-making responsibility, exercised from the highest level of the Company, will continue to play a crucial role in our success.

This is a long-term contractual business and the executive team has always been first-class in assessing which contracts to pursue, at what price and on what terms. This discipline is maintained after we secure a contract through our conservative accounting.

We maintain risk registers which ensure that we never take profit in line with revenue – as some companies have done to their shareholders' cost – but instead take profit in line with risk. Profit is therefore back-end loaded because risk reduces towards the end of a contract. This rigorous approach explains why, when the accounting standard IFRS 15 was introduced, Babcock was unusual in incurring no impact on previously reported profits.

It is clear that Babcock's attributes have not been reflected in our share price since investors turned bearish on UK stocks in general and outsourcing companies in particular over the past several years. I'm disappointed to be leaving at a time when the share price doesn't truly reflect the strength of the business, but the experience of my corporate career leaves me in no doubt that, over time, Babcock's outstanding business model will be recognised by the market.

We have management strength in depth and I am confident that, whatever challenges the team faces, they will deliver for you, the shareholders. Babcock International is a great company and I am honoured to have served you as its Chairman.

Mike Turner CBE
Chairman

Ruth Cairnie, Chair designate

Ruth Cairnie joined the Board in April 2019. Initially a Non-Executive Director, she will succeed Mike Turner as Chair upon his retirement at the Company's Annual General Meeting in July.

Ruth has extensive experience of the engineering sector, gained from a 37-year international career spanning senior functional and line roles at Royal Dutch Shell plc, including Executive Vice President for Group Strategy & Planning.

She has substantial experience of advising government departments on strategic development and capability building.

Ruth is also a champion of diversity, and is Chair of POWERful Women, an initiative to advance gender diversity within the energy sector.

She is also a trustee of Windsor Leadership and a member of the finance committee of the University of Cambridge, where she studied for her Master of Advanced Studies in Mathematics.

Welcoming her to the Board, Mike said: "Ruth is a strategic thinker and a strong leader, and we look forward to her bringing her in-depth experience, gained from a broad range of executive and non-executive roles at leading international industrial companies."

Ruth said: "I am delighted to be joining the Babcock team and I look forward to working with the Board and the executive team to deliver shareholder value, and to help maximise future opportunities.

"I am hugely enthusiastic about the opportunity to oversee the next stage of Babcock's development as a major company delivering complex engineering to support its clients, both in the UK and internationally."

In addition to her role at Babcock, Ruth is currently the Senior Independent Director of Associated British Foods plc and a Non-Executive Director of Rolls-Royce Holdings plc and ContourGlobal plc.

Our strategic framework

Our purpose

We are a leading provider of critical, complex engineering services across defence, aerial emergency services and civil nuclear markets in the UK and increasingly internationally

We apply our core strengths:	To solve customer challenges:	Across three focus markets:
Technology and expertise	Maintain national security and save lives	Defence
Owned infrastructure and assets	Sustain critical and complex assets	Aerial emergency services
Successful operating model	Deliver critical services	Civil nuclear

See page 8 for business model

See page 6 for At a glance

See page 12 for market review

Supported by our focused strategy

1. Build strategic partnerships with our customers
2. Focus on three key markets
3. Maintain and grow our UK business
4. Expand internationally
5. Embed technology across all businesses
6. Manage adjacent markets for value
7. Relentless focus on operational excellence to sustain margins

See page 10 for strategy

Delivering for customers, employees and shareholders

What we do

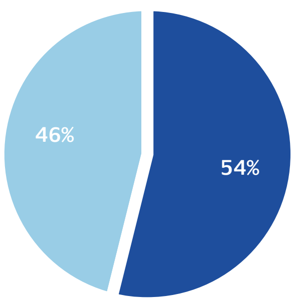
We apply our strengths to solve our customers' challenges, focused on three markets and delivered across four sectors.

Solve customer challenges:

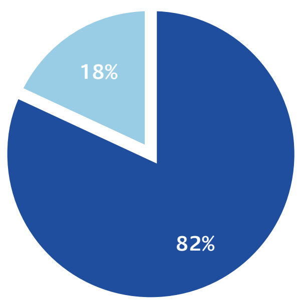
Maintain national security and save lives	• We deliver major UK and international strategic defence programmes • We support the defence of nations across maritime, air, land and cyber • We enable navies, air forces and armies to do their job with our training • We contribute to front line support and sponsor reserves
Sustain critical and complex assets	• We provide through-life support for our customers' assets • We apply technology and advance the engineering support offering • We increase our customers' asset availability • We deliver significant cost savings on large programmes
Deliver critical services	• We deliver world class emergency services • We provide training to allow our customers to operate safely • We are the number one UK civil nuclear engineer

Revenue

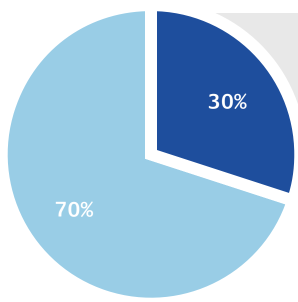
Civil vs defence



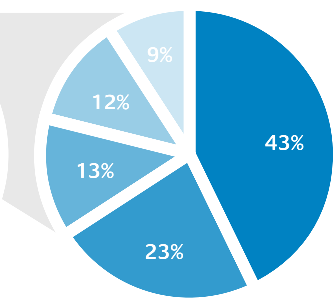
Public vs private



UK vs international



International



Focused on three markets:

Defence

#2 UK supplier

Large positions in Australia, Canada, New Zealand and France

See page 12 for more details

Aerial emergency services

#1 in Europe, new entry into Canada

Manage and own a fleet of over 500 aircraft across c.320 bases

Provide maintenance and upgrade fixed and rotary wing aircraft

See page 16 for more details

Civil nuclear

Involved in all civil nuclear stages, from new build to decommissioning

Involved in almost every nuclear site in the UK

Managing Europe's largest and most complex decommissioning project

See page 18 for more details

Delivered across four sectors:

Marine

	% of revenue
Defence	85%
Adjacent	15%

See page 40 for more details

Land

	% of revenue
Defence	38%
Adjacent	62%

See page 43 for more details

Aviation

	% of revenue
Defence	35%
Aerial emergency services	47%
Adjacent	18%

See page 46 for more details

Nuclear

	% of revenue
Civil nuclear	95%
Defence	5%

See page 49 for more details

Employees

>35,000

Our employees have unique technical and sector-specific expertise. We work in collaborative partnerships with our customers, sharing risk and reward.

New reporting for the year ending 31 March 2020

From 1 April 2019, the nuclear defence business is included in our Nuclear sector rather than our Marine sector.

For more information please see our Capital Markets Day material available online at www.babcockinternational.com/investors.

Our business model

Our business is built upon our core strengths which enable us to solve complex problems for our customers, to improve their performance while reducing costs. This is done through both Group businesses and joint ventures and involves a mixture of long-term contracts and short cycle work.

Built on our core strengths:

Technology and expertise

- Deep sector-specific expertise and know-how
- Successfully operate in highly regulated environments
- Integrate multiple technologies
- Critical, complex engineering

Owned infrastructure and assets

- Own strategic infrastructure across focus markets including Devonport and Rosyth dockyards
- Complex engineering facilities
- Over 500 aircraft in our fleet

Successful operating model

- Customer-focused long-term collaborative relationships
- Strategic Partnering Programme (see page 24)
- Long-term contracts balancing risk and reward
- Output based availability contracts

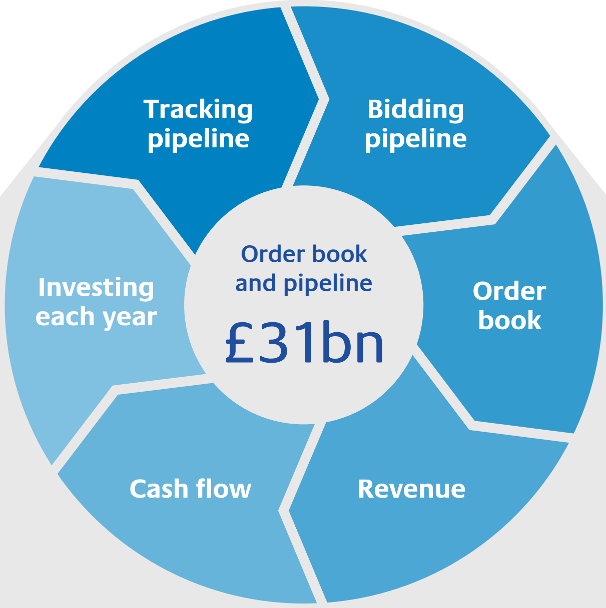
with safety and regulatory compliance underpinning all that we do

Delivered in long-term partnerships with our customers:

Our customers tend to be government departments, public bodies, highly regulated industries or blue chip companies and we work collaboratively with them day in, day out as part of crucial long-term partnerships. For example, we work side by side with the Royal Navy and Ministry of Defence in upgrading the UK's naval fleet and we work in combination with health services across Europe to save lives on each mission.

Our work balances risk and reward and we aim to operate through long-term integrated output-based contracts. We believe this approach creates a commercial framework which fairly balances risk and reward between us and our customers. Target cost contracts, typical for many of our larger contracts, incentivise us to remove cost via a pain-share/gain-share mechanism.

Our business is a mixture of long-term contracts (typically around 80% of the order book at the beginning of the year) and short cycle work, continually won through a bidding cycle.



Tracking pipeline

We continually monitor opportunities across our markets, for new and existing customers. We have a tightly controlled governance process for bids with a multi-gate review process at each stage to ensure the Group only bids on value creating work. Any contract worth more than £25 million, or lasting five years or more, requires approval from the Chief Executive and Group Finance Director.

Bidding pipeline

Our pipeline represents those bids formally in process, including new bids and rebids. Our pipeline is currently £14 billion and mostly represents opportunities in our three focus markets, which account for 83% of the total. International bids account for over 40% of our pipeline.

Order book

Our order book represents contracts won and signed. Over the long term, we typically win over 90% of rebids and over 40% of new bids. Contract extensions and variations also add to the order book over time. This order book of £17 billion provides a base level of revenue for the years ahead which is then added to with new business wins, in contract growth and short cycle work.

Revenue

Revenue is recognised as we deliver on our contracts and performance obligations are satisfied. Once a contract is underway, it is subject to regular reviews at business unit, sector and Group level to ensure we are on track, both in terms of operational delivery and financial performance.

Cash flow

Performance across contracts drives revenue and cash generation, helped by our consistent and sustainable margins. Cash flow varies throughout the year and depends on invoice dates and payment terms, leading to working capital variations throughout the year.

Investing each year

We invest each year to maintain our leadership positions. Investment is focused in three areas: infrastructure, aircraft and IT systems. Our cash generation also supports a strong balance sheet and a sustainable dividend.

Creating value for stakeholders

Customers

We create value for our customer through reducing the cost of delivering key services, increasing asset availability or providing life extensions and providing technical knowledge and skills to manage complex transformation programmes. We also pride ourselves on conducting business responsibly, looking after suppliers and considering our environmental impact. See Sustainability section on page 54.

Employees

A strong Babcock culture integrates our values and beliefs into every aspect of our business to ensure we create value for our over 35,000-strong workforce. We focus on creating a safe working environment every day while also providing continuous professional development and equal opportunities for all. See People and potential section on page 59.

Shareholders

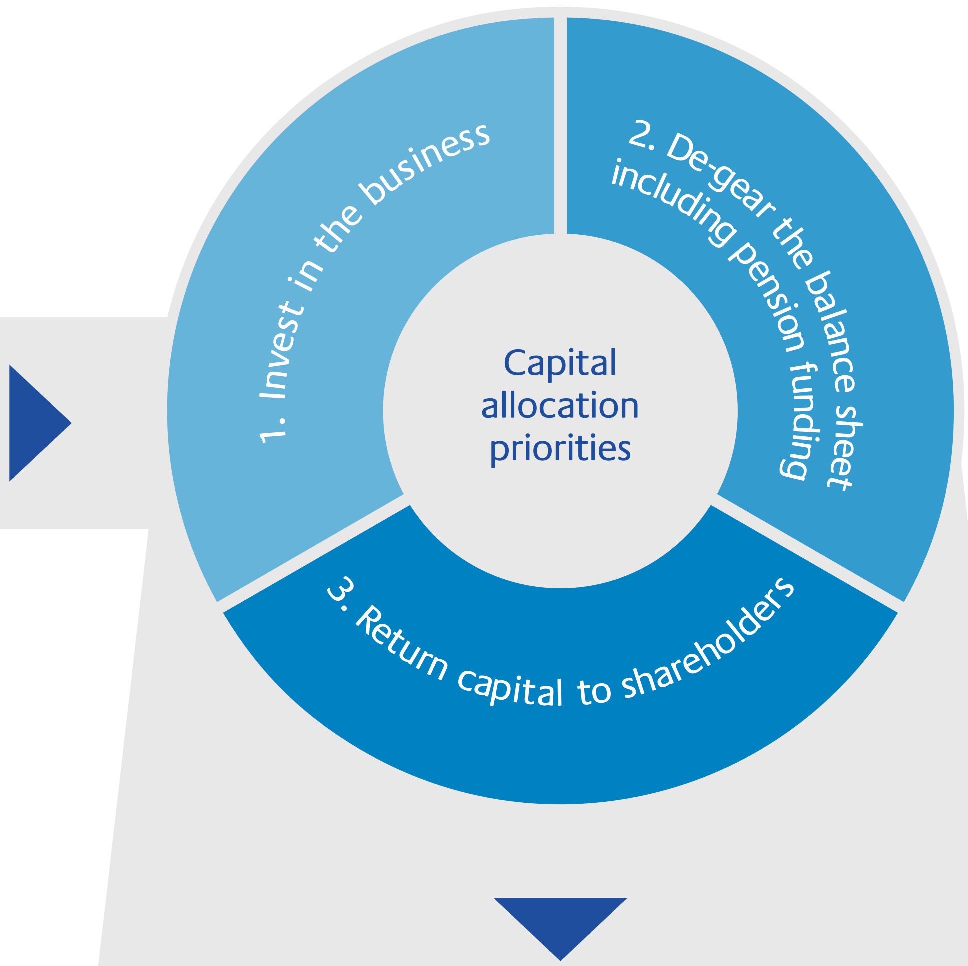
We seek to create value for shareholders by investing in and growing the business. Our business model focuses on generating cash, ensuring a strong balance sheet and supporting a sustainable dividend.

Our strategy

Our strategy is based on our core strengths which support leadership positions in our main markets. We work closely with customers to solve challenges and deliver value. This is supported by technology and operational excellence. We look to expand in the UK and internationally as we continue to deliver for all stakeholders.

Supported by our capital allocation model:

Build strategic partnerships with our customers	We understand the critical role that our customers' assets and infrastructure play in delivering their business. We partner with them to share risk and deliver innovative efficiencies together so that we are both incentivised to perform and share the benefits.
Focus on our three key markets	Our three key markets 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.
Maintain and grow our UK business	Our primary market remains UK defence and we are working with the UK Government and Ministry of Defence to ensure the needs of our armed forces are met as they grow in size and complexity. This is supported by our Strategic Partnering Programme discussed on page 24.
Expand internationally	International markets are a key growth driver for the Group, both in terms of current markets and expansion into new markets. Our bidding pipeline includes significant opportunities in international defence and aerial emergency services markets.
Embed technology across all businesses	Technology underpins all that we do and our strategy is to embed it across all businesses. It supports growth in our sectors, both through supporting bids and through direct sales of technology equipment and services. It also helps sustain margins as we continue to offer customers increased value.
Manage adjacent markets for value	We manage these markets for value. This means improving the operating efficiency to deliver for customers and sustain margins. We continue to pursue attractive opportunities where they exist.
Relentless focus on operational excellence to sustain margins	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.



Delivering for shareholders over the medium term

Long-term revenue growth

Sustained margins

Improving cash generation

Improving ROIC

Sustainable dividend

Market review

Trusted for Defence

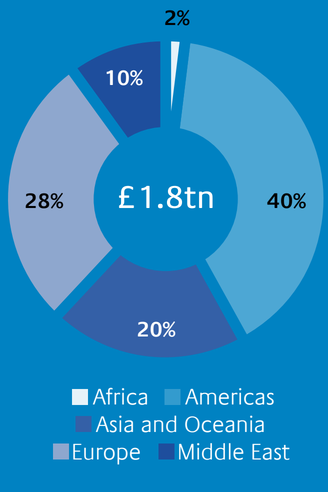
Babcock is a trusted partner for key defence programmes around the world with leading positions in focused areas.

We are the market leader for defence support in the UK and have a significant presence in many overseas markets, predominantly in Australia, New Zealand, Canada and France. Each country's defence market shares similar characteristics:

- A resurgence of evolving threats to national security across sea, land, air, cyber infrastructure and now space
- Budgets under consistent pressure to deliver value for money
- Upward budget pressure from US and NATO rhetoric
- Increasing demand for technology to drive efficiency
- Continued naval shipbuilding programmes
- Air forces driving advanced training on new fleets
- Large land fleets require upgrading and life-extension
- Personnel require technical training to meet modern threats head-on
- Industry increasingly required to deliver frontline services

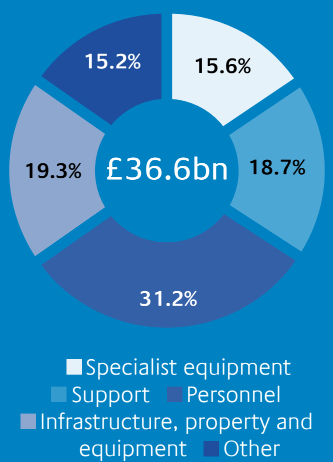
Over the last few years, we have built up strategic geographical positions and capabilities to offer international support to the UK forces overseas and the wider defence market. We specialise in delivering availability and technical training for complex equipment through our unique expertise, infrastructure and operating model. We deliver defence engineering in Canada, Australia, New Zealand, France and Oman, with defence exports to the USA, Spain and Korea, and further international exposure through adjacent markets.

Global defence spend 2018



Source: SIPRI

UK defence spend 2018



Source: UK MOD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UK defence

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 of the UK defence market, growth each year is partly dependent on the phasing of MOD spend.

Over the last year, the UK defence market, the largest in Europe, has seen significant progress and milestones achieved across major programmes. Of the £36.6 billion spent on defence in 2018, an estimated £15.8 billion was spent on MOD equipment, a small increase on the previous year. Around 19% of the total defence spending, £6.8 billion, was designated to supporting MOD equipment, an increase of around £200 million from the previous year. During the year the government pledged to mobilise, modernise and transform defence and we have seen increased debate on budget, investment and capability.

In June 2018, the extent of the contribution that defence has to UK prosperity was discussed in an MOD report and a budget uplift of around £1.8 billion was secured in the Autumn budget. In December 2018, the MOD published the long-awaited Modernising Defence Programmes statement, confirming commitments made in the 2015 Strategic Defence and Security Review.

In April 2019, the world's most successful alliance, NATO, turned 70. The UK, one of the founding members of NATO, reiterated its pledge to maintain defence spending at 2% of GDP.

The MOD's equipment plan highlighted the UK's commitment to defence, outlining a £186.4 billion budget allocated to defence equipment and support over 10 years. The devaluation of the pound has exacerbated the gap in the MOD's 10-year Equipment Plan to around £7.0 billion and the department is aiming to achieve cost savings of around £13.4 billion in efficiencies delivered across new equipment programmes and support packages over the next 10 years.

Babcock is involved in some of the UK's largest defence programmes. In naval nuclear programmes, we are seeing the transition of classes in both the nuclear deterrent programme (Vanguard Class to Dreadnought Class) and attack submarines (Trafalgar Class to Astute Class). Across surface ship programmes, we are supporting current classes such as Type 23 frigates and amphibious fleets while new platforms such as the Queen Elizabeth Class aircraft carriers and Type 26 frigates are commissioned.

The UK naval market remains stable, with the MOD's 10-year Equipment Plan continuing to forecast a planned spend of around £20 billion over the next decade on procurement and support for surface ships and £44 billion on submarine programmes.

With continuing pressure on support budgets, the MOD is working closely with industry partners to deliver better military capability and value for money in a sustainable way. This includes seeking opportunities for industry to expand its role in the delivery of core support capabilities. Additionally, the review of the implementation of the National Shipbuilding Strategy is expected this summer and we remain in the bidding process, as part of consortia, for both the Future Solid Support vessels and Type 31e frigate programmes, providing opportunities in the UK and internationally within the growing global light frigate market.

In Aviation, we deliver fixed and rotary wing pilot training for all three armed forces, and in Land, we deliver large-scale royal military engineer training and vehicle life-extensions and support programmes. Babcock continues to be the UK's largest support provider and we are committed to supporting the government to deliver efficiency through strategic partnering. See the Strategic Partnering Programme on page 24.

During the centenary year of the Royal Air Force, the UK Combat Air Strategy was published, promising to maximise economic benefits while promoting the development of cutting-edge combat aircraft. The MOD also disclosed a 10-year budget of £46 billion across air support, combat air and helicopters. Progress was made across new platforms, including the first tranches of F-35s landing on the new QEC aircraft carrier, however, in March 2019 the MOD cancelled current plans to compete its in-house aggressor air training programme in the medium term.

Large vehicle upgrade programmes for the British Army continue to experience delays while Defence, Equipment & Support (DE&S) discuss design maturity with the Tier 1 suppliers. The Warrior upgrade programme continues to experience delays while the assessment phase has begun on the heavy armoured Challenger II main battle tank. The longer-term outlook for UK land defence has been framed with a £18.4 billion budget set on land equipment and support.

Within the cyber, intelligence and security market we continue to see growth in the demand for support in the intelligence and security sectors, while the rise in UK military spending on Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) continues to present opportunities.

International defence

International defence markets offer significant long-term potential, both in terms of increased spend in current markets and expansion into new markets. 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.

In Australia, the national shipbuilding strategy is well underway as it continues activity on SEA1000, and places orders for UK Type 26 Class vessels. The support market is also increasing on both submarine and surface ship activity. During the year, we won a significant contract to maintain Australia's fleet of amphibious landing ships.

In Canada, the naval marine market continues to be buoyant with significant expenditure on both new build and in-service support. We continue to leverage our Group presence in Canada for future military aviation opportunities, including a large opportunity in our pipeline to provide aggressor air training.

In Europe, there are many significant long-term opportunities. In France, the defence market is seeing increasing demand for both fixed and rotary wing training, providing opportunity for us to capitalise on our successful training operations in Cognac. Across Europe, we continue to see positive opportunities from a number of submarine programmes which could benefit from our expertise.

In Oman, the overall market environment remains positive as we are able to support the UK and US forces to maintain a naval presence in the Gulf.

In our export markets, demand for our technology remains strong. During the year, General Dynamics Electric Boat expanded our contract to supply missile tubes for the US/UK Common Missile Compartment programme.

Market review

Trusted for Aerial emergency services

Babcock is a trusted partner to governments across the world delivering highly critical aerial emergency services.

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. The markets in which we operate are typically non-discretionary. As a country's GDP grows, so too does its public and private spending, capability and reach to provide aerial emergency medical services, search and rescue, aerial firefighting and aerial civil protection for its citizens. Trends include:

- Aerial emergency medical services is a large and growing global market, funded predominantly by national and regional governments and charities
- Government budget pressure typically drives outsourcing of critical emergency services
- Technology is enabling a more effective approach, reaction and delivery
- Increasing regulatory and safety culture creates high barriers to entry
- Centralised medical centres create requirement for aerial transport
- Wildfires are increasing in frequency and ferocity presenting a very serious global issue

Aerial emergency medical services

Markets across the world vary in structure. Regional authorities in Europe continue to provide a source of steady revenue and limited growth opportunity while the UK is an intensely competitive market serving the charitable sector. In the Nordics, gradual outsourcing continues for both fixed and rotary wing services and we have recently entered this market. In Canada, regional governments are beginning to support market consolidation and Australia continues to have many opportunities.

Aerial firefighting

In Southern Europe, our main area of operation, there is a trend towards additional aircraft and flying hours and, over time, the benefits of our large fleet will become more and more important as the trend towards crossing borders in firefighting operations continues. The North American market is maturing with more outsourcing contracts coming to market. Our contract in Manitoba, Canada, represents an entry into this market from which we hope to build a far larger presence.

Search and rescue

Demand for specialised search and rescue continues to be robust as customers seek to work with those providers with the integrated mission equipment technologies required.

Market review

Trusted for Civil nuclear

The civil nuclear market remains a long-term growth opportunity.

Civil nuclear remains a significant long-term growth opportunity as ageing power stations come offline and new power stations are built. However, many opportunities in this space have been delayed. Political and economic factors have affected several key milestones and decisions in the UK across nuclear new build, generation, operational support and decommissioning. Trends include:

- UK Government has signalled a 20% base load power requirement to be nuclear generated
- Target for nuclear to be a major contributor to the longer-term energy mix
- Ageing power stations coming offline to be replaced with Generation III programme of new build power stations over the next two decades
- UK Government working to ensure a smooth exit for the nuclear sector from Euratom, delivering arrangements to facilitate trade and collaboration
- Consolidation in the industry expected to invigorate competition across the sector

New build

In June 2018, the UK Government announced its negotiations with Hitachi on the proposed Wylfa Newydd power station, although no decision has been taken yet to proceed. It plans to consider direct investment alongside Hitachi and other parties. The Government is also engaging with other developers on proposals for further projects.

Operational support

The nuclear services market saw modest growth during the period. The EDF fleet continues to produce base load power requirements although platforms will soon come offline and require decommissioning as new larger platforms come online to meet the power requirement.

Decommissioning

The UK Government's Business, Energy and Industrial Strategy (BEIS) departmental spend on the Nuclear Decommissioning Authority (NDA) during the year reduced to £2.1 billion.

The decrease may mean future funding constraints and pressure to deliver efficient programmes. BEIS manages the liabilities for the decommissioning of all present and future nuclear sites. In 2018, these future obligations were calculated to be c.£265 billion. Sellafield, accounting for around 75% of the liabilities, continues to be an opportunity for engineering packages. In August 2019, the NDA will take the Magnox contract to decommission 12 nuclear sites in-house. We expect the NDA, under pressure from BEIS, to deliver cost savings, will repackage the work into smaller contracts and re-tender to the market.

Victoria, Canada

Our **trusted teams'** work ensures the watertight integrity of the submarine and in turn the safety of the crew

Fast Facts

Contract name: Victoria Class Submarine In Service Support Contract (VISSC)

Length of contract: 10 years plus 3 plus 1 plus 1

Output of contract: Naval In Service Support

Sector: Marine

"Watertight hatches and pressure hull structures form the life sustaining barrier between the crew and the deep ocean. Our work allows the crew to focus on their mission, with the assurance that their equipment has been repaired to the highest standard possible."

Silvia Penkova
Team Lead Naval Architect
Victoria Class Submarine In Service Support Contract


ock™

Progressing on our strategy

Archie Bethel CBE, Chief Executive

Babcock has enviable market positions built on our core strengths. We continue to focus on our strategy to deliver for customers and shareholders and made some significant progress in the year while delivering profit growth and strong cash generation.

Overview

We 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 business model in these areas with some important contracts 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 businesses outside of the three key markets, which do not have synergy with the rest of the Group, and we have reshaped our oil and gas business.

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.

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.

Being Babcock

Babcock is a well-founded business with a solid track record of delivering engineering and operational solutions for our customers. The vast majority of the work we do – which very few people can do – isn't optional; we enable the delivery of the vital services which help safeguard both countries and communities.

We make sure that navies are ready to sail, that air forces are fit to fly and that armies are ready to respond when needed. We provide the technical training that helps the Armed Forces to serve, we support the nuclear power stations that generate energy for the UK, and we decommission them when they come to the end of their life. We are the trusted partner.

We can do all of this because we own and operate extensive equipment, facilities and infrastructure, and within our over 35,000-strong workforce, we protect and develop our intellectual property and hard-earned know-how by having one of the highest concentrations of qualified technician and professional engineers in our sector. And that's as well as employing over 1,000 qualified pilots.

Fundamentally, we support our customers, doing critical work in challenging and highly regulated environments. We are the UK Ministry of Defence's largest provider of complex engineering support, we are the UK's largest provider of nuclear engineering services, and we are Europe's largest integrated supplier of aerial emergency services, operating a fleet of over 500 helicopters and fixed wing aircraft.

This unique profile, with its high barriers to entry and our focus on our areas of expertise, sets us apart in many ways. It drives our ability to maintain relationships with our customers over decades and even generations, and to deliver returns and cash to our shareholders.

Creating shareholder value

Our focus remains on protecting margins, improving returns and delivering strong cash flow – which is of course how management are incentivised. Maintaining a strong balance sheet is also crucially important and we continued to reduce net debt this year.

While this year has been challenging, particularly in our shorter cycle businesses, we delivered against our expectations for profit and cash. Next year is challenging but we believe we have a business that will create significant value for shareholders over the medium term.

Health and safety remains a key focus for the Group and my colleagues and I were deeply saddened by the accident to one of our emergency service helicopters in Portugal in December 2018, which resulted in the death of four people: the two pilots and their two passengers. My thoughts and sympathies remain with their families and friends.

Outlook

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.

Partnering with the UK Government

Tom Newman, Managing Director

"The Strategic Partnering Programme represents an important and exciting opportunity for the Group and I expect to see more successes from the programme throughout 2019."

In November 2018, Babcock and the UK Government signed a Joint Ways of Working Charter. This signalled the start of our Strategic Partnering Programme (SPP), working closely with the Cabinet Office and UK Government (HMG) departments, particularly the Ministry of Defence, to develop collaborative relationships across the full scope of Babcock's UK public sector business.

This Charter reflects how important we are to each other: the UK Government is Babcock's biggest single customer and we are the Ministry of Defence's second largest supplier, providing specialist services that are vital to the well-being of the UK.

Shared principles

The Charter is a sign of our renewed commitment to each other, and to using a shared set of principles and behaviours to deliver these important programmes for decades to come.

At the core of the charter are a series of practices and behaviours that will support ensuring:

- Babcock and UK Government teams are empowered to focus on operational delivery
- We operate in a clear engagement framework, with a coherent set of relationships at all levels of the business
- We have shared performance systems and improvement plans where they are required

Working in close collaboration with the UK Cabinet Office, we will embark on a wide-ranging programme of activities across our UK Government business which will enhance our delivery of these critical contracts.

The programme aligns with Babcock's strategy of creating customer-focused long-term relationships. These new, shared ways of working will ultimately allow us to be closer to our customer, leading to higher levels of engagement and collaboration and to our mutual success.

To underline the importance of this collaborative approach, the SPP is led and reviewed at the Group's Executive Committee.

Shared purpose

The programme is now well underway, with Babcock and UK Government teams working collaboratively on several of our most critical and complex contracts to deliver the best outcome for the customer. Initial results from these first set of engagements have been very positive, and have helped to underscore the sense of shared purpose that Babcock and UK Government teams feel towards service delivery.

In one example, a joint delivery team used the SPP approach to redefine and simplify the way complex elements of a service were being delivered, resulting in a more efficient and effective way of working and an improved outcome for the end user. We see many more opportunities for such outcomes over the wide range of services Babcock delivers to the UK Government.

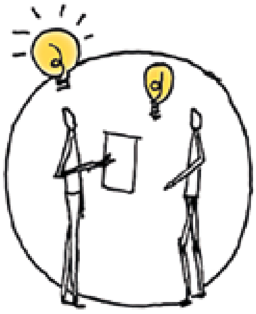
As the programme develops, we anticipate using the core principles from the SPP across our entire organisation to ensure that best practice in collaboration and joint working is shared wherever Babcock does business. The SPP represents an important and exciting opportunity for the Group and I expect to see more successes from the programme throughout 2019.

Tom Newman
Managing Director
Strategic Partnering Programme

The Joint Ways of Working Charter details the cooperative behaviours which underpin how we work with the UK Government consistently and on an enduring basis: One Team, One Plan, One Voice

Every day

We work together on a consistent and continuous basis, day in, day out

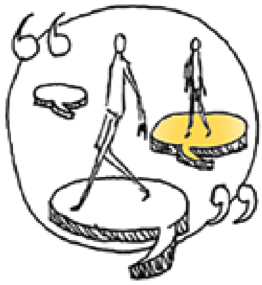


Unbiased and open

We are honest and transparent, sharing information based on facts and objective opinions

One team/one plan

We exemplify cooperation, rejecting a 'them and us' mentality

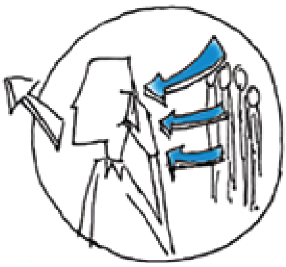


Proactive

We resolve issues with a 'how can I?' approach

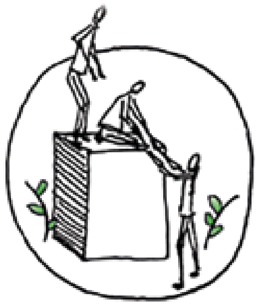
Enthusiastic

We believe in our relationship and promote our joint success



Listening

We hear and understand the motivations of others and what they are trying to achieve

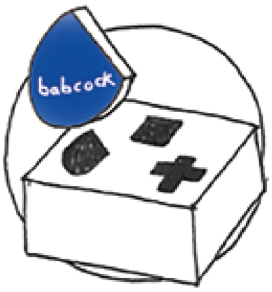


Reciprocating

We help each other, going the extra mile to earn mutual trust

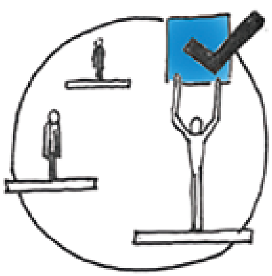
Win-win

We are relentless in the search for mutual advantage



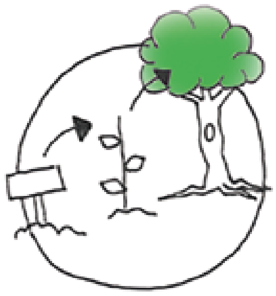
Competent

We make sure the right people with the right attitudes are in the right jobs



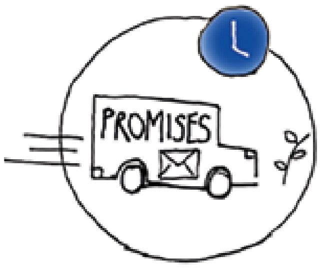
Structured

We provide clear, simple and good governance at every level



Short term and long term

We dare to make the big decisions; delivering today in pursuit of long-term objectives



Delivering

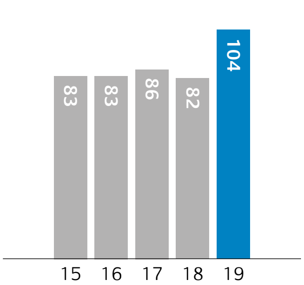
We honour the promises we make as individuals and as teams

Delivering on our strategy

We have identified a number of Group and sector level financial and non-financial key performance indicators (KPIs) that reflect the internal benchmarks we use to measure the success of our business and strategy. These enable investors and other stakeholders to measure our progress.

Operating cash conversion (%)

104%



Definition

Operating cash conversion is defined as underlying operating cash flow after capital expenditure as a percentage of underlying operating profit before JV operating profit and IFRIC 12 income (page 32).

Commentary

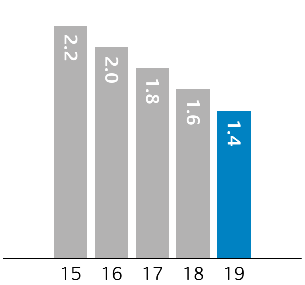
We now consider operating cash conversion post-capex, instead of pre-capex, in order to measure cash movements within direct management control.

The conversion has improved in the year, driven by strong working capital performance.

Link to strategy 3

Net debt to EBITDA (times)

1.4x



Definition

Net debt to EBITDA is calculated as net debt divided by underlying earnings before interest, tax, depreciation and amortisation (page 34). JV debt is non-recourse and is therefore excluded from net debt.

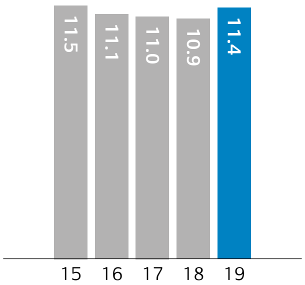
Commentary

We generated £158m of net cash during the year leading to a reduction in net debt and this, along with the increase in EBITDA led to a decrease in net debt to EBITDA of 0.2 times.

Link to strategy 5

Operating margin (%)

11.4%



Definition

Operating margin is defined as underlying operating profit expressed as a percentage of underlying revenue (page 29).

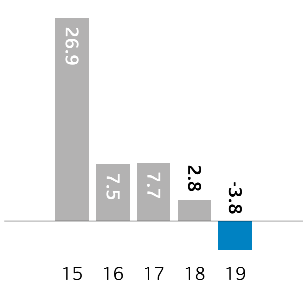
Commentary

Margin expansion reflects increased joint venture contributions, good contract performance and the exit of low margin businesses.

Link to strategy 2

Revenue growth (%)

-3.8%



Definition

Underlying revenue growth is defined as the increase in revenue, including JVs, when compared to that of the previous year (page 29).

Commentary

Revenue decline driven by exits, disposals and lower activity in the short cycle parts of our business. Performance across long-term contracts remained strong.

Link to strategy 1

Non-financial statistics and measures

In addition to our KPIs we have a number of non-financial statistics and measures

570
Number of graduates

902
Number of apprentices

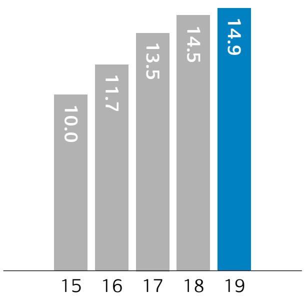
Key to strategy

1. Long-term revenue growth
2. Sustained margins
3. Improving cash generation
4. Improving ROIC
5. De-gear the balance sheet
6. Safety

More information: Read our strategy on page 10.

Interest cover (times)

14.9x



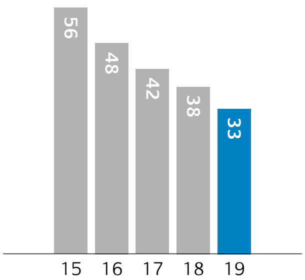
Definition
Interest cover is underlying earnings before interest, tax, depreciation and amortisation (page 34), divided by net Group finance costs (income statement).

Commentary
Interest cover improved with both EBITDA increasing and net finance costs reducing. The reduction in net finance costs reflects the benefit of reduced levels of debt, partly offset by the impact of higher interest rates.

Link to strategy 5

Gearing (%)

33%



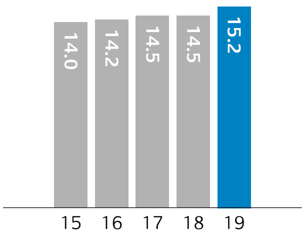
Definition
Gearing measures the extent to which a company is funded by debt, calculated as net debt (page 34) divided by shareholder funds (balance sheet), excluding retirement benefit deficits or surpluses (note 25).

Commentary
We generated £158m of net cash during the year, leading to a reduction in net debt and this led to a reduction in gearing.

Link to strategy 5

Return on invested capital (ROIC) (%)

15.2%



Definition
Return on invested capital is defined as underlying operating profit (page 29) divided by net debt and shareholder funds (balance sheet) excluding retirement benefit deficits or surpluses (note 25).

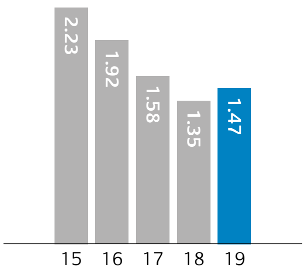
Commentary
JV finance costs are excluded from this measure reflecting the non-recourse nature of the debt.

ROIC improvement reflects the underlying operating profit growth and the reduction in capital achieved.

Link to strategy 4

Total injuries rate per 100,000 hours worked

1.47



Definition
Health and safety is a core value for Babcock. The data includes all injuries reported each year across the entire Group.

Commentary
This year we are disappointed that we have seen a rise in the number of injuries, although the Group's performance remains better than industry norms.

Link to strategy 6

Operational performance measures

In the operational reviews we used the following KPIs to measure each sector's performance.

Underlying operating margin

Underlying operating profit expressed as a percentage of revenue.

Revenue growth

The percentage increase in the sector's continuing underlying revenue when compared to that of the previous year.

More information: Read the operational reviews starting on page 40.

Robust performance as we deliver our strategy

Overview

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.

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 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

Franco Martinelli, Group Finance Director

- 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.

Statutory to underlying reconciliation

	Statutory £m	Joint ventures and associates: Revenue and operating profit £m	Joint ventures and associates: Finance costs £m	Joint ventures and associates: 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%

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 has 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

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**

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.

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

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%**

- 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).

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.

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 12 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. The analysis below reconciles the management KPI for cash conversion.

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

Cash flow and net debt

	31 March 2019			31 March 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		
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

- 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 12 months (2018: £1,115 million). This gives a net debt to EBITDA ratio of 1.4 times (2018: 1.6 times).

ROIC

Return on invested capital (ROIC) is defined as underlying operating profit divided by net debt and shareholder funds excluding retirement deficits or surpluses. Post tax, ROIC for the year was 12.5%, 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.

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% (2018: 2.6%)
Inflation rate (RPI)	3.2% (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.

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 to EBITDA	**1.4x**	1.6x

Interest cover

	31 March 2019 £m	31 March 2018 £m
EBITDA	**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

	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	**2,885.3**	2,911.0
Retirement benefit 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 excluding retirement benefit deficit)	**33%**	38%

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.

Outlook for the year ending 31 March 2020

The year ending 31 March 2020 will be affected by a number of step downs. 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 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

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 in note 32.

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 and are members of the Italian Helicopter Association (the Association), for anti-trust violations. 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.

Available financial capital

The Company defines available financial capital (AFC) as shareholder equity and net debt plus undrawn committed borrowing facilities.

Objective

To ensure an appropriate level of AFC to:

I. maintain operational flexibility and meet financial obligations
II. fund the Group’s organic and acquisitive growth
III. maintain necessary headroom to cover the peaks and troughs in the Group’s working capital cycle
IV. provide sufficient liquidity to see the Group through any periods of tightened liquidity in the market.

Policy

The Board aims to maintain a balance between equity and debt capital which optimises the Group’s cost of capital whilst allowing access to both equity and debt capital markets at optimum pricing when appropriate. The Group, in considering its capital structure and financial capital, views net debt to EBITDA at circa 2.0 times or below as being steady state and sustainable in normal market and economic conditions. This level may be tempered in periods of market volatility and economic and/or political uncertainty. This is not to rule out acquisition spikes above 2.0 times, as illustrated by previous acquisitions, but only if the Group can see a clear path to reducing net debt to EBITDA back to circa 2.0 times or below within a reasonable time frame.

Performance

The Group’s gearing and debt cover ratios, used by the Group to evaluate capital, saw an improvement to 1.4 times net debt to EBITDA at 31 March 2019 (31 March 2018: 1.6 times), demonstrating further progress in bringing gearing down, both in the pay down of debt and through increasing profits attributable to shareholders. Debt ratios are below covenanted levels and gearing has continued to reduce, leaving sufficient headroom for the funding of growth. The Company believes that capital markets remain accessible if or when required.

Treasury

Treasury activities within the Group are managed in accordance with the parameters set out in the treasury policies and guidelines approved by the Board. A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes. The Group only enters into financial instruments where it has a high level of confidence in the hedged item occurring. Both the treasury department and the divisions have responsibility for monitoring compliance within the Group to ensure adherence to the principal treasury policies and guidelines. The Group’s treasury policies in respect of the management of debt, interest rates, liquidity and currency are outlined below. The Group’s treasury policies are kept under close review, given the current economic and market uncertainty.

Debt

Objective

With debt as a key component of available financial capital, the Group seeks to ensure that there is an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group’s contracts, commitments and risk profile.

Policy

All the Group’s material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required. It remains the Group’s policy to ensure the business is prudently funded and that sufficient headroom is maintained on its facilities to fund its future growth.

Performance

The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective. During the financial year, no new corporate debt was raised, as the current Group capital structure of committed facilities and headroom was deemed sufficient to meet the Group’s ongoing commitments. The Group’s main corporate facilities comprise the following: a £300m Sterling bond maturing October 2026, a €550 million Eurobond maturing October 2022, a £100m Term Debt Facility maturing August 2020, a £40 million loan note maturing January 2020, US$500 million US private placement notes maturing March 2021, and a Revolving Credit Facility of £750 million maturing December 2021. Taken together, these debt facilities provide the Group with a total of c.£2.0 billion of available committed banking facilities and loan notes. For further information see note 2 to the Group financial statements.

Interest rates

Objective

To manage exposure to interest rate fluctuations on borrowings by varying the proportion of fixed rate debt relative to floating rate debt to reflect the underlying nature of the Group's commitments and obligations. As a result, the Group does not maintain a specific set proportion of fixed versus floating debt, but monitors the mix to ensure that it is compatible with its business requirements and capital structure.

Policy

Interest hedging and the monitoring of the mix between fixed and floating rates is the responsibility of the treasury department and is subject to the policy and guidelines set by the Board.

Performance

As at 31 March 2019, the Group had 74% fixed rate debt (31 March 2018: 69%) and 26% floating rate debt (31 March 2018: 31%) based on gross debt of £1,336.4 million (31 March 2018: £1,475.6 million). For further information see note 2 to the Group financial statements.

Liquidity

Objective

I. To maintain adequate undrawn committed borrowing facilities.
II. To monitor and manage bank credit risk, and credit capacity utilisation.
III. To diversify the sources of financing with a range of maturities and interest rates, to reflect the long-term nature of Group contracts, commitments and risk profile.

Policy

All the Group's material borrowings are arranged by the treasury department and funds raised are lent onward to operating subsidiaries as required.

To ensure that the Group has sufficient cash on hand and that its committed RCF is appropriately sized and has sufficient term to meet the Group's general corporate funding requirements. Each of the business sectors in the Group provides regular cash forecasts for both management and liquidity purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group and ensure that there is sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The cash performance of the business sectors is a key performance indicator.

The Group adopts a conservative approach to the investment of its surplus cash. It is deposited with financial institutions only for short durations, and the bank counter-party credit risk is monitored closely on a systematic and ongoing basis.

A credit limit is allocated to each institution taking account of its credit rating and market information.

Performance

The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objectives. No new corporate debt was raised during the course of the financial year.

The Group had cash and cash equivalents as at 31 March 2019 of £275.2 million (2018: £286.3 million).

For further information see note 2 to the Group financial statements.

Foreign exchange

Objective

To reduce exposure to volatility in earnings and cash flows from movements in foreign currency exchange rates. The Group is exposed to a number of foreign currencies, the most significant being the Euro, US Dollar, South African Rand and increasingly the Australian Dollar, Canadian Dollar, Norwegian Krone, Omani Rial and Swedish Krona.

Policy – Transaction risk

The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions. To mitigate this risk, the Group's policy is to hedge all material transactional exposures, using financial instruments where appropriate. Where possible, the Group seeks to apply IFRS 9 hedge accounting treatment to all derivatives that hedge material foreign currency transaction exposures.

Policy – Translation risk

The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and equity accounted investments. It is not the Group's policy to hedge through the use of derivatives the translation effect of exchange rate movements on the income statement or balance sheet of overseas subsidiaries and equity accounted investments it regards as long-term investments. However, where the Group has material assets denominated in a foreign currency, it will consider some matching of those aforementioned assets with foreign currency denominated debt.

Performance

There was a net foreign exchange gain of £5.9 million in the income statement for the year ending 31 March 2019 (2018: £16.1 million loss). For further information see note 2 to the Group financial statements.

Pensions

The Group provides a number of defined benefit and defined contribution pension schemes for its employees. The largest schemes are the Babcock International Group Pension Scheme, the Devonport Royal Dockyard Pension Scheme and the Rosyth Royal Dockyard Pension Scheme whose combined assets are £4.1 billion, representing 90% of the total assets of the Group's defined benefit schemes. It also has employees in two industry-wide schemes, the Railways Pension Scheme and the Cavendish Nuclear section of the Magnox Group of the Electricity Supply Pension Scheme, as well as employees in other smaller occupational defined benefit schemes and local and central government schemes. All the occupational defined benefit schemes have been closed to new members for some years. The Group continues to review all options to reduce the risks inherent in such schemes. In the last financial year, it implemented changes to better share costs with employees at one of the largest schemes, and is consulting with some employees in the Babcock International Group pension scheme this year with regard to closing the scheme to future accrual. The Group also provides an occupational defined contribution scheme used to comply with the automatic enrolment legislation across the Group for all new employees and for those not in a defined benefit scheme. Over 75% of its UK employees are now members of the defined contribution scheme. The Group pays contributions to these schemes based on a percentage of employees' pay. It has no legal obligations to pay any additional contributions. All investment risk is borne by the employees.

Investment strategy

The Group has agreed a long-term investment strategy with trustees across the three largest schemes designed to generate sufficient assets by April 2037 to be fully self-sufficient, although our expectation is that this target will be met significantly earlier. It also operates within an agreed risk budget to ensure the level of risk taken is appropriate. An investment committee operating across the three schemes, which includes Group representation, has been established for a number of years to maximise effectiveness and to ensure consistency. To implement the strategy, the committee has divided the schemes' assets into growth assets, low risk assets and matching assets, with the proportion of assets held in each category varying by scheme reflecting the schemes' different maturities. The growth assets are systematically de-risked over time by comparing and equating the expected and required returns each month. The matching assets are used to hedge against falls in interest rates or rises in expected inflation. The level of hedging is steadily increased as the funding level on the self-sufficiency measure increases, and this approach has protected the schemes against the falls in interest rates over the last few years.

Funding valuations

Actuarial valuations are carried out every three years in order to determine the Group's cash contributions to the schemes. The valuation dates of the three largest schemes are set so that only one scheme is undertaking its valuation in any one year, in order to spread the financial impact of market conditions. The valuation of the Rosyth scheme as at 31 March 2018 is nearing completion, and work has commenced on the valuation of the Babcock International Group scheme as at 31 March 2019.

Cash contributions

	2019 £m	2018 £m
Future service contributions	**48.4**	47.2
Deficit recovery	**36.4**	41.5
Longevity swap	**10.7**	10.7
Total cash contributions – employer	**95.5**	99.4

Cash contributions made by the Group into the defined benefit pension schemes during the year are set out in the table above. In the 2019/20 financial year, the total cash contributions expected to be paid by the Group into the defined benefit pension schemes are £103.1 million. £10.0 million of this is for salary sacrifice contributions, £30.6 million is in respect of the cost of future service accrual, £47.2 million is to recover deficits over periods of time agreed with the Trustee and £15.3 million is in respect of the three longevity swaps transacted for each of the largest schemes during 2009/10 to mitigate the financial impact of increasing longevity. The total cash cost in excess of the charge within the income statement is expected to increase over the medium term. The current level of bond yields and inflation expectations has increased cash service costs for pension schemes.

Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,582.2 million, net of longevity swaps, in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,610.2 million. The total net accounting deficit, pre deferred tax, at 31 March 2019, was £28.0 million (2018: £5.0 million), representing a 99.4% funding level. A summary of the key assumptions used to value the largest schemes is shown below. The most significant assumptions that impact on the results are the discount rate, the rate of future pensionable salary increases and the expected rate of inflation. The impact of the longevity swaps transacted during 2009/10 has helped to mitigate the risk of increasing allowances for longevity.

Governance

The Group believes that the complexity of defined benefit schemes requires effective governance and supports an increasingly professional approach. It has appointed an independent chairman across the three largest schemes as well as an independent professional trustee in each scheme and has appointed professional trustees with specialist investment expertise. The Group established a governance committee across the schemes to improve the effectiveness of the trustee boards as well as enhancing trustees' knowledge and decision-making.

Accounting valuations

	Devonport		Babcock		Rosyth	
	2019	2018	2019	2018	2019	2018
Discount rate %	**2.4**	2.6	**2.4**	2.6	**2.4**	2.6
Rate of increase in pensionable salaries %	**2.3**	2.2	**2.3**	2.2	**2.3**	2.2
Rate of increase in pensions in payment %	**2.2**	2.2	**3.0**	2.9	**3.3**	3.2
Life expectancy of current pensioners aged 65 years	**20.6**	21.1	**21.7**	22.2	**19.7**	20.2

Donnington, Telford, UK

Our engineering support plays a key role in ensuring the operational readiness of the British Army

"We provide complex engineering services for the British Army's vehicles and equipment, maintaining around 32,000 military vehicles each year and ensuring the availability of 210,000 spares lines. Working from customer barracks, DSG workshops and through mobile support, the end product we deliver is critical to supporting Army personnel as they are deployed."

Kevin Ashley
Head of Supplier Quality, DSG

Fast Facts

Contract name: DSG, Service Provision Contract

Length of contract: 10 years from April 2015

Output of contract: Storage, maintenance, repair and overhaul of military vehicles and equipment for the Ministry of Defence

Sector: Land

Marine

Our Marine sector provides critical support to the Royal Navy – from sustaining its fleet to life extending submarines and surface ships. Our Marine sector supports the navies of Australia, New Zealand and Canada, and our technology is provided to a range of customers around the world, both defence and civil.

2019 Underlying performance highlights

Revenue % of Group	Operating margin	Revenue growth
33%	12.9%	-5%

Key highlights

- 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 upgrading work simultaneously
- Completed the largest Revalidation and Assisted Maintenance Period (RAMP) ever undertaken at Devonport on a Trafalgar Class submarine while progressing on the first life extension of the Vanguard Class of submarines
- Rightsized capacity across our facilities, including the exit of Appledore shipyard
- 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

		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

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

Our Land sector provides large-scale critical vehicle fleet management, equipment support for all British Army vehicles and technical training for military engineers. We also deliver engineering services in adjacent markets of Rail, Emergency Services, Airports and South Africa.

2019 Underlying performance highlights

Revenue % of Group	Operating margin	Revenue growth
31%	9.0%	-12%

Key highlights

- Won two pieces of additional work within DSG and continue to support the British Army in the delivery of training to around 20,000 service personnel
- New integrated IT systems for DSG progressing well
- 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
- Continued to exit non-strategic businesses

		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 (MPS) 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

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

Our Aviation sector delivers critical services in the defence and aerial emergency services markets. In defence we train pilots and manage and maintain fleets of fixed and rotary wing aircraft in the UK and France. In aerial emergency services we apply technology to deliver aerial emergency medical services, aerial firefighting and search and rescue.

2019 Underlying performance highlights

Revenue % of Group	Operating margin	Revenue growth
22%	14.1%	+11%

Key highlights

- French military training support contract progressing well with all aircraft and simulators on site at the French Air Force base in Cognac
- Reshaped our Oil and Gas business to reflect market conditions
- Entered the North American aerial emergency services market following the award of a ten year contract for aerial firefighting in Canada
- Commenced the mobilisation of our fixed wing air ambulance service in Norway and the first aircraft are completing their medical fit-out

		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

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

Cavendish Nuclear

Cavendish Nuclear delivers complex nuclear engineering on major nuclear decommissioning programmes and projects across the UK, as well as nuclear engineering services in training and operation support, new build programme management, design and installation and critical safety training to both public and private customers in the UK.

2019 Underlying performance highlights

Revenue % of Group	Operating margin	Revenue growth
14%	9.2%	-1%

Key highlights

- 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'
- Restructured ahead of the end of the Magnox contract

		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 12-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

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.


AW139
220

Valencia, Spain

We provide critical search and rescue services, assisting those who need help at sea

"We are ready to respond to calls for help at any time of the day or night – even in the most inaccessible areas of the Mediterranean coast. In the north, we communicate with the base of Reus, in the east, with Palma de Mallorca and in the south, with Almería. If a base is inoperative or needs reinforcements, we work together in order to save as many lives as possible."

Isabel Martí Cisneros
Search and Rescue Pilot
Babcock Spain

Fast Facts

Contract name: SASEMAR (Spanish Maritime Safety Agency)

Length of contract: The contract was reawarded in 2018 for 4 years with options to extend for a further 2 years

Output services: The contract provides search and rescue missions, aircraft maintenance and medical services to the regional Galician Government and the Central Government

Sector: Aviation

Delivering a sustainable future

Archie Bethel CBE,
Chief Executive

We work in complex, highly regulated environments, supporting the critical infrastructure and assets of countries and communities around the world.

We therefore have a responsibility to carefully consider the interests and concerns of a diverse range of stakeholders as we look to the future. These considerations are core to how we implement our plans, achieve our goals and deliver performance in a sustainable way, from our regard for the environment to our code of ethics.

Non-financial information statement

Reporting on material yet non-financial measures is important in understanding the performance, opportunities and long-term sustainability of generating value for all our stakeholders. We address the disclosure of non-financial information in the following pages and throughout the Strategic report. The table opposite details where our non-financial information statement disclosures can be found.

The nature of our work means that the health and safety of our employees and those affected by our operations is of paramount importance in all we do; we work hard to get all our people home safe, every day. We strive for a holistic approach to health and safety, seeking to avoid or minimise any adverse effect our work might have on the surrounding environment. A significant amount of work is undertaken to deliver long-term energy savings and efficiencies for both ourselves and our customers in a way that is mindful of environmental impacts. We are proud to have achieved certification with the Carbon Trust Standard for all of our UK operations and continue to work hard to reduce our carbon footprint as we grow.

Babcock has always been – and will always be – committed to doing business honestly and openly. Our Group-wide Code of Business Conduct lays out our policy of strict ethical conduct, highlighting the fundamental importance of conducting all aspects of our business to the highest standards of honesty and integrity. We reinforce this by supplementing the Code with appropriate training and guidance. As well as being the right and proper way to do business, our Code of Conduct supports our long-term success by minimising financial risk and sustaining our reputation.

Our people

We are wholeheartedly committed to investing in our people throughout their careers in order to ensure we have the right people in place now and in the years to come. Our projects are, by their very nature, long term, so we view the active support and development of our people as fundamental to the future success of the Company. Our determination to recruit and retain the best people is supported by our continuing investment in technical apprenticeships, graduate schemes, management training and talent development programmes. Our tailored Babcock MBA programme, our Industrial Partnership with Cranfield University and our Prosperity Partnership with the University of Strathclyde are all concrete ways in which we empower and develop our people in the workplace while providing value to our customers.

Developing cross-sector awareness of the sheer scale and complexity of our operations is another important part of engaging our employees. This year, we established the Group-wide 'We are Babcock' campaign, consisting of a programme of workshops and a year-long series of themed interviews with our employees. The programme aims to reinforce our values and purpose as a business by highlighting the breadth of the work we deliver and exploring what makes Babcock unique and different to our competitors.

We are committed to providing a fair, equal and inclusive environment for all of our people, whether they are male or female. This year, we are pleased to report a reduction in the gender pay gap following the introduction of Gender Pay Gap reporting. As well as taking action at a Group level to address the historic under-representation of women, each of our businesses continues to develop specific plans to help us close their gender pay gap.

Our employee Diversity & Inclusion Networks continue to flourish and expand into new Babcock sites. As Partners of the UK Government's Year of Engineering campaign, this year has been a particularly busy one for our Group-wide network of STEM Ambassadors as they continue their volunteer outreach work in local schools and colleges. 2018 also saw the establishment of our STEM Returners programme, supported by the Institute of Marine Engineering, Science & Technology and the Women's Engineering Society. We were delighted with the programme's success in helping candidates transition back into STEM roles after career breaks through paid short-term placements, refresher training and bespoke mentoring and look forward to the future of the scheme.

Archie Bethel CBE
Chief Executive

Our approach to sustainability

Profit and performance

How our investment in: building long-term relationships; delivering critical through-life support; using high performing and ethical suppliers; and supporting local and diverse economies supports our target of building market leading positions and delivering value to our customers, our colleagues and our investors.

People and potential

How our focus on: discovering and developing diverse talent and progression routes; inspiring and encouraging the next generation of engineers; and our open dialogue with management delivers measurable benefits to a sustainable business and its communities.

Environment and ethics

How our commitment to the standards set out in our Code of Conduct underpins how we act with our customers, our workforce and our suppliers as well as the communities and environments we work in.

Non-financial information statement

Reporting requirement	Policies and standards	Additional information	Page
Environmental matters	Health, Safety and Environment Policy[1] Energy Policy[1]	Environment and ethics Health, safety and environmental risk Remuneration: Annual bonus scheme metric	62 77 125
Employees	Code of Conduct[2] Health, Safety and Environment Policy[1] HR Matters Policy[1] 'being babcock' (see page 58) Joint Ways of Working Charter (see page 25)	People and potential People risk Governance statement Remuneration: Non-financial measures Annual bonus scheme metric Note 24. Share-based payments	59 78 84 119 125 192
Human rights	Code of Conduct[2] Supplier Code of Conduct[2] Modern Slavery Statement[2]	Environment and ethics	62
Social matters	Ethical Policy[2] Code of Conduct[2]	Profit and performance People and potential Trusted to support reserves, veterans and service leavers Trusted for STEM careers Governance statement	56 59 66 68 84
Anti-bribery and corruption	Anti-Bribery and Corruption/Ethical Policy[2] Whistleblowing structure Supplier Code of Conduct[2]	Environment and ethics Principal risks and management controls Governance statement	62 70 84
Description of principal risks and impact on business activity		Our principal risks and how we manage them Accountability	70 96
Business model		Our business model	8
Non-financial KPIs		Delivering on our strategy	26

1. Available to all employees through the Babcock intranet. Not published externally.
2. Available both on our website www.babcockinternational.com and to employees through the Babcock intranet.

Profit and performance

Profit and performance

Our procurement and supply chain function identifies and delivers the optimal supply chain solution for our customers, including supplier led innovation, demand management, sourcing, economic and environmental sustainability, supplier engagement and contract management, enabling us to return value to our customers, colleagues and investors.

We buy a wide range of goods and services and need reliable, high-performing suppliers across all aspects of our supply chain. Babcock seeks to ensure that our customers' money is spent efficiently and responsibly and that our supply contracts are managed effectively. We expect our supply chain to adhere to our Supplier Code of Conduct, a sustainable approach including our standards of ethical behaviour, and our environmental, health and safety and other working practices.

Profit

Profit is largely delivered through our ability to manage our operations effectively. A significant part of this is driven through our relationships with suppliers. External expenditure via third party suppliers, including with Original Equipment Manufacturers (OEMs), accounts for approximately 50% of our turnover and our approach and ability to manage these relationships impact our ability to deliver performance and margin.

We continue to drive efficiencies through our supply chain. This has included contract efficiencies through upfront procurement, involvement in the bid process, operational productivity through increased innovation and quality, and streamlined internal processes. Babcock has implemented a rigorous programme across our procurement and supply chain function. The objective has been to drive best practices across the organisation.

As a result of this initiative, procurement is engaging earlier in order to help provide our customers with the best possible solution, while improving profitability. Early pre-bid engagement by the procurement function allows our bid teams to understand potential market capabilities, while engagement as part of the team means we can aim to put together a proposal for our customers that meets their needs and requirements in the most efficient way possible, while establishing supplier relationships that are robust and sustainable in the long term. The output of successful procurement activities is better value for our customers and Shareholders, through the delivery of effective and efficient sourcing activities. Our focus is on ongoing efforts to obtain efficiencies and lower our cost base to increase profitability. Key metrics are approved by each business unit Finance Director and reported on a quarterly basis to the Executive Committee.

Performance

Building long-term relationships

We are always looking for better, innovative ways of serving our customers. Our responsibility is to provide them with the best options to ensure success. When we identify a more efficient way of servicing their requirements we discuss these options and work in collaboration with our customers to bring efficiency benefits, while delivering a quality service. The procurement and supply chain team is actively engaged in the bidding process with existing and new customers, enabling us to identify optimal supplier led solutions and continuous through-contract improvements. Where feasible we leverage arrangements with existing suppliers on a cross-sector basis.

We believe that establishing long-term relationships with our suppliers is an important part of building long-term relationships with our customers. As part of a structured programme across business units and Group categories, the procurement and supply chain function is raising commercial capability by engaging in supplier relationship management programmes with strategic suppliers.

We have over 10,000 suppliers; however, we have strategic relationships with around 300 of them. We are building an appropriate engagement model with these partners and preferred suppliers to effectively drive quality and innovation across our supplier base. Strategic suppliers are key partners in our ability to deliver quality service. As a result, we work closely with these suppliers to ensure optimal performance, ongoing improvement and innovation support.

We continue to develop end-to-end procurement tools that enable us to transact efficiently with our suppliers. These tools also provide a common approach, which helps us to share best practice across the organisation. We are able to use business intelligence which allows us to work collaboratively with our suppliers and focus on innovation and other value-add initiatives.

The e-procurement tools that we are implementing provide a faster and more effective way of transacting with our supply base resulting in sustainable relationships that are based on operationally robust processes.

We want to spend time talking to our suppliers about new ideas, operational performance and total cost opportunities – not about payment. We understand the importance of predictable customer payments when running a business.

Delivering critical support using high-performing, ethical suppliers

Our customers rely on our ability to provide a robust and effective supply chain. We take this responsibility very seriously and work in collaboration with other industry leaders to effectively manage risk whilst encouraging the use of SMEs. Potential suppliers must demonstrate that they are both fit for business with financial, commercial and governance capability and fit for purpose with technical, health and safety capability, to meet our contractual requirements. We also look for a clear demonstration of commitment to corporate social responsibility. Certain suppliers will be selected for audit and close monitoring, based on risk assessment or supplier performance. Planned reviews of supply chain risk are undertaken by our businesses.

Protecting the information and physical assets of our customers is an increasingly important part of what we do. We always expect the highest controls of commercial confidentiality. For certain types of supply, we are developing exacting standards of security compliance. For these companies, we need to be certain that information is well managed and protected throughout the supply chain.

We expect high standards of conduct from our suppliers in what they do for us or our customers and will not accept any behaviour contrary to our codes, including bribery, corruption and fraud, threats to health and safety, conflicts of interest or other improper practices.

Babcock is a key member of the joint MOD/industry initiative to deliver an effective Defence Cyber Protection Partnership. The Group is tasked with improving the protection of the defence supply chain from cyber threat. Babcock is represented on working groups for each of the three core work strands: information sharing, measurements and standards, and supply chain awareness. A primary objective has been to define a number of risk-based controls to be applied across the relevant supplier base.

Babcock is committed to creating a safe working environment that aims to enable all those working on, or visiting, Babcock operations to be able to return ‘Home Safe Every Day’. We seek to work only with suppliers who, we believe, are able to both meet and promote our standards – those that share our commitment to safe behaviour and performance in delivering services and solutions for our customers. Our teams aim to work with suppliers on safety and share continuous improvement practices to reduce or prevent accidents and injuries.

Supporting local economies by using diverse, locally procured services

We take our responsibility to support local economies seriously. The varied nature of what we do means that we depend on a wide range of talents and abilities from a wide range of suppliers. As part of our supplier programme, we have been managing compliance through a system of preferred suppliers. This approach is enhancing our supplier relationships and allows us to focus on effective management of our SME supplier base. Supplier credibility, responsibility, quality and service performance matter. Many of our suppliers are small and medium-sized enterprises. We select and manage suppliers to support our own experienced workforce in delivering complex, critical and often bespoke engineering services. Diversification of supply, where possible, makes our supply chain more robust in helping us to deliver for our customers.

Critical supply partner for through-life support

Joint teams from Babcock and our supply chain engage on a wide range of issues such as maintenance planning, supply support, support and test equipment, training and training devices, and technical data. Targeted supply relationships use data dashboards to monitor performance and progress. Babcock is actively involved with our suppliers in the Aerospace, Defence and Security Supply Chain development programme. We also lead dialogue with Government, suppliers and skills agencies to help address the skills requirement agenda, with the aim of ensuring that there are enough people with the right skills to fill our own vacancies and those in our supply chain.

Engaging with SMEs in nuclear

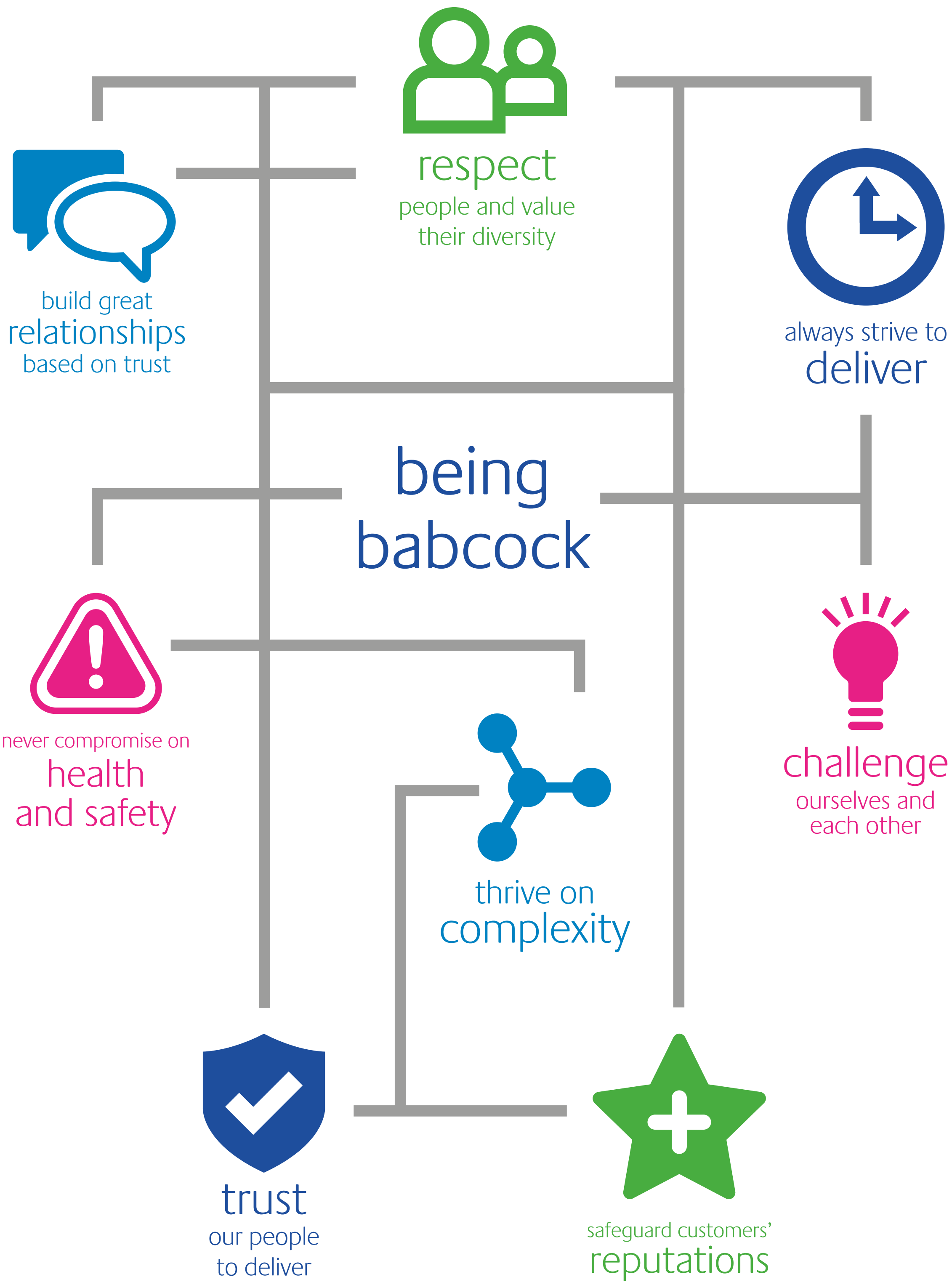
We developed a plan to involve small and medium-sized enterprises in our work to produce glove box systems for Sellafield, including extending our existing development measures and introducing some new features. This allows us to support the NDA 2020 target of spending a third of its budget with SMEs and provides the leadership and dedicated resources that will deliver our SME action plan. It also supports UK Government targets.

Working more closely with SMEs gives us access to a wider base of potential suppliers, increases competition, flexibility and agility and promotes the use of innovation.

We are also working with Bath University supporting SMEs in the nuclear sector through a 10-month development programme, involving masterclasses, job shadowing and action learning, designed to stimulate SME productivity growth.

being babcock

The eight principles that make up **being babcock** aren't new. In fact, they may seem rather obvious. That's because they already live and breathe within our business. They're what we do when we're working at our best, and they are a key contributor to building trust with our customers.



People and potential

To underpin and sustain long-term strategic growth, Babcock must ensure that it has the right people to be able and trusted to deliver to customers on technically complex, long-term contracts, both today and in the future. This means that the development of our people is a critical part of our business strategy. Our Group Director of Organisation and Development coordinates this activity across the Group, ensuring that each of our sectors has appropriate strategies in place to resource and develop the skills required. Our business arrangements require us to deliver services across an array of projects and assets. Our people need to have a range of experience, skills and competencies: engineering, management, technical, commercial, administrative and developmental, to name but a few. We recognise that it is the skills and commitment of our employees that characterise our uniqueness and our ability to deliver services to our customers.

Planning for growth and succession

Succession planning is a key focus throughout the businesses, from apprentices to Board level. We have plans in place that identify immediate and/or future potential successors to key senior management posts, with personal training and development plans for those identified. Through our annually refreshed resource planning process, we assess whether we have the right number of staff with the necessary skills and capabilities, both now and for the future. This process is based on data and assumptions such as workforce demographics, attrition and business growth and feeds into our resourcing strategies.

We continue to invest in our people through initiatives to develop talent, recognise achievements and increase diversity, for example through our Talent Management Framework programme in Land and the provision of senior leader mentoring support. In Aviation our talent and capability management programme has embedded internationally with an increasing number of international placement opportunities available. Our Leadership programme has been extended internationally to further support and equip leaders working in fast paced, cross-cultural and complex environments.

Engagement

It's our people that make us great and employee engagement remains vital to building a sustainable business. Accordingly we maintain regular engagement with our people through the Babcock International Group Employee Forum and Trade Unions across the business. We also run a series of sector surveys and CEO listening forums to maintain an open dialogue with our workforce. Additionally, to further develop our employee engagement we are setting up a series of Employee Focus Groups.

Our business is diverse, so it's important that our workforce remain informed of key news, project status, achievements and initiatives. We have a number of channels to communicate with our workforce including quarterly sector magazines.

This year we launched a series of 'We are Babcock' programmes across the business which feature the range of skills within our business with real-life examples illustrating what our people do and the breadth of the Group's capabilities, promoting an understanding of what makes Babcock unique and different to our competitors.

We continue to invite our employees to connect with our business strategy and share in our success by joining our Employee Share Plan.

Focus on recruitment, retention and development of talent

We have found our existing employees to be great advocates for our organisation and we have used their experiences to underpin some of our recruitment campaigns, particularly for graduates. Working with our recruitment partners, a variety of routes are used to ensure vacancies are marketed to the widest possible audience. Our aim is that candidates experience a professional, efficient and friendly recruitment and 'on-boarding' procedure.

Sectors and business units place significant emphasis on the retention and development of talent, with processes in place to identify potential for the future. In addition to local development programmes, we have a number of Group-wide management development resources:

Babcock offers executive development opportunities to our high potential employees. To date, 50 employees have completed our accredited MBA programme with Strathclyde University and a further 18 have been nominated for development programmes with Harvard. We continue to invest in the capability of our leaders and managers through a variety of programmes such as our First Line Leader Development Programme, which is designed to develop our leadership capability and maximise the potential in our teams.

Babcock has always been a strong supporter of apprenticeships and will make increasing use of higher apprenticeships to both retain existing employees and invest in future talent.

We have further developed our degree apprenticeship programmes with a framework of university partners. During the year we saw our first degree apprentices commence their studies and we began work on a broader range of programmes at degree level to be launched in 2019/20.

The success of our graduate campaign was recognised this year with national awards, including winning Best Graduate Recruitment Strategy at the Recruiter Awards.

Diversity

At Babcock, we believe diversity is about embracing the advantages different experiences, skills and outlooks can bring. Our diversity initiative, 'All together different', is championed by a Diversity Steering Group, which drives our diversity agenda and coordinates our diversity conference, 'Dialogue'. Dialogue Week focused on improving diversity across the business with events held in all sectors. Diversity is driven by a nominated director who regularly reports to the Executive Committee. Across the organisation a number of employee networks are supported such as the Babcock Women's Network and Pride in Babcock and we will continue to use these and other groups to motivate and sustain energy around the topic of diversity. As a business, it is imperative that we ensure access to the widest pool of talent available, selecting the best candidates based on their ability to do the job. Working with these expectations for diversity enables us to deliver our best for our customers and to safeguard the future of Babcock. Babcock operates principally in sectors that have until recently traditionally been regarded as 'male' such as engineering, aviation and the Armed Forces. Inevitably, companies with this background will tend to be starting from a level of relatively low female participation, especially in management positions. However, we are working hard to change this: 18.2% (6,287) of our total workforce is female, (male: 28,291) with 21.4% (104) female

Green energy engineering

Graduate trainee engineer Chantel Maynard believes nuclear energy is vital for our future.

"I developed an interest in green energy, which expanded my horizons and made it clear how much I could help people and society with my skills,

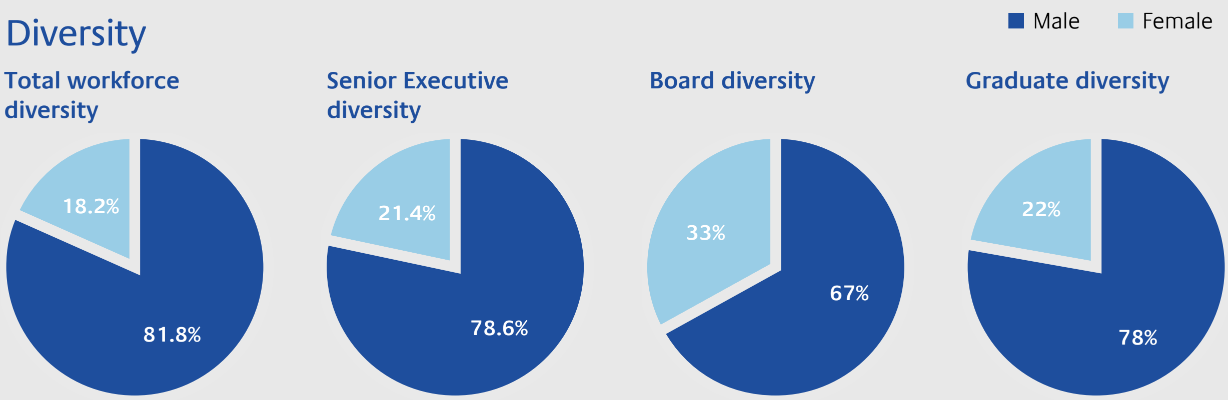
"Nuclear fascinated me because the way it operates and the concerns it generates are so different from the way other sectors work."

Chantel had the opportunity to work alongside our UK-based team supporting the Fukushima clean-up operation. "That work provides vital experience but it also has a moral purpose. The fact is, we're going to need nuclear energy if we want to carry on living life as we currently do. Fukushima reminded us why safety and security are the most critical considerations in everything we do."

She helped to plan Cavendish Nuclear's participation at the Big Bang Fair 2019, which took place in March.

"There's still a lot of misunderstanding in schools about what engineering is," says Chantel. "It's important to reach out to students and also to teachers and parents, so they see how what is learned at school and university can be applied in the real world.

Diversity



senior executives (male: 381), and, since April 2019, four (33%) female Directors on our Board (male: eight). We have continued to work on the challenges of being a woman within our organisation. A series of actions and development programmes are being implemented across the organisation to address this. We focus our graduate recruitment programme, particularly for engineering graduates, on those universities that have a richer gender mix. In 2019, 22% (2018: 21%) of those employed on our graduate scheme were female.

We are encouraged that we have managed to reduce the gender pay gap compared to last year, with a mean pay gap of 14.1% (2018: 16.2%) and a median pay gap of 16.0% (2018: 16.5%). This compares to a UK average of 17.9%. Whilst this is a step in the right direction, we are committed to continuing our efforts to further reduce the gap by growing our talent pipeline, attracting the best female talent available and enabling our female employees to fulfil their potential. More information can be found in our 2018 Gender Pay Gap report, available on our website www.babcockinternational.com.

In Marine, HMS Bulwark provided the backdrop for a 'Women in Engineering' event with the Royal Navy, and Devonport Safety Engineer Dr Lorna Dallas was voted one of the UK's top 50 Women Engineers. In Aviation, driving gender equity has retained strong focus through our 'Fly High' initiative and all countries are now represented by Change Agents who support and lead local events and initiatives. Two of our engineers won prestigious awards at the Women in Nuclear UK Conference, for their achievements in promoting gender balance and diversity in the industry.

Our commitment to the Armed Forces

As a holder of the Gold Award from the Armed Forces Covenant Employer Recognition Scheme (ERS), we are committed to the Total Support Force and actively recruit service leavers and reservists. See more information on page 66.

Maintaining London's fire engines

Babcock technician Luke Sims, 19, was able to put his love for mechanics into practice working with London Fire Brigade vehicles on a Babcock apprenticeship.

With his three-year apprenticeship working on the London Fire Brigade (LFB) fleet contract now behind him, Luke has honed a keen and professional interest in the inner workings of the emergency and back-up vehicles operated by LFB.

Today, Luke continues to work on fire engines while developing his technical skills.

His workshop manager Alan Chivers says he is "both technically able and very committed; a real asset to the business".

Luke describes his first rebuild of an all-important pump on a LFB fire appliance as one of the highlights of his time working on the fleet.

"Working with a skilled technician on something as technically complex as a fire engine pump takes some getting used to," he says. "Helping to fix something that was totally seized up and seeing it back in action and working properly was a great source of pride to me and something I won't forget."

Environment and ethics

Ethics and governance

We understand that our reputation and good name are amongst our greatest assets, which could easily be lost by actual or suspected unethical behaviour. To protect the Company and reduce these risks, we have set out a policy on how we should conduct business, which we summarise in the form of the Babcock Code of Business Conduct. Compliance with this policy is compulsory for our employees, business advisors and business partners (or, in the case of business advisors and partners, they must have equivalent standards and procedures in their own businesses). The Babcock Supplier Code of Conduct further promotes these values throughout our supply chain. The policy comprises a detailed manual, available on the Group's intranet, that contains guidelines, authorisation and other procedures aimed at identifying and reducing ethical risks. The controls that we have in place form an integral part of our risk management arrangements and include the training of employees, regular risk assessments throughout the business and availability of whistleblowing hotlines.

More details of these risk management procedures can be found on pages 70 to 81 and the Ethics Policy and Code of Business Conduct and Suppliers' Code of Conduct are on our website. Further information about our whistleblowing process can be found on page 72.

Human rights

As an international business, we recognise our responsibility for upholding and protecting the human rights of our employees and other individuals with whom we deal in our operations around the world. While we continue to believe that our exposure to the risks of human rights abuses and modern slavery is low within our own business and supply chain, we welcome the opportunity we have to contribute positively to global efforts to ensure that human rights are understood and observed. We believe that a culture of respect for, and promotion of, human rights is embedded throughout our business and can be demonstrated by our commitment to ethical conduct in everything we do. The Group's Modern Slavery Transparency Statement, which is published annually on our website, details action taken to support the elimination of modern slavery and human trafficking.

Safety the Babcock way

Governance

We are committed to ensuring that Babcock sets and achieves high standards for safety across all its operations. Our goal is for everybody to go 'home safe every day'. The key principles that guide us to achieve this goal are:

- Looking after yourself and each other
- Caring about how we deliver, as well as what we deliver
- Setting an example to others by not walking past an unsafe act or unsafe condition
- Continually improving our safety.

Sector safety leadership teams and the Corporate Safety Steering Group oversee implementation of policy, strategy and initiatives across all of our businesses.

The Group Executive Committee reviews monthly commentary and performance reports and the Board receives half yearly commentary and performance reports.

The annual Group Safety Conference promotes the Group safety vision, the sharing of best practice and rewards notable achievements.

Our internal safety audit programme aims to ensure:

- Alignment of business safety policy with the Group safety policy and capability to discharge duties therein
- Compliance with Babcock's Safety Behaviours and Expectations
- Adequate safety improvement plans are implemented, based on a balanced assessment of safety performance that delivers the commitment to continuous improvement
- Business unit learning across the Group, supporting continual improvement
- A consistent Babcock approach to safety and sharing best practice.

Formal audit reports are provided to the business units, with feedback also provided to the Group Executive Committee.

A further audit was implemented in the final quarter of the period. Its scope was to assess the design and operating effectiveness of the process and controls in place for the accurate and consistent reporting, recording, collection and analysis of injury data that occurs across the Group. This internal audit has not highlighted any significant inaccuracies in the reporting of injury data to the Group.

In Aviation, we have continued to develop and implement an industry leading Safety Management System across the sector, applying relevant global good practise within both our civil and defence businesses. The Aviation safety culture stresses the importance of learning from experience and working to develop and maintain an effective and efficient learning cycle through communication, reporting and feedback. The Safety Behaviours & Expectations programme this year has focused on and delivered improved staff engagement and hazard awareness. Our Rosyth site was awarded its 12th consecutive Sword of Honour from the British Safety Council, Devonport's Refuel Group achieved five years of zero lost time accidents and at Bristol we received accreditation to ISO 45001, the new Occupational Health and Safety Standard. Cavendish Nuclear won its eighth consecutive RoSPA Occupational Health and Safety Gold Award and fifth Fleet Safety Award.

We continue to develop safety initiatives targeted at specific risk mitigation, and have launched a sector-wide strategic programme focused on our top operational risks. We continue to be the global leader in the implementation of aviation fatigue risk and pilot mental wellbeing management systems in advance of regulation.

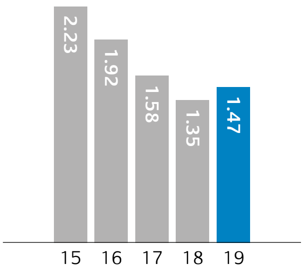
Review

In December 2018, one of our helicopters crashed in Portugal. Tragically, the accident resulted in the death of two Babcock pilots and two passengers. The incident is being investigated by the authorities.

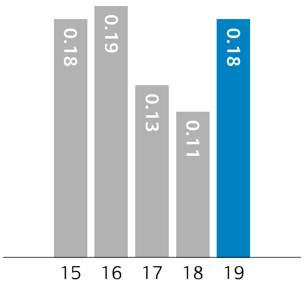
Safety continues to be a core value for the Group and we monitor performance through many measures. This year we are disappointed that we have seen a rise in the number of injuries, although the Group's performance remains better than industry norms. The Health and Safety Executive Summary Statistics Report 2018 for the manufacturing sector, which includes shipbuilding and repairs, shows an injury/incidence rate of 2.18 injuries per 100,000 hours worked whereas the injury/incidence rate for the Group is 1.35 injuries per 100,000 hours worked. However, in response, the Corporate Safety Steering Group and our business units have refreshed and reinforced the basic messages at the Group's sites and are aiming further to improve performance.

	2014/15	2015/16	2016/17	2017/18	**2018/19**
Total number of injuries	2,054	2,084	1,720	1,389	**1,452**
Fatalities	0	1	7	2	**4**
Major injuries	41	38	27	12	**24**
Over-three-day injuries	127	164	107	101	**145**
Babcock riddor[1] totals	168	202	141	115	**173**

Total injury rates per 100,000 hours worked

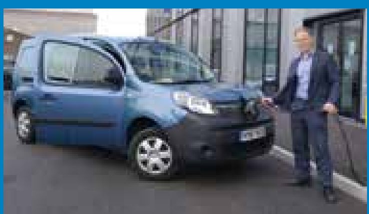


Babcock riddor[1] rate per 100,000 hours worked



1. In 2012, the UK Health and Safety Executive changed riddor reporting from time lost through injury from three days to seven days. We have, however, continued to monitor and report on the lower three-day threshold and record this as 'Babcock riddor'.

Electric cars at Devonport



In 2018 we began a project to examine the potential to increase the use of electric vehicles (EVs) within Devonport. The focus was initially on 10 diesel vans that had low mileage and range, ideal conditions for EVs. We found we could potentially reduce our CO_2 emissions by an estimated 7.6 tonnes, which equates to around 45 trees.

If the Devonport trial is successful, we could see significant benefit from increasing our electric fleet across the wider business, leading to sizeable reductions in emissions and localised improvements in air quality.

Reducing waste at Dungeness B

In our nuclear business, we work with the supply chain to minimise waste and reduce the carbon footprint of materials and components wherever possible.

At Dungeness B Power Station, we have introduced a waste reduction initiative for the supply of Neutron Scatter Plugs (NSP). Each of these plugs was supplied in a wooden crate which used to be disposed of, but is now reused, reducing the amount of wood and waste required and reducing costs.

Reducing waste also means moving materials more efficiently, and so we plan vehicle deliveries to site and between supply-chain members carefully to ensure that they don't leave the site empty after unloading, for example returning packaging or moving other items. We encourage suppliers to incorporate this philosophy into their own supply chains so that sourcing is carried out in a responsible and ethical way from top to bottom.

We expect our suppliers to implement recycling and energy saving measures at their own sites.

Managing environmental impacts

Babcock seeks to achieve the highest standards in the management of environmental matters. We recognise the impact our operations may have on the environment and seek to minimise or eliminate adverse effects.

An Energy and Environmental Working Group meets quarterly with representatives of each sector attending and is chaired by the Group Energy Manager. The working group reviews energy and environmental policy and seeks to share best practice. Sectors and business units within the Group set environmental policies and KPIs that are appropriate to their business. Our Group level performance indicator for energy consumption is to reduce our overall CO_2 emissions year on year against a metric of tCO_2/£m revenue.

Energy consumption data is collated into a central software database that can be accessed by all stakeholders enabling reduction targets to be set and monitored regularly. The continuous monitoring of energy consumption and the attention to environmental policies ensure that the environmental impact of the Company's operations is minimised.

During the year Babcock once again achieved reaccreditation for its UK operations to the Carbon Trust, a standard that it has held since 2010.

We regularly review our built estate requirements to ensure that the requirements of our customers can be efficiently met while providing a good standard of environmental conditions for our employees. Utility markets are tracked to enable our utility requirements to be purchased at the best cost. Forward contingency planning ensures that should we lose a utility supply to any of our built estate the impact to our customers is minimised.

During the year we undertook energy audits across the built estate and embarked on reviewing transport provision to enable Energy Savings Opportunities Scheme compliance.

Babcock committed to developing sustainable office accommodation

During the year a new development of the office accommodation at Devonport Dockyard replaced old and inefficient office accommodation, joining Rosyth with the achievement of a BREEAM (Building Research Establishment Environment Assessment Method) Excellent rating. The new accommodation has been constructed to a very high standard to ensure the buildings are energy efficient whilst providing an excellent environment for our staff and visitors. A new office is being constructed in Bristol to the same high standards.

Building the DREAM at RAF Shawbury

RAF Shawbury new build operational support facility (Flight Training School) was awarded a DREAM 'Excellent' level Certificate for Sustainability at the Construction Stage by The Defence Infrastructure Organisation.

DREAM helps create a sustainable built environment by supporting clients, designers and project managers through the design, construction and facility management processes. Its holistic approach ensures environmental issues are dealt with positively, whole life costs are reduced, and better living and working conditions are delivered.

Total Group emissions – UK and overseas

Year ending		March 2018	**March 2019**
Scope 1: Direct emissions from owned/controlled operations	tCO_2e	170,476.3	**144,350.7**
Scope 2: Indirect emissions from the use of purchased electricity and steam	tCO_2e	104,074.8	**75,647.1**
Scope 3: Emissions – business travel	tCO_2e	22,033.7	**17,627.2**
Absolute footprint	tCO_2e	296,584.8	**237,625.0**
Revenue	£m	4,659.6	**4,474.8**
Intensity ratio	tCO_2e/£m	63.7	**53.1**

Due to the highly diverse nature of the Company's business, the metric of 'tonnes of CO_2e per £m revenue' has been used to provide a more meaningful measure of energy use throughout the business. The total emissions from Scope 1, 2 and 3 sources have been divided by the annual revenue to provide a final benchmark. The prior year numbers have been adjusted to include additional consumption data for direct emissions from aviation fuel used in our operations in Scandinavia, Spain, Italy and Australasia and unavailable last year.

Trusted to support reserves, veterans and service leavers

Striving to support service families

Members of the Armed Forces Community such as service leavers, veterans, reservists, uniformed cadet instructors and their families can rely on our support and understanding.

We offer a degree of flexibility in granting leave for service spouses and partners before, during and after a partner's deployment, and will consider special paid leave for employees who have been bereaved or whose spouse or partner has been injured.

We work closely with the Career Transition Partnership to ensure employment opportunities are made available to veterans and participate in Careers Fairs for those leaving the Armed Forces.

We understand the need for flexibility forces spouses require when their service partner is posted to a new location, and we do our best to find alternative employment within the business if our employees need to move to accompany their partner to a new posting.

Promoting and supporting the Reserve Forces

With over 150 reserves within the business, Babcock is one of the top four employers of reservists in the UK. We actively support our reservist employees, providing a minimum of 10 days special paid leave per year for reserves or uniformed cadet instructors with a full training commitment.

We also maintain a force of sponsored reserves to support Corps of Royal Electrical and Mechanical Engineers (REME), as well as promoting reserve service to all those in the Group, including our graduates and apprentices.

Committed to the British Armed Forces

We are proud to be a major employer of service leavers, veterans and reserves. As an early signatory to the Armed Forces Covenant, we are wholeheartedly committed to supporting the Armed Forces Community. We recognise the value of the contribution serving personnel, veterans and military families make to our business and our country.

As part of our commitment to the Armed Forces Covenant, all service leavers, veterans and members of a volunteer reserve are guaranteed a job interview if they meet the minimum requirement for an advertised role at Babcock.

Babcock has held the Gold Employers Recognition Award from Defence Relationship Management since 2015. The scheme recognises employers who actively support defence activities, while encouraging other organisations to adopt the same behaviours in their workplace.

Trusted for STEM careers

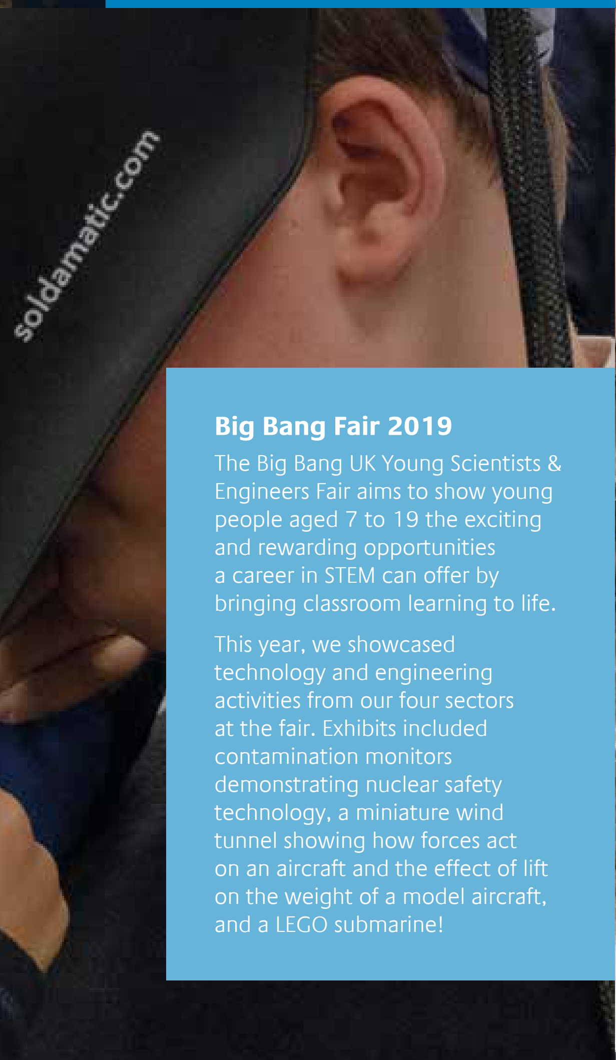
The Year of Engineering

We partnered with the UK Government in 2018 to promote STEM careers and inspire the next generation of engineers. By joining activities, initiatives and events across the country as well as establishing a new recruitment programme, our focus throughout the year was to change common perceptions about working in engineering and encourage more young people into STEM.

STEM Returners

In 2018, we established a STEM Returners programme to help recruit, retain and develop the best people for our business by broadening our talent pool. Through paid employment placements and bespoke mentoring schemes, the programme offers qualified, experienced candidates a supported route back to their careers after a break.

The 13 week placements are supplemented by career coaching and networking opportunities and candidates are offered the opportunity to restart their career in a permanent role at the end of the programme. The project is co-supported by IMarEST and the Women's Engineering Society with the shared goal of creating a diverse, highly skilled STEM talent pool in the UK.



Big Bang Fair 2019

The Big Bang UK Young Scientists & Engineers Fair aims to show young people aged 7 to 19 the exciting and rewarding opportunities a career in STEM can offer by bringing classroom learning to life.

This year, we showcased technology and engineering activities from our four sectors at the fair. Exhibits included contamination monitors demonstrating nuclear safety technology, a miniature wind tunnel showing how forces act on an aircraft and the effect of lift on the weight of a model aircraft, and a LEGO submarine!

Our principal risks and how we manage them

Babcock has an established process that aims to identify and evaluate risks and how they are to be managed. A range of internal control processes is in place as part of the risk management regime.

Franco Martinelli, Group Finance Director

The Board, principally through the Audit and Risk Committee, keeps under review the risks facing the Group, including the appropriateness of the level of risk the Group may accept in order to achieve its strategic objectives. The Board ensures that it controls the risk appetite of the Group through its delegated authorities, which impose strict controls on the Group – for example, all acquisitions and disposals, all material capital expenditure, all material non-ordinary course tenders (material ordinary course tenders are approved by the Chief Executive and the Group Finance Director) and all financing arrangements (unless delegated to the Board's Finance Committee) must be approved by the Board. The Board reviews the controls and mitigation plans in place; these are intended to manage and reduce the potential impact of the risks the Company takes to ensure, so far as possible, that the assets and reputation of the Group are protected. The Group's risk management and internal control systems can, however, only seek to manage, not eliminate, the risk of failure to achieve business objectives, as any system can only provide reasonable, not absolute, assurance against material misstatement or loss.

Risk management framework

The Board is ultimately responsible for the Company's risk management and internal control system. This is overseen on its behalf by the Audit and Risk Committee (which is currently usually attended by all Board members).

The Executive Committee considers a monthly report from the Chief Executive, the Group Finance Director and each of the sector Chief Executives on the operational and financial performance of their respective areas of responsibility.

The Audit and Risk Committee reviews aspects of the risk management and control system at its meetings and, at least once a year, formally reviews the system's effectiveness as a whole on behalf of the Board (see the effectiveness review statement on page 138). It also receives in-depth presentations on individual major risks throughout the year.

Babcock has a Group Security Committee made up of senior functional and operational managers with responsibility for security and information assurance at Group and operational level. They meet regularly to discuss cyber and other security and information assurance issues and threats facing the Group. The Committee oversees the Group's security and information assurance management infrastructure and specific security projects. The Group Finance Director is Chairman of the Committee, and each meeting is attended by the Group's Chief Information Officer and Chief Information Security Officer. The Board receives regular reports on security and information assurance matters.

The Audit and Risk Committee receives regular reports from Ernst & Young, the internal audit function provider, and management reports relating to internal control and risk issues.

Internal controls

Operationally, internal control systems are monitored by senior Group management with sector Chief Executives having responsibility for risk identification and risk management in their businesses.

Read more on page 72.

The Group Risk and Insurance Manager (who reports to the Group Finance Director), working with senior operational management teams, keeps the risk register and risk assessment and evaluation process under review and development. We seek to ensure a coherent and consistent Group best practice approach to risk assessment and risk management. Risk assessments made at business unit level are subject to regular review and challenge by Group senior management.

Employees undertake a selection of compulsory risk management training programmes (for example: security, data protection and anti-bribery and corruption training) appropriate to their roles in order to increase awareness of potential risks.

Our internal controls include:

Budget process	Annual budgets and medium-term financial plans are reviewed by Group management before submission to the Board for approval. Updated forecasts for the year are prepared at least quarterly.
Management and financial reporting	The Board receives details of monthly actual financial performance compared against budget, forecast and the prior year, with a written commentary on significant variances from approved plans. The Chief Executive, Group Finance Director and sector Chief Executives report to each Board meeting on operating performance and matters of potential strategic significance. Group senior management receive a monthly narrative operating report from all business units.
Security and information governance structure	There is a security and information assurance governance structure in place to oversee and manage security and similar risks.
Clear delegation and limits of authority	The Board regularly reviews and approves a schedule of delegated authorities setting out levels of specific financial decision-making authority delegated by it.
Insurance	The Group has a large and comprehensive insurance programme, preferring to place risk in the insurance market, where available on acceptable terms, rather than to self-insure or make significant use of captive insurance. The Group has a full-time Risk and Insurance Manager who reports annually to the Board on the strategic approach being taken to insurance and on the placing of the programme.
Claims and litigation reporting	The Board and the Group Executive Committee receive monthly summaries of material disputes and actual or potential claims, their progress and potential outcomes. The Group has an internal legal service.
Credit controls	All significant credit risks are reviewed by Group Finance and an Executive Director, and, where appropriate and available, risk limitation actions are taken.
Code of Conduct and ethical, anti-bribery and corruption policies and procedures	The Group has a Code of Conduct, summarising ethical and anti-bribery and corruption policies, making clear its commitment to the highest ethical standards and the ethical standards it demands from its employees and those who work for it and with whom it does business. In addition, there is an anti-bribery and corruption governance structure in place and detailed policy and procedures (available on the Babcock website), with supporting training programmes, which the Company believes meet the requirements of 'adequate procedures' under the Bribery Act 2010. Due diligence is carried out on actual or potential business partners as appropriate. Those working on our behalf or in consortium with us are required to abide by our Code of Conduct (or an equivalent) and to undertake not to behave corruptly.
Group policies and procedures	The Group has written policies and procedures, which are kept under review, covering a range of matters intended to reduce or mitigate risk, such as health, safety and environmental policies, security and information assurance, export controls, contracting requirements and guidelines, and legal, financial and accounting matters. These policies and procedures are available to employees on the Group intranet and are supplemented at sector level by further business unit specific policies and procedures.
Whistleblowing hotline	All employees have access to a confidential whistleblowing hotline with the opportunity to call, email or write letters detailing any area of concern (whether financial irregularities, non-compliance with laws, breaches of our Code of Business Conduct, threats to health and safety, conflicts of interest or improper practices) to be brought to the attention of senior management if they feel unable to raise them with line management or if they have raised matters, but are not satisfied with the response. A report on all whistleblowing cases and the resultant investigations and conclusions is submitted to each Audit and Risk Committee meeting – see page 98.
Critical supplier reviews	Sectors regularly review the vulnerability of key supply chain partners whose continued ability to supply the Group is considered critical to its business performance, and also consider fall-back plans when first deciding to appoint such suppliers.
Business continuity and disaster recovery plans	All sectors, business units and Group functions are required to consider the need for, and put in place, appropriate plans to minimise the risk of interruption to business and contract performance in the event of a major disruption to normal functioning arrangements.

Principal risks, risk mitigation and controls

The risks and uncertainties described below through to page 81 are those that the Board currently considers to be of greatest significance to Babcock in that they have the potential to affect materially and adversely Babcock's business, the delivery of its strategy and/or its financial results, condition or prospects. For each risk there is a short description of the Company's view of the possible impact of the risk on the Group were it to occur, and the mitigation and control processes in place to manage the risk (which should be read in conjunction with the information above about our risk management approach and general controls).

Babcock is, however, a large and developing group of businesses, and factual circumstances, business and operating environments will change with new risks being identified or the evaluation of the significance of existing risks changing or being better appreciated and understood. This means that the risks identified below are not and cannot be an exhaustive list of all principal risks that could affect the Group.

Risks and uncertainties which might affect businesses in general and that are not specific to the Group are not included, but Babcock, of course, faces such risks as well.

Our customer profile

We rely heavily on winning and retaining large contracts with a relatively limited number of major customers, whether in the UK or overseas. Many of our major customers are (directly or indirectly) owned or controlled by government (national or local) and/or are (wholly or partly) publicly funded. Our single biggest customer is currently the UK Ministry of Defence (MOD).

These customers are affected by political and public spending decisions. Commercial customers are also affected by conditions in their market sector which affect their levels of, and priorities for, spending.

Risk description

Policy changes (following a change of political administration or otherwise) and spending constraints on customers are material factors for the Group's business and outlook.

Whilst the Board believes that policy changes, spending reviews and restraints can offer significant opportunities to the Group to assist in the delivery of services to customers more efficiently and at lower cost, these factors inevitably also carry risk.

Large customers, whether public or private sector, have significant bargaining power and the ability (contractual or otherwise) to cancel contracts without, or on short, notice, often without cause, or they can exert pressure to renegotiate them in their favour.

The consequences for the Group's business of the UK vote to leave the European Union are difficult to predict, as there is likely to be a period of uncertainty over the effects on the nature, timing and scope of the policies and procurement plans of both our current and potential customers in the UK and overseas.

Potential impact

Periods of uncertainty or changes as to the course of customer policy and spending can result in the delay, suspension or withdrawal of tendering processes and the award of contracts.

Whilst customer policy changes or spending constraints can potentially offer more outsourcing opportunities for us to pursue, they can also be a risk in that they could lead to changes in customer outsourcing strategy and spend, which could include:

- reductions in the number, frequency, size, scope, profitability and/or duration of future contract opportunities
- in the case of existing contracts, early termination, non-extension or non-renewal or lower contract spend than anticipated and pressure to renegotiate contract terms in the customer's favour
- favouring the retention or return of in-house service provision, either generally or in the sectors in which we operate
- favouring of small or medium-sized suppliers or adopting a more transactional rather than a cooperative, partnering approach to customer/supplier relationships; and
- imposing new or extra eligibility requirements as a condition of doing business with the customer that we may not be able readily to comply with or that might involve significant extra costs, thereby impacting the profitability of doing business with them.

Mitigation

We have extensive and regular dialogue with key customers, involving, as appropriate, our Chief Executive, sector Chief Executives and/or other members of the senior management team.

In respect of the UK Government, the Group has formalised its ongoing relationship by signing a 'Joint Ways of Working Charter' agreement as part of the UK Government/MOD Strategic Partner/Strategic Supplier Management Programme. The Programme outlines how the Group and the UK Government/MOD intend to work together and includes regular meetings at senior levels to ensure open dialogue between the Group and its principal customer. During the year, a new senior role in the Group was created, reporting to the Chief Executive, with responsibility for the Programme for the Company and to drive progress within the Group.

We actively monitor actual and potential political and other developments and spending constraints that might affect our customers' demand for our services.

We aim to be innovative and responsive in helping customers meet their needs and challenges.

The nature of our contracts, bid processes and markets

We seek to win relatively long-term contracts for the provision of complex and integrated services to our customers. Bidding for these contracts typically involves a protracted and detailed tendering process, often under public procurement rules. There are typically only a relatively limited number of customers in each of the market sectors we serve. The contracts we bid for often entail a substantial transfer of risk from the customer to the supplier.

Failure to realise the pipeline of opportunities and to secure rebids can mean missed opportunities for growth and loss of revenue.

Risk description

Bidding requires a substantial investment in terms of manpower resource and is very expensive. Bids can be subject to cancellation, delays or changes in scope.

Contract award decisions made under public procurement rules can be subject to legal challenge by losing bidders.

Given the size and often long-term nature of the contracts we bid for and the relatively limited numbers of customers in the markets we serve, significant contracting opportunities tend not to arise on a regular or frequent basis.

When we are bidding for such contracts we have to price for the long term and for risk transfer, and the scope for later price adjustment may be limited or not exist.

Our contracts typically impose strict performance conditions and use key performance indicators (KPIs) that if not complied with trigger compensation for the customer and/or may result in loss of the contract.

Bid and rebid success rates determine how much of the pipeline of opportunities is realised and turned into profitable business and how much existing business is retained.

Potential impact

If we lose a bid or a bid process is aborted by the customer or we withdraw due to scope changes as it progresses, this is a significant waste of limited resource and substantial expenditure that has to be written off.

If we win a public procurement bid and this is challenged, this could lead to delay in contract award, expensive legal proceedings or the competition having to be re-run.

Not winning a new bid can be a significant missed opportunity for growth which may not soon be replaced by another.

Not winning rebids could mean the loss of significant existing revenue and profit streams.

If we underestimate or under-price actual risk exposure or the cost of performance, this could significantly and adversely affect our future profitability, cash generation and growth.

Compensation to the customer for poor KPI performance could significantly impair profitability under the contract and damages following termination could be substantial.

Unsuccessful bids or rebids may adversely impact the strategic development and growth plans of the Group.

A lack of success in exporting the Group's business model outside the UK and its current core markets could adversely impact the growth prospects and strategic development of the Group.

Mitigation

We have a clear business strategy to target a large bid pipeline, both in the UK and internationally, and will only tender bids for contracts we consider have a clear alignment with the Group strategy and where we believe we stand a realistic chance of success, both in the UK and overseas.

There are formal and rigorous reviews and gating processes. Those at key stages of each material bid are intended to reduce the risk of underestimating risks and costs and ensure that limited bid resources are targeted at opportunities where we consider that we have the best prospects of winning or retaining business.

Group policies and procedures set a commercial, financial and legal framework for all bids.

Contractual performance is continuously under review (at a business unit, sector and/or senior Group executive level as appropriate) with a view to highlighting at an early stage risks to delivery and profitability.

Reputation

Given the nature of our customers and the markets in which we operate, our reputation is a fundamental business asset. Our businesses include activities that have a high public profile and/or if they were to involve adverse incidents or accidents, they could attract a high level of publicity.

Risk description

We have a relatively limited number of customers and potential customers in our market sectors and they typically have high public profiles.

We are involved in the direct delivery to the public on behalf of our customers of high-profile and sensitive services. We also provide services which are critical to our customers' ability to discharge their own public responsibilities or deliver critical services to their customers.

Failings or misconduct (perceived or real) in dealing with a customer or in providing services to them or on their behalf could substantially damage our reputation with that customer or more generally. The same would be true of high-profile incidents or accidents.

Attitudes to the outsourcing of services generally or in a particular sector can also be adversely affected by the poor performance or behaviour of other service providers or incidents in which we are not involved.

As well as our reputation for service delivery, our ethical reputation is key.

Potential impact

Given our dependence on individual major customers and the relatively narrow customer base in the markets in which we currently operate, loss of our reputation (whether justified or not) with a major customer or more generally could put at risk substantial existing business streams and the prospect of securing future business from that or other customers in that or other sectors.

Non-compliance with anti-bribery and corruption laws could result in debarment from bidding as well as criminal penalties.

Mitigation

Senior management at Group and sector level are keenly aware of reputational risks, which can come from many sources. Our risk control procedures relating to contract performance, anti-bribery and corruption, health and safety performance and other matters that could impact our reputation are described elsewhere on pages 54 to 65. (See also health, safety and environmental risks on page 77.)

Regulatory and compliance burden

Our major businesses are dependent on being able to comply with applicable customer or industry-specific requirements or regulations. Following the UK vote to leave the European Union, the terms of British exit will have implications for the requirements or regulations that are applicable to the business of the Group, including where a licence to operate in the European Union is required.

Risk description

The cost of compliance can be high. Requirements can change.

Compliance with some regulatory requirements is a precondition for being able to carry on a business activity at all. For example:

- Our Aviation business is subject to a high degree of regulation relating to aircraft airworthiness and certification and also to ownership and control requirements (for example, European air operators must be majority-owned and controlled by European Economic Area nationals.
- Our civil and defence-related nuclear businesses operate in a highly regulated environment.

Geopolitical factors, for example the terms of the UK's exit from the EU, could lead to significant tensions between trading countries.

Potential impact

Failure to maintain compliance with applicable requirements could result in the loss of substantial business streams (and possible damages claims) and opportunities for future business.

A change in requirements could entail substantial expenditure which may not be recoverable (either fully or at all) under customer contracts.

Changing international circumstances could result in the rise of trade protectionism and reduce the Group's access to non-UK markets.

Mitigation

We seek to maintain a clear understanding of ongoing regulatory requirements and to maintain good working relationships with regulators.

We have suitably qualified and experienced employees and/or expert external advisors to advise and assist on regulatory compliance.

We have management systems involving competent personnel with clear accountabilities for operational regulatory compliance.

However, during the year under review, we have restructured our EU Aviation business in order to take account of the EU requirement that all European air operators must be majority-owned and controlled by European Economic Area (EEA) nationals. Under Regulation (EC) No. 1008/2008 (the Regulation), no undertaking may carry passengers, mail and/or cargo for remuneration and/or hire unless it has an operating licence from an EU aviation authority. One of the terms of such a licence is that the relevant undertaking must be majority-owned and majority-controlled by EEA nationals. Our Aviation sector currently holds eight such operating licences, which cover certain of the Aviation sector's operations in those territories. If the UK were to leave the EU, the Company, depending on the terms of any exit, may no longer be considered as an EEA national and this could mean that the EU aviation authorities may revoke operating licences, which would have a material adverse effect on the business, financial condition and operations of the Group. In order to mitigate this risk, the operations of those Babcock companies which hold an EU operating licence have been reorganised to separate those parts of their business which need to be conducted by a licensed undertaking from those parts which do not. The companies holding the licences were, once reorganised, transferred to a new sub-group, parented by an EU based holding company. Subsequently, an EU investor subscribed for 50.2% of the voting shares in the EU holding company. The Board believes that this current structure satisfies the nationality requirements of the Regulation. However, as the ultimate decision to grant or revoke a licence rests with the aviation authorities, there can be no guarantee that this will prove to be the case.

Health, safety and environmental

Some of our operations entail the potential risk of significant harm to people, property or the environment.

Risk description

Many of our businesses (for example, our nuclear operations) involve working in potentially hazardous operations or environments, which need to be properly managed and controlled to minimise the risk of injury or damage.

Some, for example, our aerial emergency services operations, involve an inherent degree of risk that is compounded by the nature of the services provided (firefighting, search and rescue, air ambulance and emergency services and offshore oil and gas crew change services) or the environments in which they operate (low-altitude flying in adverse weather, terrain or operational conditions).

Potential impact

Serious accidents can have a major impact on the lives of those directly involved and on their families, friends, colleagues and community, as can serious environmental incidents.

To the extent that we have caused or contributed to an incident as a result of failings on our part, or because as a matter of law we would be strictly liable without fault, the Group could be exposed to substantial damages claims, not all of which exposure may be insured against, and also to criminal proceedings which could result in substantial penalties.

Such incidents (which may have a high public profile given the nature of our operations) may also seriously and adversely affect the reputation of the Group or its brand (whether that would be justified or not), which could lead to a significant loss of business or future business opportunities.

Mitigation

Health, safety and environmental performance receives close and continuous attention and oversight from the senior management team.

We have specific health, safety and environmental governance structures in place and extensive and ongoing education and training programmes for staff.

The Board receives half-yearly reviews of health and safety and environmental performance and the management reports tabled at each of its meetings also address health, safety and environmental issues on an ongoing basis.

We believe we have appropriate insurance cover against civil liability exposures.

Nuclear risks: we believe, having regard to the statutory regime for nuclear liability in the UK, the terms on which we do nuclear engineering business and the terms of indemnities given to us by the UK Nuclear Decommissioning Authority and the UK MOD in respect of the nuclear site licensee companies in which we are interested, that the Group would have adequate protection against risk of liability for injury or damage caused by nuclear contamination or incidents, but a reputational risk as a result of any serious incident would remain.

People

Our business delivery and future growth depend on our ability adequately and successfully to plan for management succession and for our continuing and future need to recruit, develop and retain experienced senior managers, business development teams and highly skilled employees (such as suitably qualified and experienced engineers, technicians, pilots and other specialist skills groups).

Risk description

Competition for the skilled and experienced personnel we need is intense and they are likely to remain in limited supply for the foreseeable future. This poses risks in both recruiting and retaining such staff.

Potential impact

Losing experienced senior managers for any reason without plans for their replacement could have a material adverse effect on the prospects for, or performance of, the Group and the delivery of our strategy.

If we have insufficient experienced business development or bidding personnel, this could impair our ability to achieve strategic aims and financial targets or to pursue business in new areas.

If we have insufficient qualified and experienced employees, this could impair our service delivery to customers or our ability to pursue new business, with consequent risks to our financial results, growth, strategy and reputation and the risk of contract claims.

The cost of recruiting or retaining the suitably qualified and experienced employees we need might increase significantly depending on market conditions, and this could impact our contract profitability.

Mitigation

We give a high priority and devote significant resources to recruiting skilled professionals, training and development, succession planning and talent management.

The Board, the Nominations Committee and the Group Executive Committee regularly receive reports on and/or discuss these matters.

Apprentice and graduate recruitment programmes are run in all sectors.

Further information about this subject and how we address it is on pages 59 to 61 of this Annual Report.

Pensions

The Group has significant defined benefit pension schemes. These provide for a specified level of pension benefits to scheme members, the cost of which is met from both member and employer contributions paid into pension scheme funds and the investment returns made in those funds over time.

Risk description

The level of our contributions is based on various assumptions, which are subject to change, such as life expectancy of members, investment returns, inflation, regulatory environment, etc. Based on the assumptions used at any time, there is always a risk of a significant shortfall in the schemes' assets below the calculated cost of the pension obligations.

When accounting for our defined benefit schemes, we have to use corporate bond-related discount rates to value the pension liabilities. Variations in bond yields and inflationary expectations can materially affect the pensions charge in our income statement from year to year as well as the value of the net difference between the pension assets and liabilities shown on our balance sheet.

Potential impact

Should the assets in the pension schemes be judged insufficient to meet pension liabilities, we may be required to make increased contributions and/or lump sum cash payments into the schemes. This may reduce the cash available to meet the Group's other obligations or business needs, and may restrict the future growth of the business.

Accounting standards for pension liabilities can lead to significant accounting volatility from year to year due to the need to take account of macro-economic circumstances beyond the control of the Company.

There is a risk that future accounting, regulatory and legislative changes may also adversely impact pension valuations, both accounting and funding and, hence, costs and cash for the Group.

Mitigation

Continuous strategic monitoring and evaluation is undertaken by Group senior management of the assets and liabilities of the pension scheme and, as appropriate, the execution of mitigation opportunities.

The Company and the schemes' trustees have agreed a long-term investment strategy and risk framework intended to reduce the potential impact of the schemes' exposure to changes in inflation and interest rates.

Longevity swaps have been used to limit the potential impact of the schemes' exposure to increasing life expectancy.

IT and security

Our ability to deliver secure IT and other information assurance systems to maintain the confidentiality of sensitive information is a key factor for our customers.

The Group is rolling out a new Enterprise Resource Planning (ERP) application for our 'back office' operations which also provides some front end functionality.

Risk description

Despite controls designed to protect such information, there can be no guarantee that security measures will be sufficient to prevent all risk of security breaches or cyber-attacks being successful in their attempts to penetrate our network security and misappropriate confidential information. The risk of loss of information or data by other means is also a risk that cannot be entirely eliminated.

Installing major new IT systems carries the risk of key system failures and disruption.

Potential impact

A breach or compromise of IT system security or physical security at a physical site could lead to loss of reputation, loss of business advantage, disruptions in business operations and inability to meet contractual obligations. This could have an adverse effect on the Group's ability to win future contracts and, consequently, on our results of operations and overall financial condition.

Failure adequately to plan and resource the implementation of the new ERP systems or difficulties experienced in doing so could cause both trading and financial reporting difficulties that could be material.

Mitigation

We have made and will continue to make significant investment in enhancing IT security and security awareness generally.

We have formal security and information assurance governance structures in place to oversee and manage cyber-security and similar risks.

The Board receives reports at least quarterly on security and information assurance matters.

The ERP implementation project is overseen and closely monitored by steering and working groups, is regularly reported on to the Group Executive Committee and will be implemented in a phased approach (with parallel running of old and new systems for a period) to what we believe is a realistic timetable.

Currency exchange rates

As we expand outside the UK, our financial results are increasingly exposed to the impact of currency exchange rates.

Risk description

We prepare our consolidated results in Sterling and translate the value of assets, liabilities and turnover reported or accounted for in non-Sterling currencies.

Exchange rate movements can therefore affect the Sterling financial statements and results of the Group.

Expenses or commitments may be incurred in a currency that is different from the related turnover or income needed to discharge them.

Non-Sterling currencies to which we are currently most exposed are the Euro, US Dollar, South African Rand and, increasingly, Australian Dollar, Canadian Dollar, Norwegian Krone, Omani Rial and Swedish Krona.

Potential impact

If the currencies in which our non-UK business is conducted are weak or weaken against the value of Sterling, this will adversely affect our reported results and the value of any dividend income received by the Company from non-UK operations. If the cost of an operation or a contractual commitment is denominated or incurred in a currency different from the currency of the income received from that operation or that is being relied on to discharge that commitment, movements in exchange rates can reduce the profitability of the operation and increase the effective cost of discharging the commitment.

Mitigation

We seek to mitigate exposure to movements in exchange rates in respect of material foreign currency denominated transactions (for example, through use of derivative instruments). However, we do not use derivatives to hedge against the currency effect of translating our financial statements or our net assets and income of non-UK subsidiaries and long-term equity accounted investments. We maintain some foreign currency borrowings to limit, in part, the net foreign currency exposure.

Acquisitions

The Group has grown and expects to continue to grow by making acquisitions as well as organically.

Risk description

The financial benefits of acquisitions may not be realised as quickly and as efficiently as expected.

Potential impact

Failure to realise the anticipated benefits of an acquisition, or delay or higher than expected costs in so doing, could adversely affect the strategic development, business, financial condition, results of operations or prospects of the Group.

The diversion of management attention to unexpected difficulties encountered with acquisitions could adversely affect the Group's business.

Post-acquisition performance of the acquired business may not meet the financial performance expected at the time the acquisition terms were agreed and could fail to justify the price paid, which could adversely affect the Group's future results and financial position.

Mitigation

Full financial and other due diligence is conducted as far as may reasonably be achievable in the context of each acquisition and a detailed business case, with forward looking projections, is submitted to the Board in respect of each acquisition. Integration risk is considered at an early stage as part of the review of acquisition opportunities and detailed integration planning takes place before completion of the acquisition.

Viability statement

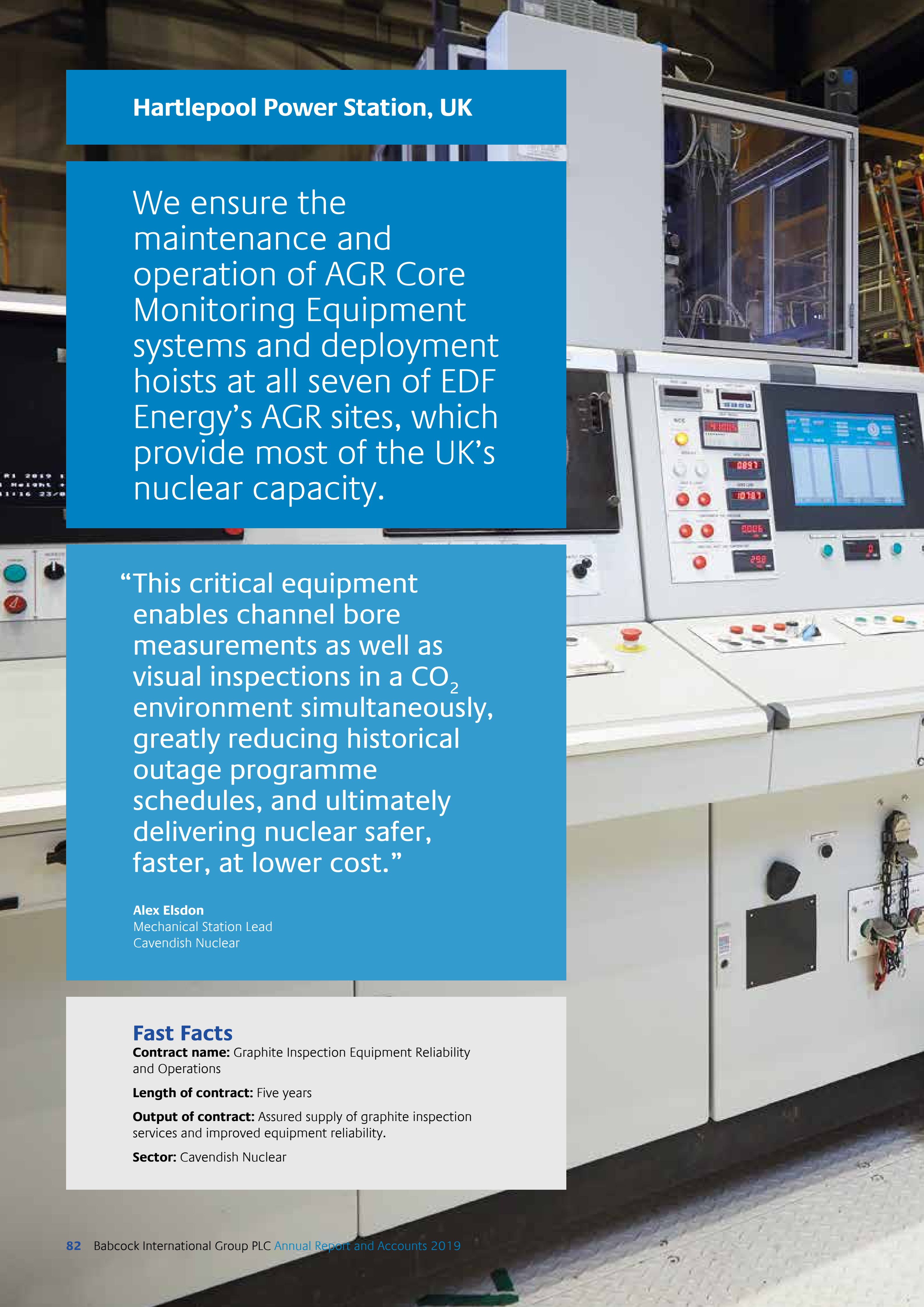
The purpose of the viability assessment is to consider the question of solvency and liquidity over a longer period than the going concern assessment. Consistent with previous years, the Directors have assessed the Company's viability over a three-year period to March 2022. The Directors elected to make their assessment on this basis as it is the period of the Group's budget and forecasting review process, which the Directors believe gives the appropriate level of visibility for them to make their assessment, although the degree of certainty reduces over this longer period.

In considering the Company's long-term prospects over the assessment period to March 2022, the Directors considered the Company's business model as set out on pages 8 to 9, including, in particular, the core strengths of the Company. The Directors assessed the Company's business model and strategy in light of the principal strategic, financial and operational risks, including the principal risks listed on pages 73 to 81, the Group's solvency and liquidity risks that were identified within the Group's risk management framework in the context of the controls and mitigating matters described on pages 70 to 72.

In considering the Company's principal risks, the Directors assessed the robustness of the Company's risk management framework in identifying the risks, their mitigation and the extent to which monitoring of the effectiveness of the mitigation measures was in place.

Having assessed the risks facing the Company, the Directors considered the Group's budget, including the projected cash generation and the projected reduction in net debt. The Directors took into account the Group's committed facilities and the availability and continued access to debt markets, and expects to be able to refinance at acceptable rates. The Directors then considered certain scenarios, such as the Company being unable to access the debt markets to renew term debt facilities, a change in UK Government policy, the loss of a significant contract, and a significant increase in interest rates, coupled with a significant devaluation of Sterling, to assess whether there were any scenarios that were plausible, the potential impact of which, taking account of the Company's controls and mitigating actions, would threaten the ability of the Group to meet its liabilities over the three-year period.

The Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all their liabilities as they fall due up to March 2022.



Hartlepool Power Station, UK

We ensure the maintenance and operation of AGR Core Monitoring Equipment systems and deployment hoists at all seven of EDF Energy's AGR sites, which provide most of the UK's nuclear capacity.

"This critical equipment enables channel bore measurements as well as visual inspections in a CO_2 environment simultaneously, greatly reducing historical outage programme schedules, and ultimately delivering nuclear safer, faster, at lower cost."

Alex Elsdon
Mechanical Station Lead
Cavendish Nuclear

Fast Facts

Contract name: Graphite Inspection Equipment Reliability and Operations

Length of contract: Five years

Output of contract: Assured supply of graphite inspection services and improved equipment reliability.

Sector: Cavendish Nuclear


GCIE Hoist 9
700 KG

Chairman's introduction

Mike Turner CBE, Chairman

The Board is committed to working in an effective, transparent and ethical manner so that it can set and implement strategy in a way it believes will benefit Shareholders by promoting and maintaining the long-term success of the Company while having regard to other stakeholders.

Introduction

As I have said in my Chairman's review, this is my last year as Chairman of Babcock. I am convinced that part of the extraordinary growth of the Company over the time that I have been Chairman is due to the Company's commitment to corporate governance and doing business in an effective, transparent and ethical manner. I believe that this will be as true in the future as in the past.

The Board welcomed the introduction of the new UK Corporate Governance Code by the Financial Reporting Council in July 2018 (the revised Code) and believes that its approach will provide a constructive guide to good governance in the UK.

Compliance with the UK Corporate Governance Code

This year the Company is reporting under the UK Corporate Governance Code published in June 2016 (the Code). The Code contains broad principles and specific provisions which set out standards of good governance practice in relation to leadership, effectiveness, remuneration, accountability and relations with Shareholders. The Board considers that the Company complied with all the provisions of the Code throughout the year to 31 March 2019. We are satisfied as a Board that all our Non-Executive Directors are independent for UK Corporate Governance Code purposes and have the necessary time to devote to their duties. As it did last year, the Board, in particular, considered the independence of Sir David Omand, who joined the Board in 2009. The Board remains satisfied that Sir David continues to be independent. The Board also noted that Ian Duncan, our Chair of the Audit and Risk Committee, will have served nine years in November 2019. In its discussions, the Nominations Committee was keen to maintain continuity during the handover to a new Chair. However, it is not expected that either will wish to seek reappointment at the Company's 2020 AGM. The required governance and regulatory assurances are provided throughout this Governance statement and in some cases in other parts of the Annual Report. The Additional statutory information section on page 133 provides further cross references to where in this Annual Report disclosures under the Disclosure and Transparency Rules and Listing Rules can be found.

Company values

A key role of the Board is to reinforce the values of the Company. The values of the Company are clearly set out in our Code of Business Conduct and require us as a company, amongst other things, to respect our fellow employees, to ensure the safety of each other at work, to minimise our impact on the environment, and to abide by our ethics policy in our business dealings. The Board seeks to ensure that these values are embedded within all parts of the Company's business, by ensuring that our ethics policy is available to all on our website and appropriate training is given to our employees as to the standards that we expect from them under the policy. As described on page 98, the Audit and Risk Committee reviews and monitors all reports to our whistleblowing line, which encourages all employees to report any breach of our Code of Conduct or our ethics policy.

Stakeholders

The revised Code emphasises the requirement for Directors to consider their statutory duty to the Company's many stakeholders. As a Board, we understand that stakeholder engagement is vital to building a sustainable business and that stakeholders have an interest in how we interact with them. The list below identifies some of our stakeholders and how we, as a Board and a Company, engage with them:

- Customers – a key focus for the Company is that we are "trusted to deliver" by our customers. The Company engages with its customers at all levels from the shop floor, as we deliver our services alongside our customer, to the Board. In respect of the Board, its engagement is mainly through the Executive Directors, but I also meet with our principal customer. This year, the Board was particularly pleased that the Company formalised further its ongoing relationship with the UK MOD by signing a "Joint Ways of Working Charter" as part of the UK Government/MOD Strategic Partner Programme/Strategic Supplier Management Programme. For more detail, please see page 24.
- Investors – the support of our Shareholders is vital to the long-term performance of the Company. The Board works to ensure that our investors and the wider investment community understand our strategy and our performance. The Executive Directors meet regularly with our investors as described on page 132. The Board also receives a regular report from the Head of Investor Relations, which details his engagement with investors, together with their feedback. This year, there will also be a capital markets day on 5 June, more detail about which can be found on page 7.
- Employees – we have spoken about our engagement with our workforce and the efforts we make to maintain an open dialogue with our workforce on page 59. In order to meet the guidance in the revised Code concerning our engagement with the workforce, we host the Babcock International Group Employee Forum. The Forum meets twice a year and is attended by representatives from across our European business operations. Senior management attend the Forum and update it about developments in the management of the Group. In addition, the remuneration policy for Executive Directors is presented to the Forum and any feedback from the Forum is taken back to the Remuneration Committee for its consideration.
- Business partners – our partners, both in our external supply chains and in our joint ventures, are an important part of our performance. We engage with our joint venture partners at multiple levels – working alongside them in the joint ventures themselves and also at a more general relationship level. With our supply chain, we are always looking to deliver the optimal solution for our customers which means working closely with our suppliers, both at a central level and at a contract level. More information about our supply chain can be found on page 56.
- Communities – where we have major operations, such as at Devonport, Faslane or Rosyth, we are often one of the largest employers in the local area and, therefore, we are aware of the impact that we have on those communities. We aim to build positive relationships with those communities and support local groups that we believe are relevant to our operations.
- Governing bodies and regulators – we manage complex assets in highly regulated environments. This means that we must maintain positive and constructive relationships with a number of regulators across the globe. These relationships are usually held at the sector or contract level. We aim to keep the dialogue between our business and the relevant regulators as open as possible.

Mike Turner CBE
Chairman

Creating the right culture through our governance framework

Babcock's culture is defined through 'being babcock' and our Code of Conduct. Together, these set out what our Company stands for, what we expect from our workforce and how we expect our business to deliver our strategy.

The Board recognises that strong governance underpins a healthy culture and it is important that the Board leads by example, setting the tone from the top and championing the behaviours we expect to see.

Board

The Board of Directors of Babcock International Group PLC (the Board) is collectively responsible to the Company's Shareholders for the long-term success of the Company. This responsibility includes matters of strategy, performance, resources, standards of conduct and accountability. The Board also has ultimate responsibility for corporate governance, which it discharges either directly or through its Committees, as well as the structures described in this Governance statement.

Chairman

The Chairman is responsible for the leadership and overall effectiveness of the Board. In particular, his role is to:

- With the Chief Executive, demonstrate ethical leadership and promote the highest standards of integrity throughout the business
- Ensure effective operation of the Board, and its Committees
- Set the agenda, style and tone of Board discussions in order to promote constructive debate and effective decision-making
- Foster effective working relationships between the Executive and Non-Executive Directors, support the Chief Executive in his development of strategy and, more broadly, support and advise the Chief Executive
- Ensure effective communication with Shareholders and other key stakeholders and make the Board aware of their views.

Executive

Responsible for implementing the strategy, led by the Chief Executive.

Chief Executive

The Chief Executive is responsible for the day to day leadership of the business. In particular, his role is to:

- Develop strategic proposals for recommendation to the Board and implement the agreed strategies
- Develop an organisational structure, establishing processes and systems to ensure that the Company has the capabilities and resources required to achieve its plans
- Be responsible to the Board for the performance of the business consistent with agreed plans, strategies and policies
- Oversee the application of Group policies and governance procedures
- Develop and promote effective communication with Shareholders and other key stakeholders.

Senior Independent Director

Sir David Omand is currently and has throughout the year been the Senior Independent Director. Shareholders can bring matters to his attention, if they have concerns, which have not been resolved through the normal channels of Chairman, Chief Executive or Group Finance Director, or if these channels are not deemed appropriate. The Chairman looks to the Senior Independent Director as a sounding board and he is available as an intermediary between the other Directors and the Chairman. The Senior Independent Director is also responsible for leading the Non-Executive Directors in the annual performance evaluation of the Chairman. The specific role of the Senior Independent Director has been set out in writing and approved by the Board.

Non-Executive Directors

The Non-Executive Directors bring external perspectives and insight to the deliberations of the Board and its Committees, providing a range of knowledge and business or other experience from different sectors and undertakings (see their biographies on pages 88 to 89). They play an important role in the formulation and progression of the Board's agreed strategy, and review and monitor the performance of the executive management in the implementation of this strategy.

Audit and Risk Committee

Responsible for overseeing the Company's systems for internal financial control, risk management and financial reporting.

Remuneration Committee

Oversees the remuneration arrangements for Babcock's Directors and senior employees across all sectors. The Committee is keenly conscious of the importance of having in place a fair remuneration structure, one that strikes a balance between rewarding employees' hard work and Shareholders' interests.

Nominations Committee

Refreshing the Board and succession planning are issues which the Committee, and the Board as a whole, see as important aspects of its governance of the Company.

Group Finance Committee

Approves borrowing, guarantees, treasury and related matters within its terms of reference delegated by the Board. Comprises any two Directors, one of whom must be the Group Finance Director.

Group Executive Committee

The Group Executive Committee reviews and discusses all matters of material significance to the Group's management, operational and financial performance as well as strategic development. It is not a formal Board Committee but the minutes of its meetings are circulated to Board members. For membership of the Committee see page 90.

Steering Groups

Group Security Committee: chaired by the Group Finance Director and made up of senior functional and operational managers with responsibility for security and information assurance at Group and operational level. See page 71.

Diversity Steering Group: coordinates the implementation of our equality and diversity policy. See page 60.

Corporate Safety Steering Group: ensures the delivery of Group policy and initiatives relating to all matters relevant to the health and safety of the Group's employees and any other persons affected by the Group's undertakings. See pages 62 to 64.

Energy/Environmental Working Group: responsible for developing and sharing best practice for cost effective energy and environmental control and for developing strategy for meeting energy and environmental targets. See page 65.

Sector Management Boards

Each of our four business sectors have their own management boards responsible for: setting sector strategy and objectives; ensuring adequate financial and human resources to achieve those objectives; reviewing sector performance; and ensuring the sector's obligations to Shareholders and other stakeholders are understood and met.

Board of Directors

Mike Turner CBE
Chairman

Appointed: June 2008 as a Non-Executive Director and November 2008 as Chairman

Tenure: 11 years

Nationality: British

Experience: Mike brings extensive aerospace and defence industry experience.

External appointments: Mike is a member of the UK Government's Apprenticeship Ambassadors Network.

Previous roles: He was a Non-Executive Director of Barclays PLC until 2 May 2019 and formerly Chairman of GKN PLC and the UK Defence Industries Council (DIC), Chief Executive of BAE Systems PLC and a Non-Executive Director of Lazard Limited.

Qualifications: Whilst working for Hawker Siddeley Aviation, as an undergraduate Commercial Apprentice, Mike gained a BA Honours degree from Manchester Metropolitan University. Mike has honorary degrees from Manchester Metropolitan, Cranfield and Loughborough universities.

Ruth Cairnie
Independent Non-Executive Director

Appointed: April 2019

Tenure: One month

Nationality: British

Experience: Ruth brings extensive experience of the engineering sector gained from a 37-year international career spanning senior functional and line roles at Royal Dutch Shell plc, with experience advising government departments on strategic development and capability building.

External appointments: Ruth is currently the Senior Independent Director of Associated British Foods plc and a Non-Executive Director of Rolls-Royce Holdings plc and ContourGlobal plc. She is the Chair of POWERful Women, an initiative to advance gender diversity within the energy sector. Ruth is also a trustee of Windsor Leadership and a member of the finance committee of the University of Cambridge.

Qualifications: Ruth is a Master of Advance Studies of Mathematics from the University of Cambridge.

Sir David Omand GCB
Senior Independent Director

Appointed: April 2009 and Senior Independent Director January 2012

Tenure: 10 years

Nationality: British

Experience: Sir David brings extensive UK intelligence and change management experience.

External appointments: Sir David is a visiting professor in the Department of War Studies, King's College London, and PSIA Sciences Po in Paris, where he teaches intelligence studies. He is a senior advisor to Paladin Capital Group LLP, investing in the cyber security sector.

Previous roles: He served in various senior roles in the UK Government service, including as UK Government Security and Intelligence Coordinator, Permanent Secretary of the Home Office, Director of GCHQ (the UK Signals Intelligence and Information Assurance Agency) and Deputy Under-Secretary of State for Policy in the Ministry of Defence.

Qualifications: Sir David holds a degree in Economics from Cambridge University, has an honorary Doctorate from Birmingham University and he recently completed a degree in Mathematics and Theoretical Physics with the Open University.

Prof. Victoire de Margerie
Independent Non-Executive Director

Appointed: February 2016

Tenure: 3 years

Nationality: French

Experience: Victoire brings strong international strategic and commercial experience.

External appointments: Victoire is the Executive Chairman of Rondol (France), a start up developing micro machinery for advanced industry applications. She is also a Non-Executive Director of Eurazeo S.A. (France) and Arkema (France).

Previous roles: She was a Non-Executive Director of Banque Transatlantique, Italcementi S.p.A (Italy), Morgan Advanced Materials PLC (UK), Norsk Hydro ASA (Norway) and Outokumpu OyJ (Finland). During her earlier executive career, Victoire held senior management positions in France, Germany and the USA, with Atochem, Carnaud MetalBox and Pechiney.

Qualifications: Victoire holds a PhD in Strategic Management from Université Panthéon-Assas and a Master in Business Administration from HEC Paris.

Ian Duncan
Independent Non-Executive Director

Appointed: November 2010

Tenure: 8 years

Nationality: British

Experience: Ian brings extensive financial and change management experience.

External appointments: Ian is currently the Senior Independent Director of Bodycote PLC, as well as being the Chairman of its Audit Committee. He is also a Non-Executive Director and Audit Committee Chair of SIG PLC.

Previous roles: He is a former Group Finance Director of Royal Mail Holdings PLC and has also formerly been the Corporate Finance Director at British Nuclear Fuels, the Chief Financial Officer and Senior Vice President at Westinghouse Electric Company LLC in Pennsylvania, USA, and a Non-Executive Director and the Chairman of the Audit Committee of Fiberweb PLC, Mouchel Group and WANdisco PLC.

Qualifications: Ian is a Chartered Accountant and holds an MA from Oxford University.

Lucy Dimes
Independent Non-Executive Director

Appointed: April 2018

Tenure: 1 year

Nationality: British

Experience: Lucy brings experience in industries at the forefront of growth and technology-based innovation and an understanding of complex outsourcing and long-term global strategic partnerships.

Previous roles: She was a Non-Executive Director of Berendsen PLC and a member of its Audit, Remuneration and Nominations Committees. In her executive career, Lucy was Chief Executive Officer of UBM EMEA until September 2018 and was previously Chief Executive Officer, UK & Ireland, of Fujitsu, the Chief Operating Officer and Executive Director of Equiniti Group, Chief Executive Officer UK & Ireland of Alcatel Lucent (now Nokia) and had a 19-year career at BT, where she held various senior roles, including Managing Director of Group and Openreach Service Operations.

Qualifications: Lucy holds an MBA from London Business School and a First Class Honours Degree in Business Studies from Manchester Metropolitan University.

E Executive Committee
A Audit and Risk Committee
R Remuneration Committee
N Nominations Committee
Board Committee Chairperson

Myles Lee
Independent Non-Executive Director

Appointed: April 2015

Tenure: 4 years

Nationality: Irish

Experience: Myles brings extensive global experience in management, M&A and finance.

External appointments: Myles is a Non-Executive Director of UDG Healthcare PLC and Ingersoll Rand PLC, which is listed on the New York Stock Exchange.

Previous roles: He was Chief Executive Officer (from 2009 to 2013) and Finance Director (from 2003 to 2008) of CRH PLC.

Qualifications: Myles holds a degree in Civil Engineering and is a Fellow of the Institute of Chartered Accountants in Ireland.

Kjersti Wiklund
Independent Non-Executive Director

Appointed: April 2018

Tenure: 1 year

Nationality: Norwegian

Experience: Kjersti brings broad technology and business experience gained across Europe, Eastern Europe/Russia and Asia.

External appointments: Kjersti is a Non-Executive Director of Laird PLC and Spectris PLC.

Previous roles: She has held senior roles, including Director, Group Technology Operations of Vodafone, and Chief Operating Officer of VimpelCom Russia, Deputy Chief Executive Officer and Chief Technology Officer of Kyivstar in Ukraine, Executive Vice President and Chief Technology Officer of Digi Telecommunications in Malaysia, and Executive Vice President and Chief Information Officer at Telenor in Norway. Kjersti was also a Non-Executive Director of Cxense ASA and Fast Search & Transfer ASA in Norway and Telescience Inc in the US.

Qualifications: Kjersti holds a Master of Business Management from BI Norwegian Business School and an MSc in Electronical Engineering from Chalmers University of Technology, Sweden.

Jeff Randall
Independent Non-Executive Director

Appointed: April 2014

Tenure: 5 years

Nationality: British

Experience: Jeff brings extensive experience of the media, particularly in politics, business and finance.

External appointments: Jeff is an Independent Non Executive (INE) at BDO, the accounting and business-services firm, and a Visiting Fellow at Oxford University's Saïd Business School.

Previous roles: He worked at Sky News and was editor-at-large of the Daily Telegraph. Jeff was business editor of the BBC, the launch editor of Sunday Business and, for six years, City Editor of the Sunday Times. He is a former director of Times Newspapers.

Qualifications: Jeff holds a degree in Economics from the University of Nottingham, where he is an Honorary Professor in the School of Economics.

Archie Bethel CBE
Chief Executive

Appointed: Board Director May 2010 and Chief Executive September 2016

Tenure: 9 years

Nationality: British

Experience: Archie was Chief Executive, Marine and Technology division, from June 2007, having joined the Group in January 2004. He was appointed Chief Executive on 1 September 2016.

He is President of the Society of Maritime Industries and is a Lay Member of the Court of the University of Strathclyde.

Previous roles: He held various senior roles working for Vetco Gray, Lanarkshire Development Agency and Motherwell Bridge.

Qualifications: Archie is a Chartered Engineer and a Fellow of the Royal Academy of Engineering.

Franco Martinelli
Group Finance Director

Appointed: Board Director August 2014

Tenure: 5 years

Nationality: British

Experience: Franco served 12 years with the Group as Group Financial Controller, prior to his appointment as Group Finance Director. Before joining Babcock, Franco worked across the support services and engineering sector.

Previous roles: He was Group Financial Controller at Powell Duffryn PLC and before that he held divisional and group roles at Courtaulds, James Capel and BP.

Qualifications: Franco is a Chartered Accountant and has a degree in Physics from Exeter University.

John Davies
Chief Executive, Land

Appointed: Board Director January 2013

Tenure: 6 years

Nationality: British

Experience: John joined Babcock in 2010, following the acquisition of VT Group, and was appointed Divisional Chief Executive of the then Defence and Security division. He joined the Group Board on 1 January 2013. In November 2015 he moved to lead the Support Services division and is now sector CEO, Land.

Previous roles: He worked extensively across the support services and defence sectors within Bombardier, BAE Systems and VT Group.

Qualifications: John is a lawyer by background and a graduate of the University of Manchester and Chester Law College.

Executive Committee

Archie Bethel CBE
Chief Executive

Franco Martinelli
Group Finance Director

John Davies
Chief Executive, Land

B Board

Biographies for Archie Bethel CBE, Franco Martinelli and John Davies are on page 89.

Roger Hardy
Chief Executive, Aviation

John Howie MBE
Chief Executive, Marine

Simon Bowen
Chief Executive, Nuclear

Jon Hall
Managing Director, Technology

Kevin Goodman
Group Director of Organisation and Development

Jack Borrett
Group Company Secretary and General Counsel

Kate Hill
Group Director of Communications

Roger Hardy

Appointed: Executive Committee November 2015

Experience: Roger started in Devonport 30 years ago and joined Babcock in 2007 following Babcock's acquisition of Devonport, when he was appointed Managing Director of Babcock's Submarine Business. In 2010, Roger took up a new role as Managing Director for Cavendish Nuclear, Babcock's civil nuclear business, before moving in 2015 to be Chief Executive of the then Defence and Security division. In April 2017 Roger was appointed to sector Chief Executive, Aviation, leading Babcock's military and civil aviation businesses.

John Howie

Appointed: Executive Committee April 2016

Experience: John joined Babcock in April 2001. He has been sector CEO for Marine since 2016 and has responsibility for Babcock's warship operations as well as the commercial and international marine operations. John is a Visiting Professor at Strathclyde University, a Director of the Society of Maritime Industries, a member of the Glasgow Economic Leadership Board and Acting Chair of Maritime Research & Innovation UK.

Simon Bowen

Appointed: Executive Committee April 2017

Experience: Simon is responsible for our nuclear capability in Defence, including Babcock's submarine operations, and Civil. He joined Babcock in December 2015 as Managing Director of Cavendish Nuclear. Simon was previously the Managing Director of Urenco UK, which he joined in 2010. Prior to this, Simon worked at BP, undertaking a variety of senior roles, culminating in his appointment as Vice President of Manufacturing and Procurement for Petrochemicals. In the early part of his career Simon was an Engineering Officer in the Royal Navy on operating submarines.

Jon Hall

Appointed: Executive Committee April 2017

Experience: Jon joined Babcock in 2008 as Managing Director, Technology. Prior to that, Jon held senior roles within the Weir Group, covering defence, nuclear and commercial sectors and, before that, worked in the power and process sectors with Balfour Beatty International and Monenco Inc. Jon is a Chartered Engineer and Fellow of the Institution of Mechanical Engineers, and holds a PhD from Bath University for research work in technology.

Kevin Goodman

Appointed: Executive Committee July 2010

Experience: Kevin joined Babcock in 2001. He was a Director of both our Defence and Security and Marine and Technology divisions prior to his current Group appointment. In his present role, he is responsible for remuneration, talent management, executive development and diversity. He is a trustee of the Babcock International Group pension scheme.

Jack Borrett

Appointed: Executive Committee April 2016

Experience: Jack joined Babcock in 2004 and from 2010 was Deputy Group General Counsel, until his appointment as Group General Counsel and Company Secretary in April 2016. He is Secretary to the Board and to the Remuneration, Audit and Risk, and Nominations Committees and a member of the Executive Committee. Prior to joining Babcock, Jack was a solicitor at law firm, Clifford Chance.

Kate Hill

Appointed: Executive Committee April 2017

Experience: Kate joined Babcock following its acquisition of Avincis, and subsequently was appointed as the Group's Director of Communications.

Prior to that, she was a Partner in the financial PR consultancy Kreab Gavin Anderson, which she joined from Royal Dutch Shell plc. Originally trained as a journalist, Kate has also held a variety of roles managing communications in the rail industry.

Board of Directors

The Board is satisfied that each Director has the necessary time to devote to the effective discharge of their responsibilities and that, between them, the Directors have a blend of skills, experience, knowledge and independence suited to the Company's needs and its continuing development.

The powers of the Directors are set out in the Company's Articles of Association (the Articles), which may be amended by way of a Special Resolution of the members of the Company. The Board may exercise all powers conferred on it by the Articles, in accordance with the Companies Act 2006 and other applicable legislation. The Articles are available for inspection online at www.babcockinternational.com and can also be seen at the Company's registered office.

Board meeting attendance

The Board has at least 10 scheduled full Board meetings each financial year, with two other meetings devoted solely to strategy. The Chairman also meets separately with Non-Executive Directors without Executive Directors or other managers present. Debate and discussion at Board and committee meetings is encouraged to be open, challenging and constructive. Directors regularly receive presentations by senior managers. In the annual Board and Committee evaluation review, no Directors expressed dissatisfaction with the timing or quality of information provided to them.

Attendance at Board meetings

Chairman	
Mike Turner	12 of 12
Executive Directors	
Archie Bethel	12 of 12
Franco Martinelli	12 of 12
John Davies	12 of 12
Non-Executive Directors	
Sir David Omand	12 of 12
Victoire de Margerie*	11 of 12
Ian Duncan	12 of 12
Lucy Dimes	12 of 12
Myles Lee	12 of 12
Kjersti Wiklund*	11 of 12
Jeff Randall	12 of 12

* Victoire de Margerie and Kjersti Wiklund were unable to attend one meeting due to pre-existing business commitments.

Composition of the Board

The composition of the Board during the year, and as it currently stands, is shown below:

Date	Chairman	Executive Directors	Independent Non-Executive Directors
1 April 2018 – 2 April 2019	1	3	7
3 April 2019 – 21 May 2019	1	3	8

During the financial year and up to the date of this report, the only change to the Board was the appointment of Ruth Cairnie on 3 April 2019.

Board matters and delegation

The Board has established a formal schedule of matters specifically reserved for its approval. It has delegated other specific responsibilities to its Committees and these are clearly defined within their terms of reference.

Summary of key Board reserved matters

- Group strategy and resourcing
- Interim and final results announcements and the Annual Report and financial statements
- Dividend policy
- Acquisitions, disposals and other transactions outside delegated limits
- Significant contracts not in the ordinary course of business
- Major changes to the Group's management or control structure
- Changes relating to the Company's capital structure or status as a listed PLC
- Annual budgets
- Major capital expenditure
- Major changes in governance, accounting, tax or treasury policies
- Internal controls and risk management systems (advised by the Audit and Risk Committee)
- Major press releases and Shareholder circulars.

Board Committee terms of reference and other delegated authorities are formalised and reviewed from time to time, usually at least once a year. Key Committee terms of reference are available to view on our website: www.babcockinternational.com.

Key areas of focus during the year

During the year, key areas focused on by the Board included:

Strategy and business development

- Group strategy, with particular reference to the Group's international development, which included two special Board meetings dedicated to strategy
- Business unit strategy updates and presentations
- Financial planning, including budgets and dividend policy
- Business development opportunities and pipeline review
- Succession planning and (through the Remuneration Committee) Executive Directors' remuneration

Risk

- Review (either by itself and/or through the Audit and Risk Committee) of the Company's principal risks to determine the nature, and extent of, the risks the Company is willing to take and to review the management of those risks, including internal controls and risk management
- Assessment of viability, as well as considering the principal risks to the Group's solvency and viability
- Succession planning and talent development
- Consideration of the implications of political developments and outlook
- Cyber-security and information assurance risk management
- Legal updates and litigation reports
- Insurance strategy

In addition to the principal Committees of the Board – the Remuneration Committee, the Audit and Risk Committee and the Nominations Committee – and the Finance Committee operating under its terms of reference, the Board from time to time establishes Committees to deal with specific matters on its behalf. The Board also allows for routine matters, or the implementation of formal steps for matters approved in principle by the Board, to be dealt with by a Board meeting of any two Directors, but these are later ratified by the full Board.

Board effectiveness

The Board and its Committees review their skills, experience, independence and knowledge to enable the discharge of their duties and responsibilities effectively. In order to monitor the Board's effectiveness, the Board conducts an evaluation every year. The evaluation for the financial year ending 31 March 2019 was carried out internally by the Company Secretary. He carried out confidential one on one meetings with each Director and other senior managers. The review considered the balance of skills, experience, independence and knowledge on the Board; its diversity; how the Board, its Committees, the Chairman and individual Directors performed and how they worked together; as well as other factors relevant to effectiveness. The review found that

Shareholder relations

- Annual Report and Accounts, and half-year results
- Annual General Meeting
- Independent investor relations surveys and feedback reports
- Monthly investor relations and Shareholder engagement reports
- Review of analyst reports

Governance

- Annual review of Board, Committee and Director effectiveness
- Health and safety management reports, and annual and half-yearly reviews
- Annual anti-bribery and corruption and risk management update
- Review of terms of reference of Board Committees
- Monthly management reports
- Tax affairs
- Review of delegated authorities
- Potential conflicts of interest of Directors
- Consideration of revisions to the Corporate Governance Code

the feedback from Board members was positive and concluded that the Board was functioning well and effectively. No significant concerns were expressed by Board or Committee members as to the way in which the Board or its Committees functioned, the support given to them, the matters covered at their meetings or how they were dealt with, or as to the contribution of any individual Director. The Board discussed the evaluation at its meeting in March 2019. At the meeting, the Board agreed that it was improving its ways of working and agreed to review how the Board may work more effectively in the coming year. At a private meeting, Sir David Omand, SID, led a review of the Chairman's performance and concluded that the Chairman continued to be effective.

Board induction and development

New Non-Executive Directors receive comprehensive and tailored induction programmes. During the financial year ending 31 March 2019, Lucy Dimes and Kjersti Wiklund visited our main operating sites, both in the UK and in Europe. They have also met with all members of the senior executive team to understand their respective areas of responsibility. In addition, the Company Secretary arranges training and ongoing updates as requested or as required. For example, during the year under review, he updated the Board on the revised UK Corporate Governance Code. Non-Executive Directors may at any time make visits to any Group business and presentations are made to the Board during the year. This year, the Board conducted an in-depth review of our Australia business.

Information and support for the Board

The Chairman, with the assistance of the Company Secretary, ensures appropriate information flows to the Board and its Committees to facilitate their discussions and allow fully informed decisions to be made. Non-Executive Directors receive copies of minutes of meetings of the Group Executive Committee and sector Boards and monthly sector operating reports which also cover health, safety and environmental matters and compliance with the Group's ethical and security standards. The Company Secretary attends all Board meetings and all Directors have access to his advice and, if necessary, to independent professional advice at the Company's expense to assist with the discharge of their responsibilities as Directors.

Election of Directors

The rules relating to the appointment and replacement of Directors are contained within the Articles. The Articles provide that Directors may be appointed by an ordinary resolution of the members or by a resolution of the Directors, provided that, in the latter instance, a Director appointed in that way retires and is submitted for election at the first AGM following their appointment. In compliance with the UK Corporate Governance Code, all existing Directors will be seeking re-election at the 2019 AGM. The names and biographical details of each of the Directors are set out on pages 88 and 89.

Executive Directors are entitled under their service agreements to 12 months' notice of termination of employment from the Company; Non-Executive Directors, including the Chairman, have letters of appointment which can be terminated at will.

Nominations Committee

Mike Turner CBE, Chairman

Committee membership and attendance

Mike Turner (Chairman)	6 of 6
Sir David Omand	6 of 6
Victoire de Margerie*	5 of 6
Ian Duncan	6 of 6
Lucy Dimes	6 of 6
Myles Lee	6 of 6
Kjersti Wiklund*	5 of 6
Jeff Randall	6 of 6

* Victoire de Margerie and Kjersti Wiklund were unable to attend one meeting due to pre-existing business commitments.

Membership of the Committee

The Nominations Committee was during the year, and at the date of this report is, made up entirely of independent Non-Executive Directors, chaired by the Company's Chairman. The Committee sometimes invites Executive Directors to attend meetings of the Committee, if appropriate. Committee membership and its attendance at its meetings in the year are set out above.

No individual participates in discussion or decision-making when the matter under consideration relates to him or her. The Company Secretary is Secretary to the Committee.

In addition to its formal meetings, members of the Committee also met together informally to discuss senior executive succession planning.

Matters within the Committee's remit are also sometimes taken as specific items at full Board meetings, principally consideration of succession planning more widely within the Group and talent identification, management and development.

Responsibilities of the Committee

The Committee is responsible for making recommendations to the Board, within its agreed terms of reference, on appointments to the Board. The terms of reference of the Committee are available on the Company's website.

The Committee also assists the Board in discharging its responsibilities in respect of:

- Regularly reviewing and evaluating the size, structure and composition (including the balance of skills, diversity, knowledge and experience) of the Board and making recommendations to the Board with regard to any changes
- Considering succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company and the skills and expertise needed on the Board in the future
- Reviewing the leadership needs of the Group, both executive and non-executive, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace
- Identifying and making recommendations for the approval of the Board regarding candidates to fill Board vacancies and reviewing the time required from Non-Executive Directors for the performance of their duties to the Company.

Diversity

When considering recommendations for appointment to the Board, the Committee has in mind the strategic plans and the development of the business in both existing and new market sectors and with new, and new types of, customers, both in the UK and internationally, and the need to maintain the Board's credibility in its chosen business areas. The Committee also takes into account as part of its deliberations the Board's policy to foster and encourage greater diversity of gender, outlook, background, perception and experience at Board level.

The Board has a clear objective to see an increasing number of women in senior executive management roles and throughout the workforce as a whole. However, we believe that diversity should not be about firm quotas or solely a gender debate and that instead we should look at a wide-ranging approach.

For this reason the Board has chosen not to set any specific targets but will continue to maintain its practice of embracing diversity in all its forms when compiling a shortlist of suitable candidates and recommending any future Board appointments. Further insight into the work being done to foster female participation in the industries in which we operate is provided in the Strategic report on pages 54 and 60.

Talent and succession

The Committee is mindful of its responsibilities to consider succession planning for the senior executive team and annually reviews the Company's talent pipeline in order to ensure that the Company and the sectors are identifying near and medium term candidates for all the key roles. The Committee also looks to see if those who are identified as candidates are being given the right attention and training to make sure that they are progressing in their careers.

Activities undertaken by the Committee during the year

During the year ended 31 March 2019, the Committee:

- Managed the succession of Ruth Cairnie as Chair designate following Mike Turner's decision to retire from the Board. The Committee asked Sir David Omand, SID, to lead the search, which he did, supported by Ian Duncan and Kjersti Wiklund.
- Considered the continued independence of Sir David Omand and the reappointment of Myles Lee and Victoire de Margerie as Non-Executive Directors.

In the search for the new Chairman, the Committee set the candidate specification and reviewed a number of potential candidates, using the services and advice of Egon Zehnder as search consultants. Egon Zehnder does not have any connection with the Group other than as a senior recruitment consultant. The Committee will continue to focus on ensuring that the Board has the appropriate balance of skills, experience, independence and knowledge of the Company in order to meet the Company's strategic goals.

Mike Turner CBE
Committee Chairman

Audit and Risk Committee

Ian Duncan, Chairman

Committee membership and attendance

Ian Duncan (Chairman)	5 of 5
Sir David Omand	5 of 5
Victoire de Margerie*	4 of 5
Lucy Dimes	5 of 5
Myles Lee	5 of 5
Kjersti Wiklund	5 of 5
Jeff Randall	5 of 5

* Victoire de Margerie was unable to attend one meeting due to a pre-existing business commitment.

I am pleased to present the 2019 report of the Audit and Risk Committee. The report describes how the Committee has carried out its responsibilities during the year.

Membership of the Committee

The Audit and Risk Committee was during the year, and at the date of this report is, made up entirely of independent Non-Executive Directors. Committee membership, as well as attendance at its meetings in the year, is set out above.

Unless otherwise stated, members were members throughout the year. Further details of the backgrounds and qualifications of the members of the Committee can be found on pages 88 and 89. The Group Company Secretary and General Counsel was Secretary to the Committee throughout the year.

The Board is satisfied that Ian Duncan, who has been Chairman of the Committee since July 2011, has recent and relevant financial experience and that the Committee complies with the UK Corporate Governance Code. Ian is a chartered accountant and former Group Finance Director of Royal Mail Holdings PLC. Currently, Ian is the Chairman of the Audit Committee of Bodycote PLC and SIG PLC. He has also formerly been Corporate Finance Director at British Nuclear Fuels PLC, and CFO and Senior Vice President at Westinghouse Electric Company LLC in Pennsylvania, USA.

Role of the Committee

The principal responsibilities of the Audit and Risk Committee are to:

- Monitor the integrity of the full-year and half-year financial statements and any formal announcements relating to the Company's financial performance
- Provide advice on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy
- Review the statement in the Annual Report confirming that the Directors have carried out a robust assessment of the principal and emerging risks facing the Company and how they are being managed or mitigated
- Make recommendations to the Board, for it to put to the Shareholders for their approval in general meeting, in relation to the appointment of the external auditor
- Review and monitor at least once a year the external auditor's independence and objectivity, as well as the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- Approve the engagement of the external auditor to supply non-audit services, in line with policy (see page 100)
- Keep under review the adequacy and effectiveness of the Company's internal financial controls, as well as its internal control and risk management systems
- Monitor and keep under review the effectiveness of the Company's internal audit service
- Report to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken.

The full terms of reference for the Committee can be found on the Company's website.

Who attends Committee meetings?

In addition to the members of the Committee, the Committee, at its discretion, usually invites the Group Chairman, the Chief Executive, the Group Finance Director, the sector Chief Executives and the Group Financial Controller. The Committee is satisfied that having these invited attendees present does not influence or constrain the Committee's discussions or compromise the Committee's independence. Their presence ensures that all Board Directors and the senior management of the Group are directly aware of the Committee's deliberations, how it goes about discharging its responsibilities on behalf of the full Board and any areas of concern or focus for the Committee. It also assists the Committee by allowing direct questioning of executives on matters that the Committee thinks need further challenge, clarification, explanation or justification. Should a situation arise where the presence of any such attendee would be inappropriate or might compromise discussion, the Committee would either not invite the attendee concerned or request that they not attend the relevant part of that meeting.

The Group Risk Manager attended Committee meetings for its discussion of Group risk reports and related items.

During the year to 31 March 2019, Ernst & Young LLP (EY) provided internal audit services to the Company and PricewaterhouseCoopers LLP (PwC) was the Group's external auditor. Both auditors attended the Committee's meetings during the year to 31 March 2019. The Committee Chairman also met PwC and EY in the absence of executive management before every meeting. The auditors are also invited to address the Committee without executives present at least once a year.

The Committee's terms of reference were reviewed during the year to ensure that they are in line with best practice guidelines.

Activities undertaken by the Committee during the year

During the year to 31 March 2019 the Committee met five times. The agenda for each meeting is set by the Committee Chairman in conjunction with the Group Company Secretary and General Counsel and other members of the Committee as appropriate. At these meetings, the following matters and issues were considered:

Financial results

- full-year and half-year financial statements and related results announcements
- reports and reviews from the external auditors
- matters that required the exercise of a significant element of management judgement in relation to the financial statements for the year to 31 March 2019 (see pages 98 and 99)
- review of the assessment that the Company's financial statements are presented on a going concern basis
- the Company's approach to the requirement on the Company to examine the Company's longer-term solvency and viability (please see page 81 for further details).

Fair, balanced and understandable assessment

Advice to the Board on the requirement for a statement from it that the Annual Report and Accounts for the year to 31 March 2019 are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's position, performance, business model and strategy during the relevant period. The Committee satisfies itself that this is so by circulating to Board members draft wording at an early stage with sufficient time and detailed content to allow for an assessment of the content against the reports and accounts provided to the Board and its discussions throughout the relevant period. Before drafts are submitted to the Board, the Group Director of Investor Relations and Group Director of Communications review the content of the Strategic report to ensure consistency with other financial statements made by the Group during the year and that the necessary information is included in the draft. In addition, the Committee asks the Group Financial Controller to prepare a formal written report for the Committee reviewing the relevant draft, its consistency with his knowledge and understanding of matters and the appropriateness of the weighting given to them, and confirming that the draft, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's performance, business model and strategy.

Audit Quality Review

During the year, the Audit Quality Review team of the Financial Reporting Council (FRC) reviewed the work performed by PwC for the audit of the Company for the year ended 31 March 2018. The FRC has provided a copy of their confidential report to the Chairman of the Committee, which has been reviewed and discussed by the Committee and with PwC. Areas of the external audit procedures were identified as requiring improvement and the Committee is satisfied with the responses implemented by PwC for the audit of the Group's financial statements for the year ended 31 March 2019 and the Committee is content that the matters raised do not give it concerns over the future quality, objectivity or independence of the audit.

Correspondence with the FRC

The FRC sent a letter in March to the Company, suggesting areas where the Company might consider making improvements in respect of its Annual Report and Accounts. The Company, under the Committee's oversight, responded to the letter and made changes to its Annual Report and Accounts for the year ending 31 March 2019 in order to address points made by the FRC. The FRC has confirmed that the matter is now closed.

Audit plans

Internal and external audit plans for the year were reviewed and approved.

Internal audit

At each meeting, the Committee receives internal audit reports on findings from internal audit visits to business units, which look at matters including accounting and financial controls, anti-bribery and corruption controls, business continuity, contract performance and contract bidding risks. These include follow-up reports on any matters identified in earlier reports as requiring attention or improvement. The reports contain tracking information to enable the Committee easily to see the control performance of business units over time and how quickly any matters are addressed.

Risk and internal controls

- review of the principal and emerging risks facing the Company and how they are being managed or mitigated
- review of the Group's risk management and internal control systems and consideration of their effectiveness
- regular detailed reports identifying areas of risk at business unit, sector and Group level, assessing and prioritising potential impact, risk mitigation steps in place and the pre and post-mitigation risk levels
- in-depth reviews of selected specific risks. This year, the Committee considered the Company's customer profile risk, in particular, the relationship with the UK Government, the UK's exit from the EU and the Group's joint ventures.

Fraud

Reports covering any suspected incidents of fraud, their investigation and any remedial or preventative action.

Whistleblowing

The Committee monitors the Group whistleblowing policy on behalf of the Board and receives regular reports of calls and emails to the Group's external independent whistleblowing services and how these have been investigated and concluded. The total number of whistleblowing reports in the year to 31 March 2019 was 71 (2018: 66). For further explanation of the whistleblowing procedure please see page 72.

Audit/non-audit fees and auditor independence

Audit and non-audit fees for the external auditor were reviewed by the Committee and considered in relation to their effect on auditor independence. The Committee is satisfied that independence was maintained throughout the year.

IFRS16 – leases

IFRS16 – leases was adopted by the Group on 1 April 2019. The Committee considered the impact of IFRS16 on the future reporting of the Group. The expected impact is set out in note 31 on pages 199 to 200.

Significant issues considered by the Committee in relation to the financial statements

We are required to provide an explanation of the significant issues the Committee considered in relation to the financial statements for the year to 31 March 2019 and how these issues were addressed, having regard to matters communicated to the Committee by the external auditor.

In planning the year end audit, the Committee considered with management and the Company's auditors the key areas of focus for the audit having in mind their significance to the Group's reporting of results and the degree of judgement involved in their evaluation. The significant issues considered in relation to the financial statements for the year ended 31 March 2019 and how the Committee addressed them are set out in the table on the opposite page.

Significant issue	How the Committee addressed it
Contract accounting and revenue recognition	The Committee considered the Group's material contracts. These require a significant degree of management judgement that could materially affect the appropriate accounting treatment for these contracts; these were the subject of discussion and challenge with management to ensure that the Committee was satisfied as to the reasonableness of those judgements.
Cash generating units goodwill assessment	Goodwill is allocated to the Group's cash generating units, Marine, Land, Aviation and Nuclear. The Committee reviewed and challenged management's assessment of the goodwill balance by considering, amongst other matters, management's evaluation of the cash flows resulting from the Group's budget together with the terminal value assessment. After consideration, the Committee was satisfied that the underlying assumptions used in management's evaluation were reasonable and those assumptions left more than sufficient headroom for the Committee to conclude that no impairment was required. Note 11 on page 176 provides information on key assumptions and sensitivity analyses performed.
Exceptional items	The Group recognised exceptional charges of £161m on a pre-tax basis, together with a £10m tax charge relating to our reorganisation of our Aviation sector in order to prepare for the UK's exit from the EU. The exceptional charges related to the reshaping of the Group's Oil and Gas helicopter business, certain exits and disposals, costs associated with the Guaranteed Minimum Pensions Equalisation charge and restructuring across the sectors. The Committee considered all the charges to assess whether their classification as exceptional was appropriate. Additionally, the Committee reviewed the costs associated with the reshaping of the Group's Oil and Gas helicopter business, including the appropriateness of the asset impairment charges and onerous lease provisions. After consideration, the Committee was satisfied with the quantum of exceptional charges and that the treatment of the charges as exceptional was appropriate.
Pensions accounting – the choice of assumptions in the valuation for accounting purposes of the liabilities of the Group's defined benefit schemes	The Committee assessed the particular assumptions proposed by management and their impact on scheme assets and liabilities in the context of assumptions being used in respect of the same factors by other companies and the pensions industry more widely. After consideration, the Committee was satisfied that the assumptions fell within acceptable ranges. See note 25 on pages 193 to 197.
Adoption of IFRS15 – revenue from contracts with customers	The Company had announced in December 2017 that it had completed a detailed review of all material contracts and had concluded that the adoption of IFRS15 would not result in a material change to the timing of revenue or profit recognition on the Group's contracts. The Committee remains satisfied that the standard does not drive any material change to the timing of revenue or profit recognition for the Group.

Internal controls and risk management

The Committee believes that the identification, control, mitigation and reporting of risk is central to the delivery of the Company's strategy. The way that the Company manages risk is set out in the Strategic report on pages 70 to 72, with the principal risks facing the Group described on pages 73 to 81. The Committee has conducted a rigorous and robust review of the ongoing effectiveness of the Company's risk management processes in light of the Code (and the Financial Reporting Council's associated Guidance on Risk Management, Internal Control and Related Financial and Business Reporting). As part of its review, the Committee asked management to review the risk management and reporting arrangements to ensure that the Group continued to meet best practice. After the review, the Committee was satisfied that the detailed bottom up risk identification process, which includes review and challenge by Group senior management, did allow the Committee to identify and evaluate the Company's principal and emerging risks. The Committee approved the development of an assurance map to set out more clearly the sources of assurance in respect of the Group's principal risks. These sources of assurance were measured against a "three lines of defence" model: the first line being management control, policies and procedures, together with management oversight; the second being internal assurance activities, such as the review of the sector risk assessments by Group senior management; and the third being assurance obtained from external sources.

A statement regarding the effectiveness of the internal controls and control processes, including those over financial reporting, can be found on page 138.

Internal audit

The Committee considers that it is still appropriate to have an internal audit service provided by an external advisor, but keeps this under review. In the year to 31 March 2019, the Committee was satisfied with the service provided by EY acting as internal auditor.

External audit

The Committee manages the relationship with the external auditor on behalf of the Board and monitors the auditor's independence and objectivity, along with the effectiveness of the external audit, on an annual basis. Audit fees are re-evaluated periodically.

For the year to 31 March 2019, PwC has been the Group's external auditor, having been reappointed by Shareholders at the AGM on 19 July 2018 on the recommendation of the Board. The Chairman and the Committee regularly assess PwC's effectiveness in the provision of audit services in their meetings with PwC. After each annual audit, there is a rigorous review of PwC's audit services in that audit, examining the level and consistency of expertise and resources, the effectiveness of the audit (including, inter alia, the understanding of our business and reporting processes for subsidiary audit teams), and PwC's independence and leadership. The review includes the provision to PwC, and discussion with it, of detailed feedback from those exposed to the audit process within the Group. The question of PwC's continuing independence in the provision of audit services is considered and discussed with PwC, including the basis upon which that assessment can reasonably be made and supported.

The Company expects to tender the external audit within two years and PwC, having been auditor since 2002, will not be invited to participate in that tender. The Committee confirms that the Group is in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Non-audit fees

The Committee regularly considers the engagement of, and level of fees payable to, the auditor for non-audit work, considering potential conflicts and the possibility of actual or perceived threats to their independence. The Company's policy is to consider whether to place material non-audit services work with the external auditor on a case-by-case basis, based on an assessment of who is best placed to do the work having regard to availability, resources, capability, experience and any conflicts of interest of potential candidate firms for the work. The Committee makes the choice based on what it considers to be in the Company's best interest overall, having regard to potential independence issues if the work is placed with the Company's auditor. Non-audit services offered to the auditor would not include the design or operation of financial information systems, internal audit services, maintenance or preparation of accounting records or financial statements that would be subject to external audit, or work that the Committee considers is reasonably capable of compromising its independence as auditor. Any fee for non-audit work must be approved by the Committee Chairman, subject to the Group Financial Controller being able to approve any single expenditure of £10,000 or less, provided that, in any year, he may not approve more than £50,000 in aggregate. Having considered the non-audit services provided by the auditor during the year ended 31 March 2019, the Committee is satisfied that these services were provided effectively and did not prejudice the objectivity or independence of the auditor.

For the year ended 31 March 2019, the Committee has approved the payment to PwC of fees of £2.5 million for audit services (£0.6 million of which was for the statutory audit of the Company's consolidated financial statements). A breakdown of fees paid to the auditor is set out in note 4 on page 171.

Ian Duncan
Committee Chairman

Report of the Remuneration Committee

Jeff Randall, Committee Chair

Committee membership and attendance

Jeff Randall (Chair)	6 of 6
Sir David Omand	6 of 6
Victoire de Margerie*	5 of 6
Ian Duncan	6 of 6
Lucy Dimes	6 of 6
Myles Lee	6 of 6
Kjersti Wiklund	6 of 6

* Victoire de Margerie was unable to attend one meeting due to a pre-existing business commitment.

Annual Statement of the Remuneration Committee Chair

Dear Shareholder

I am pleased to present the Directors' Remuneration report for 2018/19.

This Directors' Remuneration report has three parts: this, the Chair's Annual Statement, a Policy Report and an Annual Report on Remuneration. Together, they present full and transparent disclosure of the Company's intentions as to Directors' remuneration and how our remuneration arrangements operate. Our current Remuneration policy was approved at the 2017 AGM and is set out on pages 104 to 113 below.

During the course of this financial year, I will be consulting with Shareholders about our current policy before putting any proposed changes to Shareholders at the 2020 AGM. We will, however, be seeking an advisory vote as to your approval of this Annual Statement and the Annual Report on Remuneration at this year's AGM on Thursday, 18 July 2019.

Activities undertaken by the Committee during the year

The current Remuneration policy is structured to align with the Committee's policy of setting fixed remuneration at or below median with total remuneration remaining capable of delivering upper quartile reward for upper quartile performance. The Committee believes that this policy continues to support appropriately the strategic focus of the Company and remains fit-for-purpose.

Remuneration outcomes for 2018/19

This year, when deciding on the remuneration outcomes for 2018/19, the Committee was very aware of the particular emphasis that the revised UK Corporate Governance Code places on the exercise of independent judgement and discretion. The Committee believes that it does review remuneration outcomes to ensure they reflect the broader context, including Shareholders' experience. Against the background reported in the Chairman's statement earlier in this Annual Report, the Committee has reviewed the resulting outcomes for 2018/19. After due consideration, including in particular, the consideration of the impact of the exceptional costs, which have been described on page 29, the Committee has decided:

- annual bonus payments in respect of the year to 31 March 2019 ranged from 54.6% to 60.9% of maximum (see page 118 for more detail); and
- performance over the longer-term performance period from 1 April 2016 to 31 March 2019 is expected to result in 15.1% vesting of the PSP awards made in 2016 (see page 121 for more detail).

2019 salary review

The Committee has reviewed the salary levels of the Executive Directors in conjunction with its review of the remuneration policies relating to the general workforce and has set the base salary increase at 2%, which is below the increase for the wider UK workforce (see page 121 for more detail).

2019/20 annual bonus

The Committee has also reviewed the plans for the annual bonus for Executive Directors for 2019/20 and has decided to retain the same financial measures of EPS, PBT and OCF as well as the same non-financial measures as in 2018/19. In addition, it has decided to retain the same weighting between the financial measures (80%) and the non-financial measures (20%). However, in order to support the emphasis placed by the Board on cash generation, it has increased the weighting for OCF from 20% of annual bonus to 30% and decreased the weighting of EPS from 40% of annual bonus to 30% (see page 122 for more detail). In addition, after consideration of recent investor guidance, the Committee reduced the maximum payment that may be earned for the achievement of target from 55% to 50%.

2019/20 PSP awards

As well as reviewing the annual bonus measures, the Committee has also considered the measures and targets of the Company's PSP. The Committee continues to believe that the performance measures of EPS, TSR and ROCE, along with their respective weighting of one third each, represent the best alignment with our strategy and Shareholder interests. As part of this review, the Committee considered the respective targets associated with each performance measure to ensure that they continued to be stretching. In respect of TSR, the Committee decided that the target and performance measure would remain unchanged from 2018/19.

In respect of the EPS targets, the Committee considered the forward impact of the loss of the Magnox contract and decided that it would be more appropriate to set a cumulative three-year EPS performance range of between 231.5p and 248.0p for 2019/20 PSP awards, in the belief that a cumulative range will help to reinforce the maximisation of EPS in each year of the performance period. In respect of the ROCE target (based on the average return over the performance period) the Committee has decided to reduce the threshold of the range to 11%, whilst maintaining the maximum of the range at 14%. For more detail see page 122.

Due to the fall in the share price since the 2018/19 PSP grant, the Committee has decided that 2019/20 PSP awards should be scaled back by 20% in value; awards will therefore be granted to the Executive Directors over a face value of a maximum of 160% of salary rather than the normal award value of 200%.

New PSP rules

The rules of the current PSP were approved by Shareholders on 9 July 2009 and will expire on 9 July 2019. The Committee continues to believe that the PSP incentivises executives to guard against short-term steps and to maximise the long-term sustainability of the Company's future performance, and that it appropriately aligns the interests of executives with those of Shareholders. Accordingly, the Company will be asking Shareholders at its 2019 AGM to approve a new set of PSP rules for awards made after 9 July 2019. The new rules mirror the existing PSP rules, with the only changes being minor in nature and intended to reflect changes of law or UK corporate governance since 2009.

The revised UK Corporate Governance Code (Code)

In July 2018 the Financial Reporting Council issued its revised Code. The Committee considered those elements that were relevant to remuneration. As the Committee will be submitting its Remuneration policy to shareholders at the Company's 2020 AGM, the Committee will use its wider review of the Remuneration policy in order to assess how it should take the revised Code into account. In particular, the Committee will give further consideration to a post-employment shareholding policy and the policy on pension contribution levels for Executive Directors. However, as a start, the Committee has determined that the pension contribution for any Executive Director appointed after 1 April 2019 will be aligned with that available to the wider workforce in the relevant market. The Committee will seek to engage with Shareholders as widely as practicable over the coming year in order to understand their priorities for the new Remuneration policy to be proposed at the Company's 2020 AGM.

Jeff Randall
Committee Chair

Glossary of terms

As used in this Remuneration report

CSOP	means the 2009 Babcock Company Share Option Plan
DBP	means the 2009 Babcock Deferred Bonus Plan
DBMP	means the 2012 Babcock Deferred Bonus Matching Plan
EBIT	means Earnings Before Interest and Tax
EPS	means basic underlying Earnings Per Share
OCF	means Operating Cash Flow as determined for management purposes
PSP	means the 2009 Babcock Performance Share Plan
PBT	means underlying Profit Before Tax
PBIT	means underlying Profit Before Interest and Tax
ROCE	means Return on Capital Employed
TSR	means Total Shareholder Return

Remuneration Committee (the Committee)

Terms of reference for the Committee are available for inspection on the Company's website and were reviewed during the year. Duties of the Committee include the review of the policy for the remuneration of the Executive Directors and the Chair, as well as their specific remuneration packages. In determining the Remuneration policy, the Committee takes into account all factors which it deems necessary to ensure that members of the senior executive management of the Group are provided with appropriate incentives to encourage strong performance and that they are rewarded for their individual contributions to the success of the Company in a fair and responsible manner.

The composition of the Committee (see page 101) and its terms of reference comply with the provisions of the UK Corporate Governance Code.

Compliance statement

This report covers the reporting period from 1 April 2018 to 31 March 2019 and provides details of the Committee's membership, its deliberations on executive remuneration during the year under review and the Remuneration policy for the Company. This report has been prepared by the Committee according to the requirements of the Companies Act 2006 (the Act), Regulation 11 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations) and other relevant requirements of the FCA Listing Rules. In addition, the Committee has applied the principles of good corporate governance set out in the UK Corporate Governance Code 2016, and has considered guidelines issued by its leading Shareholders and bodies such as the Investment Association, Institutional Shareholder Services and the Pensions and Lifetime Savings Association. In accordance with Section 439 of the Act, an advisory resolution to approve this Annual Statement and the Annual Report on Remuneration will be proposed at the Annual General Meeting on 18 July 2019.

This report contains both auditable and non-auditable information. The information subject to audit is so marked.

The Regulations require the Company's auditors to report that the 'Audited information' in this report has been properly prepared in accordance with the Regulations.

Remuneration Policy Report

Our current Remuneration policy was approved at the 2017 AGM and it is intended that this policy will apply for three years from that date. The Policy Report that follows is unchanged from that published in last year's Annual Report save for the following changes:

- Update to page references
- Update to pay scenario charts
- Update to reference dates, as appropriate.

Key principles of the Remuneration policy

Objective

To provide fair remuneration arrangements that allow for enhanced rewards for delivery of superior performance by allowing for the possibility of upper quartile rewards for upper quartile performance, that align Directors' and Shareholders' interests and take account of risk.

Our policy for executives reflects a preference that we believe is shared by the majority of our Shareholders – to rely more heavily on the value of variable performance-related rewards, rather than on the fixed elements of pay. The rationale is to incentivise and reward success.

Weighting towards long-term, performance-related pay

The focus of our executive remuneration is, therefore, weighted towards performance-related pay with a significant element weighted towards long-term rather than short-term performance. We believe that, properly structured and with suitable safeguards, variable, performance-related rewards are the best way of linking pay to strategy, risk management and Shareholders' interests.

Directors' Remuneration policy

Summary of the Remuneration policy for Executive Directors (Policy Table)

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Fixed pay			
Base salary			
Should be at a level that is (i) fair and (ii) capable, when taken with the gearing effect of performance-related pay, of delivering upper quartile actual remuneration for upper quartile performance.	Base salaries are reviewed annually, with reference to the individual's role, experience and performance; salary levels at relevant comparators are considered, but do not in themselves drive decision-making.	In respect of existing Executive Directors, it is anticipated that decisions on any salary increases will be guided by the increases for the wider employee population over the term of this policy. In certain circumstances (including, but not limited to, a material increase in job size or complexity, market forces, promotion or recruitment), the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain fair and competitive. Latest salaries are set out in the Annual Report on Remuneration on page 121.	Business and individual performance are considerations in setting base salary.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Fixed pay			
Pension			
To provide market competitive retirement benefits.	Cash supplement in lieu wholly or partly of pension benefits for ongoing service and/or membership of the Group's Defined Benefit or Defined Contribution pension scheme.	All the Executive Directors currently receive a cash supplement of 25% of base pay in lieu of all pension benefits. The cash supplement payable is set having regard to market practice, and in the context of the other elements of the remuneration package, notably base salary. Other than in exceptional cases (such as to replace existing arrangements for new recruits), the Committee does not anticipate employer contributions into a defined contribution pension scheme or cash in lieu of benefit as being at a cost to the Company that would exceed 25% of base salary.	Not performance-related.
Benefits			
Designed to be competitive in the market in which the individual is employed or to meet costs effectively incurred at the Company's request.	A range of benefits is provided which may include: life insurance; medical insurance; car and fuel benefits and allowances; home to work travel and related costs, if agreed on an individual basis or if incurred at the request of the Company; accommodation benefits and related costs, if based away from home at the request of the Company; Board function-related costs; and, in certain circumstances, cash allowances in respect of the tax charge on accommodation or travel to work benefit, if incurred at the request of the Company or with its prior approval. Other benefits (e.g. relocation) may be offered if considered appropriate and reasonable by the Committee.	Benefit values vary by role and are periodically reviewed and set at a level which the Committee considers appropriate in light of relevant market practice for the role and individual circumstances. The cost of the benefits provided changes in accordance with market conditions and will, therefore, determine the maximum amount that would be paid in the form of benefits during the period of this policy. The Committee retains the discretion to approve a higher cost in certain circumstances (e.g. relocation) or in circumstances where factors outside the Company's control have changed materially.	Not performance-related.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Variable pay			
Annual bonus			
To underpin delivery of year on year financial performance and progress towards strategic non-financial objectives, being structured to motivate delivery against targets and achievement of stretching outperformance, whilst mindful of achievement of long-term strategy and longer-term risks to the Company. The requirement to defer a substantial part of bonus into Company shares strengthens the link to long-term sustainable growth.	Performance targets are set at the start of the year and reflect the responsibilities of the executive in relation to the delivery of our strategy. At the end of the year, the Committee determines the extent to which these targets have been achieved. The Committee has the discretion to adjust the outcome (up or down) within the limits of the plan for corporate transactions, unforeseen events, factors outside reasonable management control, changes to business priorities or operational arrangements, to ensure targets represent and remain a fair measure of performance. In addition, the Committee considers health and safety performance and it may reduce or cancel any annual bonus otherwise payable if it considers it appropriate to do so in light of that performance. At least 40% of annual bonus payments for Executive Directors must be deferred into awards over Company shares for three years. Mandatory deferred bonus awards are subject to potential forfeiture if the holder leaves before the awards vest. Malus and clawback apply to cash and deferred bonus awards: if the accounts used to determine the bonus level have to be materially corrected; if the Committee subsequently comes to a view that bonus year performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the deferred bonus did not lapse and facts emerge which, if known at the time, would have caused the deferred bonus to lapse on leaving or caused the Committee to exercise any discretion differently.	Maximum bonus opportunity is 150% of salary. For achievement of threshold, up to 15% of maximum bonus is earned; for achievement of target up to 55% of maximum bonus is earned (reduced to 50% for the 2019/20 bonus).	Performance is determined by the Committee on an annual basis by reference to Group and/or sector financial measures, e.g. EPS growth, PBT, OCF, as well as the achievement of non-financial objectives. The financial and personal/strategic objectives are typically weighted 80% and 20% of maximum, respectively. The Committee retains discretion to vary the financial measures and their weightings annually, to ensure alignment with the business priorities for the year. Measures used for the 2018/19 annual bonus and proposed for 2019/20 are included in the Annual Report on Remuneration on pages 118 and 122.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Variable pay			
Performance Share Plan (PSP)			
To incentivise delivery of top quartile Shareholder returns and earnings growth over the longer term. Long-term measures guard against short-term steps being taken to maximise annual rewards at the expense of future performance.	The Committee has the ability to grant nil-cost options or conditional share awards under the PSP. The award levels and performance conditions, on which vesting depends, are reviewed from time to time to ensure they remain appropriate. Participants will receive cash or shares equal to the value of any dividends that would have been paid over the vesting period on awards that vest. The Committee has the ability to exercise discretion to override the PSP outcome in circumstances where strict application of the performance conditions would produce a result inconsistent with the Company's remuneration principles. An additional two-year holding period will apply to Executive Directors' vested shares before they are released. Malus and clawback apply to PSP awards: if there is a misstatement of the Group's financial results for any period; if the Committee subsequently comes to a view that performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the award did not lapse and facts emerge which, if known at the time, would have caused the award to lapse on leaving or caused the Committee to exercise any discretion differently.	Maximum annual PSP awards of up to 200% of base pay (reduced to 160% for the 2019/20 PSP award). For each performance condition applying to an award, 16.7% of the maximum award will vest for threshold performance.	Vesting of PSP awards is subject to continued employment and Company performance over a three-year performance period. 2019/20 PSP awards will be based on the achievement of stretching EPS, TSR and ROCE targets. The Committee will review the performance measures, their weightings, and performance targets annually to ensure continued alignment with Company strategy. Details of measures and targets used for specific PSP grants are included in the Annual Report on Remuneration on pages 123 to 124.
All-employee plans – Babcock Employee Share Plan			
To encourage employee ownership of Company shares.	Open to all UK tax resident employees of participating Group companies. Executive Directors are eligible to participate. The plan is an HMRC approved share incentive plan that allows an employee to purchase shares (through the plan trustees) out of pre-tax salary which, if held for periods of time approved by HMRC (currently three to five years), are taxed on a favourable basis. The Company can match purchased shares with an award of free shares. Matching shares are forfeited if employees leave within three years of their award (other than for 'good leaver' reasons).	Participants can purchase shares up to the prevailing HMRC limit at the time employees are invited to participate. The Company currently offers to match purchases made through the plan at the rate of one free matching share for every 10 shares purchased. The matching rate is reviewed periodically, and any future offer will be bound by the prevailing HMRC limit.	Not performance-related.

Approach to recruitment remuneration – (Recruitment policy)

In the case of hiring or appointing a new Executive Director, the Committee may make use of any of the existing components of remuneration, as follows:

Pay element	Policy on recruitment	Maximum
Salary	Based on size and nature of responsibilities of the proposed role; the candidate's experience; implications for total remuneration positioning vs. market pay levels for comparable roles; internal relativities; and the candidate's current salary.	N/A
Pension	Membership of pension scheme or salary supplement on a similar basis to other executives, as described in the policy table, subject to any pension contribution or salary supplement being aligned to those of the wider UK workforce.	N/A
Benefits	Provision of benefits on a similar basis to other executives, as described in the policy table.	N/A
Annual bonus	As described in the policy table, and may be pro-rated for proportion of year served.	150% of salary
Performance Share Plan	New appointees may be granted awards under the PSP on similar terms to other executives.	200% of salary
All-employee plans	New appointees may be granted awards under all-employee plans on similar terms to other executives.	As per Policy Table
Other	In determining appropriate remuneration for new Executive Directors, the Committee will take into consideration all relevant factors (including quantum, the nature of remuneration and where the candidate was recruited from) to ensure that arrangements are in the best interests of the Company and its Shareholders. The Committee may also make an award in respect of a new appointment to 'replace' incentive arrangements forfeited on leaving a previous employer. In doing so, the Committee will consider relevant factors, including any performance conditions attached to these awards, time to vesting and the likelihood of those conditions being met. The fair value of the compensatory award would not be greater than the awards being replaced. In order to facilitate like for like compensatory awards on recruitment, the Committee may avail itself of Listing Rule 9.4.2(2), if required.	N/A
Other recruitment events		
Internal promotion	When appointing a new Executive Director by way of promotion from an internal role, the Committee will be consistent with the policy for external hires detailed above. Where an individual has contractual commitments, outstanding incentive awards and/or pension arrangements prior to their promotion to Executive Director, the Company may honour those arrangements; however, where appropriate, these would be expected to transition over time to the arrangements stated above.	N/A
Non-Executive Director	When recruiting a new Non-Executive Director, the Committee or Board will structure pay in line with the existing policy, namely a base fee in line with the current fee schedule, with additional fees for fulfilling the role of Senior Independent Director and Chairmanship of the Audit and Risk, and Remuneration Committees.	N/A

Payments from existing awards and commitments

Executive Directors are eligible to receive payment from any award or other commitment made prior to the approval and implementation of the Remuneration policy detailed in this report.

Performance measure selection and approach to target setting

The measures used under annual bonus plans are selected annually to reflect the Group's main strategic objectives for the year and reflect both financial and non-financial priorities. Performance targets are set to be stretching but achievable, taking into account the Company's strategic priorities and the economic environment in which the Company operates. Financial targets are set taking into account a range of reference points, including the Group's strategic and operating plan.

The Committee considers at length the appropriate financial conditions and non-financial objectives to attach to annual bonus awards as well as the financial targets to attach to share awards to ensure they continue to be: (i) relevant to the Group's strategic objectives and aligned with Shareholders' interests, mindful of risk management; and (ii) fair by being suitably stretching whilst realistic.

The Committee believes that TSR, EPS and ROCE continue to be effective measures of long-term performance for the Company, providing a good balance between Shareholder value creation and line of sight for executives.

The TSR performance measure is tested by reference to the Company's relative long-term share price performance against suitable peers. The Committee believes that the use of relative TSR provides strong alignment with Shareholders' interests by incentivising management for the delivery of above-market returns. The TSR calculation would normally use a 12-month average for opening and closing share prices adjusted for dividends paid during the period. The Company feels that this is the most appropriate period because a 12-month average ensures both that short-term market volatility is excluded and that for each company a 12-month period will capture the impact of the announcement of results and payment of dividends. A shorter period would not capture all these events and would not necessarily put all companies on an equal footing.

The use of an EPS growth performance measure, in the opinion of the Committee, focuses management on continued strong financial performance and is heavily dependent on the Company's success in achieving its strategic goals. The Committee believes that ROCE reinforces the focus on returns for Shareholders and encourages capital discipline.

The Remuneration Committee has the discretion to make adjustments to the calculation of short and long-term performance outcomes in circumstances where application of the formula would produce a result inconsistent with the Company's remuneration principles. Such circumstances may include: changes in accounting standards and certain major corporate events such as rights issues, share buybacks, special dividends, corporate restructurings, acquisitions and disposals.

The Committee reviews the performance conditions for share awards prior to the start of each cycle to ensure they remain appropriate. No material reduction in long-term incentive targets for future awards would be made without prior consultation with our major Shareholders.

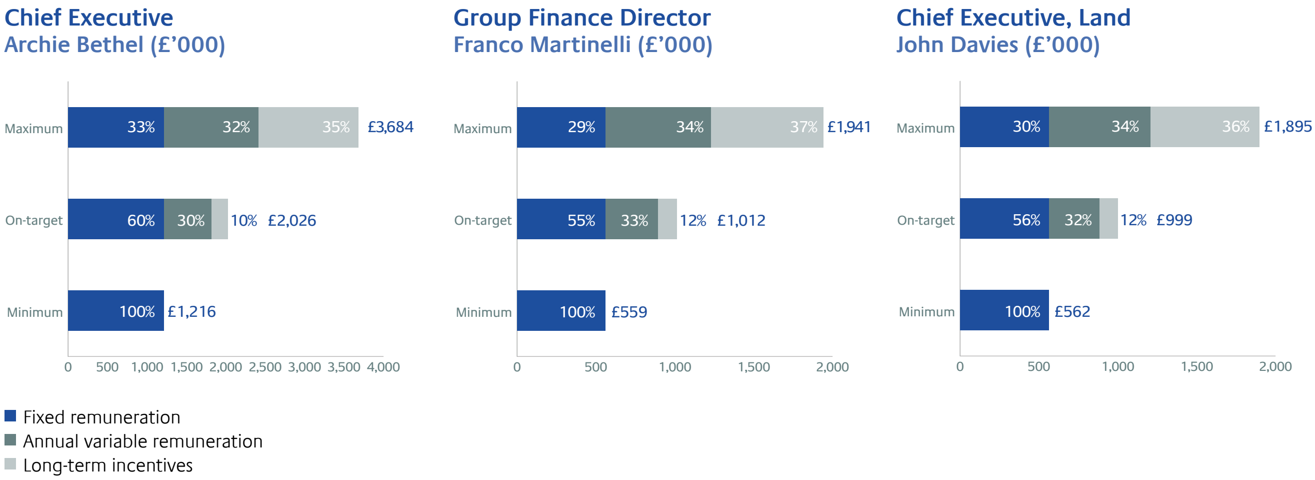
Differences between Executive Director and general employee remuneration

The policy and practice with regard to the remuneration of senior executives below the Board is consistent with that for the Executive Directors. Senior executives generally participate in the same long-term incentives as the Executive Directors with similar performance measures applied. The Remuneration policy for our Executive Directors is considered with the remuneration philosophy and principles that underpin remuneration for the wider Group in mind. The remuneration arrangements for other employees reflect local market practice and seniority of each role. As a result, the levels and structure of remuneration for different groups of employees will differ from the policy for executives as set out above but with the common intention that remuneration arrangements for all groups might reasonably be considered to be fair having regard to such factors.

Balance of remuneration for Executive Directors

The charts below provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'On-target' and 'Maximum'.

Potential reward opportunities are based on the Company's Remuneration policy and implementation in 2019/20, as outlined in the Chairman's statement and later in the Annual Report on Remuneration, applied to base salaries as at 1 April 2019. Note that the projected values exclude the impact of any share price movements. For this reason, were the PSP shares to vest in full, actual total remuneration may exceed the value shown in the chart below.



The 'Minimum' scenario shows base salary, pension (and/or pay in lieu of pension) and benefits (i.e. fixed remuneration). These are the only elements of the Executive Directors' remuneration packages which are not at risk.

The 'On-target' scenario reflects fixed remuneration as above, plus a pay-out of 50% of the annual bonus and threshold vesting of 16.7% of the maximum award under the PSP.

The 'Maximum' scenario reflects fixed remuneration, plus full pay-out of all incentives.

Shareholding guidelines for Executive Directors

The Committee sets shareholding guidelines for Executive Directors. The current guideline is to build and maintain, over time, a personal (and/or spousal) holding of shares in the Company equivalent in value to at least twice the Executive Director's annual base salary (three times for the CEO).

The guidelines also state that an Executive Director is expected to retain at least half of any shares acquired on the exercise of a share award that remain after the sale of sufficient shares to cover tax and national insurance triggered by the exercise (and associated dealing costs) until the guideline level is achieved and thereafter maintained. The Executive Directors' compliance with these guidelines is shown in the table on page 128.

Details of Directors' service contracts and exit payments and treatment of awards on a change of control

The following summarises the key terms (excluding remuneration) of the Directors' service contracts or terms of appointment:

Executive Directors

Name	Date of service contract	Notice period
Archie Bethel (Chief Executive)	1 April 2016	12 months from Company, 12 months from Director
Franco Martinelli (Group Finance Director)	1 August 2014	12 months from Company, 12 months from Director
John Davies (Chief Executive, Land)	20 December 2012	12 months from Company, 12 months from Director

The latest service contracts are available for inspection at the Company's registered office and will also be available at the Company's Annual General Meeting.

The Company's policy is that Executive Directors' service contracts should be capable of being terminated by the Company on not more than 12 months' notice. The Executive Directors' service contracts entitle the Company to terminate their employment without notice by making a payment of salary and benefits in lieu of notice. Under the Executive Directors' contracts, the Company may choose to make the payment in lieu by monthly instalments and mitigation applies such that the Committee may decide to reduce or discontinue further instalments.

In addition to the contractual provisions regarding payment on termination set out above, the Company's incentive plans contain provisions for termination of employment, where the Committee has the discretion to determine the level of award vesting.

Component	Treatment on a change of control	Treatment for a good leaver*	Treatment for other leavers
Annual bonus	Will be paid a time pro-rated proportion, subject to performance during the year, generally paid immediately, with Committee discretion to treat otherwise.	Will be paid a time pro-rated proportion, subject to performance during the year, generally paid at the year end, with Committee discretion to treat otherwise.	No annual bonus entitlement, unless the Committee exercises discretion to treat otherwise.
Deferred bonus awards	Awards may be exercised in full on the change of control, with Committee discretion to treat otherwise.	Entitled to retain any award which will generally vest at the normal vesting date, with Committee discretion to treat otherwise.	Outstanding awards are forfeited unless the Committee exercises its discretion to treat otherwise.
PSP	Awards generally vest immediately and, for performance-related awards, will be pro-rated for time and remain subject to performance conditions, with Committee discretion to treat otherwise.	Entitled to retain a time pro-rated proportion, which remains subject to performance conditions tested at the normal vesting date. In very exceptional circumstances, the Committee has discretion to allow immediate vesting but time pro-rating will always apply.	Outstanding awards are forfeited, unless the Committee exercises discretion to treat otherwise.

* An individual would generally be considered a 'good leaver' if they leave the Group's employment by reason of injury, ill-health, disability, redundancy or retirement. The treatment of share awards held by Directors who leave on other grounds is entirely at the discretion of the Committee and in deciding whether (and the extent to which) it would be appropriate to exercise that discretion the Committee will have regard to all the circumstances.

External appointments of Executive Directors

The Executive Directors may accept external appointments with the prior approval of the Chair, provided that such appointments do not prejudice the individual's ability to fulfil their duties at the Group. Any fees for outside appointments are retained by the Director.

Chairman and Non-Executive Directors

Name	Date of appointment as a Director	Date of current appointment letters	Anticipated expiry of present term of appointment (subject to annual re-election)
Mike Turner (Chair)	1 June 2008	22 February 2017	AGM 2019
Ruth Cairnie	3 April 2019	2 April 2019	AGM 2022
Sir David Omand	1 April 2009	17 May 2018	AGM 2020
Ian Duncan	10 November 2010	1 April 2019	AGM 2020
Jeff Randall	1 April 2014	22 February 2017	AGM 2020
Myles Lee	1 April 2015	17 May 2018	AGM 2021
Victoire de Margerie	1 February 2016	1 April 2019	AGM 2022
Lucy Dimes	1 April 2018	5 March 2018	AGM 2021
Kjersti Wiklund	1 April 2018	5 March 2018	AGM 2021

The latest written terms of appointment are available for inspection at the Company's registered office and at the Company's Annual General Meeting. The expected time commitment of Non-Executive Directors is set out in their current written terms of appointment.

The Group's Non-Executive Directors serve under letters of appointment as detailed in the table above, normally for no more than three-year terms at a time; however, in all cases appointments are terminable at will at any time by the Company or the Director. All Non-Executive Directors are subject to annual re-election by the Company in general meeting in line with the UK Corporate Governance Code.

Details of the Non-Executive Directors' terms of appointment are shown in the table. The appointment and re-appointment, and the remuneration of Non-Executive Directors are matters reserved for the Nominations Committee and Executive Directors, respectively.

The Non-Executive Directors' fees have been set at a level to reflect the amount of time and level of involvement required in order to carry out their duties as members of the Board and its Committees. The Non-Executive Directors are not eligible to participate in the Company's performance-related incentive plans and do not receive any pension contributions.

Details of the policy on fees paid to our Non-Executive Directors are set out in the table below:

Function	Operation	Opportunity	Performance measures
To attract and retain high-calibre Non-Executive Directors with commercial and other experience relevant to the Company	Fee levels are reviewed against market practice from time to time (by the Chair and the Executive Directors in the case of Non-Executive Director fees and by the Committee in respect of fees payable to the Chair), with any adjustments normally being made on 1 April in the review year. Additional fees are payable for acting as Chair of the Audit and Risk, and Remuneration Committees. Non-Executive Directors do not participate in any incentive schemes, nor do they receive any pension or benefits (other than the cost of nominal travel and accommodation expenses). Fee levels are reviewed by reference to FTSE listed companies of similar size and complexity. Time commitment, level of involvement required and responsibility are taken into account when reviewing fee levels. This may result in higher fee levels for overseas Directors. Fees for the year ending 31 March 2019 and those for the year ending 31 March 2020 are set out in the Annual Report on Remuneration on page 117 and page 126 respectively.	Non-Executive Director fee increases are applied in line with the outcome of the periodic fee review. Any increases to the Non-Executive Director fee will typically be in line with general movements in market levels of Non-Executive Director fees. In the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board has discretion to make an appropriate adjustment to the fee level.	None

Consideration of employee views

When reviewing Executive Directors' remuneration, the Committee is aware of the proposals for review of remuneration of all employees. The Committee receives regular updates on salary increases, bonus and share awards made to employees throughout the Group. These matters are considered when conducting the annual review of executive remuneration.

The Company seeks to promote and maintain good relationships with employee representative bodies as part of its employee engagement strategy and consults on matters affecting employees and business performance as required in each case by law and regulation in the jurisdictions in which the Company operates. The Company now formally presents a summary of its policy for remuneration arrangements for Executive Directors to the Babcock Employee Forum, which is attended by representatives from across the business operations, and will consider any feedback from that Forum.

Consideration of Shareholder views

When determining remuneration, the Committee takes into account views of leading Shareholders and best practice guidelines issued by institutional Shareholder bodies. The Committee welcomes feedback from Shareholders on Remuneration policy and arrangements and commits to undergoing consultation with leading Shareholders in advance of any significant changes to Remuneration policy. The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of the executive remuneration remains appropriate.

Further details of the votes received on the 2017 Directors' Remuneration policy report and the 2018 Annual Report on Remuneration are provided on page 115.

Annual Report on Remuneration

The Committee

The members of the Committee are appointed by the Board on the recommendation of the Nominations Committee and, in accordance with the UK Corporate Governance Code, the Committee is made up of the independent Non-Executive Directors. The membership of the Committee currently and during the year to 31 March 2019 (with each member serving throughout the year) as well as attendance at Committee meetings in the year is shown on page 101. The Company Secretary attends as Secretary to the Committee.

The Group Chairman and the Chief Executive normally attend meetings by invitation, as does the Group Finance Director on occasion, but they are not present when their own remuneration is being decided. The Group Director of Organisation and Development also attends meetings.

Advisors

Mercer | Kepler (which is part of the MMC group of companies) was appointed by the Committee in late 2008, following a selection process, including interviewing a number of candidate firms, to provide it with objective and independent analysis, information and advice on all aspects of executive remuneration and market practice, within the context of the objectives and policy set by the Committee. Mercer | Kepler reports directly to the Committee Chairman. A representative from Mercer | Kepler typically attends Committee meetings. Mercer | Kepler also provides participant communications, performance reporting, and Non-Executive Directors' fee benchmarking services to the Company. Mercer | Kepler is a member of the Remuneration Consultants Group and is a signatory to the Code of Conduct for consultants to remuneration committees of UK listed companies, details of which can be found at www.remunerationconsultantsgroup.com. Mercer | Kepler adheres to this Code of Conduct. The fees paid to Mercer | Kepler in respect of work for the Committee carried out in the year under review totalled £78,000 on the basis of time and materials, excluding expenses and VAT.

The Committee reviews Mercer | Kepler's involvement each year and considers any other relationships that Mercer | Kepler's parent company has with the Company that may limit its independence. The Committee is satisfied that the advice provided by Mercer | Kepler is objective and independent and that any services provided by its parent to the Company do not impair its independence.

How often it meets

In total there were six meetings in the year to 31 March 2019. The Committee plans to meet at least six times in the year to 31 March 2020.

Matters considered

The Committee considered a number of matters during the year to 31 March 2019, including:

- agreeing Executive Director salaries for the financial year 2019/20
- reviewing the Committee's terms of reference
- considering trends in executive remuneration, remuneration governance and investor views
- making share awards under the Company's share plans
- reviewing the performance measures and targets to be applied under the Company's share plans
- finalising performance targets and non-financial objectives for the 2018/19 annual bonus plan
- agreeing the level of vesting of PSP and DBMP awards granted in 2015
- considering performance against the measures applied to, and level of pay-out of, the 2017/18 annual bonus
- agreeing the level of 2018 PSP awards
- reviewing share ownership guidelines for senior executives
- agreeing pay review outcomes for other senior executives for the year to 31 March 2020
- reviewing the Directors' Remuneration report
- approving the procedure for the authorisation of Chairman and CEO expenses
- reviewing the continued appointment of the Committee's independent advisors.

Summary of Shareholder voting

The following table shows the results of the last binding Shareholder vote on the Remuneration policy (at the 2017 AGM) and the advisory Shareholder vote on the 2018 Annual Report on Remuneration at the 2018 AGM:

	2017 Remuneration policy		2018 Annual Report on Remuneration	
Votes cast	Total number of votes	% of votes cast for & against	Total number of votes	% of votes cast for & against
For (including discretionary)	368,814,605	96.5%	319,644,636	98.7%
Against	13,528,165	3.5%	4,265,699	1.3%
Total votes cast (excluding withheld votes)	382,342,770	100.0%	323,910,335	100.0%
Votes withheld	4,341,748		13,868,456	
Total votes cast (including withheld votes)	386,684,518		337,778,791	

Single total figure of remuneration for Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director for the years ending 31 March 2019 and 31 March 2018.

	Archie Bethel £'000		Franco Martinelli £'000		John Davies £'000	
	18/19	17/18	**18/19**	17/18	**18/19**	17/18
Fixed remuneration						
1. Salary	**780**	765	**437**	428	**421**	413
2. Benefits in kind and cash	**221**	227	**1**	1	**24**	43
3. Pension	**195**	191	**109**	107	**106**	103
Annual variable remuneration						
4. Annual bonus (cash or voluntarily deferred bonus)	**409**	422	**240**	238	**207**	211
5. DBP (deferred annual bonus)	**273**	281	**160**	159	**138**	141
Long-term incentives						
6. DBMP (matching awards)	**n/a**	80	**n/a**	35	**n/a**	66
7. PSP	**89**	96	**68**	96	**65**	92
8. Dividends	**14**	16	**11**	12	**10**	14
Total (of which)	**1,981**	2,079	**1,026**	1,076	**971**	1,083
Fixed remuneration[1,2,3]	**1,196**	1,183	**547**	536	**551**	559
Annual variable remuneration[4,5]	**682**	704	**400**	397	**345**	352
Long-term incentives[6,7,8]	**103**	192	**79**	143	**75**	172

The figures have been calculated as follows:

1. Salary: basic salary amount paid in the year.
2. Benefits in kind and cash: the value of benefits and salary supplements (other than those in lieu of pensions) including medical insurance, home to work travel expenses incurred at the request of the Company, accommodation-related benefits, car and fuel benefits and costs in connection with accommodation. Archie Bethel in 18/19 received £218,181 (17/18: £225,728) in connection with his accommodation costs in London, at the Company's request, to enable him to lead the business effectively. John Davies received a similar allowance in 17/18 of £20,789, but no longer receives the allowance as he is not based away from home.
3. Pension: for all Executive Directors the numbers above represent for each year the value of the cash supplement of 25% of salary paid to each of them.
4. Annual bonus (cash or voluntarily deferred bonus): this is the part of total annual bonus earned for performance during the year (see page 118) that is not required to be mandatorily deferred into a basic award of shares under the DBMP (see page 119) and that is paid in cash.
5. DBP deferred annual bonus: this is the mandatorily deferred element of the annual bonus earned for performance during the year, which will vest after three years.
6. DBMP (matching awards): the Company stopped making matching awards in 16/17. Note: the difference between the DBMP figures shown for 2017/18 in the table above and the equivalent numbers disclosed in last year's Annual Report on Remuneration reflects trueing up for the actual share price on subsequent actual vesting of 862.4p on 11 June 2018.
7. PSP: for 18/19, represents the market value of the 2016 awards that vest on performance to 31 March 2019: based on vesting as to 15.1% of the total award (see page 120) and an average share price in the three months to 31 March 2019 of 531.6p. Note: the difference between the PSP figures shown for 2017/18 in the table above and the equivalent numbers disclosed in last year's Annual Report on Remuneration reflects the actual share price on subsequent actual vesting of 862.4p on 11 June 2018 for all awards except Franco Martinelli's PSP award granted on 29 January 2015 that vested on 29 January 2018 when the share price was 731.4p.
8. Dividends: the total value of dividends accruing on long-term incentive awards (other than on mandatory and voluntary deferral of bonus awards under the DBMP) vesting on performance to 31 March 2019 (for 18/19) and 31 March 2018 (for 17/18), payable in cash on exercise of the award.

Single total figure of remuneration for Non-Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 March 2019 and the prior year:

	Base fee £000		Additional fees[1] £000		Total £000	
	18/19	17/18	**18/19**	17/18	**18/19**	17/18
Mike Turner	**330**	330	**0**	0	**330**	330
Sir David Omand	**71**	71	**0**	0	**71**	71
Ian Duncan	**60**	60	**15**	15	**60**	75
Jeff Randall	**60**	60	**15**	15	**60**	75
Myles Lee	**64**	64	**0**	0	**64**	64
Victoire de Margerie	**64**	64	**0**	0	**64**	64
Lucy Dimes	**60**	n/a	**0**	n/a	**60**	n/a
Kjersti Wiklund	**60**	n/a	**0**	n/a	**60**	n/a

1. Relating to Chairmanship of the Audit and Risk Committee (Ian Duncan), and Remuneration Committee (Jeff Randall).

Pensions

None of the Executive Directors participated in a Group pension scheme or otherwise received pension benefits from the Group for service during the year to 31 March 2019. They instead received a cash supplement equal to 25% of their base salary in lieu of pension benefits. There are no additional early retirement benefits.

Supplements paid in lieu of pension do not count for pension, share award or bonus purposes.

Babcock International Group Pension Scheme (the Scheme) (audited)

Archie Bethel was an active member of the executive tier of the Scheme until 31 March 2012. Franco Martinelli was an active member of the executive tier of the Scheme until 31 March 2015. Whilst still members of the Scheme, Archie Bethel and Franco Martinelli accrued benefits at the rate of one-forty-fifth of pensionable salary for each year of service, with a cash supplement on earnings over the applicable scheme earnings cap. Archie Bethel transferred his benefits out of the Scheme during the prior financial year on the standard terms offered under the Scheme.

Until 31 March 2016, John Davies was a member of the VT Upper Section Ex-Short Brothers section of the Scheme and accrued benefits on earnings up to the scheme earnings cap at the rate of one-sixtieth of pensionable salary for each year of service. John Davies transferred his benefit out of the Scheme during the financial year under review on the standard terms offered under the scheme.

Pension entitlements under the Scheme (defined benefit) for the year to 31 March 2019 are set out in the following table:

Director[1]	**Accrued pension at 31 March 2019 £ pa**	Normal retirement age[2]
Franco Martinelli	**64**	65

1. None of the Executive Directors were active members of the scheme during the year.
2. Age from which payment can be drawn with no actuarial reduction.

Note: The figures in the above table make no allowance for the cost of death in service benefits under the Scheme, or for any benefits in respect of earnings in excess of the earnings cap. In calculating the above figures no account has been taken of any retained benefits that the Director may have from previous employments.

Directors also benefit from life assurance cover of four times base salary. The cost of providing that life assurance cover was:

Director	**2018/19 £'000**	2017/18 £'000
Archie Bethel	**5**	5
John Davies	**3**	3
Franco Martinelli	**3**	3

Annual bonus

2018/19 Annual bonus (audited)

For our Executive Directors' annual bonus plans in 2018/19, as in previous years, a mix of financial and non-financial measures was used. The financial element of the 2018/19 annual bonus was based on the Group's underlying PBT and EPS performance, as well as its cash flow against budget. The non-financial measures were principally based on the key themes that the Committee considers to be of material importance to the continued success of the Company. Objectives for the 2018/19 bonus were set by the Committee at the beginning of the year.

The table below sets out the annual bonus plan in place for the Executive Directors and the outturn under them in 2018/19. The figures in EPS and Group PBT performance in the table below for actual outturn exclude the effect of changes in exchange rates.

Bonus element	Threshold	Target	Maximum	Actual outturn		Archie Bethel	Franco Martinelli	John Davies
EPS[1] performance stretching targets, with a sliding scale between threshold and maximum	83.1p	85.6p	88.2p	84.5p	Maximum potential (% of salary)	**60%**	**60%**	**60%**
					Outturn (% of salary)	28.4%	28.4%	28.4%
Achieving budgeted Group cash flow	95% of budget	Budget (£422.6m)	105% of budget	£469.3m	Maximum potential (% of salary)	**30%**	**30%**	**15%**
					Outturn (% of salary)	30%	30%	15%
Achieving budgeted Group PBT[2]	97% of budget	Budget (£528.9m)	103% of budget	£521m	Maximum potential (% of salary)	**30%**	**30%**	**15%**
					Outturn (% of salary)	9.0%	9.0%	4.5%
Achieving budgeted sector cash flow	95% of budget	Budget[3]	105% of budget		Maximum potential (% of salary)			**15%**
					Outturn (% of salary)			7.5%
Achieving budgeted sector PBIT[2]	97% of budget	Budget[3]	103% of budget		Maximum potential (% of salary)			**15%**
					Outturn (% of salary)			7.5%
Non-financial objectives[4]					Maximum potential (% of salary)	**30%**	**30%**	**30%**
					Outturn (% of salary)	20%	24%	19%
Total					Maximum potential (% of salary)	**150%**	**150%**	**150%**
					Outturn (% of salary)	87.4%	91.4%	81.9%

1. Threshold vesting is 10% of maximum for each financial bonus element except for EPS performance, where 28% of maximum vests at threshold. In line with our policy, overall vesting at threshold is no more than 15% when all measures are taken into account.
2. Before amortisation of acquired intangibles. The treatment of exceptional items is at the discretion of the Committee.
3. The Committee considers that the sector budgets remain commercially sensitive given the strategic nature of some of our customers or their activities, and they would also be of assistance to competitors, and will not be published.
4. Further details on the non-financial objectives set for 18/19 are set out on the following page.

Non-financial measures

The Committee sets non-financial objectives at the start of each year around strategic and risk management 'Themes'. For 18/19, the Themes were Growth, Technology, Resources, Reputation and Processes. At the end of the bonus year, the Committee conducted a review of the achievement of the objectives set for the Themes, having regard to all relevant circumstances and adjudicating the appropriate pay-out for the non-financial measures element. In making its assessment in respect of the award under the non-financial measures, the Committee considered the following context in respect of each Theme:

Growth: As described in the Strategic report, despite a number of headwinds, the Group has continued to develop with each of the sectors having won important new contracts during the period, both in the UK and internationally. Marine has secured 21 market leading ecoSMRT liquefied natural gas refrigeration systems with Hyundai Heavy Industries; and MV Kairos, the world's largest liquefied natural gas bunker supply vessel, a 50:50 joint venture with Bernhard Schulte Shipmanagement, undertook its first fuelling operation. It successfully secured the first six-week maintenance period for the HMS Queen Elizabeth at Rosyth. Marine also delivered the first missile launch assembly to General Dynamics Electric Boats, part of the UK/US Common Missile Compartment of the future submarine programme. In Australia, the business, through its joint venture, won a significant contract to maintain Australia's fleet of amphibious landing ships. In Land, Network Rail selected Rail to deliver its North Alliance programme, whilst continuing to expand DSG contract services. In Aviation, the HADES RAF support contract was mobilised across 17 bases. Outside the UK, it mobilised its Norway fixed wing aerial emergency service contract and won the Manitoba Wildfire Suppression Contract, giving the sector its first foothold in North America. In Cavendish Nuclear, the sector's joint venture moved the first Magnox site (Bradwell) into care and maintenance, whilst the Silo Maintenance Facility project at Sellafield was completed with an NDA category of "Excellent".

Technology: During the year under review, the Group technology team, working with the technology & innovation leads across the sectors, has progressed the fundamental pillars of the Babcock Technology strategy. In relation to 'technology awareness and application', formal arrangements have been made with selected Academic/Government organisations for collaborative work on technologies relevant to our core business; and the first technology horizon scanning work packages were completed. On 'data and digital technology exploitation', particular focus has been given to the iSupport programme in Marine, to predictive modelling of asset condition in Nuclear, and to information exploitation in Land for equipment management and training services. Work around the 'culture and communications' pillar has included internal webinars and intranet communications on selected technology and innovation work; plus a range of external events and articles. This work has been effected via the Technology Executive Group which delivers technology communication, coordination and programme management across all sectors and the international businesses, and which was fully established this year.

Resources: The engineering sector presents certain challenges to improving the diversity of the Group's workforce. Despite these challenges, the Group still managed to improve the diversity of its workforce, as shown by the publication of its recent gender pay gap and the increase in female graduates.

Reputation: Each sector has delivered a good year of operational performance to customers. The Group is particularly pleased with the work that it has done under the Cabinet Office's Strategic Partnering Programme to reinforce even further the relationship between the Group and its key customer.

Processes: During the year, the Group has improved its IT infrastructure with the further introduction of IT platforms for employee management and procurement across most of its UK businesses. In addition, the Group has also continued with the roll out of the Group Enterprise Resource Planning platform, which is now operational in its UK defence and nuclear businesses. This platform will allow for the adoption of a common systems approach and will increase the effectiveness of the Group's operations.

The annual bonus outcome is primarily determined by the extent to which the financial targets and non-financial objectives are met. However, the Committee is clear that the key underpin to the annual bonus scheme is the Group's health and safety performance. The Committee reviewed the health and safety record for the Group during the year 2018/19 and, as a consequence, reduced the bonus of Archie Bethel and John Davies.

Annual bonus deferral into shares (audited)

To ensure that a substantial part of the Directors' annual bonus is exposed to the longer-term impact of decision-making and further to align their interests with Shareholders, 40% of any annual bonus earned by Executive Directors (and other senior executives) must be deferred into Company shares (by means of an award of nil-cost options).

Mandatorily deferred annual bonus awards (Basic Awards) are subject to potential forfeiture if the holder leaves before the awards vest (other than by reason of death, disability, redundancy, retirement or the company or business in which they are employed ceasing to be part of the Group). Details of DBP awards made in respect of the annual bonus for 18/19 will be disclosed in next year's Annual Report on Remuneration.

Long-term incentive schemes (PSP)

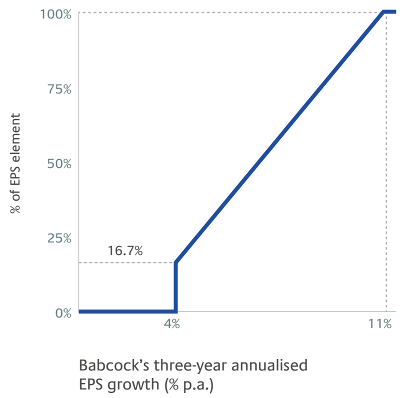
PSP awards made in 2018/19* (audited)

Director	Basis	Number of shares	Face value (£)[1]	Face value (% of salary)[2]	% of award receivable for threshold performance	End of performance period
Archie Bethel	As per the policy.	181,605	£1,560,592	200%	16.7%	31 March 2021
Franco Martinelli	Performance measures and	101,723	£874,140	200%	16.7%	31 March 2021
John Davies	targets are set out below.	98,043	£842,156	200%	16.7%	31 March 2021

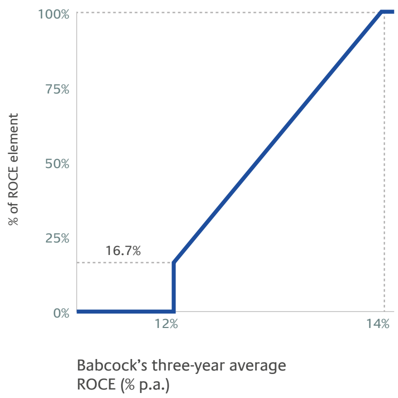
1. Based for Directors on three-day average share price (of 859.33p) at time of grant.
2. Expressed as a percentage of salary at the date of the award (13 June 2018).
* In the form of nil-cost options.

The performance targets that were attached to these awards – split equally between TSR performance relative to the peer group, EPS growth and ROCE – are illustrated in the charts below:

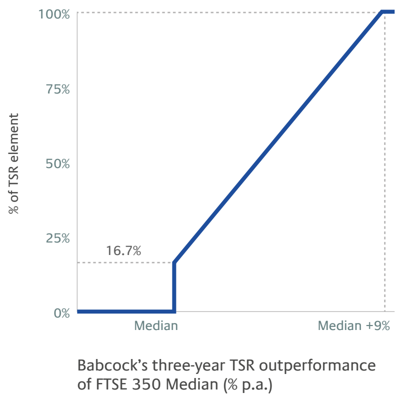
EPS element (33% of award)



ROCE element (33% of award)



TSR element (33% of award)



Note: TSR comparators are the companies that comprise the FTSE 350 (excluding investment trusts and financial services companies). Threshold vesting (16.7% of this element) for the EPS element was set at growth of 4% per annum and maximum vesting at growth of 11% per annum. We believe that growth of 11% would represent exceptional performance. For the comparative TSR element, threshold vesting (16.7% of this element) would be for performance in line with the median of the FTSE 350 (excluding investment trusts and financial services companies) and maximum vesting would be for 9% pa outperformance of the median, representing upper quartile performance. For the ROCE element, the target for maximum vesting of these awards was set at 14% and for threshold vesting at 12%.

Deferred Bonus Plan awards made in 2018/19* (audited)

Director	Basis	Number of shares	Face value (£)[1]	Face value (% of salary)[2]	% of award receivable for threshold performance	End of performance period
Archie Bethel	As per the policy.	32,749	£281,423	36%	n/a	n/a
Franco Martinelli	No additional performance	18,483	£158,831	36%	n/a	n/a
John Davies	conditions required for vesting.	16,399	£140,922	33%	n/a	n/a

1. Based for Directors on three-day average share price of 859.33p at time of grant.
2. Expressed as a percentage of salary at the date of award (13 June 2018).
* In the form of nil-cost options.

2016 PSP awards vesting (audited)

Awards granted in 2016 under the PSP were subject to three-year TSR and EPS targets outlined on page 123. Performance against these measures, and resulting vesting, is as follows:

		% weighting on each element	% of each element vesting
Outcome of three-year TSR to 31 March 2019	15.3% pa below median TSR for the FTSE 350 (excluding investment trusts and financial services)	33%	0%
Outcome of three-year adjusted basic underlying EPS growth to 31 March 2019	4.2% pa (historical EPS numbers were restated to ensure they were on the same accounting basis)	33%	19.3%
Outcome of three-year average ROCE	12.3%	33%	26.0%
2016 PSP awards expected to vest to Executive Directors in June 2019:			15.1%

Director	Award	Number expected to vest
Archie Bethel	PSP 2016	16,657
Franco Martinelli	PSP 2016	12,719
John Davies	PSP 2016	12,265

Sourcing of shares

Shares needed to satisfy share awards for Directors are either shares that are newly issued to the Group's employee share trusts to meet share awards or purchased in the market by the trusts using funds advanced by the Company. The source selection is finalised on or before vesting, the choice being based on what the Board considers is in the best interests of the Company at the time, and what is permissible within available headroom and dilution limits.

Executive Directors' remuneration for 2019/20

The Committee has set the remuneration for Executive Directors for 2019/20 in line with the Group's policy, as approved by Shareholders at the 2017 AGM.

Base salary

Executive Directors' base salaries are reviewed each year with any changes usually taking effect from 1 April. The Remuneration policy is pitched to deliver fixed remuneration at or below median and total remuneration capable of delivering upper quartile pay for upper quartile performance. The increase in Executive Directors' salaries for 2018/19 was in line with increases for the wider UK workforce (see below).

	Salary 2019/20 £	Salary 2018/19 £
Archie Bethel	**796,000**	780,300
Franco Martinelli	**446,000**	437,070
John Davies[1]	**430,000**	421,260

1. John Davies also receives car and fuel benefits.

Internal relativity

As noted in our Remuneration policy, when reviewing Executive Directors' remuneration, the Committee takes note of proposals for pay in the wider Group. Each business within the Group determines its own pay structures and remuneration in light of its own position and the employment market in which it operates.

The overall average salary increase for employees in the UK generally for the year to 31 March 2020 is expected to be between 2.5% and 3% (although, in certain specific cases, individuals may receive above this amount) dependent on business and personal performance and local market conditions. The salary increase for the Executive Directors has been set at 2%.

2019/20 Annual bonus

Executive Directors' annual bonus plans for 2019/20 are largely unchanged from the structure adopted in 2018/19 as set out on page 118, other than for revisions to the weighting of EPS (reduced from 40% to 30%) and OCF (increased from 20% to 30%). PBT and non-financial objectives each continue to be weighted 20%. For John Davies, a portion of the PBT and OCF element will be based on performance of his area of the business. In addition, the Committee decided to reduce the maximum payment that may be earned for the achievement of target from 55% to 50%. The Committee intends to disclose the Group financial performance targets for 2019/20 and non-financial objectives retrospectively in next year's Annual Report on Remuneration, subject to these no longer being considered by the Board to be commercially sensitive. Non-financial objectives will continue to fall under the categories of:

- Growth: continue delivery of value-creating growth
- Technology: improve our technical offering, build barriers to entry and drive cross-sector synergies
- Resources: develop robust resourcing plans to meet the future growth plans of the business
- Reputation: deliver value to our customers, enhance our reputation and sustain operational performance
- Processes: continually improve our systems, technologies and processes to maximise business opportunities.

For all Executive Directors, 40% of any earned bonus will continue to be deferred into shares for three years.

PSP awards for 2019/20

Due to the fall in the share price since the 2018/19 PSP grant, the Committee has decided that 2019/20 PSP awards should be scaled back by 20% in value. Consequently, the Committee intends to grant awards in 2019/20 under the PSP with a maximum face value of 160% of salary for all Executive Directors, with the performance measures and targets as follows: in respect of the EPS targets, the Committee, having considered the forward impact of the loss of the Magnox contract and wishing to reinforce the maximisation of EPS in each year of the performance period, set a cumulative three-year EPS performance range of between 231.5p and 248.0p for 2019/20 PSP awards; a TSR performance range of median to median+9% relative to the peer group (i.e. unchanged from 2018/19 awards); and a ROCE performance range (based on the average ROCE over the performance period) of 11% to 14%.

Summary of the structure of Executive Directors' remuneration

Based on the Committee's policy, the principal elements of the remuneration arrangements for Executive Directors in the year to 31 March 2020 and for the year to 31 March 2019 are (other than pension benefits or supplements in lieu of pension benefits) summarised in the table below.

	2019/20			2018/19		
Director	Base pay £	Annual bonus potential (% of salary)	Performance share awards (% of salary)	Base pay £	Annual bonus potential (% of salary)	Performance share awards (% of salary)
Archie Bethel	**796,000**	**150%**	**160%**	780,300	150%	200%
Franco Martinelli	**446,000**	**150%**	**160%**	437,070	150%	200%
John Davies	**430,000**	**150%**	**160%**	421,260	150%	200%

Outstanding share award summaries: grants made up to and during 2018

The following tables on pages 123 to 124 summarise the performance targets (if applicable) and other information about the plans relevant to currently outstanding share awards held by Executive Directors (i.e. those awards yet to vest).

Scheme	Performance Share Plan (nil price options)			
Performance period	For the 2016 awards: 1 April 2016 to 31 March 2019 (expected to vest in June 2019 as to 15.1%) For the 2017 awards: 1 April 2017 to 31 March 2020 For the 2018 awards: 1 April 2018 to 31 March 2021			
General performance target	EPS growth test	Comparative TSR test	ROCE test	Proportion of total award that can vest under each measure
Maximum	Compound annual growth: 11% or more	Outperformance of the median TSR performance for the peer group taken as a whole by 9% or more	2016 awards: ROCE of more than 15%, 2017 awards: ROCE of more than 14.5%, 2018 awards: ROCE of more than 14%	33% on EPS, TSR and ROCE
Threshold	Compound annual growth: 4% or more	TSR performance equivalent to the median for the peer group as a whole	ROCE of 12%	5.6%
	Intermediate growth between the above points	Intermediate ranking between the above points	Intermediate ROCE between the above points	Straight-line basis between 5.6% and 33%
	Compound annual growth below threshold	Performance less than equivalent to median for the whole peer group	ROCE of less than threshold	0%
TSR comparator group	For the TSR element the peer group is the FTSE 350 (excluding investment trusts and financial services). This group was chosen after careful review due to the fact that Babcock's closest peers straddle multiple sectors and the broader group makes the calibration more robust.			

Performance Share Plan (nil price options) 2016-2018 continued

Other information	The awards are not subject to re-testing. The TSR element will vest only to the extent the Committee is satisfied that the recorded TSR is a genuine reflection of the underlying performance of the Company over the performance period. EPS is adjusted to exclude acquired intangible amortisation, but, unless the Committee decides otherwise in respect of any item, is before exceptional items. ROCE is underlying EBIT after amortisation of acquired intangibles but before exceptional items and including IFRIC 12 investment income and the Group's share of the EBIT of JVs, as a percentage of Average Capital Employed over the Performance Period where Capital Employed is calculated as Total Shareholders' Equity plus Net Debt (or minus Net Funds), as stated in the Company's consolidated audited accounts for the relevant Financial Year; and Average Capital Employed will be calculated as the average of the opening and closing value of Capital Employed for each year of the applicable Performance Period. ROCE targets set at the start of each cycle represent challenging returns in relation to the capital structure at that time, including the impact of any acquisitions or disposals made in the period prior to grant. The Committee has discretion to adjust the ROCE outcome for significant changes to the capital structure made during the performance period (e.g. acquisitions and disposals) to ensure a fair outcome for participants and Shareholders. The awards carry the right to receive on vesting a payment equal to the value of any dividends in the period between grant and vesting but this right applies only to the shares that actually vest under the award. Exercise periods commence not less than three years from actual or nominal award grant date.

Linkage of remuneration to strategic objectives, risk management and alignment with Shareholder interests

The Committee links the remuneration of executives to the long-term interests of Shareholders and key strategic and risk management objectives by the performance criteria it uses in the annual bonus and long-term incentive plans. Examples include the following:

Strategic objective (SO)/Risk (R)	Annual bonus scheme metric	Long-term incentive metric
SO/R: Delivering superior and sustainable value for our Shareholders, whilst balancing risk and reward.	Financial measures focused on annual delivery of sustainable earnings and/or profits with stretch targets, whilst maintaining strict control of cash.	Incentivising delivery of top quartile Shareholder returns and earnings growth over the longer term. Long-term measures and deferral of significant part of annual bonus to guard against short-term steps being taken to maximise annual rewards at the expense of future performance.
SO: Growth.	Setting challenging budgets and stretch targets, as well as non-financial measures specifically aimed at: • laying the foundations for sustainable growth in specific existing and new geographical business markets • winning key bids and rebids • fostering strategically important partnering arrangements.	
SO: Developing and maintaining leading market positions in the UK and selected overseas markets.	Specific non-financial objectives for: • progressing plans for entry into or expansion in targeted domestic and overseas markets • securing key business development milestones.	
SO: Building and maintaining customer focused, long-term relationships with strategically important customers. R: Loss of business reputation, poor contract performance.	Non-financial objectives linked to: • customer satisfaction • continuing improvement of management processes • meeting and planning for existing and future customer expectations on capability and compliance, for example, in the field of security and information assurance.	
SO/R: Ensuring the Group will continue to retain and attract the suitably qualified and experienced people it needs to deliver its growth and strategic plans, maintain and develop its technical and management expertise.	Non-financial objectives linked to recruitment and development, resource and succession planning, and fostering diversity and employee engagement. Retentive nature of the requirement for deferral into shares of 40% of annual bonuses earned by senior executives.	Retentive nature of the long-term plans.
SO/R: Maintenance of an excellent health, safety and environmental record.	Overriding health, safety and environmental performance criteria in annual bonus plans.	

Exit payments made in year (audited)

No exit payments were made to Executive Directors during the year under review.

Payments to past Directors (audited)

Peter Rogers retired from the Company on 31 August 2016. During the year under review, 23.9% and 20.0% of his retained interests in the 2015 PSP and 2015 DBMP matching awards, totalling 45,584 shares, vested at the normal time and in line with other participants, on 11 June 2018. In addition to the vesting of these shares, Mr Rogers was paid a cash sum of £35,966, representing the total value of dividends accruing on his 2015 PSP and DBMP matching awards.

Bill Tame retired from the Company on 30 June 2018, having previously stepped down as an Executive Director on 31 March 2018. During the year under review, he received a salary of £118,660, benefits in kind and cash of £2,364, a pension cash supplement of £26,781 and a cash payment of £209,774 in respect of his 2017/18 annual bonus (disclosed in last year's Annual Report on Remuneration). 23.9% and 20.0% of his retained interests in the 2015 PSP and 2015 DBMP matching awards, totalling 34,972 shares, vested at the normal time and in line with other participants, on 11 June 2018. Mr Tame was also paid a cash sum of £27,593, representing the total value of dividends accruing on his 2015 PSP and DBMP matching awards.

Kevin Thomas retired from the Company on 31 March 2016, having previously served as an Executive Director until stepping down on 31 December 2015. During the year under review, 23.9% and 20.0% of his retained interests in the 2015 PSP and 2015 DBMP matching awards, totalling 26,660 shares, vested at the normal time and in line with other participants on 11 June 2018. Mr Thomas was also paid a cash sum of £21,035, representing the total value of dividends accruing on his 2015 PSP and DBMP matching awards.

Non-Executive Directors' fees (including the Chairman)

The Chairman and Non-Executive Directors receive fixed fees. These fees are reviewed against market practice. From this year the review will take place annually (by the Chairman and the Executive Directors in the case of the Non-Executive Director fees and by the Committee in respect of the fees payable to the Chairman). The Chairman and Non-Executive Director fees were reviewed and set as of 1 April 2019. Prior to this, they were last increased in April 2017.

Annual rate of fees	**Year to 31 March 2020 £**	Year to 31 March 2019 £	% change since last review (% p.a.)
Chairman	**336,000**	330,000	2%
Senior Independent Director (inclusive of basic fee)	**72,000**	71,000	1%
Basic Non-Executive Director's fee (UK based Directors)[1]	**61,000**	60,000	1%
Chairmanship of Audit and Risk Committee[2]	**15,000**	15,000	0%
Chairmanship of Remuneration Committee[2]	**15,000**	15,000	0%

1. Fees for non-UK based Directors will be set having regard to the extra time commitment involved in attending meetings. For Myles Lee, appointed 1 April 2015 and based in Ireland, and for Victoire de Margerie, appointed 1 February 2016 and based in France, the fee has been set at £65,000 for the year to 31 March 2020.
2. Committee chairmanship fees are paid in addition to the basic applicable Non-Executive Director's fee. No additional fees are paid for membership of Committees.

Percentage change in Chief Executive's remuneration

The table below shows the percentage change in the Chief Executive's remuneration (as disclosed in the single total figure of remuneration table on page 116) from the prior year compared to the average percentage change in remuneration for other employees.

The analysis is based on UK employees as they are operating in the same geography and macro-economic background as the Chief Executive.

	% change 2017/18 to 2018/19	
	Chief Executive	Other employees
Base salary	2%	1.9%
Taxable benefits	3%	(7.7)%
Single-year variable	3%	(34)%

Relative importance of spend on pay

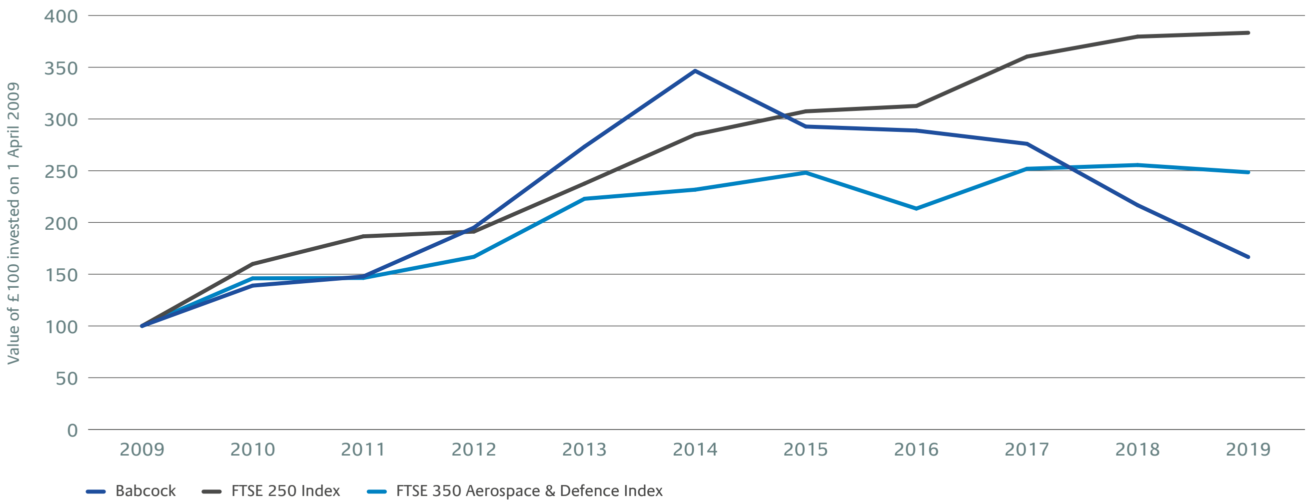
	2018/19	2017/18	% change
Distribution to Shareholders	**£151m**	£144m	4.9%
Employee remuneration	**£1,607m**	£1,588m	1.2%

Performance graphs

The following graph shows the TSR for the Company compared to the FTSE 250 and FTSE 350 Aerospace & Defence Indices, assuming £100 was invested on 1 April 2009. This investment in the Company was worth £167 on 31 March 2019. The Board considers that the FTSE 250 Index (excluding investment trusts) and FTSE 350 Aerospace & Defence Index currently represent the most appropriate indices (of which Babcock is a constituent) against which to compare Babcock's performance.

The table below details the CEO's single figure remuneration and actual variable pay outcomes over the same period.

Babcock vs. FTSE 250 Index vs. FTSE 350 Aerospace & Defence Index



CEO single figure of remuneration and % of variable awards vesting

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	**2018/19**
Peter Rogers[1]										
Single figure (£'000)	1,706	1,792	2,185	2,731	3,809	4,448	2,491	1,091		
Bonus vesting (% max)	97%	98%	99%	99%	93%	78%	60%	66%		
DBMP matching shares vesting (% max)	n/a	n/a	n/a	n/a	n/a	88.4%	57.8%	17.0%		
PSP/CSOP vesting (% max)	100%	82.9%	57.8%	58.8%	94.7%	83.5%	37.3%	26.5%		
Archie Bethel[2]										
Single figure (£'000)								1,844	2,079	**1,981**
Bonus vesting (% max)								66%	61%	**58%**
DBMP matching shares vesting (% max)								17.0%	20.0%	**n/a**
PSP vesting (% max)								26.5%	23.9%	**15.1%**

1. Until retirement on 31 August 2016.
2. Includes remuneration received whilst undertaking the role of Chief Operating Officer until August 2016.

Directors' share ownership

Directors' interests in shares (audited)

The interests of the Directors (and/or their spouses) in the ordinary shares of the Company as at 31 March 2019 and Directors' interests in shares and options under the Company's long-term incentives are set out in the sections below:

	At 31 March 2018	At 31 March 2019							
	Shares held	Shares held	Options held						
Director	Owned outright by Director or spouse[1]	Owned outright by Director or spouse[1]	Vested but subject to holding period	Vested but not exercised	Unvested and subject to performance conditions	Unvested and subject to continued employment	S/holding req. (% salary)	Current shareholding (% of salary)[2]	Req. met?[2]
Archie Bethel	388,191	424,063	0	0	463,505	75,096	300%	316%	Yes
Franco Martinelli	300,219	322,509	0	0	282,073	49,713	200%	424%	Yes
John Davies	177,246	197,202	0	0	271,908	42,860	200%	278%	Yes
Mike Turner	84,884	107,384							
Jeff Randall	5,520	5,758							
Sir David Omand	0	0							
Ian Duncan	0	0							
Myles Lee	10,000	20,000							
Victoire de Margerie	3,000	4,800							
Lucy Dimes	n/a	5,000							
Kjersti Wiklund	n/a	2,100							

1. Beneficially held shares (of Director and/or spouse).
2. Current shareholdings for comparison with the shareholding requirements for Executive Directors are calculated based on salary as at 31 March 2019 and by reference to shares owned outright by Director or spouse, options vested but subject to holding periods, options vested but not exercised and options unvested but subject only to continued employment. Holdings are valued assuming options are exercised on 31 March 2019 and a three-month average share price to 31 March 2019 of 531.6p, and calculated post-tax.

There have been no changes to the continuing Directors' (or their spouses') shareholdings between 31 March 2019 and 22 May 2019.

Directors' share-based awards and options (audited)

The tables below show the various share awards held by Directors under the Company's various share plans. The Company's mid-market share price at close of business on 29 March 2019 was 493.5p. The highest and lowest mid-market share prices in the year ended 31 March 2019 were 862.4p and 472.8p, respectively.

Director	Plan[1] and year of award	Number of shares subject to award at 1 April 2018	Granted during the year	Exercised during the year	Lapsed during the year	**Number of shares subject to award at 31 March 2019**	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
Archie Bethel	PSP 2015	46,519		11,118	35,401	**0**		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic award)	12,187		12,187		**0**		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic matching award)	24,374		4,874	19,500	**0**		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (voluntary deferral award)	10,955		10,955		**0**		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (voluntary deferral matching award)	21,910		4,382	17,528	**0**		1,141.00	Jun 2018	Jun 2019
	PSP 2016	110,312				**110,312**		997.17	Jun 2021	Jun 2022
	DBP 2016	13,162				**13,162**		997.17	Jun 2021	Jun 2022
	PSP 2017	171,588				**171,588**		891.67	Jun 2022	Jun 2023
	DBP 2017	29,185				**29,185**		891.67	Jun 2022	Jun 2023
	PSP 2018		181,605			**181,605**		859.33	Jun 2023	Jun 2024
	DBP 2018		32,749			**32,749**		859.33	Jun 2023	Jun 2024

(a) Market value of each share at date of exercise (13 Jun 2018) = 856.57p.

For other notes to the table see page 130.

Director	Plan[1] and year of award	Number of shares subject to award at 1 April 2018	Granted during the year	Exercised during the year	Lapsed during the year	**Number of shares subject to award at 31 March 2019**	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
Franco Martinelli	PSP 2014	3,761		3,761		**0**		1,015.00	Jan 2018	Jan 2019
	PSP 2015	46,519		11,118	35,401	**0**		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic award)	10,042		10,042		**0**		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic matching award)	20,084		4,016	16,068	**0**		1,141.00	Jun 2018	Jun 2019
	PSP 2016	84,238				**84,238**		997.17	Jun 2021	Jun 2022
	DBP 2016	12,843				**12,843**		997.17	Jun 2021	Jun 2022
	PSP 2017	96,112				**96,112**		891.67	Jun 2022	Jun 2023
	DBP 2017	18,387				**18,387**		891.67	Jun 2022	Jun 2023
	PSP 2018		101,723			**101,723**		859.33	Jun 2023	Jun 2024
	DBP 2018		18,483			**18,483**		859.33	Jun 2023	Jun 2024

(a) Market value of each share at date of exercise (13 Jun 2018) = 856.57p.

For other notes to the table see page 130.

Director	Plan[1] and year of award	Number of shares subject to award at 1 April 2018	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2019	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
John Davies	PSP 2015	44,447		10,622	33,825	**0**		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic award)	11,785		11,785		**0**		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (basic matching award)	23,570		4,714	18,856	**0**		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (voluntary deferral award)	7,366		7,366		**0**		1,141.00	Jun 2018	Jun 2019
	DBMP 2015 (voluntary deferral matching award)	14,732		2,946	11,786	**0**		1,141.00	Jun 2018	Jun 2019
	PSP 2016	81,230				**81,230**		997.17	Jun 2021	Jun 2022
	DBP 2016	13,571				**13,571**		997.17	Jun 2021	Jun 2022
	PSP 2017	92,635				**92,635**		891.67	Jun 2022	Jun 2023
	DBP 2017	12,890				**12,890**		891.67	Jun 2022	Jun 2023
	PSP 2018		98,043			**98,043**		859.33	Jun 2023	Jun 2024
	DBP 2018		16,399			**16,399**		859.33	Jun 2023	Jun 2024

(a) Market value of each share at date of exercise (13 Jun 2018) = 856.57p.

Notes applicable to all tables on pages 129 to 130.

1. PSP = 2009 Performance Share Plan; DBMP = 2012 Deferred Bonus Matching Plan; DBP = 2012 Deferred Bonus Plan. Further details about these plans and, where applicable, performance conditions attaching to the awards listed are to be found on pages 123 to 124.
2. The PSP and DBMP awards are structured as nil priced options. DBMP basic awards represent the amount of the annual bonus mandatorily deferred and DBMP voluntary deferral awards represent the amount voluntarily deferred by the Director, in each case converted into shares at their value at the award date.
3. Subject to the rules of the plan concerned, including as to meeting performance targets for PSP and DBMP matching awards.
4. Where this date is less than 10 years from the date of award, the Committee may extend the expiry date on one or more occasions, but not beyond the 10th anniversary of the award.

General notes:

1. 'Dividend equivalent cash' (an amount representing dividends earned) of 78.9p per vested share had accrued on the PSP 2015 awards and on the DBMP 2015 awards, in each case for the period between grant and vesting. It is payable by the Company to the award holder on exercise of the award concerned.
2. Closing share price on the last dealing date before vesting was 862.4p (11 June 2018) for PSP 2015 and DBMP 2015 awards.

Summary of share-based awards and options vested during the year

During the year to 31 March 2019 the following awards vested:

Director	Award	Number vesting	Vesting date	Market value of vested shares on award £	Market value of vested shares on vesting date £	Exercise price payable for vested shares (if any) £
Archie Bethel	PSP 2015	11,118	11 Jun 2018	£126,856	£95,882	
	DBMP 2015 (basic award)	12,187	11 Jun 2018	£139,054	£105,101	
	DBMP 2015 (basic matching award)	4,874	11 Jun 2018	£55,612	£42,033	
	DBMP 2015 (voluntary deferral award)	10,955	11 Jun 2018	£124,997	£94,476	
	DBMP 2015 (voluntary deferral matching award)	4,382	11 Jun 2018	£49,999	£37,790	
Franco Martinelli	PSP 2015	11,118	11 Jun 2018	£126,856	£95,882	
	DBMP 2015 (basic award)	10,042	11 Jun 2018	£114,579	£86,602	
	DBMP 2015 (basic matching award)	4,016	11 Jun 2018	£45,823	£34,634	
John Davies	PSP 2015	10,622	11 Jun 2018	£121,197	£91,604	
	DBMP 2015 (basic award)	11,785	11 Jun 2018	£134,467	£101,634	
	DBMP 2015 (basic matching award)	4,714	11 Jun 2018	£53,787	£40,654	
	DBMP 2015 (voluntary deferral award)	7,366	11 Jun 2018	£84,046	£63,524	
	DBMP 2015 (voluntary deferral matching award)	2,946	11 Jun 2018	£33,614	£25,406	

Other interests

None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

External appointments of Executive Directors in 2018/19

None of the Executive Directors received a fee for any external appointment during the year.

This Remuneration report was approved by the Board on 21 May 2019 and signed on its behalf by:

Jeff Randall
Chairman of the Remuneration Committee

Dialogue with Shareholders

The Board believes it is important to maintain open and constructive relationships with all of its Shareholders – large and small, institutional and private. The Investor Relations team organises a full investor calendar throughout the year including meeting with existing and potential Shareholders at results presentations, results roadshows, conferences and directly arranged ad hoc meetings. These meetings normally include the Chief Executive, the Group Finance Director and the Director of Investor Relations and include a discussion of the Group's strategy and financial performance. In addition to this, the Company arranges site visits to showcase some of its operations throughout the year. These events are complemented by regular interaction with sell-side analysts and sales teams. During the year the Chairman wrote to our largest Shareholders inviting them to meet with him to discuss strategy, performance and corporate governance matters. The Chairman of the Remuneration Committee was also in contact with leading Shareholders as further explained in his annual statement on pages 101 and 102. Both the Chairman and Sir David Omand, the Senior Independent Director, are available to Shareholders should they have any concerns where contact through the normal channels is deemed inappropriate or where Shareholders believe a matter has not been adequately resolved.

How we communicate

Results and trading updates (available as audiocasts at www.babcockinternational.com/investors)	When
Full-year and half-year results: announcement and presentation	May and November 2018
Trading updates and conference calls with Chief Executive and Group Finance Director	July 2018, September 2018 and February 2019

Other presentations	When
Site visit to our Aviation business in Spain including a presentation by the sector Chief Executive	October 2018
Site visit to our Marine business in Devonport including a presentation by the sector Chief Executive	March 2019
Group Finance Director presentations at broker organised conferences and events	June and July 2018

Dealings with Shareholders, investors and analysts Resolutions of AGM available at www.babcockinternational.com/investors	When
Meetings with Shareholders and potential investors	Throughout
Meetings with sell-side analysts and sales teams	Throughout
Letter from the Group Chairman to our Shareholders	December 2018
Annual General Meeting	July 2018
Roadshows in London, Edinburgh, Paris, New York, Boston, Chicago, Kansas and Toronto	May, June, November and December 2018

Over 97% of Babcock shares are held by institutional Shareholders. Whilst it is normal practice for institutional funds to have a greater degree of contact with the Company, all Shareholders are welcome to raise questions with the Board at the Annual General Meeting.

In addition, on a day to day basis, our investor relations team engages with Shareholders on a wide range of issues on a variety of platforms. To assist our private and international Shareholders, the investor relations team makes sure that all price-sensitive information is released in accordance with the applicable legal and regulatory requirements. All announcements and major presentations given to institutional Shareholders, along with annual reports, shareholder circulars, shareholder services information, other stock exchange releases and share price information, are made available to all Shareholders through the Babcock website (www.babcockinternational.com/investors). The Company ensures that the Board has an up to date perspective on the views and opinions of Shareholders and the investment market. An investor relations report is presented at each Board meeting, including a summary of share price performance, sector developments, changes to the Share Register, analyst research, consensus expectations and progress on the investor relations strategy.

Annual General Meeting

The 2019 AGM will be held at 11:00 am on Thursday 18 July 2019 at the Grosvenor House Hotel, Park Lane, London W1K 7TN. The Company will send notice of the AGM and any related papers at least 20 working days prior to the date of the meeting in accordance with best practice standards.

All Shareholders are welcome. The event provides a platform for the Chairman and Chief Executive to explain how the Company has progressed during the year.

It also provides all Shareholders with the opportunity to put questions to the Chairman of the Board, the Chairmen of the Audit and Risk, Nominations and Remuneration Committees, and the Senior Independent Director. At these meetings, a poll is conducted on each Resolution. Shareholders also have the opportunity to cast their votes by proxy in advance of the meeting. Directors also make themselves available before and after the AGM to talk informally to Shareholders. Following each AGM the results of the polls are published on the Company's website and released to the London Stock Exchange.

Directors' report and other disclosures

The Directors' report comprises this section, as well as the rest of the Governance section and those sections incorporated by reference below.

Disclosures required by LR 9.8.4 R and which form part of the Directors' report can be found at the locations provided in the table below:

Listing Rule	Topic	Location
9.8.4 (1)	Interest capitalised by the Group during the year	Financial statements, note 13 on page 178
9.8.4 (12-13)	Shareholder waivers of dividends and future dividends	Financial statements, note 23 on page 190

Other disclosure requirements set out in LR 9.8.4 R are not applicable to the Company.

Other information that is also relevant and which is incorporated by reference can be located as follows:

Topic	Location
Financial risk management regarding financial instruments	Note 2, pages 164 to 167
Greenhouse gas emissions	Page 65
Employee involvement	Pages 59 to 61
Post balance sheet events	Note 35, page 202
Likely future developments in the business of the Group	Strategic report
Details of important events affecting the Group	Strategic report

For the purposes of DTR 4.1.5 R (2) and DTR 4.1.8 R the required content of the Management report can be found in the Strategic report and the Directors' report including the sections of the Annual Report and Accounts incorporated by reference.

The Company

Babcock International Group PLC, registered and domiciled in England and Wales, with the registered number 2342138, is the holding company for the Babcock International Group of companies.

Results and dividends

The profit attributable to the owners of the Company for the financial year was £199.4 million (2018: £336.3 million). An interim dividend of 7.10 pence per 60 pence ordinary share was declared in the year (2018: 6.85 pence). The Directors are recommending that Shareholders approve at the forthcoming Annual General Meeting a final dividend for the year of 22.9 pence (2018: 22.65 pence) on each of the ordinary shares of 60 pence to be paid on 9 August 2019 to those Shareholders on the register at the close of business on 5 July 2019.

Major shareholdings

As at 31 March 2019, the Company has been notified pursuant to the Disclosure and Transparency Rules (DTR) of the following major interests in voting rights attached to its ordinary shares.

Name	Number of 60 pence ordinary shares on date of notification	% of issued share capital on date of notification
Invesco Ltd	50,381,712	9.96%
The Capital Group Companies Inc.	24,488,028	4.84%
Standard Life Aberdeen PLC	30,759,102	6.08%
Woodford Investment Management LLP	25,474,689	5.04%

The holdings set out above relate only to notifications of interests in the issued share capital received by the Company pursuant to DTR 5 and consequently do not necessarily represent current levels of interest.

Employment of disabled persons/equal opportunities

Babcock is committed to equal opportunities and will not discriminate on the basis of disability, age, race, colour, ethnic origin, gender, marital status, religious or political beliefs or sexual orientation.

We believe that only by encouraging applicants from the widest pool of talent possible, and then selecting the best candidate based on their ability to do the job, can we ensure we continue to deliver our best for our customers and safeguard the future of Babcock.

Research and development

The Group commits resources to research and development to the extent management considers necessary for the evolution and growth of its business.

Political donations

No donations were made during the year for political purposes.

Authority to purchase own shares

At the Annual General Meeting in July 2018, members authorised the Company to make market purchases of up to 50,559,659 of its own ordinary shares of 60 pence each.

That authority expires at the forthcoming Annual General Meeting in July 2019 when a Resolution will be put to renew it so as to allow purchases of up to a maximum of no more than 10% of the Company's issued share capital. No shares in the Company have been purchased by the Company in the period from 19 July 2018 (the date the current authority was granted) to the date of this Report. The Company currently does not hold any treasury shares.

Details of purchases of the Company's shares made in the year to 31 March 2019 by the Babcock Employee Share Trust in connection with the Company's executive share plans are to be found in note 23 on pages 190 to 191.

Qualifying third-party indemnity provisions

The Company has entered into deeds of indemnity with each of its Directors (who served during the year and/or who are currently Directors) which are qualifying third-party indemnity provisions for the purpose of the Companies Act 2006 in respect of their Directorships of the Company and, if applicable, of its subsidiaries.

Under their respective Articles of Association, Directors of Group UK subsidiary companies may be indemnified by the company concerned of which they are or were Directors against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006.

Qualifying pension scheme indemnity provisions are also in place for the benefit of Directors of the Group companies that act as trustees of Group pension schemes.

Significant agreements that take effect, alter or terminate upon a change of control

Many agreements entered into by the Company or its subsidiaries contain provisions entitling the other parties to terminate them in the event of a change of control of the Group company concerned, which can often be triggered by a takeover of the Company.

Although the Group has some contracts that on their own are not significant to the Group, several may be with the same customer. If, upon a change of control, the customer decided to terminate all such agreements, the aggregate impact could be significant.

The following agreements are those individual agreements which the Company considers to be significant to the Group as a whole that contain provisions giving the other party a specific right to terminate them if the Company is subject to a change of control.

Group

Borrowing facilities

The Company extended the maturity date of its five-year £750,000,000 Revolving Credit Facility by a further year, from December 2019 to December 2020.

The facility provides funds for general corporate and working capital purposes. In the event of a change of control of the Company, the facility agreement provides that the lenders may, within a certain period, call for the payment of any outstanding loans and cancel the credit facility.

In February 2018, the Company entered into a two and half year £100,000,000 credit facility with Lloyds Bank PLC. The Company may use the facility for general corporate and working capital purposes. On a change of control of the Company, Lloyds Bank PLC may, within a certain period, call for payment of any outstanding amount and cancel the facility.

Multi-Currency Loan Note facility

The Company has in issue £40 million 5.405% Series B Shelf Notes due 21 January 2020 (the Notes), a facility which is unsecured and unsubordinated and ranks pari passu with all other unsecured and unsubordinated financial indebtedness obligations of the Company. Unless previously redeemed or purchased and cancelled, the Company will redeem the Notes on 21 January 2020 at their principal amount. In the event of a change of control of the Company before then, the Company must offer to repay the Notes together with a make-whole premium.

US Dollar Loan Notes

The Company has in issue US$500 million aggregate principal amount of 5.64% Series B Senior Notes due 17 March 2021. The Notes are unsecured and unsubordinated and rank pari passu with all other unsecured and unsubordinated financial indebtedness obligations of the Company. In the event of a change of control of the Company before then, the Company must offer to purchase the Notes.

£1,800,000,000 Euro Medium-Term Note Programme

The Company has in place a Euro Medium-Term Note Programme under which the Company could issue notes up to £1,800,000,000. Under the Note Programme, the Company has in issue €550,000,000 1.75% Notes due in 2022 as well as £300,000,000 1.875% Notes due in 2026.

If there is a change of control of the Company and the Notes then in issue carry an investment-grade credit rating which is either downgraded to non-investment-grade, or carry a non-investment-grade rating which is further downgraded or withdrawn, or do not carry an investment-grade rating and the Company does not obtain an investment-grade rating for the Notes, a Note holder may require that the Company redeem or, at the Company's option, repurchase the Notes.

Share plans

The Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

Contracts with employees or Directors

A description of those agreements with Directors that contain provisions relating to payments in the event of a termination of employment following a change of control of the Company is set out on pages 111 and 112.

Marine

Articles of Association of Devonport Royal Dockyard Limited and Rosyth Royal Dockyard Limited

The Articles of Association of Devonport Royal Dockyard Limited (DRDL) and Rosyth Royal Dockyard Limited (RRDL), both subsidiaries of the Company, grant the MOD as the holder of a special share in each of those companies certain rights in certain circumstances. Such rights include the right to require the sale of shares in, and the right to remove Directors of, the company concerned. The circumstances in which such rights might arise include where the MOD considers that unacceptable ownership, influence or control (domestic or foreign) has been acquired over the company in question and that this is contrary to the essential security interests of the UK. This might apply, for example, in circumstances where any non-UK person(s) directly or indirectly acquire control over more than 30% of the shares of the relevant subsidiary, although such a situation is not of itself such a circumstance unless the MOD in the given situation considers it to be so. Any level of ownership by particular foreign or domestic persons may, on the facts of the case, be so treated.

Under its Articles of Association RRDL is not entitled to redeem the special share.

Terms of Business Agreement (ToBA) dated 25 March 2010 between (1) The Secretary of State for Defence (2) Babcock International Group PLC (3) Devonport Royal Dockyard Limited (4) Babcock Marine (Clyde) Limited and (5) Babcock Marine (Rosyth) Limited

The ToBA confirms Babcock as a key support partner of MOD in the maritime sector and covers the 15-year period from 2010 to 2025. The MOD may terminate the ToBA in the event of a change in control of the Company in circumstances where, acting on the grounds of national security, the MOD considers that it is inappropriate for the new owners of the Company to become involved, or interested, in the Marine division. 'Change in control' occurs where a person or group of persons that controls the Company ceases to do so or if another person or group of persons acquires control of the Company.

Maritime Support Delivery Framework Agreement dated 1 October 2014 between (1) The Secretary of State for Defence (2) Devonport Royal Dockyard Limited (3) Babcock Marine (Clyde) Limited and (4) Babcock Marine (Rosyth) Limited

In October 2014, Babcock signed the Maritime Support Delivery Framework (MSDF) with MOD. Working within the ToBA, which runs through to 2025, MSDF confirms the continuation of Babcock's contract to deliver services at HMNB Clyde and HMNB Devonport to March 2020, replacing Babcock's Warship Support Modernisation Initiative (WSMI) contracts. The MSDF agreement also covers a number of surface ship projects which will be delivered through the Surface Ship Support Alliance. MOD can terminate the MSDF in the event of a change in control of the Company. The provisions follow those in ToBA in this respect.

Nuclear

Parent Body Agreement between Cavendish Fluor Partnership (CFP) and the Nuclear Decommissioning Authority (NDA) dated 27 August 2014

CFP, a joint venture between Cavendish Nuclear, part of Babcock International, and US-based Fluor Corporation, with ownership split 65:35 to Cavendish and Fluor respectively, is the parent body organisation (PBO) for the site licence company Magnox Limited.

Magnox Limited is responsible for 10 Magnox nuclear power plants, as well as the Harwell and Winfrith research centres. The sites are all owned by the Nuclear Decommissioning Authority (NDA). The NDA has appointed CFP as the PBO in respect of the management of the 12 UK nuclear sites and their respective decommissioning programmes. Under the terms of appointment the NDA may terminate CFP's appointment if there is a change of control to which it has not consented.

Share capital and rights attaching to the Company's shares

General

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine). The Directors' practice is to seek authority from Shareholders at each year's Annual General Meeting to allot shares (including authority to allot free of statutory pre-emption rights) up to specified amounts and also to buy back the Company's shares, again up to a specified amount.

At a general meeting of the Company, every member has one vote on a show of hands and, on a poll, one vote for each share held. The notice of general meeting specifies deadlines for exercising voting rights, either by proxy or by being present in person, in relation to resolutions to be proposed at a general meeting.

No member is, unless the Board decides otherwise, entitled to attend or vote, either personally or by proxy, at a general meeting or to exercise any other right conferred by being a shareholder if they or any person with an interest in their shares has been sent a notice under Section 793 of the Companies Act 2006 (which confers upon public companies the power to require the provision of information with respect to interests in their voting shares) and they or any interested person have failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those defaulting shares and that no transfer of any defaulting shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant Section 793 notice, whichever is the earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Conduct Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. The Directors may likewise refuse to register any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws) or by the nationality-related restrictions, more particularly described later on this page.

The Company is not aware of any agreements between Shareholders that may result in restrictions on the transfer of securities or voting rights in the Company.

At the date of this report 505,596,597 ordinary shares of 60 pence each have been issued and are fully paid up and are quoted on the London Stock Exchange.

Nationality-related restrictions on share ownership

Those Group companies which provide aviation services in the EU, must comply with the requirements of EC Regulation 1008/2008 (the Regulation) which, amongst other matters, requires those companies to be majority-owned and majority-controlled by EEA nationals (the licensed companies).

At the Company's Annual General Meeting in July 2014, Shareholders approved the amendment of the Company's Articles of Association (the Articles) to include provisions intended to assist the Company in ensuring continuing compliance with these obligations by giving the Company and the Directors powers to monitor and, in certain circumstances, actively manage nationality requirements as regards ownership of its shares with a view to protecting the value of the Group undertakings that hold the relevant operating licences. A summary of these powers is set out below. Reference should, however, also be made to the Company's Articles, a copy of which may be found on its website at www.babcockinternational.com. In the event of any conflict between the Articles and this summary, the Articles shall prevail.

Relevant Shares

Relevant Shares are any shares which the Directors have determined or the holders have acknowledged are shares owned by non-EEA nationals for the purposes of the Regulation (Relevant Shares). It is open to shareholders to make representations to the Directors with a view to demonstrating that shares should not be treated as Relevant Shares.

Maintenance of a register of non-EEA shareholders

The Company maintains a register (which is separate from the statutory register of members) containing details of Relevant Shares. This assists the Directors in assessing, on an ongoing basis, whether the number of Relevant Shares is such that action (as outlined below) may be required to prevent or remedy a breach of the Regulation.

The Directors will remove, from the separate register, particulars of shares where they are satisfied that either the share is no longer a Relevant Share or that the nature of the interest in the share is such that the share should not be treated as a Relevant Share.

Disclosure obligations on share ownership

The Articles empower the Company to, at any time, require a Shareholder (or other person with a confirmed or apparent interest in the shares) to provide in writing such information as the Directors determine is necessary or desirable to ascertain such person's nationality and, accordingly, whether details of the shares should be entered in the separate register as Relevant Shares or are capable of being 'Affected Shares' (see below).

If the recipient of a nationality information request from the Company does not respond satisfactorily to the request within the prescribed period (being 21 days from the receipt of the notice), the Company has the power to suspend the right of such Shareholder to attend or speak (whether by proxy or in person) at any general or class meeting of the Company or to vote or exercise any other right attaching to the shares in question. Where the shares represent at least 0.25% of the aggregate nominal value of the Company's share capital, the Company may also (subject to certain exceptions) refuse to register the transfer of such shares.

The Articles also require that a declaration (in a form prescribed by the Directors) relating to the nationality of the transferee is provided to the Directors upon the transfer of any shares in the Company, failing which the Directors may refuse to register such transfer (see further below).

Power to treat shares as 'Affected Shares'

The Articles empower the Directors, in certain circumstances, to treat shares as 'Affected Shares'. If the Directors determine that any shares are to be treated as Affected Shares, they may serve an 'Affected Share Notice' on the registered Shareholder and any other person that appears to have an interest in those shares. The recipients of an Affected Share Notice are entitled to make representations to the Directors with a view to demonstrating that such shares should not be treated as Affected Shares. The Directors may withdraw an Affected Share Notice if they resolve that the circumstances giving rise to the shares being treated as Affected Shares no longer exist.

Consequences of holding or having an interest in Affected Shares

A holder of Affected Shares is not entitled, in respect of those shares, to attend or speak (whether by proxy or in person) at any general or class meeting of the Company or to vote or to exercise any other right at such meetings and the rights attaching to such shares will vest in the Chairman of the relevant meeting (who may exercise, or refrain from exercising, such rights at his sole discretion).

The Affected Shares Notice may, if the Directors determine, also require that the Affected Shares must be disposed of within 10 days of receiving such notice (or such longer period as the Directors may specify) such that the Affected Shares become owned by an EEA national, failing which the Directors may arrange for the sale of the relevant shares at the best price reasonably obtainable at the time. The net proceeds of any sale of Affected Shares would be held on trust and paid (together with such rate of interest as the Directors deem appropriate) to the former registered holder upon surrender of the relevant share certificate in respect of the shares.

Circumstances in which the Directors may determine that shares are Affected Shares

The Articles provide that where the Directors determine that it is necessary to take steps in order to protect an operating licence of the Group they may: (i) seek to identify those shares which have given rise to the determination and to deal with such shares as Affected Shares; and/or (ii) specify a maximum number of shares (which will be less than 50% of the Company's issued share capital) that may be owned by non-EEA nationals and then to treat any shares owned by non-EEA nationals in excess of that limit as Affected Shares (the Directors will publish a notice of any specified maximum within two business days of resolving to impose such limit). In deciding which shares are to be dealt with as Affected Shares the Directors shall be entitled to determine which Relevant Shares in their sole opinion have directly or indirectly caused the relevant determination. However, so far as practicable, the Directors shall have regard to the chronological order in which the Relevant Shares have been entered in the separate register.

Right to refuse registration

The Articles provide the Directors with the power to refuse registration of a share transfer if, in their reasonable opinion, such transfer would result in shares being treated or continuing to be treated as Affected Shares.

The Articles also provide that the Directors shall not register any person as a holder of any share in the Company unless the Directors receive a declaration of nationality relating to such person and such further information as they may reasonably request with respect to that nationality declaration.

The Directors believe that currently the nationality requirements, set out in the Regulation, are met and, based on the Company's understanding of the application of the Regulation and of its Shareholder base, more than 70% of the share capital of those companies which are required to be majority-EEA-owned and controlled is owned by EEA nationals or funds managed in the EEA. There can however, be no guarantee that this will continue to be their assessment and that it will not be necessary to declare a Permitted Maximum or exercise any other of their or the Company's powers in the Articles referred to above. However, if the UK were to leave the EU, it is likely that the licensed companies will no longer satisfy the requirements of the Regulation. In order to mitigate this risk, the Company has reorganised the licensed companies as described on page 76.

Directors' duty to avoid conflicts of interest

The Company has adopted a formal procedure for the disclosure, review, authorisation and management of Directors' conflicts of interest and potential conflicts of interest in accordance with the provisions of the Companies Act 2006.

The procedure requires Directors formally to notify the Board (via the Company Secretary) as soon as they become aware of any actual or potential conflict of interest with their duties to the Company or of any material change in existing actual or potential conflicts that may have been authorised by the Board. Notified actual or potential conflicts will be reviewed by the Board as soon as possible. The Board will consider whether a conflict or potential conflict does, in fact, exist and, if so, whether it is in the interest of the Company that it be authorised and, if so, on what terms. In making their judgement on this, the other Directors must have regard to their general duties to the Company. A register is maintained for the Board of all such disclosures and the terms of any such authorisation.

Authorisations may be revoked, or the terms on which they were given varied, at any time. Cleared conflicts will in any event be reviewed annually by the Board. In the event of any actual conflict arising in respect of any matter, mitigating action would also be considered (for example, non-attendance of the Director concerned at all or part of Board meetings and non-circulation to him or her of relevant papers).

Internal controls and risk management

There has been a process for identifying, evaluating and managing principal risks throughout the year to 31 March 2019 and up to the date of the approval of the financial statements for that year. In respect of our financial reporting process and the process for preparing our consolidated accounts, management monitors the processes underpinning the Group's financial reporting systems through regular reporting and review, and data for consolidation into the Group's financial statements is reviewed by management to ensure that it reflects a true and fair view of the Group's results in compliance with applicable accounting policies.

The Board, through the Audit and Risk Committee, reviews the effectiveness of the Company's internal control processes formally at least once a year. The Group Financial Controller is asked to report on the effectiveness of the Group's internal controls and the Audit and Risk Committee reviews this report in light of all the other information supplied to it during the course of the year including internal audit reports, risk reports and monthly financial and operational reports. The Board considers the system to be effective and in accordance with Guidance for Risk Management, Internal Control, and Related Financial and Business reporting. Further information on the principal internal controls in use in the Company is to be found on pages 70 to 72.

Going concern statement

The going concern assessment considers whether it is appropriate to prepare the financial statements on a going concern basis.

The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group has sufficient financial resources. The Directors have reasonable expectations that the Company and the Group are well placed to manage business risks and to continue in operational existence for the foreseeable future (which accounting standards require to be at least a year from the date of this report) and have not identified any material uncertainties to the Company's and the Group's ability to do so.

For these reasons, they continue to adopt the going concern basis in preparing the financial statements.

Auditor and disclosure of relevant audit information

So far as the Directors who are in office at the time of the approval of this report are aware, there is no relevant audit information (namely, information needed by the Company's auditor in connection with the preparation of its auditor's report) of which the auditor is unaware. Each such Director has taken all steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

PricewaterhouseCoopers LLP is willing to continue in office as independent auditor of the Company and a resolution to reappoint it will be proposed at the forthcoming Annual General Meeting.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Company financial statements in accordance with UK Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework, and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable IFRS as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements
- make judgements and accounting estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company, and enable them to ensure that the Group's financial statements and the Directors' Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' report, confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework, and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company
- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- the Directors' report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware;
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

Each of the Directors listed below (being the Board of Directors at the date of this Annual Report and these financial statements) confirms that to the best of his or her knowledge:

- the Group financial statements (set out on pages 152 to 207 which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole; and the Strategic report and Directors' report contained on pages 1 to 139 include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

In addition, each of the Directors listed below considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position, performance, business model and strategy.

Mike Turner	Chairman
Ruth Cairnie	Non-Executive Director
Sir David Omand	Non-Executive Director
Prof. Victoire de Margerie	Non-Executive Director
Ian Duncan	Non-Executive Director
Lucy Dimes	Non-Executive Director
Myles Lee	Non-Executive Director
Kjersti Wiklund	Non-Executive Director
Jeff Randall	Non-Executive Director
Archie Bethel	Chief Executive
Franco Martinelli	Group Finance Director
John Davies	Chief Executive, Land

Approval of the Strategic report and the Directors' report

The Strategic report and the Directors' report (pages 1 to 139) for the year ending 31 March 2019 have been approved by the Board and signed on its behalf by:

Mike Turner CBE
Chairman

21 May 2019

HMNB Devonport, Plymouth, UK

We deliver capable platforms back to the Royal Navy at Devonport, as well as providing the management of the Naval Base facilities

"This involves the maintenance and development of our unique infrastructure, including our nuclear licensed site where work on submarines is carried out, and the Frigate Support Centre, home to three docks where we refit Type 23 warships."

Alex Thomas
Senior Electrical Control and Instrumentation Engineer
Maritime Support Delivery Framework (MSDF)

Fast Facts

Contract name: Maritime Support Delivery Framework (MSDF)

Length of contract: Five and a half years

Output of contract: Managing critical infrastructure and nuclear facilities, providing maintenance, upgrades and repairs to Royal Navy vessels

Sector: Marine

Report on the audit of the financial statements

Opinion

In our opinion:

- Babcock International Group PLC's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2019 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Company balance sheet as at 31 March 2019; the Group income statement and statement of comprehensive income, the Group cash flow statement, and the Group and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in the Directors' report, we have provided no non-audit services to the Group or the Company in the period from 1 April 2018 to 31 March 2019.

Our audit approach

Overview

Materiality

- Overall Group materiality: £26 million (2018: £26 million), based on 5% of profit before tax, adjusted for amortisation of acquired intangible assets and exceptional items.
- Overall Company materiality: £25 million (2018: £20 million), based on a restricted allocation of component materiality for the purposes of our group audit.

Audit scope

- We conducted our audit work over the complete financial information for 26 of the largest and higher risk reporting components located in the UK, Europe and South Africa, including one financially significant component, Devonport, and one joint venture, Holdfast Training Services Limited.
- In addition, we performed the audit of specific balances and transactions at one further reporting component and for the Group's share of the results of four joint ventures, selected based on their relative contribution to the Group results.
- Where the operating businesses were located outside the UK, we worked together with our network firms located in the relevant territories to ensure we had sufficient evidence upon which to base our audit opinion.
- Taken together, the reporting components and central functions where we performed our audit work accounted for 80% of Group revenue and 72% of Group profit before tax, adjusted for amortisation of acquired intangibles and exceptional items, which included 81% of the Group's share of results of joint ventures and associates. We also performed work over amortisation of acquired intangibles and exceptional items. Overall, our audit work accounted for 86% of the Group profit before tax.

Key audit matters

- Contract accounting and revenue/profit recognition (Group);
- Goodwill impairment (Group);
- Valuation of defined benefit pension liabilities (Group); and
- Presentation of exceptional items (Group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related (but were not limited) to; aviation and nuclear industry legislation and regulation, defence contracting, taxation, anti-bribery and corruption legislation, and health and safety, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manipulation of results to achieve performance targets through improper revenue/profit recognition, given the judgemental nature of contract accounting (included as a key audit matter), and inappropriate recording of costs or expenses given the complex nature of the industries in which the Group operates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work.

Our audit procedures included, but were not limited to: understanding management's policies and processes; enquiries of management; testing journals and central adjustments; review of correspondence with legal advisors and enquiries of legal counsel; review of correspondence with regulators, and review of internal audit reports. We also agreed financial statement disclosures to underlying supporting documentation and performed a review of component auditor's working papers. Our testing of balances and transactions (in addition to those listed as key audit matters below) focussed on areas that are subject to estimation and judgement, to understand thematically any issues within the Group and evaluate whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Contract accounting and revenue/profit recognition (Group) Refer to notes 1 and 3 of the Group financial statements and to the Report of the Audit and Risk Committee on page 96. The Group's business involves entering into contractual relationships with customers to provide a range of services with a significant proportion of the Group's revenues and profits derived from long term contracts. Due to the contracting nature of the business, revenue and profit recognition involves a significant degree of judgement and a number of assumptions to be made, including to: • Estimate total contract costs; • Estimate the stage of completion of the contract; • Forecast the profit margin, after consideration of additional revenue relating to cost and time completion incentive targets; • Forecast contract variations and the outcome of disputes/claims, depending on stage of negotiation or agreement with the customer; and • Appropriately provide for loss making contracts. *There is a broad range of acceptable outcomes resulting from these estimates and judgements that could lead to different revenue and profit being reported in the financial statements.*	We read the relevant clauses within new and amended key contracts and discussed each with management to obtain a full understanding of the specific terms and risks, which informed our consideration as to whether revenue and profit for these contracts were appropriately recognised. We evaluated the design, implementation and operation of controls designed to address the accuracy and timing of revenue recognised in the financial statements, including: • Contract reviews, which are performed by management, reviewed and signed off at both a Group and Sector level, and include the estimation of total costs, stage of completion, profit margin and profitability; and • Transactional controls that underpin the production of underlying contract related cost balances, including the purchase to pay and payroll cycles. We found the controls to be satisfactory for the purposes of our audit. We performed procedures for a sample of contracts, based on quantitative and qualitative factors including size and risk. These procedures varied according to the facts and circumstances of the contract and the relevant areas of judgement and estimation uncertainty. Where applicable, we: • Attended management's contract review meetings and, through discussions with the contract project teams, we obtained an understanding of the performance and status of the contracts; • Evaluated management's positions through the examination of externally generated evidence, such as customer correspondence (including the validation of any incentives or contract variations), acceptance certificates and/or milestone agreements; • Performed procedures over management's models, testing the mathematical accuracy and agreeing amounts back to underlying contracts; • Discussed and understood management's estimates for total contract costs and forecast costs to complete, including taking into account the historical accuracy of such estimates; • Evaluated any correspondence in respect of customer disputes/claims, including discussion with internal legal counsel at a Group and component level; • Compared management's position on the recognition of any cost and time completion incentive target amounts with the actual costs incurred and current progress of the contract; • Evaluated the work performed by external experts on which management placed reliance; • Evaluated management's calculations of provisions for onerous commitments, where these relate to a contract; and • Agreed contract positions to amounts recognised in the financial statements, including amounts due from/to customers for contract work on the balance sheet, and considered the valuation and recoverability of asset balances and the completeness of liability balances. Our testing did not identify any factors that management had not taken into account in their estimates of the total contract costs, stage of completion and expected profit margin of each contract (including the expected losses on loss making contracts). Overall, we consider the contract positions taken by management to be reasonable. We assessed the related disclosures, including those required under IFRS 15, contained in the Group financial statements, and consider them to be appropriate.

Key audit matter	How our audit addressed the area of focus
Valuation of defined benefit pension liabilities (Group) Refer to note 25 of the Group financial statements and to the Report of the Audit and Risk Committee on page 96. The Group operates a number of defined benefit pension plans, giving rise to net and gross pension liabilities of £28m (2018: £5m) and £4,610m (2018: £4,740m) respectively, which are significant in the context of the overall balance sheet of the Group. The valuation of pension liabilities requires judgement and technical expertise in choosing appropriate assumptions such as salary increases, mortality rates, discount rates and inflation levels. Management engaged external actuarial specialists to assist them in selecting appropriate assumptions and to calculate the liabilities. *Inappropriate selection of assumptions or methodologies for calculating the pension liabilities could result in a material difference in the value of the liabilities.*	We used our actuarial specialists to assess whether the assumptions used in calculating the pension liabilities were reasonable, by: • Assessing whether salary increases and mortality rate assumptions were consistent with the specifics of each plan and, where applicable, with relevant UK industry benchmarks; • Verifying that the discount and inflation rate assumptions were consistent with our internally developed benchmarks, based on national data and other companies' recent external reporting; and • Reviewing the calculations prepared by external actuaries to assess the consistency of the assumptions used. Based on our procedures, we found no exceptions and overall considered management's key assumptions to be within acceptable ranges. We assessed the related disclosures included in the Group financial statements, and consider them to be appropriate.
Goodwill impairment (Group) Refer to note 11 of the Group financial statements and to the Report of the Audit and Risk Committee on page 96. The Group has goodwill of £2,584m (2018: £2,601m), principally related to the acquisitions of the VT Group in 2010 and Avincis in 2015, which is subject to an annual impairment review. No impairment charge has been recorded against these balances in the current financial year. The impairment assessments used to support the carrying value of the Group's four goodwill cash generating units ('CGUs') involves the application of subjective judgement about future business performance. We considered certain assumptions made by management in the value in use calculations supporting the impairment assessments to be key areas of judgement, including the forecast cash flows, the short and longer term growth rates and the discount rates applied. *Changes to the key assumptions used by management could result in the calculated value in use being lower than the carrying value of the CGU, therefore indicating an impairment.*	We evaluated management's cash flow forecasts, and the process by which they were determined and approved. This included confirming that the forecasts were consistent with the latest Board approved budgets and checking the mathematical accuracy of the underlying calculations, with no exceptions identified. We evaluated the inputs included in the value in use calculations, and challenged the key assumptions, by obtaining evidence including in respect of: • The growth rates used in the cash flow forecasts, by comparing them with historical results, economic forecasts and our understanding of the related Sector's order book and pipeline; • The key market-related assumptions, including discount rates and long term growth rates, by benchmarking these against external data, using our valuation expertise; and • The reliability of cash flow forecasts, through a review of actual past performance and comparison to previous forecasts. We tested the mathematical accuracy of the value in use calculations, and performed sensitivity analyses of the key inputs and assumptions, including the market-related assumptions and the key driver of the cash flow forecasts, being the operating profit. Our work found that management's assessment that there were no material impairments to be reasonable, and considered management's key assumptions to be within reasonable ranges. We assessed the related disclosures included in the Group financial statements, including the sensitivities provided in respect of the Aviation Sector CGU, and consider them to be appropriate.

Key audit matter	How our audit addressed the area of focus
Presentation of exceptional items (Group) Refer to notes 1 and 5 of the Group financial statements and to the Report of the Audit and Risk Committee on page 96. The Group has recognised net exceptional items, before tax, related to business reorganisation, capacity restructuring, exits and disposals and one-off pension items (including GMP equalisation) of £161m for the year ended 31 March 2019. These costs comprise impairment of assets (£39m), onerous lease provisions (£42m), exit costs (£21m), capacity restructuring costs (£43m) and one-off pension items (£31m), offset by a profit on disposal of subsidiaries of £15m. As required by accounting standards, management performed impairment assessments of the assets, having identified impairment indicators arising from the Group's strategic decision to reshape the Oil and Gas business. The determination of the recoverable amount of tangible assets requires judgements, particularly management's view on determining an appropriate asset market value, or key inputs and assumptions made in cash flow forecasts, including long-term growth rates, where value in use calculations were used to determine the level of impairment required. Provisions for onerous lease contracts were recorded in respect of underperforming assets, where management identified that the expected future cash inflows were lower than the contractual lease obligations. The provisions were calculated based on the judgements applied by management in determining the expected future cash inflows over the remaining lease terms compared to the contractual lease obligations. Determining the business capacity restructuring and exit costs required management to make judgements over the key inputs and assumptions, including the amount and timing of expected costs that will be incurred. As with the valuation of defined benefit pension liabilities above, the methodology and assumptions applied to calculate one-off pension items – in particular for Guaranteed Minimum Pension ('GMP') equalisation – requires judgement and technical expertise. *Changes to the key assumptions used by management could result in the calculated impairment charge, onerous lease provision, or business capacity restructuring and exit costs being different to those reported in the financial statements.* *Another specific area of focus was to assess whether the items identified by management as exceptional met the definition in the Group's accounting policy and have been treated consistently, as the identification of such items requires judgement by management.*	We considered management's programme for the business reorganisation, capacity restructuring, exits and disposals. We agreed the carrying value of tangible assets that were assessed for impairment to underlying financial records. We considered management's view on the appropriate asset fair value by reference to available external market data, including alternative sources of information. Where applicable, we tested the discounted cash flow models used by management to determine the amount of asset impairment required, and checked the accuracy of the calculations. We assessed the cash flow forecasts through a review of actual past performance and comparison with previous forecasts, and understanding the commercial prospects of the assets, including, where possible, comparison of assumptions with external data sources. We tested the accuracy and completeness of the data used by management in the onerous lease calculations by agreeing key inputs, such as the cash flow forecasts for individual leases, to underlying lease contracts. We assessed the key inputs and assumptions used by management in calculating business exit and capacity restructuring costs. Where appropriate, on a sample basis we validated the inputs and assumptions to internal and external data sources, such as payroll records, internal and external announcements, and correspondence received from third parties. We evaluated whether the inputs and assumptions were appropriate based on the evidence available, and whether the costs and provisions recorded met the requirements of the applicable accounting standards. We assessed whether the methodology and assumptions used in calculating the GMP equalisation and other one-off pension items were reasonable, which we found to be appropriate. We challenged management's rationale for the designation of certain items as exceptional and assessed such items against the Group's accounting policy, considering the nature and value of these items. We assessed the appropriateness and completeness of the disclosures included in the Group financial statements, and checked that these reflected the output of management's calculations and positions taken, noting no significant deviations from our expectations. We also considered whether there were items that were recorded within underlying profit that we determined to be exceptional in nature and should have been reported within 'exceptional items'. No such material items were identified.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is primarily structured and managed across four Sectors: Marine, Land, Aviation and Cavendish Nuclear. The Group financial statements are a consolidation of multiple reporting components, including both operating businesses and central functions.

The Group's reporting components vary significantly in size and we identified 26 components that, in our view, required an audit of their complete financial information due to their size and/or risk. This included one component, Devonport, whose results were individually financially significant to the Group, and one joint venture, Holdfast Training Services. Specific risk-based audit procedures were performed at one further reporting component and over the Group's share of the results of four joint ventures. In scope reporting components, including joint ventures, were based in six countries: the UK, France, Spain, Italy, South Africa and Canada.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those locations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. We issued formal, written instructions to component auditors setting out the work to be performed by each of them and maintained regular communication throughout the audit cycle.

The Group engagement leader and senior members of the Group team undertook visits to eight components in the UK, France and South Africa during the audit, including the Group's only financially significant component, Devonport. Senior team members also attended the Devonport and the four Sector clearance meetings in person. During both the site visits and the clearance meetings, the findings reported by all component teams were discussed. The Group team also evaluated the sufficiency of the audit evidence obtained through discussions with, and review of the work performed by, component teams.

This, together with additional procedures performed at the Group level (including audit procedures over material head office entities, pensions, impairment assessments, financial statement disclosures, tax, treasury, share based payments and consolidation adjustments), gave us the evidence we needed for our opinion on the financial statements as a whole. Taken together, the reporting components and functions where we performed our audit work accounted for 80% of Group revenue and 72% of Group profit before tax adjusted for amortisation of acquired intangibles, which included 81% of the Group's share of results of joint ventures and associates. We also performed work over amortisation of acquired intangibles and exceptional items. Overall, our audit work accounted for 86% of the Group profit before tax.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£26 million (2018: £26 million).	£25 million (2018: £20 million).
How we determined it	5% of profit before tax, adjusted for amortisation of acquired intangibles assets and exceptional items.	We calculated a stand-alone materiality of £61 million (2018: £59 million) for the Company financial statements, based on 1% of total assets. We restricted this to £25 million, based on our calculation and allocation of component materiality for the group audit.
Rationale for benchmark applied	Given the contractual nature of the business, we adjusted for amortisation of acquired intangible assets and exceptional items, as this better reflects the underlying performance and nature of operations. We consider an adjusted measure to be one of the principal considerations for the members of Babcock International Group PLC in assessing the recurring financial performance of the Group.	The results of procedures performed over balances and transactions contributing to the Group's overall results were used to support our group opinion. We consider a total asset measure to reflect the nature of the Company, which primarily acts as a holding company for the Group's investments.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1 million to £25 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £1.0 million (Group audit) (2018: £1.2 million) and £1.0 million (Company audit) (2018: £1.2 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. As not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.
We are required to report if the Directors' statement relating to Going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report. *(CA06)*

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 70 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 70 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Reporting on other information (continued)

Other Code provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 138, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 96 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. *(CA06)*

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were originally appointed by the members to audit the financial statements for the year ended 31 March 2003 and subsequent financial periods. Following an audit tender, we were reappointed by the members on 25 May 2016 to audit the financial statements for the year ended 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement is 17 years, covering the years ended 31 March 2003 to 31 March 2019.

John Waters (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

21 May 2019

Group income statement

For the year ended 31 March 2019	Note	2019 £m	2019 Total £m	2018 £m	2018 Total £m
Revenue[1]	3		**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	3, 4		**196.5**		370.6
Share of results of joint ventures and associates	3, 14		**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]	3	**588.4**		584.6	
Amortisation of acquired intangibles	5	**(101.0)**		(103.9)	
Exceptional items	5	**(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	3	**1.3**		1.9	
Retirement benefit interest	25	**0.3**		(2.3)	
Finance costs	6	**(62.7)**		(61.9)	
Finance income	6	**16.0**		14.3	
			(45.1)		(48.0)
Profit before tax	3		**235.2**		391.1
Income tax expense	8		**(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	10				
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	14	**1.8**	24.3
Tax, including rate change impact, on fair value adjustment of joint ventures and associates derivatives	14	**(0.3)**	(7.4)
Items that will not be reclassified to income statement			
Remeasurement of retirement benefit obligations	25	**(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 31 March 2017	303.4	873.0	768.8	30.6	757.9	(86.5)	22.6	2,669.8	22.4	2,692.2
Total comprehensive income	–	–	–	–	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 share-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	**–**	**–**	**–**	**–**	**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 share-based payments	**–**	**–**	**–**	**–**	**2.4**	**–**	**–**	**2.4**	**–**	**2.4**
Transactions with non-controlling interests (note 30)	**–**	**–**	**–**	**–**	**(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	11	**2,584.2**	2,600.9
Other intangible assets	12	**448.9**	529.3
Property, plant and equipment	13	**1,014.3**	1,028.4
Investment in joint ventures and associates	14	**153.2**	119.3
Loan to joint ventures and associates	14	**42.5**	27.8
Retirement benefits	25	**226.9**	240.1
Trade and other receivables	17	**9.3**	6.7
IFRIC 12 financial assets		**15.5**	17.8
Other financial assets	21	**93.8**	76.0
Deferred tax asset	15	**150.9**	104.0
		4,739.5	4,750.3
Current assets			
Inventories	16	**196.5**	181.4
Trade and other receivables	17	**907.8**	1,060.1
Income tax recoverable		**11.1**	15.4
Other financial assets	21	**48.0**	27.5
Cash and cash equivalents	18, 27	**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	23	**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	20	**1,357.6**	1,485.2
Trade and other payables	19	**2.0**	2.3
Deferred tax liabilities	15	**103.2**	112.8
Other financial liabilities	21	**9.3**	5.0
Retirement liabilities	25	**254.9**	245.1
Provisions for other liabilities	22	**40.5**	61.1
		1,767.5	1,911.5
Current liabilities			
Bank and other borrowings	20	**53.9**	38.1
Trade and other payables	19	**1,381.4**	1,392.1
Income tax payable		**22.1**	21.7
Other financial liabilities	21	**4.9**	11.9
Provisions for other liabilities	22	**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

The notes on pages 156 to 207 are an integral part of the consolidated financial statements. The Group financial statements on pages 152 to 207 were approved by the Board of Directors on 21 May 2019 and are signed on its behalf by:

A Bethel
Director

F Martinelli
Director

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	5	**(256.0)**	(98.1)
Operating profit before share of results of joint ventures and associates	3	**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	3	**1.3**	1.9
Equity share-based payments		**2.4**	6.4
Profit on disposal of subsidiaries, businesses and joint ventures and associates	29	**(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 contributions 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	29	**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, loan movements and interest received from joint ventures and associates	14	**(14.6)**	(1.5)
Net cash flows from investing activities		**(89.0)**	(71.5)
Cash flows from financing activities			
Dividends paid	9	**(150.5)**	(143.9)
Finance lease principal payments	27	**(26.4)**	(27.5)
Finance lease assets issued and repaid	27	**(19.4)**	9.6
Bank loans repaid	27	**(103.4)**	(88.4)
Loans raised		**–**	121.9
Dividends paid to non-controlling interest		**(2.8)**	(3.8)
Transactions with non-controlling interest	30	**(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	27	**275.2**	286.3

1. Basis of preparation and significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis, as set out in the Directors' report on page 138, and in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments. Babcock International Group PLC is listed on the London Stock Exchange and is incorporated and domiciled in the UK.

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. Where an appropriate approach was already applied to establish impairment provisions, 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.

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

Basis of consolidation

The consolidated financial statements comprise the Company financial statements and its subsidiary undertakings together with its share of joint ventures and associates results. Intra-group transactions, balances, income and expenses are eliminated on consolidation.

(a) Subsidiaries

A subsidiary is an entity controlled by the Group. An entity is controlled by the Group regardless of the level of the Group's equity interest in the entity, when the Group is exposed or has rights to variable returns from its involvement with the entity and has the ability to impact those returns through its power over the entity.

In determining whether control exists, the Group considers all relevant facts and circumstances to assess its control over an entity such as contractual commitments and potential voting rights held by the Group if they are substantive.

Subsidiaries are fully consolidated from the date control has been transferred to the Group and de-consolidated from the date control ceases. Where control ceases the results for the year up to the date of relinquishing control or closure are analysed as continuing or discontinued operations.

(b) Joint ventures and associates

Associates are those entities over which the Group exercises its significant influence when it has the power to participate in the financial and operating policy decisions of the entity but it does not have the power to control or jointly control the entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

The Group's interests in joint ventures and associates are accounted for by the equity method of accounting and are initially recorded at cost. The Group's investment in joint ventures and associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its joint ventures and associates post-acquisition profits or losses after tax is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains and losses on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in the joint venture and associate. The Group's share of joint venture revenue is disclosed after elimination of sales to that joint venture. Loans to joint ventures are valued at amortised cost.

Critical accounting estimates and judgements

In the course of preparation of the financial statements no judgements have been made in applying the Group's accounting policies, other than those involving estimates, that have had a material effect on the amounts recognised in the financial statements. The application of the Group's accounting policies requires the use of estimates and the inherent uncertainty in certain forward looking estimates may result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates in relation to these financial statements are considered below:

- Revenue and profit recognition

  Revenue and profit recognition on contracts is based on estimates of outturn revenues and costs on a contract-by-contract basis. Both of these estimates can involve significant levels of estimation uncertainty. Estimating contract revenues can involve judgements around whether the Group will meet performance targets, earn incentives and the pricing of any scope changes, variations or claims under the contract. When considering variations to contracts, the Group must make a judgement as to whether the variation should be accounted for as a separate, distinct contract or be considered, and accounted for, as part of the original contract. This judgement will depend on the scope of the variation, its pricing and the contractual terms. Contract outturn assessments are carried out by suitably qualified and experienced Group personnel and include assessments of variable consideration and contract contingencies arising out of technical, commercial, operational and other risks. When considering variations, claims and contingencies, the Group analyses various factors including the contractual terms, status of negotiations with the customer and historic experience with that customer and with similar contracts. The assessments of all significant contracts are subject to review and challenge. As contracts near completion, often less judgement is needed to determine the expected outturn. The level of estimation uncertainty in the financial statements as a whole is therefore mitigated by the size of the Group's portfolio of contracts, which are of various types and at various stages of completion. Nevertheless, the levels of estimation can be significant and material changes in estimates made could affect the profitability of individual contracts. Further information is set out in the Revenue accounting policy below.

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

Critical accounting estimates (continued)

- Defined benefit pension schemes defined benefit obligations

  The Group's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit obligations. Further information on the key assumptions and sensitivities is included at note 25.

- Deferred tax

  The Group has carried forward losses for tax purposes in a number of jurisdictions and has recognised deferred tax assets to the extent that it is considered that the losses will be utilised. That assessment is reached by prudently estimating the future taxable profits in the jurisdictions in question (or the particular company in question, where the utilisation of losses is entity-restricted) and assessing these against the jurisdiction-specific rules around the carry forward and utilisation of tax losses. In circumstances where the Group considers that either of those tests (future profitability or future availability of carried forward losses) might not be passed, no deferred tax asset is recognised to that extent. Further information on the level of tax losses recognised and unrecognised is given in note 15.

- The carrying value of goodwill

  Goodwill is tested annually for impairment, in accordance with IAS 36, and the impairment assessment is based on assumptions in relation to the cashflows expected to be generated by cash generating units, together with appropriate discounting of the cashflows. Whilst the Group does not believe that a reasonably possible change in assumptions could generate a material impairment in the coming financial year, the carrying value of goodwill is included as a critical accounting estimate as a result of the significance of the goodwill held and the inherent judgemental nature of impairment testing. Note 11 provides information on key assumptions and sensitivity analyses performed.

Revenue

Revenue recognised represents income derived from contracts with customers for the provision of goods and services in the ordinary course of the Group's activities. The Group recognises revenue in line with IFRS 15, Revenue from Contracts with Customers. IFRS 15 requires the identification of performance obligations in contracts, allocation of the contract price to the performance obligations and recognition of revenue as performance obligations are satisfied.

(a) Performance obligations

Contracts are assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations if the customer can benefit from them either on their own or together with other resources readily available to the customer and they are separately identifiable in the contract. The integrated output nature of many of the services provided by the Group can result in contracts with one performance obligation.

(b) Allocation of contract price to performance obligations

The contract price represents the amount of consideration which the Group expects to receive in exchange for delivering the promised goods or services to the customer. Variable consideration is included in the contract price on the most likely outcome basis but only to the extent that it is highly probable that it will not reverse in the future. Given the bespoke nature of many of the goods and services the Group provides, stand-alone selling prices are generally not available and, in these circumstances, the Group allocates the contract price to performance obligations based on cost plus margin. The Group's contracts typically do not include significant financing components.

(c) Revenue and profit recognition

Performance obligations are satisfied, and revenue recognised, as control of goods and services is transferred to the customer. Control can be transferred at a point in time or over time and the Group determines, for each performance obligation, whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if any of the following criteria are satisfied:

- the customer simultaneously receives and consumes the benefits of the Group's performance as it performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for work done; or
- the Group's performance creates or enhances an asset controlled by the customer.

Most of the Group's contracts meet the requirements to satisfy performance obligations and recognise revenue over time either because the customer simultaneously receives and consumes the benefits of the Group's performance as it performs or the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for work done.

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

Revenue (continued)

(c) Revenue and profit recognition (continued)

Where the Group satisfies performance obligations over time, revenue is recognised using costs incurred as a proportion of total estimated costs to assess stage of completion, but with the stage of completion and revenue assessed in relation to each performance obligation. In some circumstances the Group also uses an output based earned value approach, as an indicator, to validate the cost based input approach and this approach uses suitably qualified and experienced Group personnel to assess the stage of completion of performance obligations.

If a performance obligation is not satisfied over time, then revenue is recognised at the point in time that control is transferred to the customer. Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to payment by the Group. As can be seen from note 3, sale of goods represents approximately 15% of Group revenues. These revenues are delivered predominantly by the Land sector and include sales of equipment to commercial customers and procurement of consumables on behalf of the Ministry of Defence (MOD). The procurement of consumables for MOD is within the scope of the principal versus agent consideration at paragraph (f) below.

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outturn assessments are carried out on a contract-by-contract basis, including consideration of technical and other risks, by suitably qualified and experienced Group personnel and the assessments of all significant contracts are subject to review and challenge. Assessment of outcomes is in relation to separate performance obligations and includes variable consideration, which can include judgements on contract variations and claims, measured using the most likely outcome approach, to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. Judgement on contract variations and claims may consider, amongst other matters, the contract terms and conditions, previous experience with customers and the status of negotiations at the time the judgement is made. Any expected loss on a contract is recognised immediately in the income statement.

The Group operates in a partnering environment with some customers and certain contracts include pain/gain share arrangements under which cost under/over spends against the contract target cost are shared with the customer. These contract sharing arrangements are included in the assessment of contract outturns.

In circumstances where costs incurred plus recognised profits (less recognised losses) exceed progress billings the Group presents as an asset the gross amount due from customers as "amounts due from customers for contract work". Similarly, in circumstances where progress billings exceed costs incurred plus recognised profits (less recognised losses), the Group presents as a liability the gross amount due to customers as "amounts due to customers for contract work".

(d) Costs of obtaining a contract

Pre-contract costs are recognised as expenses as incurred, except that directly attributable costs incurred from the point that it can be reliably expected that a contract will be obtained, typically at preferred bidder stage, are recognised as an asset in Capitalised contract costs and amortised to cost of revenue over the life of the contract provided that the contract is expected to result in future net cash inflows.

(e) Contract mobilisation costs

Post-contract award but pre-contract operational start-up mobilisation costs are recognised as an asset in capitalised contract costs and amortised to cost of revenue over the life of the contract. These mobilisation costs are included within the contract value and relate to ensuring that assets and resources are mobilised as necessary to support delivery of performance obligations in accordance with contract requirements.

(f) Principal versus agent considerations

A number of the Group's contracts include performance obligations in relation to procurement activity undertaken on behalf of customers at low or nil margin, together with other performance obligations. For such procurement activity, management exercises judgement in the consideration of principal versus agent based on an assessment as to whether the Group controls goods or services prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Group has under the contract for the provision of the goods or services, the extent to which the Group is incentivised to fulfil orders on time and within budget, either through gainshare arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Group exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the Group then comes to a judgement as to whether it acts as principal or agent on a contract by contract basis.

Exceptional items

Items that are exceptional in size or nature are presented as exceptional items within the consolidated income statement. The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of businesses, material acquisition costs along with the restructuring of businesses and asset impairments.

Transactions with non-controlling interest

The Group's policy is to treat transactions with non-controlling interest as transactions with owners of the parent which are therefore reflected in movements in reserves.

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

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Group incurring further costs.

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of contract balances for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly.

A provision is made where operating leases are deemed to be onerous.

A provision for deferred consideration on acquisitions is recognised at the fair value at acquisition. Fair value is based on an assessment of the likelihood of payment.

A provision for employee benefits is recognised when there is a probable outflow of economic benefits that can be reliably estimated.

Goodwill and intangible assets

(a) Goodwill

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets, the difference is treated as purchased goodwill and is capitalised. When the fair value of the consideration for an acquired undertaking is less than the fair value of its separable net assets, the difference is taken directly to the income statement.

Goodwill relating to acquisitions prior to 1 April 2004 is maintained at its net book value on the date of transition to IFRS. From that date goodwill is not amortised but is reviewed at least annually for impairment.

Annual impairment reviews are performed as outlined in note 11.

(b) Acquired intangibles

Acquired intangibles are the estimated fair value of customer relationships and brands which are in part contractual, represented by the value of the acquired order book, and in part non-contractual, represented by the risk adjusted value of future orders expected to arise from the relationships.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation periods, reflecting the lengths of the various contracts, are mainly in the range one year to five years, with a minority of contracts and hence amortisation periods, up to fifteen years.

The carrying value of the non-contracted element is amortised over the period in which it is estimated that the relationships are likely to bring economic benefit via future orders. The method of amortisation is tailored to the expectations of the timing of the receipt of specific future orders and therefore the charge to the income statement matches the timing of value likely to be generated in those years.

Relationships are valued on a contract-by-contract and customer-by-customer basis and the pattern of amortisation reflects the expected pattern of benefit in each case. The amortisation profile is determined on a case-by-case basis and in all cases results in a front-loaded profile, reflecting the greater certainty of future orders in the near term compared with the longer term. The amortisation period is in the range one year to fifteen years.

Acquired brand names are valued dependent on the characteristics of the market in which they operate and the likely value a third party would place on them. Useful lives are likewise dependent on market characteristics of the acquired business brand. These are amortised on a straight-line basis up to five years.

(c) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit but not exceeding seven years.

(d) Computer software

Computer software, excluding the Group's Enterprise Resource Planning (ERP) system, includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful life of between three and five years.

The Group is implementing an ERP system in phases over several years. The ERP system is amortised over its useful life of 10 years from the date when the asset is available for use, which occurs once the implementation has been completed for each respective phase.

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

Property, plant and equipment (PPE)

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Freehold property	2% to 8%
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%
Aircraft airframes	3.33%
Aircraft components	14% to 33.3%

PPE is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

Net debt

Net debt consists of the total of loans, bank overdrafts, cash and cash equivalents, joint venture and associate loans and finance leases granted or received plus any derivatives whose objective is to fair value hedge the underlying debt. This will include swaps of the currency of the debt into the functional currency of the company carrying the debt and fair value hedges.

Leases

Assets under finance leases are capitalised and the outstanding capital element of instalments is included in borrowings. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where these are shorter.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

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

Inventory and work in progress

Inventory is valued at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Taxation

(a) Current income tax

Current tax, including UK Corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted, by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

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

Foreign currencies

(a) Functional and presentational currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Sterling, which is the Company's functional and presentational currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the year end exchange rates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as part of the net investment of a foreign operation.

Exchange differences arising from the translation of the balance sheets and income statements of foreign operations into Sterling are recognised as a separate component of equity on consolidation. Results of foreign subsidiary undertakings are translated using the average exchange rate for the month of the applicable results. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at period end exchange rates.

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred unless they are attributable to an asset under construction, in which case finance costs are capitalised.

Employee benefits

(a) Pension obligations
The Group operates a number of pension schemes. The schemes are generally funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit actuarial valuation method. The service cost and associated administration costs of the Group's pension schemes are charged to operating profit. In addition, a retirement benefit interest charge on the net pension deficit is charged to the income statement as a finance cost. Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income so that the Group's balance sheet reflects the IAS 19 measurement of the schemes' surpluses or deficits at the balance sheet date.

(b) Share-based compensation
The Group operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

The shares purchased by the Group's ESOP trusts are recognised as a deduction to equity.

(c) Holiday pay
Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned.

Financial instruments

(a) Financial assets and liabilities at amortised cost
Cash and cash equivalents, trade receivables, amounts due from related parties and other debtors are classified as financial assets held at amortised cost. Trade creditors, amounts due to related parties, other creditors, accruals and bank loans and overdrafts are classified as financial liabilities held at amortised cost.

The Company assesses on a forward looking basis the expected credit losses associated with financial assets held at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(b) Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at fair value. The Group designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the asset's carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

Service concession arrangements

IFRIC 12 'Service concession arrangements' addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. For all arrangements falling within the scope of the Interpretation (essentially those where the infrastructure assets are not controlled by the operator), the infrastructure assets are not recognised as property, plant and equipment of the operator. Rather, depending on the terms of the arrangement, the operator recognises:

- a financial asset – where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement; or
- an intangible asset – where the operator's future cash flows are not specified (eg where they will vary according to usage of the infrastructure asset); or
- both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

As a consequence of this treatment the operator recognises investment income in respect of the financial asset on an effective interest basis and amortisation of any intangible asset arising.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Group designates certain derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair values is recognised in the income statement immediately.

Dividends

Dividends are recognised as a liability in the Group's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

Standards, amendments and interpretations to published standards

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2019 or later periods but which the Group has not early adopted.

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

- IFRS 17, 'Insurance Contracts', May 2017 issue, effective 1 April 2021.
- IAS 1, 'Presentation of Financial Statements', and IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', October 2018 amendments regarding the definition of material, effective 1 April 2020.
- IFRS 3, 'Business Combinations', October 2018 amendment to clarify the definition of a business, effective 1 April 2020.
- IAS 28, 'Investments in Associates and Joint Ventures', October 2017 amendment, effective 1 April 2019.
- 2017 Annual improvements, effective 1 April 2019.

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

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

- IFRS 16, 'Leases', became effective on 1 April 2019, replacing IAS 17, 'Leases', and the Group has adopted the new standard from 1 April 2019. The modified retrospective transition approach has been adopted so prior year financial information will not be restated. The new standard requires almost all leases to be recognised on the balance sheet with a right-of-use asset capitalised and depreciated over the estimated lease term with a corresponding liability that will reduce over the same period. The operating lease charge that was previously recognised in the income statement under IAS 17 will be replaced by depreciation and interest expenses. Details of the estimated impact of IFRS 16 on the financial statements are disclosed in note 31.
- IAS 19, 'Employee Benefits', May 2018 amendment, effective 1 April 2019.

2. Financial risk management

The Group's treasury and capital policies in respect of the management of debt, interest rates, liquidity, and currency are outlined below. The Group's treasury policies are kept under close review given the continuing volatility and uncertainty in the financial markets.

Capital availability

The Company defines capital as shareholder equity plus net debt but in addition considers available financial capital which adds committed undrawn facilities to capital as a measure.

Objective on available financial capital	To ensure an appropriate level of capital and available financial capital to maintain operational flexibility and meet financial obligations whilst funding the Group's organic and acquisitive growth. The Group seeks to maintain the necessary headroom to cover the peaks and troughs in its working capital cycle, and sufficient liquidity to see it through any periods of tightened liquidity in the market.
Policy	The Board aims to maintain a balance between equity and debt capital which optimises the Group's cost of capital whilst allowing access to both equity and debt capital markets at optimum pricing when appropriate. The Group, in considering its capital structure and financial capital, views net debt to EBITDA at circa two times or below as being steady state and sustainable in normal market and economic conditions. This level may be tempered in periods of market volatility and economic and/or political uncertainty. This is not to rule out acquisition spikes above two times, as illustrated by previous acquisitions, but only to the extent that the Group can see a clear path to reducing net debt to EBITDA back to circa two times or below within a reasonable time frame.
Performance	The gearing, interest cover and net debt to EBITDA ratios, used by the Group to evaluate capital, are set out below. These align with the Group's key performance indicators as set out and defined on pages 26 and 27. Net debt to EBITDA improved to 1.4 times in 2019 (2018: 1.6 times), demonstrating further progress in reducing gearing, both through the pay down of debt and increasing profits attributable to shareholders.

	2019	2018
Interest cover	**14.9**	14.5
Net debt to EBITDA	**1.4x**	1.6x
Gearing	**33%**	38%

The Group has interest cover and net debt to EBITDA covenants that utilise JV dividends rather than share of JV profits included in the Group's key performance indicators and these ratios are below covenanted levels. The reduced gearing leaves sufficient headroom for bolt-on acquisitions and funding of organic growth. The Group considers that capital markets remain accessible, if or when required.

Financial risk management

Financial instruments, in particular forward currency contracts and interest rate swaps, are used to manage the financial risks arising from the business activities of the Group and the financing of those activities.

The Group looks in the first instance to prime rated counterparties with which to carry out treasury transactions, including investments of cash and cash equivalents.

The Group's customers are mainly from government, government backed institutions or blue chip corporations and as such credit risk is considered small.

Treasury activities within the Group are managed in accordance with the parameters set out in the treasury policies and guidelines approved by the Board. A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes.

The Group only enters into financial instruments where it has a high level of confidence of the hedged item occurring. Both the treasury department and the business sectors have responsibility for monitoring compliance within the Group to ensure adherence with the principal treasury policies and guidelines.

2. Financial risk management (continued)

Management of capital

The Group's capital structure is derived from equity and net debt and is overseen by the Board through the Group Finance Committee.

All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required.

A range of gearing and liquidity ratios are used to monitor and measure capital structure and performance, including: Net debt to EBITDA (defined as net debt divided by underlying earnings before interest, tax, depreciation and amortisation), Gearing (defined as net debt, divided by shareholders funds, excluding retirement benefit deficits or surpluses), ROIC (defined as underlying operating profit divided by net debt and by shareholder funds excluding retirement benefit deficits or surpluses) and interest cover (defined as underlying earnings before interest, tax, depreciation and amortisation divided by net Group finance costs). These ratios are discussed under the Financial review.

Through the monitoring of these metrics it remains the Group's intention to ensure the business is prudently funded, balancing risk and price on the capital markets and retaining sufficient flexibility to fund future organic and acquisitive growth.

Foreign exchange risk

The functional and presentational currency of Babcock International Group PLC and its UK subsidiaries is Sterling. The Group has exposure primarily to EUR, USD, ZAR and increasingly AUD, CAD, NOK, OMR and SEK. The USD exposure arises firstly through the US$500 million US Private Placements which are swapped into Sterling and secondly, through a number of activities in the Babcock Mission Critical Services business, where it has some revenue and costs denominated in USD. The EUR exposure is largely due to the activities of the Babcock Mission Critical Services business in Europe, where both translational and transactional exposure exists. The ZAR exposure arises from the activities of Babcock's subsidiaries in South Africa where both translational and transactional exposure exist. The increasing AUD, CAD, NOK, OMR and SEK exposure arises from the activities of Babcock's subsidiaries in those countries where both transactional and translational exposure exists.

Objective	To reduce exposure to volatility in earnings and cash flows from movements in foreign currency exchange rates. The Group is exposed to a number of foreign currencies, the most significant being the Euro, US Dollar and South African Rand.
Policy – Transactional risk	The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions. To mitigate this risk, the Group's policy is to hedge all material transactional exposures, using financial instruments where appropriate. Where possible, the Group seeks to apply IFRS 9 hedge accounting treatment to all derivatives that hedge material foreign currency transaction exposures.
Policy – Translational risk	The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and joint ventures and associates. It is not the Group's policy to hedge through the use of derivatives the translation effect of exchange rate movements on the income statements or balance sheets of overseas subsidiaries and joint ventures and associates it regards as long-term investments. However, where the Group has material assets denominated in a foreign currency, it will consider matching the aforementioned assets with foreign currency denominated debt.
Performance	There have been no material unhedged foreign exchange losses in the year.

A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes.

The Group only enters into financial instruments where it has a high level of confidence of the hedged item occurring. Both the treasury department and the business sectors have responsibility for monitoring compliance within the Group to ensure adherence with the principal treasury policies and guidelines.

The largest foreign exchange exposure of Group entities on the net monetary position against their respective functional currencies results from exposure of Euro to US Dollars, being £15.2 million (2018: Euro to US Dollars £25.7 million).

The pre-tax effect on profit and equity, increase or decrease, if the rates moved up or down by an appropriate percentage volatility, assuming all other variables remained constant, would in total be £0.5 million (2018: £0.2 million). The reasonable shifts in exchange rates are based on historical volatility and range from 10% for Sterling and US Dollars; 15% for Euro and Omani Rial; and 25% for Canadian and Australian Dollars and South African Rand.

2. Financial risk management (continued)

Interest rate risk

The fair values of debt, and related hedging instruments are affected by movements in interest rates. The following table illustrates the sensitivity in interest rate-sensitive instruments and associated debt to a hypothetical parallel shift of the forward interest rate curves of ±50bp (2018: ±50bp), with pre-tax effect annualised and an additional shift in variable rates for the floating rate element of the gross debt. All other variables are held constant. The Group believes ±50bp is an appropriate measure of volatility at this time.

	2019		2018	
	£m +50bp	£m –50bp	£m +50bp	£m –50bp
Net results for the year	**(2.0)**	**2.0**	(2.3)	2.3
Equity	**1.9**	**(1.9)**	2.1	(2.1)

Interest rate risk is managed through the maintenance of a mixture of fixed and floating rate debt and interest rate swaps, each being reviewed on a regular basis to ensure the appropriate mix is maintained.

Objective	To manage exposure to interest rate fluctuations on borrowings by varying the proportion of fixed rate debt relative to floating rate debt to reflect the underlying nature of its commitments and obligations. As a result, the Group does not maintain a specific set proportion of fixed versus floating debt, but monitors the mix to ensure that it is compatible with its business requirements and capital structure.
Policy	Interest hedging and the monitoring of the mix between fixed and floating rates are the responsibility of the treasury department, and are subject to the policy and guidelines set by the Board.
Performance	As at 31 March 2019, the Group had 74% fixed rate debt (2018: 69%) and 26% floating rate debt (2018: 31%) based on gross debt including derivatives of £1,336.4 million (2018: £1,475.6 million). For further information see note 21.

Liquidity risk

Liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines (see note 20).

Each of the sectors in the Group provides regular cash forecasts for both management and liquidity purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group, and ensure that there is sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The cash performance of the business sectors is a KPI.

The Group adopts a conservative approach to the investment of its surplus cash. It is deposited with strong financial institutions for short periods, with bank counterparty credit risk being monitored closely on a systematic and ongoing basis. A credit limit is allocated to each institution taking account of its market capitalisation and credit rating.

Objective	With debt as a key component of available capital, the Group seeks to ensure that there is an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.
Policy	All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required. It remains the Group's policy to ensure the business is prudently funded and that sufficient headroom is maintained on its facilities to fund its future growth.
Performance	The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective. The Group's main debt facilities include: a £750 million Revolving Credit Facility maturing in December 2021, a £40 million loan note maturing in January 2020, US$500 million US private placement notes maturing in March 2021, a EUR 550 million Eurobond maturing in October 2022, a £100 million Term Debt Facility maturing in August 2020 and a £300 million ten year Sterling bond maturing in October 2026. These debt facilities provide the Group with total available committed banking facilities and loan notes of £1.97 billion and sufficient sources of liquidity and headroom to meet the Group's ongoing commitments. For further information see note 20.

2. Financial risk management (continued)

Liquidity risk (continued)

The table below analyses the Group's liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contract maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of interest is not significant.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
At 31 March 2019				
Bank and other borrowings*	**62.9**	**424.1**	**632.6**	**316.3**
Derivative financial instruments	**(1.2)**	**74.1**	**(4.7)**	**(1.5)**
Trade and other payables**	**1,142.6**	**0.5**	**0.4**	**0.8**
At 31 March 2018				
Bank and other borrowings*	47.0	81.9	1,095.8	322.5
Derivative financial instruments	(7.5)	(1.5)	50.3	(1.2)
Trade and other payables**	1,141.4	0.6	0.4	0.9

* Includes fixed rate committed interest

** Does not include amounts due to customers for contract work, deferred income, payroll taxes and social security.

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Held for trading contracts are economic hedges and not hedge accounted.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
At 31 March 2019				
Forward derivative contracts – hedges:				
– outflow	**392.6**	**418.0**	**117.9**	**16.2**
– inflow	**391.4**	**493.3**	**113.6**	**15.1**
Forward derivative contracts – held for trading:				
– outflow	**–**	**–**	**–**	**–**
– inflow	**–**	**–**	**–**	**–**
At 31 March 2018				
Forward derivative contracts – hedges:				
– outflow	461.3	141.5	360.1	17.5
– inflow	443.5	140.0	409.8	16.9
Forward derivative contracts – held for trading:				
– outflow	1.2	–	–	–
– inflow	1.3	–	–	–

3. 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	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.

3. Segmental information (continued)

2018	Marine £m	Land £m	Aviation £m	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 ventures and associates 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.

Inter divisional revenue is immaterial.

Revenues of £2.2 billion (2018: £2.4 billion) are derived from a single external customer. These revenues are attributable across all sectors.

The segment assets and liabilities at 31 March 2019 and 31 March 2018 and capital expenditure for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Marine	**1,041.2**	1,062.8	**546.0**	589.6	**52.3**	44.8
Land	**1,673.2**	1,744.0	**515.5**	529.9	**16.2**	22.8
Aviation	**2,466.9**	2,561.7	**408.3**	367.1	**141.4**	80.2
Nuclear	**163.2**	163.4	**26.7**	36.3	**6.4**	0.1
Unallocated	**833.6**	789.1	**1,796.7**	1,887.1	**10.7**	34.8
Group total	**6,178.1**	6,321.0	**3,293.2**	3,410.0	**227.0**	182.7

Capital expenditure represents additions to property, plant and equipment and intangible assets. Proceeds from the sale of assets totalled £78.5 million (2018: £70.0 million). Proceeds are in the main within the Aviation section. See note 19 relating to the treatment of amounts payable in respect of capital expenditure.

All assets and liabilities are allocated to their appropriate segments except for cash, cash equivalents, borrowings, income and deferred tax and retirement benefit surpluses which are included in the unallocated segment.

The segmental analysis of joint ventures and associates is detailed in note 14.

3. Segmental information (continued)

The segmental depreciation on tangible assets and amortisation of intangible assets for the years ended 31 March 2019 and 31 March 2018 is as follows:

	Depreciation		Amortisation of intangible assets	
	2019 £m	2018 £m	2019 £m	2018 £m
Marine	**28.5**	30.3	**9.8**	11.2
Land	**17.9**	17.7	**46.2**	49.4
Aviation	**39.9**	36.0	**46.6**	45.1
Nuclear	**0.6**	1.3	**0.8**	1.2
Unallocated	**6.9**	6.0	**6.6**	4.2
Group total	**93.8**	91.3	**110.0**	111.1

The geographic analysis for non-current assets by location of those assets for the years ended 31 March 2019 and 31 March 2018 is as follows:

	2019 £m	2018 £m
United Kingdom	**2,827.3**	2,817.9
Rest of Europe	**1,171.7**	1,226.7
Africa	**34.2**	45.9
North America	**7.0**	6.2
Australasia	**175.0**	176.2
Rest of World	**37.2**	39.5
Non-current segment assets	**4,252.4**	4,312.4
Retirement benefits	**226.9**	240.1
IFRIC 12 financial assets	**15.5**	17.8
Other financial assets	**93.8**	76.0
Tax	**150.9**	104.0
Total non-current assets	**4,739.5**	4,750.3

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

	Revenue	
Geographic analysis	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
Group total	**4,474.8**	4,659.6

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

	2019 £m	2018 £m
Sales 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. Further disaggregation of revenue is set out in the Strategic report on page 6.

4. Operating profit for the year

The following items have been included in arriving at operating profit for the year:

	2019 £m	2018 £m
Employee costs (note 7)	**1,611.6**	1,588.3
Inventories		
– cost of inventories recognised as an expense	**504.5**	444.0
– increase/(decrease) in inventory provisions	**(5.9)**	1.8
Depreciation of property, plant and equipment (PPE)		
– owned assets	**81.0**	81.7
– under finance leases	**12.8**	9.6
	93.8	91.3
Amortisation of intangible assets		
– acquired intangibles	**95.2**	98.1
– other	**14.8**	13.0
	110.0	111.1
Impairment of goodwill	**–**	–
Profit on disposal of property plant and equipment	**(5.4)**	(4.1)
Loss on disposal of intangible assets	**0.3**	–
Operating lease rentals payable		
– property	**32.4**	30.0
– vehicles, plant and equipment	**124.4**	115.4
Research and development	**0.4**	1.0
Trade receivables charged	**1.6**	1.3
Net foreign exchange (gain)/loss	**(5.9)**	16.1

In addition to the vehicle operating lease rentals above is £53.5 million (2018: £53.6 million) for the Phoenix contract where the leases are directly on behalf of and benefit to the customer.

Services provided by the Group's auditor and network firms

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor as detailed below:

	2019 £m	2018 £m
Audit fees:		
Fees payable to the parent auditor and its associates for the audit of the parent company's individual and consolidated financial statements	**0.6**	0.4
Fees for other services:		
Fees payable to the parent auditor and its associates in respect of the audit of the Company's subsidiaries	**1.9**	1.8
Audit related services	**–**	0.2
Other non-audit services	**–**	0.1
Total fees paid to the Group's auditor and network firms	**2.5**	2.5

5. 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 29)	**(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. Refer to notes 13 and 17 for the asset impairments, and there are also minor impairments to inventory. Refer to note 22 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 22 for related provision movements.
3. The Group continued with its strategy of exiting small, low margin businesses. The costs of exiting renewables, mining and construction, scaling down powerlines (South Africa), mobile telecom, infrastructure and cabling are reflected within exit costs. Refer to note 13 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 a £4.8 million one 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.

6. 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

7. Employee costs

	2019 £m	2018 £m
Wages and salaries	**1,319.2**	1,306.6
Social security costs	**159.9**	162.4
Share-based payments (note 24)	**2.4**	6.4
Pension costs – defined contribution plans (note 25)	**69.5**	65.6
Pension charges – defined benefit plans (note 25)	**60.6**	47.3
	1,611.6	1,588.3

The average number of people employed by the Group during the year was:

	2019 Number	2018 Number
Operations	**30,554**	30,950
Administration and management	**4,735**	4,477
	35,289	35,427

Emoluments of the Executive Directors are included in employee costs above and reported in the Remuneration report.

Key management compensation

Key management is defined as those employees who are directly responsible for the operational management of the key cash-generating units. The employees would typically report to the Chief Executive. The key management figures given below include Directors.

	2019 £m	2018 £m
Salaries	**10.3**	10.8
Post-employment benefits	**–**	–
Share-based payments	**0.2**	1.4
	10.5	12.2

8. Income tax expense

	Total 2019 £m	2018 £m
Analysis of tax charge in the year		
Current tax		
– UK current year charge	**51.6**	67.3
– UK prior year charge	**11.6**	–
– Overseas current year charge	**22.8**	26.0
	86.0	93.3
Deferred tax		
– UK current year credit	**(33.6)**	(22.3)
– Overseas current year credit	**(1.3)**	(18.4)
– Overseas prior year credit	**(17.0)**	–
– Impact of change in UK tax rate	**1.3**	1.3
– Impact of change in French (2018: French) tax rate	**–**	(0.5)
	(50.6)	(39.9)
Total income tax expense	**35.4**	53.4

The tax for the year is lower (2018: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2019 £m	2018 £m
Profit before tax	**235.2**	391.1
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2018: 19%)	**44.7**	74.3
Effects of:		
Expenses not deductible for tax purposes	**0.4**	0.5
Re-measurement of deferred tax re change in UK tax rate	**1.3**	1.3
Re-measurement of deferred tax re change in French (2018: French) tax rate	**–**	(0.5)
Difference in respect of joint venture results	**(15.9)**	(13.0)
Differences in respect of foreign rates and UK consortium relief rates	**3.4**	(5.1)
Adjustments in respect of earlier years	**(5.4)**	–
Other (including effect of exceptional items at effective tax rate)	**6.9**	(4.1)
Total income tax expense	**35.4**	53.4

In the UK 2015 Budget it was announced that the UK corporation tax rate would reduce to 19% from April 2017. It was announced in the 2016 UK Budget that it will be further reduced to 18% from April 2020. It was subsequently announced in the 2017 budget that it will be reduced to 17% from April 2020. As a result of this change, UK deferred tax balances have been remeasured at 17% as this is the tax rate that will apply on reversal. As a result a charge of £1.3 million has been taken to the income statement in respect of the remeasurement of year end UK deferred tax balances to 17%. A further £0.4 million has been debited to reserves in respect of the remeasurement of year end UK deferred tax balances to 17%.

The exceptional tax item and the tax effect of the other exceptional items are set out in more detail in note 5.

9. Dividends

	2019 £m	2018 £m
Final dividend for the year ended 31 March 2018 of 22.65p (2017: 21.65p) per 60p share	**115.5**	109.2
Interim dividend for the year ended 31 March 2019 of 7.10p (2018: 6.85p) per 60p share	**35.0**	34.7
	150.5	143.9

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 March 2019 of 22.9p (2018: 22.65p) per share which will absorb an estimated £115.7 million (2018: £114.3 million) of shareholders' equity. It will be paid on 9 August 2019 to shareholders who are on the register of members on 5 July 2019. These financial statements do not reflect this dividend payable which is 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).

10. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year excluding those held in the Babcock Employee Share Trust.

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

Number of shares

	2019 Number	2018 Number
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 Earnings £m	2019 Basic per share Pence	2019 Diluted per share Pence	2018 Earnings £m	2018 Basic per share Pence	2018 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

11. Goodwill

	2019 £m	2018 £m
Cost		
At 1 April	**2,608.0**	2,615.9
On disposal of subsidiaries (note 29)	**(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 29)	**(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.

12. Other intangible assets

	Acquired intangibles – relationships £m	Acquired intangibles – brands £m	Acquired intangibles – total £m	Software development costs and licences £m	Development costs and other £m	Total £m
Cost						
At 1 April 2018	**1,174.4**	**23.9**	**1,198.3**	**153.0**	**8.0**	**1,359.3**
Additions	**–**	**–**	**–**	**21.4**	**10.8**	**32.2**
Disposals at cost	**–**	**–**	**–**	**(2.3)**	**–**	**(2.3)**
Exchange adjustments	**(4.9)**	**(0.2)**	**(5.1)**	**(0.1)**	**(0.2)**	**(5.4)**
At 31 March 2019	**1,169.5**	**23.7**	**1,193.2**	**172.0**	**18.6**	**1,383.8**
Accumulated amortisation and impairment						
At 1 April 2018	**751.5**	**19.7**	**771.2**	**57.9**	**0.9**	**830.0**
Amortisation charge	**94.6**	**0.6**	**95.2**	**14.3**	**0.5**	**110.0**
Amortisation on disposals	**–**	**–**	**–**	**(1.9)**	**–**	**(1.9)**
Exchange adjustments	**(2.8)**	**(0.1)**	**(2.9)**	**(0.2)**	**(0.1)**	**(3.2)**
At 31 March 2019	**843.3**	**20.2**	**863.5**	**70.1**	**1.3**	**934.9**
Net book value at 31 March 2019	**326.2**	**3.5**	**329.7**	**101.9**	**17.3**	**448.9**
Cost						
At 1 April 2017	1,175.3	23.9	1,199.2	123.4	6.2	1,328.8
Additions	–	–	–	30.1	1.7	31.8
Disposals at cost	–	–	–	(0.3)	–	(0.3)
Exchange adjustments	(0.9)	–	(0.9)	(0.2)	0.1	(1.0)
At 31 March 2018	1,174.4	23.9	1,198.3	153.0	8.0	1,359.3
Accumulated amortisation and impairment						
At 1 April 2017	655.3	19.2	674.5	45.8	0.5	720.8
Amortisation charge	97.5	0.6	98.1	12.7	0.3	111.1
Amortisation on disposals	–	–	–	(0.3)	–	(0.3)
Exchange adjustments	(1.3)	(0.1)	(1.4)	(0.3)	0.1	(1.6)
At 31 March 2018	751.5	19.7	771.2	57.9	0.9	830.0
Net book value at 31 March 2018	422.9	4.2	427.1	95.1	7.1	529.3

Acquired intangible amortisation charges for the year have been charged through cost of revenue.

13. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2018	**124.9**	**35.4**	**614.0**	**625.4**	**90.0**	**1,489.7**
On disposal of subsidiaries (note 29)	**(0.7)**	**(0.1)**	**(22.8)**	**–**	**–**	**(23.6)**
Additions	**4.2**	**3.6**	**45.8**	**100.7**	**47.5**	**201.8**
Disposals	**(2.9)**	**(0.8)**	**(14.2)**	**(76.9)**	**(16.3)**	**(111.1)**
Reclassification	**–**	**–**	**0.1**	**4.7**	**(4.8)**	**–**
Capitalised borrowing costs	**–**	**–**	**1.7**	**–**	**–**	**1.7**
Exchange adjustments	**(0.4)**	**(0.1)**	**(9.4)**	**(9.6)**	**(2.9)**	**(22.4)**
At 31 March 2019	**125.1**	**38.0**	**615.2**	**644.3**	**113.5**	**1,536.1**
Accumulated depreciation						
At 1 April 2018	**56.8**	**9.1**	**327.5**	**67.9**	**–**	**461.3**
On disposal of subsidiaries (note 29)	**(0.2)**	**(0.1)**	**(18.3)**	**–**	**–**	**(18.6)**
Charge for the year	**5.0**	**1.5**	**63.6**	**23.7**	**–**	**93.8**
Impairment*	**–**	**–**	**–**	**29.3**	**–**	**29.3**
Disposals	**(1.2)**	**(0.6)**	**(13.8)**	**(22.3)**	**–**	**(37.9)**
Exchange adjustments	**–**	**(0.1)**	**(4.5)**	**(1.5)**	**–**	**(6.1)**
At 31 March 2019	**60.4**	**9.8**	**354.5**	**97.1**	**–**	**521.8**
Net book value at 31 March 2019	**64.7**	**28.2**	**260.7**	**547.2**	**113.5**	**1,014.3**
Cost						
At 1 April 2017	117.4	32.4	568.3	598.1	112.8	1,429.0
Additions	8.0	4.6	61.5	44.7	23.7	142.5
Disposals	(0.7)	(1.9)	(16.3)	(27.8)	(38.6)	(85.3)
Reclassification	–	–	0.2	9.3	(9.5)	–
Capitalised borrowing costs	–	0.2	1.6	–	–	1.8
Exchange adjustments	0.2	0.1	(1.3)	1.1	1.6	1.7
At 31 March 2018	124.9	35.4	614.0	625.4	90.0	1,489.7
Accumulated depreciation						
At 1 April 2017	50.1	7.2	282.1	52.7	–	392.1
Charge for the year	6.5	2.2	58.8	23.8	–	91.3
Disposals	–	(0.3)	(12.6)	(6.6)	–	(19.5)
Exchange adjustments	0.2	–	(0.8)	(2.0)	–	(2.6)
At 31 March 2018	56.8	9.1	327.5	67.9	–	461.3
Net book value at 31 March 2018	68.1	26.3	286.5	557.5	90.0	1,028.4

* The Group impaired eight owned helicopters as a result of the reshaping of our Oil and Gas business, as set out in note 5.

The assets have been written down using market values to estimate fair value less costs of disposal observing Level 2 inputs. The eight assets have been written down to a combined recoverable amount of £39 million.

A capitalisation rate of 3% (2018: 3%) was used to determine the amount of borrowing costs eligible for capitalisation.

Assets held under finance leases have the following net book value within property, plant and equipment:

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Assets in course of construction £m	Total £m
2019						
Cost	**–**	**–**	**45.1**	**113.3**	**–**	**158.4**
Aggregate depreciation	**–**	**–**	**(18.0)**	**(24.8)**	**–**	**(42.8)**
Net book value	**–**	**–**	**27.1**	**88.5**	**–**	**115.6**
2018						
Cost	–	–	49.5	157.0	–	206.5
Aggregate depreciation	–	–	(14.7)	(28.3)	–	(43.0)
Net book value	–	–	34.8	128.7	–	163.5

14. 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 ventures and associates (note 29)	**(6.6)**	(1.8)	**–**	–	**(6.6)**	(1.8)
Loans repaid by 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 joint ventures 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

14. 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).

15. Deferred tax

	2019 £m	2018 £m
Deferred tax asset	**150.9**	104.0
Deferred tax liability	**(103.2)**	(112.8)
	47.7	(8.8)

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction as permitted by IAS 12) during the period are shown below:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
At 1 April 2018	**(8.0)**	**0.8**	**41.4**	**(43.0)**	**(8.8)**
Income statement credit	**–**	**11.4**	**–**	**11.8**	**23.2**
Exceptional credit at 19%	**3.4**	**–**	**–**	**5.8**	**9.2**
Exceptional credit at 17%	**2.2**	**–**	**–**	**0.1**	**2.3**
Prior year adjustment	**–**	**–**	**17.0**	**–**	**17.0**
Tax credit to equity	**–**	**10.4**	**–**	**2.8**	**13.2**
Transfer (to)/from corporation tax	**–**	**(17.4)**	**13.8**	**(3.4)**	**(7.0)**
Effect of change in UK tax rate					
– income statement	**(0.2)**	**–**	**–**	**(1.1)**	**(1.3)**
– equity	**–**	**(0.5)**	**–**	**0.1**	**(0.4)**
Exchange differences	**–**	**–**	**–**	**0.3**	**0.3**
At 31 March 2019	**(2.6)**	**4.7**	**72.2**	**(26.6)**	**47.7**
At 1 April 2017	(8.0)	17.8	37.7	(69.0)	(21.5)
Income statement credit	–	9.4	3.7	27.7	40.8
Tax credit to equity	–	(10.3)	–	3.1	(7.2)
Transfer to corporation tax	–	(18.1)	–	(2.6)	(20.7)
Effect of change in UK tax rate					
– income statement	–	–	–	(1.3)	(1.3)
– equity	–	2.0	–	(0.1)	1.9
Effect of change in Italian tax rate					
– income statement	–	–	–	0.5	0.5
Exchange differences	–	–	–	(1.3)	(1.3)
At 31 March 2018	(8.0)	0.8	41.4	(43.0)	(8.8)

The net deferred tax assets of £47.7 million includes deferred tax assets of £99.1 million and deferred tax liabilities of £69.1 million in respect of the Group's non-UK operations.

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because the Directors believe that it is probable that these assets will be recovered.

The net deferred tax liability in respect of 'Other items' is primarily made up of the deferred tax liability in respect of intangibles less deferred tax assets in respect of other short–term timing differences.

15. Deferred tax (continued)

Deferred tax expected to be recovered within 12 months:

	2019 £m	2018 £m
Deferred tax liability	**(21.5)**	(19.6)
	(21.5)	(19.6)

At the balance sheet date, deferred tax assets of £72.0 million (2018: £41.4 million) have been recognised in respect of unused tax losses available for carry forward. This is out of a total potential deferred tax asset in respect of unutilised tax losses (excluding capital losses) of approximately £80 million.

16. 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

17. 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 34)	**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.

17. Trade and other receivables (continued)

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	(0.9)	0.2	(1.1)	(1.8)
31 March 2018	409.3	118.5	53.5	581.3

* As discussed in note 5, amounts due from customers 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).

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.

17. Trade and other receivables (continued)

Movements on the provision for impairment of trade receivables are as follows:

	2019 £m	2018 £m
Balance at 1 April*	**(4.9)**	(6.1)
Provision for receivables impairment	**(1.6)**	(1.3)
Receivables written off during the year as uncollectable	**0.2**	0.2
Unused amounts reversed	**0.2**	2.3
Exchange differences	**0.1**	–
Balance at 31 March	**(6.0)**	(4.9)

* No adjustment to the impairment of trade receivables was required on transition from IAS 39 to IFRS 9.

The creation and release of provisions for impairment of receivables have been included in cost of revenue in the income statement. Amounts charged to the impairment provision are generally written off when there is no expectation of recovering additional cash.

The total provision held against trade receivables and contract assets is immaterial. No further disclosures relating to impairment provisions have been included as these are not to be considered material.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security other than retention of title clauses issued as part of the ordinary course of business.

18. Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	**275.0**	277.3
Short-term bank deposits (overnight)	**0.2**	9.0
	275.2	286.3

The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

	2019		2018	
	Total £m	Floating rate £m	Total £m	Floating rate £m
Currency				
Sterling	**66.4**	**66.4**	62.2	62.2
Euro	**72.7**	**72.7**	83.6	83.6
US Dollar	**5.7**	**5.7**	13.4	13.4
South African Rand	**69.4**	**69.4**	65.7	65.7
Canadian Dollar	**36.8**	**36.8**	32.9	32.9
Omani Rial	**5.6**	**5.6**	6.5	6.5
Australian Dollar	**1.2**	**1.2**	3.3	3.3
Norwegian Krone	**1.9**	**1.9**	–	–
Swedish Krone	**3.2**	**3.2**	2.9	2.9
New Zealand Dollar	**0.1**	**0.1**	6.8	6.8
Brazilian Real	**6.0**	**6.0**	4.4	4.4
Other currencies	**6.2**	**6.2**	4.6	4.6
	275.2	**275.2**	286.3	286.3

The above balances are typically invested at short-term, floating rates linked to LIBOR in the case of Sterling, EURIBOR in the case of Euro, the prime rate in the case of South African Rand and the local prime rate for other currencies.

Impairment of cash and cash equivalents has been determined to be trivial.

19. 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 34)	**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)	(2.1)
31 March 2018	179.9	173.4	60.0	413.3

20. Bank and other borrowings

	2019 £m	2018 £m
Current liabilities		
Bank loans and overdrafts due within one year or on demand		
Secured	**0.3**	2.0
Unsecured	**38.3**	20.3
	38.6	22.3
Finance lease obligations*	**15.3**	15.8
	53.9	38.1
Non-current liabilities		
Bank and other borrowings		
Secured	**22.0**	38.9
Unsecured	**1,285.1**	1,371.0
	1,307.1	1,409.9
Finance lease obligations*	**50.5**	75.3
	1,357.6	1,485.2

* Finance leases are secured against the assets to which they relate.

The Group has entered into interest rate and currency swaps, details of which are included in note 21.

The carrying amount of the Group's borrowings are denominated in the following currencies:

	2019		
Currency	**Total £m**	**Floating rate £m**	**Fixed rate £m**
Sterling	**505.4**	**134.7**	**370.7**
Euro	**508.1**	**19.9**	**488.2**
US Dollar*	**382.1**	**229.3**	**152.8**
South African Rand	**15.9**	**15.9**	**–**
	1,411.5	**399.8**	**1,011.7**

	2018		
Currency	Total £m	Floating rate £m	Fixed rate £m
Sterling	576.3	200.8	375.5
Euro	558.3	36.1	522.2
US Dollar*	354.9	212.9	142.0
South African Rand	33.8	33.8	–
	1,523.3	483.6	1,039.7

* US$500 million (2018: US$500 million) has been swapped into Sterling, with US$300 million (2018: US$300 million) equivalent into floating rates and US$200 million (2018: US$200 million) equivalent into fixed rate. This is included in the US Dollar amount above.

The weighted average interest rate of Sterling fixed rate borrowings is 2.3%. The weighted average period for which these interest rates are fixed is four years.

The floating rate for borrowings is linked to LIBOR in the case of Sterling, EURIBOR in the case of Euro, the prime rate in the case of South African Rand and the local prime rate for other currencies.

The exposure of the Group to interest rate changes when borrowings re-price is as follows:

Total borrowings	1 year £m	1–5 years £m	>5 years £m	Total £m
As at 31 March 2019	**352.6**	**753.9**	**305.0**	**1,411.5**
As at 31 March 2018	415.4	317.9	790.0	1,523.3

20. Bank and other borrowings (continued)

The effective interest rates at the balance sheet dates were as follows:

	2019 %	2018 %
UK bank overdraft	**1.3**	1.3
UK bank borrowings	**2.4**	1.6
US private placement – fixed	**6.0**	6.0
US private placement – floating	**3.1**	2.9
Eurobond	**1.8**	1.8
£300 million bond	**1.9**	1.9
Other borrowings	**4.8 – 9.7**	4.8 – 9.4
Finance leases	**0.4 – 9.0**	0.7 – 9.0

Repayment details

The total borrowings of the Group at 31 March are repayable as follows:

	2019		2018	
	Loans and overdrafts £m	Finance lease obligations £m	Loans and overdrafts £m	Finance lease obligations £m
Within one year	**38.6**	**15.3**	22.3	15.8
Between one and two years	**382.2**	**19.2**	40.0	17.5
Between two and five years	**623.2**	**23.5**	1,067.6	43.8
Greater than five years	**301.7**	**7.8**	302.3	14.0
	1,345.7	**65.8**	1,432.2	91.1

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at 31 March:

	2019 £m	2018 £m
Expiring in less than one year	**4.6**	64.0
Expiring in more than one year but not more than five years	**778.2**	722.3
	782.8	786.3

The minimum lease payments under finance leases fall due as follows:

	2019 £m	2018 £m
Not later than one year	**18.8**	20.3
Later than one year but not more than five years	**46.3**	68.4
More than five years	**8.0**	14.5
	73.1	103.2
Future finance charges on finance leases	**(7.3)**	(12.1)
Present value of finance lease liabilities	**65.8**	91.1

21. Other financial assets and liabilities

Financial instruments and finance leases granted

	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.

Interest rate hedges

The notional principal amount of outstanding interest rate swap contracts at 31 March 2019 included £6.3 million of UK interest rate swaps and interest rate swaps in relation to the US$500 million US$ to GBP cross-currency swap.

The Group held the following interest rate hedges at 31 March 2019:

	Amount £m	Fixed payable %	Floating receivable %	Maturity
Hedged				
Interest rate swap	**4.7**	**4.745**	**Six month LIBOR**	**31/3/2029**

	Amount US$m	Amount at swapped rates £m	Swap %	Maturity
Hedged				
Cross currency and interest rate swap	**200.0**	**122.9**	**Fixed 5.64% US$ to fixed 5.95% GBP**	**17/3/2021**
Cross currency and interest rate swap	**300.0**	**184.3**	**Fixed 5.64% US$ to floating three-month LIBOR + margin GBP**	**17/3/2021**
Total cross currency and interest rate swap	**500.0**	**307.2**		

Finance leases granted

In South Africa the Group operates its own finance company to facilitate the sale of DAF vehicles. It obtains external borrowings and sells vehicles on finance leases to external customers. At the year end the present value of the minimum lease receivable amounted to £24.4 million (2018: £37.2 million), these were split as £7.8 million (2018: £13.9 million) due within one year and £16.6 million (2018: £23.3 million) between one and five years. In addition there is £36.5 million due within one year in respect of our FOMEDEC contract.

21. Other financial assets and liabilities (continued)

Fair values of non-current borrowings and loans

The fair values of non-current borrowings and loans at the balance sheet date were:

	2019		2018	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Fair value of non-current borrowings and loans				
Long-term borrowings	**(1,357.6)**	**(1,404.6)**	(1,485.2)	(1,531.8)
Loan to joint venture	**42.5**	**42.5**	27.8	27.8
	(1,315.1)	**(1,362.1)**	(1,457.4)	(1,504.0)

Fair values of long-term borrowings are based on cash flows discounted using a rate of 4% to 5% (2018: 4% to 5%).

22. 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 29)	**–**	**(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 5). In relation to capacity reductions and restructuring, as discussed in note 5, there remains £12.7 million in provisions at March 2019.

(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.

23. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2018 and 31 March 2019	**505,596,597**	**303.4**
Allotted, issued and fully paid		
At 1 April 2017 and 31 March 2018	505,596,597	303.4

Potential issues of ordinary shares

The table below shows options and conditional share awards existing over the Company's shares as at 31 March 2019 that are capable of being met on exercise or vesting by the issue of new shares. They represent outstanding awards granted under the Company's executive share plans. The awards were granted directly by the Company and satisfied either by the Trustees of the Babcock Employee Share Trust (BEST) – a total of 7,747,703 shares (2018: 8,023,002 shares) – or the Trustees of the Peterhouse Employee Share Trust (PEST) – a total of nil shares (2018: 4,085 shares). The Company decides from time to time whether to satisfy the awards by way of a fresh issue of shares (either to the award holder or to the employee share trust) or by way of financing the employee share trusts to purchase already issued shares in the market. This decision is made according to available headroom within the dilution limits contained in the relevant share plan rules and what the Directors consider to be in the best interest of the Company at the time.

Grant date	Type	Exercise period	2019 Number	2018 Number
14 June 2014	PSP[1]	12/06/2017 – 12/06/2018	–	55,731
29 January 2015	PSP[1]	29/01/2018 – 29/01/2019	–	3,761
14 June 2014	DBMP2	12/06/2017 – 12/06/2018	–	34,162
11 June 2015	PSP[1]	11/06/2018 – 11/06/2019	**23,897**	1,512,199
2 November 2015	PSP[1]	02/11/2018 – 02/11/2019	–	27,388
11 June 2015	DBMP[2]	11/06/2018 – 11/06/2019	**24,279**	900,438
15 June 2016	DBP[4]	15/06/2019 – 15/06/2020	**62,845**	62,845
15 June 2016	DBP[3]	15/06/2018 – 15/06/2019	–	14,714
15 June 2016	PSP[1]	15/06/2019 – 15/06/2020	**1,786,612**	1,951,615
12 October 2016	PSP[1]	12/10/2019 – 12/10/2020	**27,578**	27,578
15 June 2016	DBMP[2]	15/06/2019 – 15/06/2020	**444,648**	474,699
14 June 2017	DBP[3]	14/06/2019 – 14/06/2020	**91,284**	103,246
14 June 2017	DBP[4]	14/06/2020 – 14/06/2021	**179,263**	186,949
14 June 2017	PSP[1]	14/06/2020 – 14/06/2021	**1,507,664**	1,769,338
14 June 2017	PSP[1]	14/06/2022 – 14/06/2023	**839,723**	902,424
13 June 2018	DBP[3]	13/06/2020 – 13/06/2021	**84,207**	–
13 June 2018	DBP[4]	13/06/2021 – 13/06/2022	**187,433**	–
13 June 2018	PSP[1]	14/06/2021 – 14/06/2022	**1,628,113**	–
13 June 2018	PSP[1]	14/06/2023 – 14/06/2024	**860,157**	–
			7,747,703	8,027,087

Options granted to Directors are summarised in the Remuneration report on pages 101 to 131 and are included in the outstanding options set out above.

1. 2009 Performance Share Plan.
2. 2012 Deferred Bonus Matching Plan.
3. Award issued without matching shares, has two-year vesting period.
4. Award issued without matching shares, has three-year vesting period.

23. Share capital (continued)

The table below shows shares already held by the trustees of the BEST and PEST in order to meet these awards.

	2019		2018	
	Shares newly issued by the Company	Shares bought in the market	Shares newly issued by the Company	Shares bought in the market
BEST	–	239,862	–	1,051,973
PEST	–	–	2,748	15,000
Total	–	239,862	2,748	1,066,973

A reconciliation of PSP and DBMP movements is shown below:

	2019 Number '000	2018 Number '000
Outstanding at 1 April	8,027	7,425
Granted	2,838	3,016
Exercised	(830)	(800)
Forfeited/lapsed	(2,287)	(1,614)
Outstanding at 31 March	7,748	8,027
Exercisable at 31 March	48	94

The weighted average share price for awards exercised during the year was 832.3p per share (2018: 856.3p per share).

During the year no ordinary shares (2018: 600,000 shares) were acquired or subscribed for through either the Babcock Employee Share Trust or the Peterhouse Employee Share Trust (together 'the Trusts'). The Trusts hold shares to be used towards satisfying awards made under the Company's employee share schemes. During the year ended 31 March 2019, 829,859 shares (2018: 799,726 shares) were disposed of by the Trusts resulting from options exercised. At 31 March 2019, the Trusts held between them a total of 239,862 ordinary shares (2018: 1,069,721 ordinary shares) at a total market value of £1,183,719 (2018: £7,154,294) representing 0.05% (2018: 0.21%) of the issued share capital at that date. The Company elected to pay dividends to the Babcock Employee Share Trust at the rate of 0.001p per share during the year, though full dividends were paid in respect of shares held by the Peterhouse Employee Share Trust. The Company meets the operating expenses of the Trusts. In July 2018 the Peterhouse Employee Share Trust was closed and the remaining13,663 ordinary shares were transferred to the Babcock Employee Share Trust.

The Trusts enable shares in the Company to be held or purchased and made available to employees through the exercise of rights or pursuant to awards made under the Company's employee share schemes. The Trusts are discretionary settlements for the benefit of employees within the Group. The Company is excluded from benefiting under them. They are controlled and managed outside the UK and each has a single corporate trustee which is an independent trustee services organisation. The right to remove and appoint the trustees rests ultimately with the Company. The trustee of the Babcock Employee Share Trust is required to waive both voting rights and dividends payable on any share in the Company in excess of 0.001p, unless otherwise directed by the Company, but the trustee of the Peterhouse Employee Share Trust does not have the power to waive dividends due on Babcock ordinary shares and therefore receives the full amount of any dividends declared.

24. Share-based payments

The charge to the income statement has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report.

During the year the total charge relating to employee share-based payment plans was £2.4 million (2018: £6.4 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £2.0 million (2018: £5.2 million).

The fair value per option granted and the assumptions used in the calculation are as follows:

DBMP, PSPs and DBP[1]

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS/ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS/ROCE Pence	Correlation %	Grant or modification date
2018 PSP	860,157	856.0	14.0%	6.0	–	370.9	856.0	56%	13/06/18
2018 PSP	1,699,32	856.0	14.0%	4.0	–	370.9	856.0	56%	13/06/18
2018 DBP	187,433	856.0	14.0%	4.0	100%	–	856.0	56%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100%	–	856.0	56%	13/06/18
2017 PSP	902,424	905.5	15.0%	6.0	–	131.2	905.5	46%	14/06/17
2017 PSP	1,769,33	905.5	15.0%	4.0	–	131.2	905.5	46%	14/06/17
2017 DBP	186,949	905.5	15.0%	4.0	100%	–	905.5	46%	14/06/17
2017 DBP	103,246	905.5	15.0%	3.0	100%	–	905.5	46%	14/06/17
2016 DBMP Matching	479,065	974.5	14.0%	4.0	13%	379.1	974.5	46%	15/06/16
2016 PSP	2,085,42	974.5	14.0%	4.0	15%	389.9	974.5	46%	15/06/16
2016 DBP	14,714	974.5	14.0%	3.0	100%	–	974.5	46%	15/06/16
2016 DBP	62,845	974.5	14.0%	4.0	100%	–	974.5	46%	15/06/16
2016 PSP	27,578	991.0	14.0%	3.75	15%	396.4	991.0	46%	12/10/16

Both the vesting period and the expected life of all DBMP and PSP awards is three years, but for the DBP it is two years, other than for Executive Directors where the vesting period is three years. The holders of all awards receive dividends.

The DBMP Matching and PSP awards are split evenly between the performance criteria of TSR, EPS and ROCE, except that in 2015 the PSP awards were split evenly between TSR and EPS. There are no performance conditions attached to the DBP.

The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 92,772 matching shares (2018: 79,475 matching shares) at a cost of £0.6 million (2018: £0.6 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year 82 matching shares vested (2018: nil) leaving a balance of 918 matching shares (2018: 1,000 matching shares).

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan and DBP = 2012 Deferred Bonus Plan.

25. Retirement benefits and liabilities

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	2019 £m	2018 £m
Defined contribution schemes	**69.5**	65.6

Defined benefit schemes

Balance sheet assets and liabilities recognised are as follows:

	2019 £m	2018 £m
Retirement benefits – funds in surplus	**226.9**	240.1
Retirement benefits – funds in deficit	**(254.9)**	(245.1)
	(28.0)	(5.0)

The Group provides a number of pension schemes for its employees. The principal defined benefit pension schemes for employees in the UK are the Devonport Royal Dockyard Pension Scheme, the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme (the Principal schemes). The nature of these schemes is that the employees contribute to the schemes with the employer paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the Group with the trustees who are advised by independent, qualified actuaries.

The key risks in all of the defined benefit schemes relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases, and the discount rate used to value the liabilities. The Principal schemes have mitigated some of these risks by taking out longevity swaps in respect of pensioners and their spouses at the time, through a common investment strategy which has significantly hedged the interest rate and inflation risk through derivative instruments, and introduced benefit changes in 2014 and 2015 impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of members' contributions.

The Group also participates in the Babcock Rail Shared Cost Section of the Railways Pension Scheme (the Railways scheme). This scheme is a multi-employer shared cost scheme with the contributions required, the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments all agreed with the trustees who are advised by an independent, qualified actuary. The costs are, in the first instance, shared such that the active employees contribute 40% of the cost of providing the benefits and the employer contributes 60%. However the assumption is that as the active membership reduces, the liability will ultimately revert to the Group. The Group's share of the assets and liabilities is separately identified to those of other employers in the scheme and therefore the Group cannot be held liable for the obligations of other entities that participate in this scheme.

The schemes are prudently funded by payments to legally separate trustee-administered funds. The trustees of each scheme are required by law to act in the best interests of each scheme's members. In addition to determining future contribution requirements (with the agreement of the Group), the trustees are responsible for setting the schemes' investment strategy (subject to consultation with the Group). All the schemes have at least one independent trustee and member nominated trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004. The detail of the latest formal actuarial valuation of the scheme is as follows. The next valuations of the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard scheme are currently being undertaken:

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
Date of last formal completed actuarial valuation	31/03/2017	31/03/2016	31/03/2015	31/12/2016
Number of active members at above date	2,241	1,103	829	279
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Projected unit
Results of formal actuarial valuation:				
Value of assets	£1,860.8m	£1,230.0m	£714.0m	£253.9m
Level of funding	91%	91%	74%	90%

The Group also participates in or provides a number of other smaller pension schemes including a number of sections of the local government pension schemes where in most cases the employer contribution rates are fully reimbursed by the administering authorities. It also participates in the Magnox Electric Group of the Electricity Supply Pension Scheme and runs the Babcock Naval Services Pension Scheme for which the MOD fully reimburses the contributions payable.

25. Retirement benefits and liabilities (continued)

The Group's cash contribution rates payable to the schemes are as follows:

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme	Other	Total
Future service contribution rate	23.7%	29.9%	21.5%	11.1%	–	–
Future service cash contributions	£15.8m	£8.5m	£4.4m	£0.7m	£1.2m	£30.6m
Deficit contributions	£18.6m	£8.5m	£17.5m	£1.3m	£1.3m	£47.2m
Longevity swap payments	£7.3m	£3.6m	£4.4m	–	–	£15.3m
Expected employer cash costs for 2019/20	£41.7m	£20.6m	£26.3m	£2.0m	£2.5m	£93.1m
Expected salary sacrifice contributions	£5.7m	£1.1m	£1.8m	£1.2m	£0.2m	£10.0m
Expected total employer contributions	£47.4m	£21.7m	£28.1m	£3.2m	£2.7m	£103.1m

Where salary sacrifice arrangements are in place, the Group effectively meets the members' contributions. The above level of funding is expected to continue until the next actuarial valuation of each scheme; valuations are carried out every three years.

The expected payments from the schemes are primarily pension payments and lump sums. Most of the pensions increase at a fixed rate or in line with RPI or CPI inflation when in payment. Benefit payments commence at retirement, death or incapacity and are predominantly calculated with reference to final salary. The level of deficit contributions reflected above are expected to continue until technical provisioning funding levels are met either through asset performance or funding. The current discussions regarding the Rosyth Royal Dockyard Scheme are expected to require an increased level of funding.

Although the Group anticipates that scheme surpluses will be utilised during the life of the scheme to address member benefits, the Group recognises its retirement benefit surpluses in full in respect of the schemes in surplus, on the basis that it is management's judgement that there are no substantive restrictions on the return of residual scheme assets in the event of a winding-up of the scheme after all member obligations have been met. The Group also considers that the trustees do not have the power to unilaterally wind up the schemes or vary benefits.

The latest full actuarial valuations of the Group's defined benefit pension schemes have been updated to 31 March 2019 by independent qualified actuaries for IAS 19 purposes, on a best estimate basis, using the following assumptions:

March 2019	**Devonport Royal Dockyard Scheme**	**Babcock International Group Scheme**	**Rosyth Royal Dockyard Scheme**	**Babcock Rail Ltd section of the Railways Pension Scheme**
Rate of increase in pensionable salaries	**2.3%**	**2.3%**	**2.3%**	**2.3%**
Rate of increase in pensions (past service)	**2.2%**	**3.0%**	**3.3%**	**2.2%**
Discount rate	**2.4%**	**2.4%**	**2.4%**	**2.4%**
Inflation rate (RPI)	**3.2%**	**3.2%**	**3.2%**	**3.2%**
Inflation rate (CPI)	**2.1%**	**2.1%**	**2.1%**	**2.1%**
Weighted average duration of cashflows (years)	**17**	**16**	**18**	**17**
Total life expectancy for current pensioners aged 65 (years)	**85.6**	**86.7**	**84.7**	**85.7**
Total life expectancy for future pensioners currently aged 45 (years)	**86.6**	**87.7**	**85.7**	**86.8**
March 2018				
Rate of increase in pensionable salaries	2.2%	2.2%	2.2%	2.2%
Rate of increase in pensions (past service)	2.2%	2.9%	3.2%	2.2%
Discount rate	2.6%	2.6%	2.6%	2.6%
Inflation rate (RPI)	3.1%	3.1%	3.1%	3.1%
Inflation rate (CPI)	2.0%	2.0%	2.0%	2.0%
Weighted average duration of cashflows (years)	17	15	17	18
Total life expectancy for current pensioners aged 65 (years)	86.1	87.2	85.2	86.1
Total life expectancy for future pensioners currently aged 45 (years)	87.2	88.2	86.3	87.4

25. Retirement benefits and liabilities (continued)

The fair value of the assets and the present value of the liabilities of the Group pension schemes at 31 March were as follows:

	2019				2018			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets								
Growth assets								
Equities	**1,267.4**	**15.0**	**24.9**	**1,307.3**	892.2	15.7	64.8	972.7
Property	**337.2**	**5.6**	**1.9**	**344.7**	305.5	7.8	7.9	321.2
Absolute return and multi-strategy funds	**127.6**	**192.1**	**18.8**	**338.5**	78.5	158.6	16.1	253.2
Low risk assets								
Bonds	**822.9**	**33.3**	**98.3**	**954.5**	1,165.3	57.7	95.1	1,318.1
Matching assets*	**1,736.7**	**0.6**	**87.0**	**1,824.3**	1,869.7	–	168.0	2,037.7
Active position on longevity swaps	**(187.1)**	**–**	**–**	**(187.1)**	(168.0)	–	–	(168.0)
Fair value of assets	**4,104.7**	**246.6**	**230.9**	**4,582.2**	4,143.2	239.8	351.9	4,734.9
Percentage of assets quoted	**100%**	**100%**	**100%**	**100%**	100%	100%	100%	100%
Percentage of assets unquoted	**–**	**–**	**–**	**–**	–	–	–	–
Present value of defined benefit obligations								
Active members	**1,075.0**	**93.7**	**113.5**	**1,282.2**	1,257.1	91.1	201.2	1,549.4
Deferred pensioners	**947.4**	**86.2**	**63.8**	**1,097.4**	929.0	83.8	88.3	1,101.1
Pensioners	**2,037.9**	**131.2**	**61.5**	**2,230.6**	1,879.7	123.9	85.6	2,089.2
Total liabilities	**4,060.3**	**311.1**	**238.8**	**4,610.2**	4,065.8	298.8	375.1	4,739.7
Deficit/(surplus)	**(44.4)**	**64.5**	**7.9**	**28.0**	(77.4)	59.0	23.2	4.8
Present value of unfunded obligations	**–**	**–**	**–**	**–**	–	–	0.2	0.2
Net liabilities/(assets) recognised in the balance sheet	**(44.4)**	**64.5**	**7.9**	**28.0**	(77.4)	59.0	23.4	5.0

* The matching assets aim to hedge the liabilities and consist of gilts, repos, cash and swaps. They are shown net of repurchase obligations of £1,655 million (2018: £1,977 million).

The schemes do not invest directly in assets or shares of the Group.

The longevity swaps have been valued in line with assumptions that are consistent with the requirements of IFRS 13, the valuation of which is equal to the amount of collateral posted by the schemes as at balance sheet date. This is a level 3 derivative and the key inputs to the valuation are the discount rate and mortality assumptions.

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

	2019				2018			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Current service cost	**34.2**	**2.7**	**2.0**	**38.9**	37.7	3.2	2.4	43.3
Incurred expenses	**3.4**	**0.2**	**0.2**	**3.8**	3.7	0.2	0.1	4.0
Past service costs	**24.3**	**1.0**	**0.6**	**25.9**	–	–	–	–
Settlements*	**4.8**	**–**	**(12.8)**	**(8.0)**	–	–	–	–
Total included within operating profit	**66.7**	**3.9**	**(10.0)**	**60.6**	41.4	3.4	2.5	47.3
Net interest (credit)/cost	**(2.3)**	**1.5**	**0.5**	**(0.3)**	0.3	1.6	0.4	2.3
Total included within income statement	**64.4**	**5.4**	**(9.5)**	**60.3**	41.7	5.0	2.9	49.6

* Settlement gain in Other schemes is offset by movements in contract balances and is accordingly not classified as exceptional.

25. Retirement benefits and liabilities (continued)

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 £26.0 million reflect our estimate of the extent to which the judgment crystallises additional liabilities for our pension schemes.

The settlement cost for the Principal schemes is due to a transfer of liability for members who were previously in the Principal Civil Service Pension Scheme back into that scheme.

The settlement credit for the other schemes is due to the termination of a contract that included employees in a section of the local government pension schemes. Responsibility for those employees' pension entitlements has now passed back to the local authority. When the contract was terminated, the fair value of plan assets was greater than the present value of defined benefit obligations and the Group was not liable for that difference.

Amounts recorded in the Group statement of comprehensive income

	2019				2018			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Actual return less interest on pension scheme assets	**110.3**	**6.1**	**20.8**	**137.2**	53.5	(1.5)	8.8	60.8
Experience (losses)/gains arising on scheme liabilities	**(35.7)**	**(5.5)**	**3.0**	**(38.2)**	(35.8)	–	6.2	(29.6)
Changes in assumptions on scheme liabilities	**(131.6)**	**(5.1)**	**(20.7)**	**(157.4)**	33.2	4.9	(19.6)	18.5
At 31 March	**(57.0)**	**(4.5)**	**3.1**	**(58.4)**	50.9	3.4	(4.6)	49.7

Analysis of movement in the Group balance sheet

	2019				2018			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets (including reimbursement rights)								
At 1 April	**4,143.2**	**239.8**	**351.9**	**4,734.9**	4,088.9	241.4	345.9	4,676.2
Interest on assets	**105.5**	**6.1**	**3.8**	**115.4**	105.3	6.2	4.3	115.8
Actuarial gain/(loss) on assets	**110.3**	**6.1**	**20.8**	**137.2**	53.5	(1.5)	8.8	60.8
Employer contributions	**88.4**	**4.4**	**2.7**	**95.5**	92.4	4.2	2.8	99.4
Employee contributions	**0.4**	**–**	**0.1**	**0.5**	0.5	–	0.2	0.7
Benefits paid	**(301.4)**	**(9.8)**	**(28.2)**	**(339.4)**	(197.4)	(10.5)	(10.1)	(218.0)
Settlements	**(41.7)**	**–**	**(120.2)**	**(161.9)**	–	–	–	–
At 31 March	**4,104.7**	**246.6**	**230.9**	**4,582.2**	4,143.2	239.8	351.9	4,734.9
Present value of benefit obligations								
At 1 April	**4,065.8**	**298.8**	**375.1**	**4,739.7**	4,113.1	303.0	364.4	4,780.5
Service cost	**34.2**	**2.7**	**2.0**	**38.9**	37.7	3.2	2.4	43.3
Incurred expenses	**3.4**	**0.2**	**0.2**	**3.8**	3.7	0.2	0.1	4.0
Interest cost	**103.2**	**7.6**	**4.3**	**115.1**	105.6	7.8	4.7	118.1
Employee contributions	**0.4**	**–**	**0.1**	**0.5**	0.5	–	0.2	0.7
Experience loss/(gain)	**35.7**	**5.5**	**(3.0)**	**38.2**	35.8	–	(6.2)	29.6
Actuarial (gain)/loss – demographics	**(35.4)**	**(9.3)**	**(2.5)**	**(47.2)**	(0.8)	(1.2)	2.1	0.1
Actuarial loss /(gain)– financial	**167.0**	**14.4**	**23.2**	**204.6**	(32.4)	(3.7)	17.5	(18.6)
Benefits paid	**(301.4)**	**(9.8)**	**(28.2)**	**(339.4)**	(197.4)	(10.5)	(10.1)	(218.0)
Past service costs	**24.3**	**1.0**	**0.6**	**25.9**	–	–	–	–
Settlements	**(36.9)**	**–**	**(133.0)**	**(169.9)**	–	–	–	–
At 31 March	**4,060.3**	**311.1**	**238.8**	**4,610.2**	4,065.8	298.8	375.1	4,739.7
Present value of unfunded obligations	**–**	**–**	**–**	**–**	–	–	0.2	0.2
Net deficit/(surplus) at 31 March	**(44.4)**	**64.5**	**7.9**	**28.0**	(77.4)	59.0	23.4	5.0

The movement in net deficits for the year ending 31 March 2019 is as a result of the movement in assets and liabilities shown above.

25. Retirement benefits and liabilities (continued)

The changes to the Group balance sheet at March 2019 and the charges to the Group income statement for the year to March 2020, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2019 £m	Income statement 2020 £m
Initial assumptions	**4,610.2**	**43.3**
Discount rate assumptions increased by 0.5%	**(355.8)**	**(19.3)**
Discount rate assumptions decreased by 0.5%	**355.8**	**7.7**
Inflation rate assumptions increased by 0.5%	**284.9**	**9.3**
Inflation rate assumptions decreased by 0.5%	**(257.4)**	**(8.6)**
Total life expectancy increased by half a year	**91.1**	**2.7**
Total life expectancy decreased by half a year	**(91.1)**	**(2.7)**
Salary increase assumptions increased by 0.5%	**58.2**	**2.5**
Salary increase assumptions decreased by 0.5%	**(58.2)**	**(2.5)**

The figures in the table above have been calculated on an approximate basis, using information about the expected future benefit payments out of the schemes. The analysis above may not be representative of actual changes to the position since changes in assumptions are unlikely to happen in isolation. The change in inflation rates is assumed to affect the assumed rate of RPI inflation, CPI inflation and future pension increases by an equal amount. The fair value of the schemes' assets (including reimbursement rights) are assumed not to be affected by any sensitivity changes shown and so the balance sheet values would increase or decrease by the same amount as the change in the defined benefit obligations.

26. 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
New finance leases – granted	**176.6**	28.1
Movement in joint venture and associate 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)

27. Changes in net debt

	31 March 2018 £m	Cash flow £m	Disposal of subsidiaries £m	New 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)**

28. Acquisitions

There were no acquisitions in the year nor in the previous year.

29. Disposal 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 previous years 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**	–	–	–
Investment 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)

30. 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 in the year to March 2019.

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

	Cash flow statement £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

31. Operating lease commitments – minimum lease payments

	2019		2018	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
Commitments under non-cancellable operating leases payable:				
Within one year	**29.5**	**121.5**	29.9	126.9
Later than one year and less than five years	**78.8**	**320.6**	82.3	287.0
After five years	**33.1**	**102.0**	61.6	114.2
	141.4	**544.1**	173.8	528.1

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Group also leases plant and machinery under non-cancellable operating leases.

Included within the above are £496.9 million (2018: £389.5 million) of operating lease commitments which are matched in time to customer contracts and are directly attributable to them.

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 £559.2million, 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 increase 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.

31. Operating lease commitments – minimum lease payments (continued)

Adoption of IFRS 16, 'Leases' (continued)

The impact on the Group balance sheet at 1 April 2019 is reflected below:

	£m
Non-current assets	
Right-of-use assets	559.2
Deferred tax asset	5.0
Total assets	564.2
Equity and liabilities	
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

The table below explains the difference between the total operating lease commitments recognised under IAS 17 as at 31 March 2019 and the total lease liability recognised on transition to IFRS 16 as at 1 April 2019.

	£m
Operating lease commitments at 31 March 2019	685.5
Effect of discounting	(82.8)
Change in assessment of lease term	3.0
IFRS lease liability at 1 April 2019	605.7

32. 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 altogether 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 Programme, the Group has provided a £9 million financial guarantee for a supplier to ensure continuity of supply.

33. Capital and other financial commitments

	2019 £m	2018 £m
Contracts placed for future capital expenditure not provided in the financial statements	**12.2**	11.8

34. Related party transactions

(a) The following related parties either sell to or receive services from the Group. Loans to joint ventures and associates are detailed in note 14.

2019	2019 Revenue to £m	2019 Purchases from £m	2019 Year end debtor balance £m	2019 Year end creditor balance £m
Joint ventures and associates				
Holdfast Training Services Limited	**69.6**	**(0.1)**	**–**	**–**
ABC Electrification Limited	**–**	**–**	**4.6**	**–**
First Swietelsky Operation and Maintenance	**9.9**	**–**	**–**	**(0.8)**
FSP (2004) Limited	**–**	**(0.1)**	**–**	**–**
Ascent Flight Training (Management) Limited	**1.1**	**–**	**5.0**	**–**
Rotary Wing Training Limited	**3.3**	**–**	**–**	**–**
Fixed Wing Training Limited	**4.6**	**–**	**0.4**	**–**
Advanced Jet Training Limited	**2.4**	**–**	**0.3**	**–**
Rear Crew Training Limited	**1.0**	**–**	**–**	**–**
AirTanker Services Limited	**12.3**	**–**	**0.3**	**–**
Alert Communications Limited	**4.1**	**–**	**0.4**	**(0.2)**
Naval Ship Management (Australia) Pty Limited	**4.9**	**–**	**–**	**–**
Cura Classis (UK) Limited	**1.7**	**–**	**–**	**–**
Cura Classis (US) LLC	**1.5**	**–**	**–**	**–**
Cura Classis Canada (Hold Co) Inc.	**3.9**	**–**	**–**	**–**
Cavendish Dounreay Partnership Limited	**5.5**	**(0.1)**	**0.2**	**–**
Cavendish Fluor Partnership Limited	**32.9**	**(0.1)**	**0.2**	**–**
Cavendish Boccard Nuclear Limited	**3.4**	**–**	**–**	**–**
	162.1	**(0.4)**	**11.4**	**(1.0)**

34. Related party transactions (continued)

2018	2018 Revenue to £m	2018 Purchases from £m	2018 Year end debtor balance £m	2018 Year end creditor balance £m
Joint ventures and associates				
Holdfast Training Services Limited	72.0	–	0.3	–
ABC Electrification Limited	–	–	3.8	–
First Swietelsky Operation and Maintenance	10.5	–	0.5	(0.8)
FSP (2004) Limited	–	(0.3)	–	–
Ascent Flight Training (Management) Limited	0.5	–	–	–
Ascent Flight Training Holdings Limited	0.8	–	–	–
Fixed Wing Training Limited	9.6	–	–	–
Rear Crew Training Limited	4.2	–	–	–
AirTanker Services Limited	9.1	–	0.5	–
Alert Communications Limited	7.3	–	0.7	–
ALC (Superholdco) Limited	–	–	5.3	–
Naval Ship Management (Australia) Pty Limited	4.6	–	–	–
Cura Classis (UK) Limited	3.7	–	–	–
Cura Classis (US) LLC	5.0	–	–	–
Cura Classis Canada (Hold Co) Inc.	12.9	–	–	–
Cavendish Dounreay Partnership Limited	3.9	–	0.3	–
Cavendish Fluor Partnership Limited	32.3	(0.2)	0.6	–
Cavendish Boccard Nuclear Limited	2.4	–	0.3	–
Duqm Naval Dockyard SAOC	–	–	1.0	–
	178.8	(0.5)	13.3	(0.8)

All transactions noted above arise in the normal course of business.

(b) Defined benefit pension schemes.
Please refer to note 25 for transactions with the Group defined benefit pension schemes.

(c) Key management compensation is shown in note 7.

(d) Transactions in employee benefits trusts are shown in note 24.

35. Post balance sheet events

Details on dividends are given in note 9. There are no further material events subsequent to 31 March 2019 that require disclosure.

36. Group entities

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 31 March 2019 is disclosed below. Unless otherwise stated, the Group's shareholding represents ordinary shares held indirectly by Babcock International Group PLC, the entities are unlisted, and have one type of ordinary share capital, the year end is 31 March and the address of the registered office is 33 Wigmore Street, London, W1U 1QX. No subsidiary undertakings have been excluded from the consolidation.

Subsidiaries: Incorporated in the United Kingdom, wholly owned:

Air Power International Limited*
110 Queen Street, Glasgow, G1 3HD, Scotland
Airwork Limited
Alstec Automation Limited*
Alstec Defence Limited*
Alstec Limited*
Appledore Shipbuilders (2004) Limited[7]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG
Armstrong Technology Associates Limited
Babcock (UK) Holdings Limited[5]
Babcock 1234 Limited*
Babcock 2010 Limited*
Babcock Aerospace Limited
Babcock Airports Limited
Babcock Assessments Limited
Babcock Aviation Services (Holdings) Limited[5, 14]
Babcock Brazil Investments Limited
Babcock Careers Guidance Limited*, [11]
Babcock Civil Infrastructure Limited
Babcock Communications Limited
Babcock Contractors Limited*
Babcock Corporate Secretaries Limited*
Babcock Corporate Services Limited
Babcock Critical Assets Holdings LLP
Babcock Critical Services Limited
110 Queen Street, Glasgow, G1 3HD, Scotland
Babcock Defence & Security Holdings LLP
Babcock Defence and Security Investments Limited
Babcock Defence Systems Limited*
Babcock Design & Technology Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland
Babcock DSG Ltd
Babcock Education & Training Holdings LLP
Babcock Education and Skills Limited
Babcock Education Holdings Limited
Babcock Emergency Services Limited
Babcock Engineering Assessments Limited[8]
Babcock Engineering Limited
Babcock Environmental Services Limited
Babcock Finance Limited*
Babcock Fire Services (SW) Limited
Babcock Fire Services Limited
Babcock Fire Training (Avonmouth) Limited
Babcock Group (US Investments) Limited
Babcock Group International Limited
Babcock Group Limited*
Babcock Holdings Limited[20]
Babcock Information Analytics and Security Holdings Limited*
Babcock Information Analytics and Security Limited[10]
Babcock Infrastructure Holdings LLP
Babcock Integrated Technology (Korea) Limited
Babcock Integrated Technology Limited
Babcock Integration LLP
Babcock International Limited[10]
Babcock International Middle East Limited
Babcock International Support Services Limited
Babcock Investments (Fire Services) Limited
Babcock Investments (Number Eight) Limited
Babcock Investments (Number Four) Limited
Babcock Investments (Number Nine) Limited
Babcock Investments (Number Three) Limited
Babcock Investments Limited
Babcock IP Management (Number One) Limited
Babcock IP Management (Number Two) Limited
Babcock Land Limited
Babcock Leaseco Limited*
Babcock Lifeskills Limited*
Babcock Managed Security Services Limited*, [11]
Babcock Management Limited
Babcock Marine & Technology Holdings Limited
Babcock Marine (Clyde) Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland
Babcock Marine (Devonport) Limited[7]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG
Babcock Marine (Rosyth) Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland
Babcock Marine Holdings (UK) Limited[10]
Babcock Marine Limited*
Babcock Marine Products Limited*
Babcock Marine Training Limited[7]
Babcock Mission Critical Services Design and Completions Limited
Babcock Mission Critical Services Leasing Limited
Babcock Mission Critical Services Ltd
Babcock Mission Critical Services Offshore Limited
Babcock Mission Critical Services Onshore Limited
Babcock Mission Critical Services Topco Ltd[7]
Babcock Mission Critical Services UK Limited
Babcock MSS Limited
Babcock Networks Limited
Babcock Nominees Limited*
Babcock Nuclear Limited*
Babcock Overseas Investments Limited
Babcock Partner No 6 Limited*
Babcock Partner No 7 Limited*
Babcock Partners No 2010 Limited*
Babcock Power Maintenance Limited*
Babcock Project Investments Limited

36. Group entities (continued)

Subsidiaries: Incorporated in the United Kingdom, wholly owned – continued:

Babcock Project Services Limited*, [7]

Babcock Rail Limited

Babcock Services Group Limited

Babcock Services Limited*, [17]

Babcock Skills Development and Training Limited

Babcock Southern Careers Limited*, [8]

Babcock Southern Holdings Limited[11]

Babcock SSD Services Limited

Babcock Support Services (Investments) Limited

Babcock Support Services Limited[15]
110 Queen Street, Glasgow, G1 3HD, Scotland

Babcock Systems Limited*

Babcock Technical Services Limited*

Babcock Training Limited

Babcock Transmission Limited*, [7]

Babcock Trustees Limited*

Babcock UK Finance

Babcock US Investments Limited

Babcock Vehicle Engineering Limited[9]

Babcock Welbeck Limited*

Babcock Woodall-Duckham (Overseas) Limited*, [18]

Babcock2 Limited

Babcock-Moxey Limited*

BCRA Chesterfield Limited*, [18]

BIL Solutions Limited

BMH (2002) Limited*

BNS Nuclear Services Limited*

BNS Pension Trustees Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

BNS Pensions Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Bond Aviation Leasing Limited

Bond Aviation Topco Limited[10]

Bond Mission Critical Services PLC

British Nuclear Services Limited*

Brooke Marine Shipbuilders Limited*

Cavendish Nuclear (Overseas) Limited

Cavendish Nuclear Limited[10]

Cavendish Nuclear Manufacturing Limited

Certas Limited*

Chart Distribution Services Limited*

Chart Services Limited*
110 Queen Street, Glasgow, G1 3HD, Scotland

Chart Storage & Transportation Limited*

Context Information Security Limited
11 Westferry Circus, London, E14 4HD

Costpool Limited*

Defence SCS Limited*
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

Devonport Management Limited*

Devonport Royal Dockyard Limited[6]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

Devonport Royal Dockyard Pension Trustees Limited*
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

Eve Construction Limited*

Eve Developments Limited*

Eve Group Limited*

Eve NCI Limited*

Eve Power Limited*

Eve Transmission Limited*

FBM Babcock Marine Holdings (UK) Limited*

FBM Babcock Marine Limited*

FBM Marine International (UK) Limited*

First Engineering Holdings Limited
Kintail House, 3 Lister Way, Hamilton International Park, Blantyre, G72 0FT, Scotland

First Engineering Limited*

First Fire and Rescue Service Limited*

First Fire and Rescue Service No 2 Limited*

First Projects Limited*

Flagship Fire Fighting Training Limited

FN Consultancy Limited*
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

FNC Group Limited*
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

FNC Limited*
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

Frazer-Nash Consultancy Group Limited[7]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

Frazer-Nash Consultancy Limited[13]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG

FW 1B SPV Limited*, [11]

Gibraltar Investments (No. 7) Limited[7]

HCTC Limited*

Hiberna Contract Services Limited*

Hiberna Limited*

Hiberna Network Solutions Limited*

INS Innovation Limited*

KML (UK) Limited*

Learning21 Limited*

Liquid Gas Equipment Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, K11 2YD, Scotland

Locam Limited*
Lincoln House, Wellington Crescent, Fradley Park, Lichfield, Staffordshire, WS13 8RZ

Marine Engineering & Fabrications (Holdings) Limited*

Marine Engineering & Fabrications Limited*

Merlin Communications Group Limited[17]

Merlin Orfordness Limited*

Municipal Vehicle Hire Limited*

Northern Cable Installations Limited*

Peterhouse Group Limited

Peterhouse5 (Shorco) Limited[7]

Peterhouse6 (IETG) Limited*

Port Babcock Rosyth Ltd*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Rosyth Royal Dockyard Limited[19]
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Rosyth Royal Dockyard Pension Trustees Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

SBRail Limited*

Scimco Limited

Skills2Learn Ltd

St. Helen's Securities Limited*

Strachan & Henshaw Limited*

The Stirling Boiler Company Ltd*
110 Queen Street, Glasgow, G1 3HD, Scotland

Touchstone Learning & Skills Limited*

Transfleet Distribution Limited*

Transfleet Truck Rentals Limited*

UKAEA Limited

Vosper-ManTech Limited*, [7]

Vosper Thornycroft (UK) Limited

Westminster Education Consultants Limited*

36. Group entities (continued)

Subsidiaries: Incorporated overseas, wholly owned:

AUH-Bidco Pty Limited**
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock (Ireland) Treasury Limited
Custom House Plaza, Block 6, IFSC, DUBLIN 1, Ireland

Babcock (NZ) Limited
Babcock Central Office, HMNZ Dockyard, Devonport Naval Base, Queens Parade, Devonport, Auckland, 0744, New Zealand

Babcock Africa Investments (Pty) Ltd
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Investments BV
Bezuidenhoutseweg 1, 2594 AB The Hague, The Netherlands

Babcock Australia Holdings Pty Limited
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Aviation Services Holdings, S.L.
Plaza Pablo Ruiz, Picasso 1, Torre Picasso, 28020, Madrid, Spain

Babcock B.V.
Bezuidenhoutseweg 1, 2594AB, The Hague, The Netherlands

Babcock Canada Inc
45 O'Connor Street, Suite 1500, Ottawa ON K1P 1A4, Canada

Babcock Communications Cyprus Limited
10 Diomidous St, Alpha Mega Building, 3rd Floor, Office 401, CY2024, Nicosia, Cyprus

Babcock Engineering Portugal, Unipessoal, LDA
Heliporto de Salemas, Lousa, 2670-769, Lisboa, Loures, Portugal

Babcock Europe Finance Limited[7]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara , BKR 3000, Malta

Babcock Holdings (USA) Incorporated[12]
S32 Loockerman Square, Ste. L-100 Dover, Delaware, United States

Babcock Integrated Technology GmbH
Berliner Platz 12, 41061, Moenchgladbach, Germany

Babcock International France Aviation SAS
Lieu dit le Portaret, 83340, Le Cannet-des-Maures, France

Babcock International France SAS
4 rue Lord Byron, 75008 Paris, France

Babcock International France Terre SAS
4 rue Lord Byron, 75008 Paris, France

Babcock International Holdings BV
Bezuidenhoutseweg 1, 2594 AB The Hague, The Netherlands

Babcock International Holdings Limited[7]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara , BKR 3000, Malta

Babcock International Italy S.p.A.
Piazza Castello no.26 – 20121 Milan, Italy

Babcock International Spain S.L.U.
Mutxamel, Alicante, Aeródromo de Mutxamel, 03110, Partida la Almaina 92, Spain

Babcock International US Inc
21001 Great Mills Road, Lexington Park, Maryland DE 20653, United States

Babcock Ireland Finance Limited
44 Esplanade, St Helier, Jersey, JE4 9WG

Babcock Korea Limited
Regus Busan Jungang-Dong Centre, Office 706, 7F PanOcean Building, 102 Jungang-Daero, Jung-gu, Busan, 48938, Republic of Korea

Babcock Luxembourg Finance S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg, Luxembourg

Babcock Luxembourg Investments I S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg, Luxembourg

Babcock Luxembourg Investments S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg, Luxembourg

Babcock Luxembourg S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg, Luxembourg

Babcock Malta (Number Two) Limited
44 Esplanade, St Helier, JE4 9WG, Jersey

Babcock Malta Finance (Number Two) Limited[8]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Finance Limited[8]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Holdings (Number Two) Limited[8]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Holdings Limited[8]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Limited
44 Esplanade, St Helier, JE4 9WG, Jersey

Babcock MCS Congo SA
Avenue Charles de Gaulle, PB 5871, Pointe-Noire, PB 5871, Republic of the Congo

Babcock MCS Fleet Management S.p.A.
Piazza Castello no. 26, 20121, Milan, Italy

Babcock Mission Critical Services Asset Management SAU
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services Australasia Pty Ltd
Level 9, 70 Franklin Street, Adelaide, SA 5000, Australia

Babcock Mission Critical Services Fleet Management SAU
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services Germany GmbH
Augsburg Airport, Flughafenstrasse 19, 86169 Augsburg, Germany

Babcock Mission Critical Services Group, S.A.U.
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services Holdings, S.L.U.
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services International SAU
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services SAU
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Networks Ireland Limited**
Unit 2, Red Cow Interchange Estate, Ballymounth, Dublin, 22, Ireland

Babcock Norway AS*
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Offshore Services Australasia Pty Ltd
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Oman LLC
Al Raid Business Centre, Qurum, PO Box 2315, Muscat, PC130, Oman

Babcock Pty Limited
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Scandinavia Holding AB
Flygstationsvägen 4, 972 54, Luleå, Sweden

Babcock Support Services (Canada) Inc.
45 O'Connor Street, Suite 1500, Ottawa ON K1P 1A4, Canada

Babcock Support Services (USA) LLC
251 Little Falls Drive, Wilmington, DE 19808, United States

Babcock Support Services GmbH
Berliner Platz 12, 41061, Moenchengladbach, Germany

Babcock Support Services s.r.l.
Via Foro Buonaparte, 70 20121, Milano, Italy

Babcock US Investments (Number Two) LLC[7]
160 Greentree Drive, Suite 101, Dover, Kent County, DE 19904, United States

Babcock US Investments Inc.[7]
160 Greentree Drive, Suite 101, Dover, Kent County, DE 19904, United States

BMH Technologies (Holdings) GmbH**, [7]
Berliner Platz 12, 41061, Moenchengladbach, Germany

Cavendish Nuclear Japan KK
GYB Akihabara Room 405, Kandasuda-cho 2-25, Chiyoda-ku, Tokyo, Japan

Chepstow Insurance Limited
St Martin's House, Le Bordage, St Peter Port, GY1 4AU, Guernsey

Conbras Servicos Tecnicos de Suporte Limiteda
Rua Nilo Pecanha no 50, Suites 314 & 315, Centro, Rio de Janeiro, 20020.100, Brazil

Context Information Security GmbH
Ernst-Ludwig-Ring 2, Bad Nauheim, 61231, Amtsgericht Friedberge (Hessen), Germany

36. Group entities (continued)

Incorporated overseas, wholly owned – continued:

Context Information Security LLC[7]
2711 Centerville Road, Suite 400, Wilmington DE 19808, United States

Frazer-Nash Consultancy (Australia) Pty Limited*
Level 8, 99 Gawler Place, Adelaide SA 5000inter, Australia

Heli Aviation (Tianjin) Helicopter Sales Co., Ltd.**
Room 514/515, The Aviation Industry Support Center, Comprehensive Free Trade Zone, Airport Industrial Park, 1 Boahang Riad, Tianjin, China

Heli Aviation China Limited*
World Finance Centre, Kowloon Hong Kong/ Room 1102-1103 11/F, Kowloon Building, 555 Nathan Road, Mongkok, Kowloon, Hong Kong

INAER Helicopter Australia Pty Ltd**
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

INAER Helicopter Chile S.A.*
2880 Americo Vespucio Norte Avenue, Suite 1102, Conchali, Santiago, Chile

INAER Helicopter Peru S.A.C.**, [3]
Av. De La Floresta No 497 Int., Lima, Peru

Marine Industrial Design Limited
Babcock Central Office, HMNZ Dockyard, Devonport Naval Base, Queens Parade, Devonport, Auckland, 0744, New Zealand

National Training Institute LLC[4]
PO Box 267, Madinat Qaboos, Sultanate of Oman, 115, Oman

Peterhouse GmbH
Berliner Platz 12, 41061, Moenchengladbach, Germany

PHG Insurance Limited
St Martin's House, Le Bordage, St Peter Port, GY1 4AU, Guernsey

Strachan & Henshaw Canada Inc*
45 O'Connor Street, Suite 1500, Ottawa, ON, K1P 1A4, Canada

Strachan & Henshaw, Inc*
155 Federal Street, Suite 700, Boston MA 02110, United States

VT Communications GmbH**
Mainzer Landstrasse 16, 60325, Frankfurt Am Main, Germany

VT Insurance Services Limited
St Martins House, Le Bordage, St Peter Port, Guernsey, GY1 4AU

Subsidiaries: partly owned:

Airwork Technical Services & Partners LLC (51%)
PO Box 248 (located at Muaskar Al Murtafa'a (MAM) Garrison), Muscat, 100, Sultanate of Oman

Babcock Africa (Pty) Limited (90%)[1, 12]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Holdings (Pty) Ltd (90%)[1, 10]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Services (Pty) Ltd (90%)[1]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Aviation Services Holdings International Limited (49.82%)[2, 16]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara , BKR 3000, Malta

Babcock Dyncorp Limited (56%)[6]

Babcock Education and Training (Pty) Ltd (90%)[1]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Emergencias Aéreas España Holding, S.L.U. (49.82%)[2]
Avenida de Burgos, 17, 7a planta, 28036, Madrid, Spain

Babcock Financial Services (Pty) Ltd (90%)[1]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Holdings (Italy) S.p.A. (49.82%)[2]
Piazza Castello 26, 20121, Milan, Italy

Babcock Learning and Development Partnership LLP (80.1%)

Babcock MCS Ghana Limited (90%)
2nd Floor, Opeibea House, 37 Liberation Road, P.O. Box CT 9347, Cantonments, Accra, Ghana

Babcock MCS Mozambique, Limitada (90%)[1]
Sala no. 2022, 1 Andar, Terminal A, Aeroporto International do Maputo, Distrito Urbano2, Mozambique

Babcock Mission Critical Services (Ireland) Limited (49.82%)[2]
13-18 City Quay, Dublin 2, Ireland

Babcock Mission Critical Services España SAU (49.82%)[2]
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services France SA (49.82%)[2]
Lieu dit le Portaret, 83340, Le Cannet-des-Maures, France

Babcock Mission Critical Services Galicia SL (91.1%)
Lugar Lavacolla-Aeropuerto Santiago, S/N, C.P., 15820, Santiago de Compostela, A Coruna, Spain

Babcock Mission Critical Services Italia S.p.A. (49.82%)[2]
Piazza Castello no. 26, 20121, Milan, Italy

Babcock Mission Critical Services Portugal, Unipessoal, LDA (49.82%)[2]
Heliporto de Salemas, Lousa, 2670-769, Lisboa, Loures, Portugal

Babcock Mission Critical Services, Scandinavia AB (49.82%)[2, 7]
Ashurst Advokatbyra AB, PO Box 7124 10387, Stockholm, Sweden

Babcock Moçambique Limitada (90%)[1]
Av. Samora Macel 3380/1, Mozambique

Babcock Namibia Services Pty Ltd (90%)[1]
Unit 5, Ground Floor, Dr Agostinho Neto Road, Ausspannplatz, Windhoek, Namibia

Babcock Ntuthuko Aviation (Pty) Limited (66.78%)*, [1]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Engineering (Proprietary) Limited (64.95%)[1]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Powerlines (Proprietary) Limited (65.2%)*, [1]
Unit G3, Victoria House, Plot 132, Independence Avenue, Gaborone, Botswana

Babcock Plant Services (Pty) Ltd (64.83%)[1, 10]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock SAA FW AB (49.82%)*, [2]
Flygstationsvägen 4, 972 54, Luleå, Sweden

Babcock Scandinavian AirAmbulance AB (49.82%)[2]
Lägervägen 3, 832 56, Frösön, Sweden

Babcock Scandinavian AirAmbulance AS (49.82%)[2]
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Scandinavian Aviation Services AS (49.82%)[2]
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Scandinavian Engineering AS (49.82%)[2]
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Scandinavian Holding AS (49.82%)[2]
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock TCM Plant (Proprietary) Limited (90%)[1, 12]
Unit G3, Victoria House, Plot 132, Independence Avenue, Gaborone, Botswana

Capital Careers Limited (88.3%)*

Cognac Formation Aero (90%)
Lieu dit le Portaret, 83340, Le Cannet des Maures, France

Surrey Careers Services Limited (94.1%)[10]

36. Group entities (continued)

Joint ventures and associates (equity accounted):

ABC Electrification Ltd (33.3%)[6]
8th Floor, The Place, High Holborn, London, WC1V 7AA

Advanced Jet Training Holdings Limited (50%)

Advanced Jet Training Limited (50%)

AirTanker Finance Limited (13.3%)[21]
6th Floor, London Wall, London, EC2Y 5EB

AirTanker Holdings Limited (13.3%)[21]
6th Floor, London Wall, London, EC2Y 5EB

AirTanker Limited (13.3%)[21]
6th Floor, London Wall, London, EC2Y 5EB

AirTanker Services Limited (22.3%)[21]
Airtanker Hub RAF Brize Norton, Carterton, Oxfordshire, OX18 3LX

ALC (FMC) Limited (50%)[21]
3th Floor, Chancery Exchange, 10 Furnival Street, London, EC4A 1AB

ALC (Holdco) Limited (50%)[21]
3th Floor, Chancery Exchange, 10 Furnival Street, London, EC4A 1AB

ALC (SPC) Limited (50%)[21]
3th Floor, Chancery Exchange, 10 Furnival Street, London, EC4A 1AB

ALC (Superholdco) Limited (50%)[21]
3th Floor, Chancery Exchange, 10 Furnival Street, London, EC4A 1AB

Alert Communications (2006) Limited (20%)[10]

Alert Communications (Holdings) Limited (20%)

Alert Communications Group Holdings Limited (20%)

Alert Communications Limited (20%)

Ascent Flight Training (Holdings) Limited (50%)

Ascent Flight Training (Management) Limited (50%)

Ascent Flight Training (Services) Limited (50%)

Cavendish Boccard Nuclear Limited (51%)

Cavendish Dounreay Partnership Limited (50%)[6]

Cavendish Fluor Partnership Limited (65%)

Cura Classis (Canada) Inc. (48%)
44 Chipman Hill, Suite 1000, PO Box 7289, Stn. "A", Saint John, NB E2L 2A9, Canada

Cura Classis (UK) Limited (48%)

Cura Classis (US) Hold Co LLC (48%)
251 Little Falls Drive, Wilmington, DE 19808, United States

Cura Classis (US) LLC (48%)
251 Little Falls Drive, Wilmington, DE 19808, United States

Cura Classis Canada (Hold Co) Inc. (48%)[19]
44 Chipman Hill, Suite 1000, PO Box 7289, Stn. "A", Saint John, NB E2L 2A9, Canada

Cura Classis UK (Hold Co) Limited (48%)

Debut Services (South West) Limited (50%)
20 Triton Street, Regent's Place, London, NW1 3BF

Debut Services Limited (15%)
20 Triton Street, Regent's Place, London, NW1 3BF

Dounreay Site Restoration Limited (50%)[7]
Building D2003, Dounreay, Thurso, Caithness, KW14 7TZ, Scotland

Duqm Naval Dockyard SAOC (49%)
Wadi Say, Al-Duqm, Al-Wusta'a, 3972 112, Oman

European Air-Crane S.p.A. (24.41%)
Via Duca D'Aosta no. 20, 50129, Florence, Italy

Fixed Wing Training Holdings Limited (50%)

Fixed Wing Training Limited (50%)

FSP (2004) Limited (50%)[7]
Kintail House, 3 Lister Way, Hamilton International Park, Blantyre, G72 0FT, Scotland

Holdfast Training Services Limited (74%)

Magnox Limited (65%)[7]
Oldbury Technical Centre, Oldbury Naite, Thornbury, South Gloucestershire, BS35 1RG

Naval Ship Management (Australia) Pty Ltd (50%)
Level 10, 40 Miller Street, North Sydney, NSW 2060, Australia

Rear Crew Training Holdings Limited (50%)

Rear Crew Training Limited (50%)

Research Sites Restoration Limited (65%)[*, 7]
Oldbury Technical Centre, Oldbury Naite, Thornbury, Bristol, United Kingdom

Rotary Wing Training Limited (50%)

S.I.M.A. Societa Italiana de Manutenzioni Aeronautiche SpA (14.65%)
Via Duca D'Aosta no. 20, 50129, Florence, Italy

Notes

* Dormant entity.

** In liquidation.

1. The Group's interest in Babcock Africa Holdings (Pty) Limited, and its subsidiaries, held via ordinary and preference shares, carries 90% of the voting rights, and the right to substantially all of the distributable profits.
2. The Group's interest in Babcock Aviation Services Holdings International Limited, and its subsidiaries, carries 49.82% of the voting rights.
3. The Group's interest in INAER Helicopter Peru S.A.C. carries 70% of the voting rights, and the rights to substantially all distributable profits.
4. The Group's interest in National Training Institute LLC carries over 70% of the voting rights, and the rights to substantially all distributable profits.
5. Babcock International Group PLC has direct holdings in Babcock (UK) Holdings Limited, and preference shares class A and B in Babcock Aviation Services (Holdings) Limited.
6. Holding of one type of ordinary share only, where more than one type of share is authorised or in issue.
7. Holding of two types of ordinary shares.
8. Holding of three types of ordinary shares.
9. Holding of six types of ordinary shares.
10. Holding of ordinary and preference shares.
11. Holding of ordinary and deferred shares.
12. Holding of ordinary and redeemable preference shares.
13. Holding of ordinary and two types of preference shares.
14. Holding of ordinary and three types of preference shares.
15. Holding of ordinary and five types of preference shares.
16. Holding of one type of ordinary share and one type of preference share, where more than one type of ordinary share and preference share are authorised or in issue.
17. Holding of two types of ordinary and one type of preference share.
18. Holding of two types of ordinary and one type of redeemable preference share.
19. Holding of two types of ordinary shares, where more than two types of share are authorised or in issue.
20. Holding of two types of ordinary shares and two types of preference shares.
21. Year end 31 December.

Company balance sheet

As at 31 March 2019	Note	2019 £m	2018 £m
Fixed assets			
Investment in subsidiaries	5	**2,466.5**	2,466.5
Current assets			
Trade and other receivables	6	**3,660.4**	3,433.7
Creditors: Amounts falling due within one year:			
Trade and other payables	7	**(2,098.0)**	(1,813.1)
Net current assets		**1,562.4**	1,620.6
Total assets less current liabilities		**4,028.9**	4,087.1
Creditors: Amounts falling due after more than one year:			
Trade and other payables	7	**(1,285.5)**	(1,371.7)
Net assets		**2,743.4**	2,715.4
Equity			
Called up share capital	9	**303.4**	303.4
Share premium account		**873.0**	873.0
Capital redemption reserve		**30.6**	30.6
Other reserve		**768.8**	768.8
Retained earnings		**767.6**	739.6
Total shareholders' funds		**2,743.4**	2,715.4

The accompanying notes are an integral part of this Company balance sheet. Company number 02342138.

The Company has taken advantage of the exemption granted by Section 408 of the Companies Act 2006 whereby no individual profit and loss account of the Company is disclosed. The Company's profit for the financial year was £184.3 million (2018: £538.5 million).

The financial statements on pages 208 to 214 were approved by the Board of Directors on 21 May 2019 and are signed on its behalf by:

A Bethel
Director

F Martinelli
Director

Company 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	Total equity £m
At 1 April 2017	303.4	873.0	768.8	30.6	330.6	2,306.4
Profit for the year	–	–	–	–	538.5	538.5
Other comprehensive income	–	–	–	–	10.3	10.3
Dividends	–	–	–	–	(143.9)	(143.9)
Share-based payments	–	–	–	–	6.4	6.4
Tax on share-based payments	–	–	–	–	1.9	1.9
Own shares and other	–	–	–	–	(4.2)	(4.2)
Net movement in equity	–	–	–	–	409.0	409.0
At 31 March 2018	303.4	873.0	768.8	30.6	739.6	2,715.4
Profit for the year	**–**	**–**	**–**	**–**	**184.3**	**184.3**
Other comprehensive income	**–**	**–**	**–**	**–**	**(10.8)**	**(10.8)**
Dividends	**–**	**–**	**–**	**–**	**(150.3)**	**(150.3)**
Share-based payments	**–**	**–**	**–**	**–**	**2.4**	**2.4**
Tax on share-based payments	**–**	**–**	**–**	**–**	**2.4**	**2.4**
Net movement in equity	**–**	**–**	**–**	**–**	**28.0**	**28.0**
At 31 March 2019	**303.4**	**873.0**	**768.8**	**30.6**	**767.6**	**2,743.4**

1. General information

Babcock International PLC is incorporated and domiciled in the UK. The address of the registered office is 33 Wigmore Street, London, W1U 1QX.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

Basis of accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments on a going concern basis. The financial statements are prepared in Sterling which is the functional currency of the Company and rounded to the nearest £ million.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
- IFRS 7, 'Financial instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
  - paragraph 79(a) (iv) of IAS 1, 'Share capital and reserves';
  - paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
  - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), 10(f), 16, 38, 40, 111, and 134-136.
- IAS 7, 'Statement of cash flows'
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors'
- Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

New standards adopted by the Company

The Company has applied the following standards and amendments for the first time for its annual reporting period commencing 1 April 2019:

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

The adoption of IFRS 9 and IFRS 15 has not had any impact on the amounts recognised in the prior period and is not expected to affect the current or future periods.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

Taxation

Current income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2. Significant accounting policies (continued)

Taxation (continued)

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred.

Employee benefits

(a) Share-based compensation

The Company operates equity-settled, share-based compensation plans which are recharged to the relevant subsidiaries. Full details of the share-based compensation plans are disclosed in note 24 to the Group financial statements.

(b) Treasury shares

The shares purchased by the Company's ESOP trusts are recognised as a deduction to equity. See note 23 to the Group financial statements for further details.

(c) Pension arrangements

The Company operates a multi-employer defined benefit pension scheme, however all assets and liabilities are recognised in the relevant subsidiary in which the employee operates. See note 25 to the Group financial statements for further details.

Financial instruments

(a) Financial assets and liabilities at amortised cost

Amounts due from subsidiary undertakings and preference shares in subsidiary undertakings are classified as financial assets held at amortised cost. Amounts due to subsidiary undertakings and bank loans and overdrafts are classified as financial liabilities held at amortised cost. These balances are initially recognised at fair value and then held at amortised cost using the effective interest rate method.

The Company assesses on a forward looking basis the expected credit losses associated with financial assets held at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(b) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Company designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair value is recognised in the profit and loss account immediately.

Financial risk management

All treasury transactions are carried out only with prime rated counterparties as are investments of cash and cash equivalents.

Dividends

Dividends are recognised in the Company's financial statements in the period in which they are approved and in the case of interim dividends, when paid.

2. Significant accounting policies (continued)

Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There are no key estimate or judgements for the Company.

3. Company profit

The Company has no employees other than the Directors.

The fee payable to the parent auditor and its associates in respect of the audit of the Company's financial statements was £0.6 million (2018: £0.4 million).

4. Directors' emoluments

Under Schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 5), total Directors' emoluments, excluding Company pension contributions, were £5.7 million (2018: £6.5 million); these amounts are calculated on a different basis to emoluments in the Remuneration report which are calculated under Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Schedule 8 (2013)). These emoluments were paid for the Directors' services on behalf of Babcock International Group. No emoluments relate specifically to their work for the Company. Under Schedule 5, the aggregate gains made by Directors from the exercise of Long Term Incentive Plans in 2019 as at the date of exercise was £0.5 million (2018: £0.6 million) and the net aggregate value of assets received by Directors in 2019 from Long Term Incentive Plans as calculated at the date of vesting was £0.5 million (2018: £0.6 million); these amounts are calculated on a different basis from the valuation of share plan benefits under Schedule 8 (2013) in the Remuneration report.

5. Investment in subsidiary undertakings

	2019 £m	2018 £m
At 1 April	**2,466.5**	2,359.5
Additions	**–**	107.0
At 31 March	**2,466.5**	2,466.5

During the previous year preference shares of US$150 million (£107.0 million) converted to increase the investment in Babcock (UK) Holdings Limited. The Directors believe that the carrying value of the investments is supported by the underlying net assets.

6. Trade and other receivables

	2019 £m	2018 £m
Non-current debtors		
Amounts due from subsidiary undertakings	**313.8**	337.7
Preference shares in a subsidiary undertaking	**943.7**	926.7
Other debtors	**0.4**	0.6
	1,257.9	1,265.0
Current debtors		
Amounts due from subsidiary undertakings	**2,386.6**	2,154.6
Prepayments and accrued income	**–**	0.5
Income tax recoverable	**6.2**	6.2
Deferred tax	**9.7**	7.4
	2,402.5	2,168.7
Total trade and other receivables	**3,660.4**	3,433.7

There are no material provisions held against trade and other receivables under the expected credit loss model. There was no change to the level of provisions held upon transition to IFRS 9.

6. Trade and other receivables (continued)

Of the preference shares in a subsidiary undertaking, the B preference shares of US$500 million mature on 17 March 2021 and carry interest at 5.64%. The remaining preference shares in subsidiary undertakings are Euro denominated preference shares, totalling €652 million, carrying a coupon rate of EURIBOR + 4%, and with a maturity date of 29 July 2019. The A preference shares of US$150 million matured on 19 March 2018 and carried interest at 4.94%.

Interest rates on amounts owed by subsidiary operations:

	Non-current		Current	
	2019 £m	2018 £m	**2019 £m**	2018 £m
EURIBOR + 4%	**85.3**	158.2	**62.8**	24.7
EURIBOR + 2%	**11.8**	11.8	**–**	–
GBP LIBOR + 4%	**58.3**	–	**–**	–
GBP LIBOR + 5%	**140.0**	140.0	**–**	–
LIBOR + 4%	**–**	–	**51.4**	29.2
USD LIBOR + 4%	**5.8**	22.1	**–**	23.3
STIBOR + 4%	**–**	2.7	**7.2**	27.5
BBSW + 4%	**12.6**	2.9	**3.4**	0.5
NIBOR + 4%	**–**	–	**11.8**	–
4.5%	**–**	–	**100.8**	100.8
Interest free	**–**	–	**2,149.2**	1,948.6
	313.8	337.7	**2,386.6**	2,154.6

7. Trade and other payables

	2019 £m	2018 £m
Amounts due within one year		
Bank loans and overdrafts	**404.0**	314.8
Amounts due to subsidiary undertakings	**1,685.9**	1,490.4
Accruals and deferred income	**8.1**	7.9
	2,098.0	1,813.1
Amounts due after one year		
Bank loans and other borrowings	**1,285.1**	1,371.0
Other creditors	**0.4**	0.7
	1,285.5	1,371.7

The Company has £2,047.1 million (2018: £2,026.6 million) of committed borrowing facilities, of which £1,331.9 million (2018: £1,379.4 million) was drawn at the year end. The interest rate applying to bank loans is 2.4% (2018: 1.6%) and is linked to LIBOR, the Eurobond is at 1.8% (2018: 1.8%) whilst the interest rate applying to overdrafts is 1.6% (2018: 1.3%).

The amounts due to subsidiary undertakings are repayable on demand and £1,685.9 million (2018: £1,490.4 million) is interest free.

8. Other financial assets and liabilities

The notional principal amount of outstanding interest rate swap contracts at 31 March 2019 included interest rate swaps in relation to the US$500 million (2018: US$500 million) US$ to GBP cross-currency swap.

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

The Company has taken advantage of the exemptions within FRS 101 not to disclose all IFRS 7 and IFRS 13 requirements, as it and its subsidiary undertakings are included by full consolidation in the Group accounts on pages 152 to 207.

9. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2018 and 31 March 2019	**505,596,597**	**303.4**

Allotted, issued and fully paid		
At 1 April 2017 and 31 March 2018	505,596,597	303.4

10. Contingent liabilities

(a) The Company has guaranteed or has joint and several liability for bank facilities with nil utilisation at 31 March 2019 (2018: nil) provided to certain Group companies.

(b) Throughout the Group, guarantees exist in respect of performance bonds and indemnities issued on behalf of Group companies by banks and insurance companies in the ordinary course of business. At 31 March 2019 these amounted to £255.4 million (2018: £252.8 million), of which the Company had counter-indemnified £215.8 million (2018: £184.4 million).

(c) The Company has given guarantees on behalf of Group companies in connection with the completion of contracts within specification.

11. Group entities

See note 36 of the Group financial statements for further details.

12. Post balance sheet events

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.

Shareholder information

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Financial statements

Financial calendar

Financial year end	31 March 2019
2018/19 full year results announced	22 May 2019
Annual General Meeting	18 July 2019
Final dividend payment date (record date 5 July 2019)*	9 August 2019

* See also 'Results and dividends' on page 133.

Registered office and company number

33 Wigmore Street
London, W1U 1QX

Registered in England
Company number 2342138

Registrars

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent, BR3 4TU
Email: enquiries@linkgroup.co.uk.

www.babcock-shares.com

Shareholdings can be managed by registering for the Share Portal at www.babcock-shares.com. Alternatively, shareholder enquiries relating to shareholding, dividend payments, change of address, loss of share certificate etc., can be addressed to Link Asset Services using their postal or email addresses given above.

Tel: 0871 664 0300
(Calls cost 12p per minute plus your phone company's access charge, from overseas – call +44 371 664 0300, calls outside the UK will be charged at the applicable international rate. Lines are open 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.)
www.babcock-shares.com.

Independent auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London, WC2N 6RH

Share dealing services

A simple and competitively priced service to buy and sell shares is provided by Link Asset Services. There is no need to pre-register and there are no complicated application forms to fill in.

For further information on this service, or to buy and sell shares, visit www.linksharedeal.com or call 0371 664 0445. (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 8.00am and 4.30pm, Monday to Friday excluding public holidays in England and Wales.)

This is not a recommendation to buy and sell shares and this service may not be suitable for all shareholders. The price of shares can go down as well as up and you are not guaranteed to get back the amount you originally invested, Terms, conditions and risks apply. Link Asset Services is a trading name of Link Market Services Trustees Limited which is authorised and regulated by the Financial Conduct Authority. This service is only available to private shareholders resident in the European Economic Area, the Channel Islands or the Isle of Man.

Dividend Reinvestment Plan

This is a convenient way to build up your shareholding by using your cash dividends to buy more shares in the Company. If you would prefer to receive shares for your next dividend instead of cash, please complete an application form online at www.babcock-shares.com or call Link Market Services Trustees Limited on +44 (0) 371 664 0381. (Calls are charged at standard geographic rate and vary by provider, calls outside the UK are charged at the applicable international rate. Lines are open from 9.00am to 5.30pm Monday to Friday.) Alternatively, email enquiries@linkgroup.co.uk.

ShareGift

If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations.

The relevant stock transfer form can be obtained from Link Asset Services. There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information about ShareGift may be obtained on 020 7930 3737 or from www.ShareGift.org.

Five-year financial record

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Continuing revenue	**4,474.8**	4,659.6	4,547.1	4,158.4	3,996.6
Operating profit from continuing operations	**196.5**	370.6	359.6	352.5	352.3
Share of profit from joint ventures	**83.8**	68.5	56.7	34.6	29.4
Profit before interest from continuing operations	**280.3**	439.1	416.3	387.1	381.7
Net interest and similar charges	**(45.1)**	(48.0)	(54.2)	(57.0)	(68.6)
Profit before taxation from continuing operations	**235.2**	391.1	362.1	330.1	313.1
Income tax expense	**(35.4)**	(53.4)	(46.5)	(39.0)	(46.7)
Profit from continuing operations	**199.8**	337.7	315.6	291.1	266.4
Profit for the year	**199.8**	337.7	315.6	291.1	266.4
Non-controlling interest	**(0.4)**	(1.4)	(3.8)	(4.5)	(6.2)
Profit attributable to owners of parent	**199.4**	336.3	311.8	286.6	260.2
Non-current assets	**4,739.5**	4,750.3	4,866.5	4,551.8	4,499.1
Net current assets/(liabilities)	**(87.1)**	72.2	(239.9)	(245.7)	(221.4)
Non-current liabilities	**(1,767.5)**	(1,911.5)	(1,934.4)	(1,949.8)	(2,079.6)
Total net assets	**2,884.9**	2,911.0	2,692.2	2,356.3	2,198.1
Equity holders of the parent	**2,867.5**	2,892.9	2,669.8	2,338.5	2,180.1
Non-controlling interest	**17.4**	18.1	22.4	17.8	18.0
Total equity	**2,884.9**	2,911.0	2,692.2	2,356.3	2,198.1
Total earnings per share – basic	**39.8**	66.6p	61.8p	57.0p	52.9p
Dividend per share (proposed)	**30.0p**	29.5p	28.15p	25.8p	23.6p

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