babcock™

Annual Report and Accounts 2020

Sustaining resilience



Front cover: Vanguard class submarine

babcockinternational.com



Sustaining resilience

Babcock operates in three critical markets – defence, emergency services and civil nuclear – working to meet the needs of customers for whom failure is not an option.

We know that to serve our customers successfully we must understand them inside out, building close partnerships based on a deep knowledge of their operations, assets and technology.

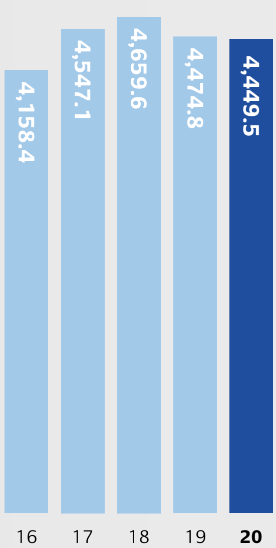
We are trusted to find solutions that address our customers' most demanding requirements, ensuring that they can perform at their best wherever and whenever they are needed.

Financial highlights

Key highlights from FY20

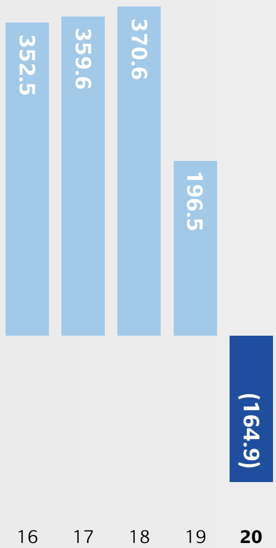
Statutory results

Group revenue
£4,449.5m



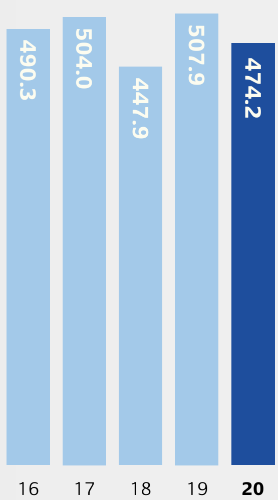
Group revenue as defined in the income statement on page 157.

Operating profit / (loss)
£(164.9)m



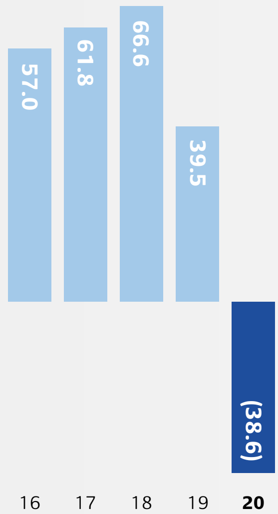
Operating profit as defined in the income statement on page 157.

Cash from operations
£474.2m



Cash from operations as defined in the cash flow on page 160.

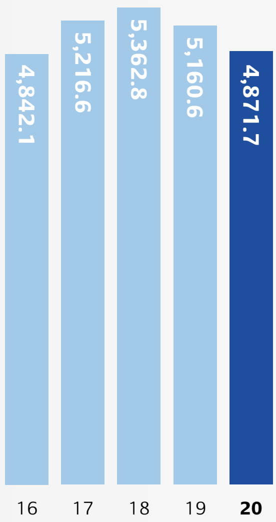
Basic earnings per share
(38.6)p



Basic earnings per share as defined in Note 10 on page 181.

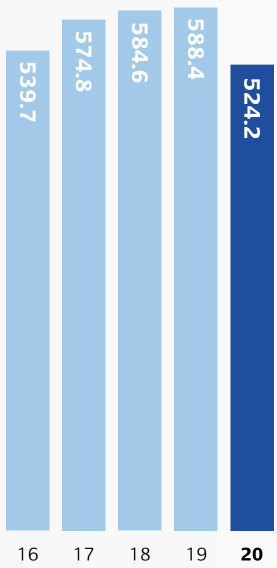
Underlying results*

Group revenue
£4,871.7m



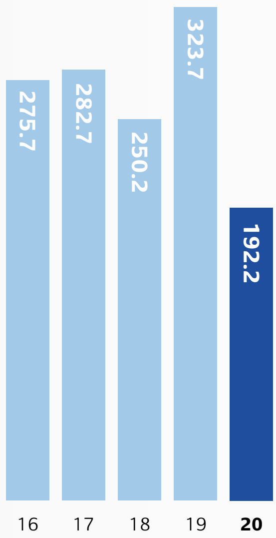
Underlying Group revenue as defined on page 60.

Operating profit
£524.2m



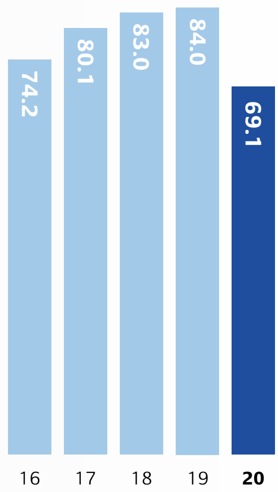
Underlying operating profit as defined on page 60.

Free cash flow
£192.2m



Underlying free cash flow as defined on page 61.

Basic earnings per share
69.1p



Underlying basic earnings per share as defined on page 20.

*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 IFRIC 12 which is presented as financial income in the Income statement. A reconciliation of statutory to underlying results is set out on page 57.

Underlying free cash flow is after adjusting for exceptional cash flows, see page 61 for a reconciliation.

What we do

We solve our customers' challenges of maintaining national security and saving lives, sustaining critical and complex assets, and delivering critical services. We do this by:

Revenue

Civil vs defence

Defence
52%

Civil
48%

Public vs private

Public
82%

Private
18%

UK vs international

UK
69%

International
31%

International

Europe
34%

South Africa
24%

Australasia
16%

North America
13%

Rest of the world
13%

Delivering critical programmes

- Providing through-life support for our customers' assets
- Delivering material improvements in the performance, availability and cost of supporting these assets
- Designing and manufacturing a range of equipment

Delivering critical services

- Providing complex engineering support
- Supporting naval and air bases
- Delivering world class emergency services
- Delivering complex nuclear services

Delivering critical training

- Providing training across defence forces from navies to air forces to armies
- Training police officers and firefighters
- Providing training to allow our nuclear customers to operate safely

Sustainable business

- Enabling our customers to increase the performance, efficiency and lifespan of their assets and services
- Driving a growth agenda through engagement with, and support of, local communities and small businesses
- Investing in engineering through our apprenticeship programmes and STEM activities

Our work is focused on three markets that account for around three quarters of our business. Around a quarter of our work is in adjacent markets.

Defence

- #2 UK supplier
- Substantial positions in Australia, Canada, New Zealand and France
- Export markets include USA, Spain and South Korea

See page 32 for more details on our markets >

Emergency services

- #1 emergency services provider in Europe
- Manage and own a fleet of over 500 aircraft
- Fleet management and technical training to UK police and firefighting forces

See page 33 for more details on our markets >

Civil nuclear

- Involved in all stages of nuclear lifecycle from new build to decommissioning
- Managing one of Europe's largest and most complex decommissioning projects

See page 33 for more details on our markets >

Delivered across our sectors:

Marine

	% of revenue
Defence	77%
Adjacent markets	23%

See page 68 for more details >

Nuclear

	% of revenue
Defence	66%
Civil nuclear	34%

See page 72 for more details >

Land

	% of revenue
Defence	42%
Emergency services	5%
Adjacent markets	53%

See page 74 for more details >

Aviation

	% of revenue
Defence	26%
Emergency services	61%
Adjacent markets	13%

See page 76 for more details >

Ruth Cairnie
Chair

Committed to the customers and communities we serve

We serve customers responsible for maintaining vital services. Our work saves lives and protects communities.

I was proud and delighted to take up the role of Chair of Babcock last July. Over the year I have met a wide range of internal and external stakeholders and a common question has been, "What was it about Babcock that made you want to join?"

My initial response is always, Babcock is a company that really matters. We serve customers responsible for maintaining vital services. It's no exaggeration to say that our critical work in national defence, in emergency services and in nuclear power saves lives and protects communities. For our customers, failure is not an option.

During the year I have been building my understanding of every aspect of the business: from its people and culture to its operations, its customers worldwide, and its strategy for the future. I have visited some of our key sites, both in the UK and internationally, and have met with employees at all levels from senior management to apprentices.

On every visit I have been struck by the customer-driven service mindset. Across the Group I have found a deep commitment to the long-term relationships we have with our customers and the communities we serve. We pride ourselves on being able to put together a team, a supply chain and a technical solution that meets our customers' requirements, building on our deep understanding of our customers' business and the challenges they face.

I have also met with our customers, including senior government representatives. I am pleased to confirm that their relationship with the Company is positive, and that the importance of our support is strongly recognised.

With the UK Government, over the last couple of years we have made real progress on the ways in which we work together, further strengthening and deepening our relationship. This has been driven in particular by the shared principles embodied in the Strategic Partnering Programme (SPP) of transformation, joint problem-solving and mutual trust. This programme is described in more detail in this report.

As part of my induction to the business, I have also undertaken a number of internal reviews. These included looking at senior-level talent within the business to confirm that we have the appropriate management strength and depth, underpinning our approach to succession planning. This work was undertaken as part of a wider review of talent management across the Group.

Additionally, mindful of the complexities of long-term contract accounting, I asked an external provider to undertake a review of significant contracts. They looked at a selection of our top contracts, representing around a third of annual Group revenue, and concluded as anticipated that our approach to long-term contract accounting is appropriately conservative.

FY20 and COVID-19

As I write, we are all living through an extraordinarily challenging period in our personal and our professional lives. You will see a number of pieces in this report on how the Group has been impacted by the pandemic so far, and how we have been contributing to the fight against the Coronavirus (COVID-19).

I would like to express my deep appreciation of our management and all our staff for the exceptional ways in which they have responded. It is precisely in times like these, through the actions of our people, that you can see the true spirit of an organisation. I have seen an extraordinary commitment and dedication from across our whole organisation and I know our customers and partners appreciate our flexibility and our willingness to stand beside them in this most difficult period.

I'm also delighted that we have been able to contribute to the fight against the virus by developing new technology solutions.

The effective application of technology is one of our strategic priorities and we have been seeing this in action: for example, our engineers applied the hard-won experience gained in emergency services in Italy and Spain to our operations elsewhere, whilst our defence team in the UK created innovative supply-chain solutions to manufacture a new ventilator designed to meet the NHS' requirements.

The pandemic only began to affect Babcock at the very end of the financial year on which we are reporting, so the impact on this year's results is limited. Our financial performance in FY20 was broadly as expected except for weakness in Aviation that meant we had to take some exceptional charges and a write-down on goodwill. Including a small impact from COVID-19 in the final months of the year, we fell short of our profit and cash guidance.

We made good progress on the strategic priorities outlined below, had some encouraging contract wins, and took action in response to the pandemic to ensure the Company is in a strong and well-funded position.

As we came to the end of the financial year, the impact of the pandemic was being felt across all markets. However we continued to support to our customers by keeping critical programmes and services operating, demonstrating the underlying strength of the business.

Strategy

The medium term strategy was set out in last year's Capital Markets Day. In this year's annual strategy process we used external consultants to test and refine our thinking on the market opportunities we had identified.

The Board was fully involved in the detailed review, which focused on the Group's capabilities and their linkage to opportunities, particularly in the international growth pipeline.

Last year we had some pleasing international successes including in Australia, Canada, Norway and France.

Community engagement: Anglesey

Our partnership with the communities in which we operate is at the core of Babcock's business. It's truly a partnership – we need each other's support to thrive and grow.

Working to inspire the next generation is an important part of that relationship. At RAF Valley in Anglesey, we have developed strong relationships with the local schools and colleges.

We regularly attend career fairs and events to show students of all ages the breadth of opportunities available, both within the aviation industry and locally in Anglesey.

We work hard to capture each student's attention and imagination, taking along aircraft parts and survival equipment such as pilot helmets which people are always keen to try on. These items help to start a conversation; often students are surprised when they learn about the range of opportunities within the sector and the local area.

Apprenticeship schemes are another way we invest in the future. At RAF Valley we work in partnership with local college Grŵp Llandrillo Menai, to develop a highly skilled local workforce to meet the growing demands of the RAF's Fast Jet Training scheme.

In 2016 we launched an Aeronautical Engineering Apprenticeship scheme with Grŵp Llandrillo Menai. So far, over 20 young people have completed their training and been offered full-time positions with Babcock at RAF Valley, while another 22 are currently in training. A further 12 apprentices will join the scheme this year.

The strategy is set out in this report and we remain confident that the fundamentals of our markets and opportunities will continue to support our medium term approach despite the inevitable near-term impact of COVID-19.

The Board will continue to focus on delivery of the strategy, in particular through reviews of progress on our six strategic priorities:

- Operational excellence
- Growing our international businesses in focused markets
- Growing our market share and expanding our offering in the UK
- Developing our people, including talent management and increased diversity
- Using technology to strengthen our offering
- Focusing on value creation, with clear actions to protect margins, generate cash, reduce gearing and deliver our targets.

Sustainable business

You will see that sustainable business is much more prominent in this year's report. We are in no doubt that sustainability is important and becoming more so, to all of our stakeholders. It is a fundamental part of our strategy, and is an integral part of our day-to-day operations. Our customers expect nothing less.

This year we have published a new Environmental, Social and Governance (ESG) Charter, which sets out in detail our areas of focus.

In some respects our business could be said to be inherently sustainable – after all we save lives, we enable our customers to increase the performance, efficiency and lifespan of their assets, and we have long recognised the need to partner with the communities we serve. However, we believe that the clear articulation of our ESG strategy at Group level will catalyse an increased focus on driving performance and good practices across our sectors and geographies.

One area to address in the coming year is our diversity strategy, which is captured directly within our strategic priorities. The benefits of diversity are particularly relevant in the markets we serve, where we work within a complex array of partnerships, rapidly changing technologies and increasing digitisation. We can see innumerable opportunities to harness the fresh thinking that should follow from having a more diverse organisation.

From experience, I have seen how diverse teams result in better business decisions, and how an inclusive approach delivers a stronger company, better able to devise the innovative solutions for future challenges and opportunities.

In the area of gender diversity there is much to be done and I am determined to see progress across the organisation, including at the executive pipeline and mid-tier management levels, where women are particularly under-represented.

Shareholders

Over the last year I have met with many shareholders and potential investors to hear and understand their views, and I look forward to meeting more in the coming year. Their support is vital to our success.

These conversations have been constructive and informative in identifying priorities for positioning the Company in the future. The strong fundamentals of the business, including long-term partnerships with customers, specialisation in non-discretionary work and valued technical expertise and know-how, are well recognised, as is our continued success in winning new business in the UK and internationally.

However, it is clear that over recent years we have not delivered the value for our shareholders that we set out to achieve. The most important shift to address this will be consistently to set budgets and guidance that can be delivered, and this will be our clear intention as soon as the exceptional uncertainties relating to COVID-19 have receded.

Board

A strong Board with the right mix of skills and experience is essential to our long-term success. Since taking up my role as Chair, securing the services of new Board members to succeed long-serving members who are retiring has been a priority.

Ian Duncan and Jeff Randall intend to step down from the Board at the forthcoming AGM after nine and six years respectively, and I would like to thank them for their dedicated service. I am delighted to welcome Russ Houlden, our new Audit Committee Chair, and Carl-Peter Forster, our new Senior Independent Director, replacing Sir David Omand who has held the role for eight years. Sir David's government experience is greatly valued, and he has kindly agreed to remain as a Director of the Group while we finalise the search for a suitable successor.

We are also progressing the search for a new CEO following Archie Bethel's decision to retire after 16 years with the Group.

Archie has been instrumental in growing Babcock from a small cap company to a leading defence business, and his experience has been invaluable in developing the Group's strategic direction. He is a proven and respected leader whose knowledge and understanding of the sector is second to none. I'm very pleased that he has agreed to stay on until a suitable successor is found.

For more on the Board, see page 98.

Looking forward

Worldwide, all markets and sectors are facing deep uncertainty as to the impact of COVID-19, both in severity and duration. This means that, as for many companies, it is impossible for us to make firm projections for the future. We are therefore unable to give financial guidance for the year ahead at this stage.

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

Nonetheless, what we are seeing so far underscores the strong fundamentals of the business, with our long-term contracts continuing to operate and provide critical support to our customers. We are making continual progress in fine-tuning our new ways of operating, within the new constraints of social distancing and protection of our staff, to drive improving profitability. With the measures taken to protect our funding position, we approach the year ahead with confidence.

See Section 172(1) Statement and Stakeholder engagement on page 30

HMS Portland following refit work as part of the Type 23 life extension programme

Our strategic framework

Our purpose

We serve customers responsible for national defence, emergency services and nuclear power. We exist to meet the needs of customers for whom failure is not an option.

What we do

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

Read more about our three focus markets in the Market review on pages 32 to 33
Read more on how we engage with stakeholders on pages 30 to 31

Our strategic priorities

Our strategy is delivered across our four sectors: Marine, Nuclear, Land and Aviation. We have set strategic priorities to ensure a focus on delivery. These priorities follow on from the strategy outlined at our Capital Markets Day in June 2019.

Deliver operational excellence for our customer

Grow our international businesses in focus markets

Grow market share and expand offering in the UK

Develop our people

Use technology to strengthen our offering

Focus on value creation

See overleaf for more detail on our strategic priorities

To deliver our medium term financial targets

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

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

Our strategic priorities

We focus on strategic priorities to deliver our strategy. These priorities are actioned by each sector and reviewed by the Board and Exco on a regular basis.

Our strategic priorities	Medium term vision
Deliver operational excellence for our customers We partner with our customers to solve their challenges and delivering operational excellence for them at every stage remains our key focus across programmes.	• Embedded as a long-term, sustainable partner for our customers • Trusted to deliver by all customers • Key programmes delivered on time and to budget • Anticipating and meeting customers' emerging requirements
Grow our international businesses in focus markets International markets are a key growth driver for the Group, both in terms of current markets and expansion into new markets.	• Over 40% of Group revenue from international businesses • Develop multi-sector, multi-market opportunities in Australia, Canada and France • Deliver value-enhancing growth in other countries
Grow market share and expand our offering in the UK We aim to grow our market share over the medium term through expanding our product and service offering.	• Deliver on key defence programmes for the UK • Grow share of existing markets • Expand our offering into new markets
Develop our people Our people are our main asset in delivering for our customers and we aim to increase employee engagement, improve diversity and ensure we have the best talent across the Group.	• Enhanced employee engagement across the Group • Significant improvement in diversity across the Group • Leading talent and training programmes
Use technology to strengthen our offering Technology underpins all that we do and our strategy is to embed it across all businesses. It supports growth in our sectors and helps us sustain margins as we continue to offer customers increased value.	• Technology embedded across all sectors • Technology driving performance, efficiency and savings • Babcock seen as a benchmark for technical innovation
Focus on value creation A focus on value creation sits at the heart of every decision we make, from the work we decide to bid on, through contract performance, a continuous focus on cost reduction and the efficient allocation of capital across the Group. We continually look at the balance of the portfolio to ensure it is delivering maximum value for our stakeholders.	• Allocate capital efficiently • Continue to focus our portfolio • Maximise Group synergy with one IT system, greater use of our shared service centre and a continuous cost savings programme

Progress in FY20	Priorities for FY21
• Continued development of our Strategic Partnering Programme (see page 28) • Continuous improvement in performance on major customer programmes • Improvements in health and safety with lower total injuries rate	• Continue to deliver and improve performance on major customer programmes • Continue to develop the Strategic Partnering Programme • Launch new Strategic Customer Management process • Begin to deliver our ESG strategy (see page 38 for details)
• Started Aviation operations in Canada and Norway • Expanded our defence offering in France • Started to deliver on maintaining the largest ships of the Australian Navy	• Win new contracts for defence work in Australia, Canada and France • Expand emergency services reach in North America
• Won the contract to build Type 31 frigates for the Royal Navy • Expanded our offering in emergency services with the award of a contract to train London's police • Maintained our win rates	• Secure key rebids • Start to deliver on the Type 31 programme • Secure new opportunities at target win rates
• Re-energised employee engagement programme with focus groups across sectors • Developed the Babcock Academy for our next generation of leaders • Continued to reduce gender pay gap • Became a founding signatory of the UK Women in Defence Charter	• Measure employee engagement Group-wide to help track progress • Improve diversity across the Group • Further reduction in our gender pay gap
• Technology group working across all four sector teams • Our technology offering was crucial in our award of the contract to build Type 31 frigates for the Royal Navy, the Australia LHD ships and Australian submarine programme • High growth in technology products businesses	• Continue high growth in products businesses • Use technology to support Group bids
• Developed our capital allocation model • Completed the sale of Context for over £100 million • Continued our cost savings programme across the Group	• Fix our Aviation sector by rightsizing the cost base and rationalising our fleet • Continue to reduce net debt to provide flexibility within our capital allocation model (see page 17) • Continued focus on our portfolio

Our business model

We serve customers responsible for national defence, emergency services and nuclear power. We exist to meet the needs of customers for whom failure is not an option.

Customer challenges

Our customers look to us to help solve their challenges and we work alongside them throughout delivery.

Maintain national security and save lives

Our customers across the world look to maintain national security and save lives across emergency services, from air ambulance services to firefighting.

Sustain critical and complex assets

Our customers have complex and valuable assets that need to be available for as long as possible. Many defence assets need constant sustainment to ensure there are no gaps in capability.

Deliver critical services

Our customers need a highly trained workforce to succeed. This training can be highly complex and ever-evolving.

Our inputs

We apply our strengths to solve these customer challenges, with inputs from our people, our assets and our technology and know-how.

Our people

We rely on our people to deliver for our customers. We have a service mindset of listening to the customer and adapting to their changing needs to solve evolving challenges.

Our assets

Our assets include critical national infrastructure such as the Devonport and Rosyth dockyards. We own and operate complex engineering facilities and operate over 500 aircraft.

Our technology and know-how

We have a deep understanding of our customers' assets and are able to integrate multiple technologies.

What we do

We apply our strengths and inputs to solve customer challenges across three main areas.

Deliver critical programmes

We provide through-life support for customers' assets to deliver improvements in performance, availability and cost. We design and build a range of equipment, from warships to weapons handling systems.

Deliver critical services

We deliver critical services for all our customers, from supporting naval and air base operations through to delivering world-class emergency services and complex nuclear services.

Deliver critical training

We provide training across defence forces from navies to air forces to armies. We train police officers and firefighters and we provide training to allow our nuclear customers to operate safely.

These challenges need to be met where:

Failure is not an option.

Whether it is maintaining the UK's Continuous At Sea Deterrent or flying missions to save lives in southern Europe – we cannot fail.

Cost efficiency is key.

All of our customers face budget pressures and look to us to help maximise availability and outputs while minimising costs.

Safely and regulatory compliance underpins all work.

Our customers operate in environments that are heavily regulated and health and safety is the number one priority in all that they do and all that we do.

See page 30 for details on how we engage with stakeholders across our business model

Sustainability applies across the whole business model. See pages 36 to 53 for more

How we do it

Our strategic enablers ensure we continually do things better for our customers and help us deliver our strategy.

See page 10 for our strategy >

People and culture

- Health and safety is our number one priority
- Active management and development of talent, including updated training programmes across the business, with senior personnel and graduates managed from the centre
- Addressing skills gaps and improving diversity across the business

Customer delivery excellence

- Customer-focused long-term collaborative relationships
- Ongoing senior customer engagement plan through the Strategic Partnering Programme, see page 28
- Group-wide sharing of customer requirements, solutions and best practice
- Sustainability strategy to align with our customers

Capability developments

- Investing in differentiating technology as a key driver of productivity, performance improvement and growth
- Sharing technology across our sectors
- Using data and digital technology to make things more effective, and adding to our capability

Operational efficiency

- Strong governance process for contract bids
- Cost saving and margin improvement plans across the business
- Deploying Group-wide shared services and a single ERP system
- Delivering procurement savings across the business

Creating stakeholder value

Customers

Solving customer challenges without failure, at the best cost and continuously adapting approaches.

Investors

Creating shareholder value through growth, cash generation and the efficient allocation of capital. Delivering shareholder returns.

Employees

Creating a workplace where employees are valued and motivated at all times while ensuring the health and safety of every employee every day.

Regulatory and industry bodies

Never compromising on safety and complying with regulations at all times.

Supply chains

Creating jobs and nurturing investment through collaboration with our supply chain. Aligning with the Prompt Payment Code.

Communities

Providing jobs and investment across the UK and ensuring we act responsibly at all times in the interests of local communities around our sites.

See Section 172(1) Statement and more on our stakeholders on pages 30 to 31

Delivering across long-term contracts

The majority of our work is performed in long-term contracts which balance risk and reward. This type of work accounts for around 80% of our business, with the rest a combination of short cycle work and procurement-related activity on behalf of customers. We continually win new work to replace old work in our contract cycle.

Our contract 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 c.£17 billion and mostly represents opportunities in our three focus markets, which account for 86% of the total. International bids account for 48% 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 £17.6 billion provides a base level of revenue for the years ahead. Further revenue comes from 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.

Profit and cash flow

Performance across contracts drives the profit we make on each contract. Cash flow varies throughout the year and depends on invoice dates, payment terms and governance gates 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, assets and IT systems. Our cash generation also supports a strong balance sheet and a sustainable dividend.

Delivering alongside our customers

Around 80% of work is carried out for government customers, with the majority of other work being for blue chip companies in highly regulated markets. We work collaboratively with all customers day in, day out as part of crucial long-term partnerships. Our work balances risk and reward through focused delivery and risk mitigation and contracts are generally target-cost contracts.

Target cost contracts, typical for many of our larger contracts, incentivise us to remove cost via a pain-share/gain-share mechanism.

Our capital allocation policy

Our business model is supported by our capital allocation policy to ensure we invest and grow the business, while delivering for our shareholders and ensuring we fund our pension schemes and safeguard our credit rating.

Organically invest in the business

Ensure Group liquidity

Given the current challenging environment from the impact of COVID-19, our immediate focus is ensuring the Group has sufficient capital and liquidity to cope with COVID-19 and other risks. If these are met then the capital allocation policy we set out in November 2019 still applies.

If the above are satisfied, then...

Fund pension schemes / safeguard credit rating

Sustainable ordinary dividend to shareholders

Highly selective bolt-on acquisitive growth

Bolt on M&A considered against hurdle rates and current Group valuation

Capital return to shareholders

Share buyback / special dividend

Jon Hall, PhD
Managing Director for Technology

Trusted to make the difficult decisions

Our customers always need more performance, more efficiency; and they need their assets to be able to work harder for longer.

Technology is changing the landscape in which we operate; and it is changing the services that we can offer our customers. That's why using technology to strengthen our offering is a strategic priority for the Board.

Taking advantage of the opportunities to give our customer better outcomes means putting an innovative approach to data at the heart of our technology strategy.

We work with big, expensive and complicated assets with a long lifecycle. These are assets on which our customers rely – when you're working with warships or aircraft or nuclear power stations, you need to really understand the asset.

Our customers always need more performance, more efficiency; and they need their assets to be able to work harder for longer. That's our challenge, and meeting it is driving a significant amount of innovation throughout our business.

Our technology strategy informs all our operations – we seek to improve the effectiveness of how we manage assets, infrastructure and people so we can better meet the evolving needs of our customers.

And technology lets us add value and scope to our range of activities, enhancing and expanding our core support services or adding specialist systems or technical services around that core support.

If we want to get more life out of an advanced gas reactor, we've got to think, what are the tools and techniques we can apply to increase its reliable lifespan? If we look at the Type 23 frigates used by the Royal Navy, we have to think about all the ways that we can get more capability on the ship.

We've always been good at making savings for our customers by working more effectively and helping people do their jobs more efficiently. But that only gets you so far, and data and digital enablement is allowing us to make the next step.

For Babcock, the key to data is the engineering insight we bring. You generally hear about big data – people using petabytes of data to find patterns that allow them to sell more product. But in our critical markets, the data is either not fully available or is of poor quality, so we need to find ways of putting it together with a white box model where we have a system engineering understanding of the asset. We know what's important and what will probably affect its performance and maintainability and cost, and we can fit the right data together with that understanding. It's not something everyone could do.

It means we can be a technical authority and be able and trusted to make difficult technical decisions about our customers' assets and their operability and maintenance requirements. Regardless of whether they've been designed by us or by any OEM, we can put that understanding and capability at the service of our customer.

Engineering insight

For Babcock, it's about being a technically intelligent and informed partner, so that when our customers need more life or more capability from their assets, we can make that happen or we can advise them on how they can make that happen.

It's about deploying our high-integrity manufacturing capability, investing in innovative manufacturing technologies like robotic welding or bringing production tools to the component rather than the other way around.

And it's about collaboration with others, from business technology partners to very long-term academic research partnerships. This allows us to drive the focus on innovation throughout our business and to do what, ultimately, it's all about – meeting the needs of customers for whom failure is not an option.

iSupport^{360}: a dynamic new way of interpreting information

iSupport^{360} is Babcock's approach to the application of digital technologies and data analytics to drive maximum value for our customers in the way we manage and support their critical and complex assets.

It brings together cutting edge technologies and our engineering insight to support our customers, whether it's managing their surface ships, submarines, ground fleets, critical infrastructure or even people. It's an approach that offers us a powerful and dynamic new way of interpreting information, and it gives our customers a complete and interactive view of that intelligent support.

That's why we've designed iSupport^{360} into the Type 31 programme from the outset; building in advanced analytics and connected sensors which will make it easier and more efficient to maintain and operate throughout its whole life.

Scaleable and flexible

iSupport^{360} draws on the concept of the Digital Thread, which develops with an asset through its lifecycle. It isn't just an approach we are using in defence. To support technology growth across our markets, we have ensured it is both scaleable and flexible, enabling Babcock to:

- Use **advanced analytics** to lessen operational risk through predictive maintenance modelling.
- Drive **efficiencies** through the **automation of repetitive tasks**, such as business or manufacturing processes.

- Be more proactive in our support through prediction, modelling and simulation, for example, using digital twinning to simulate how the asset will perform, using data from real-time monitoring of assets and operations.
- Offer both **flexibility and agility** in the complex work we undertake.

iSupport^{360} provides a benefit to people too, whether they are a ship maintainer or data analyst in one of our training contracts. The range of digital technologies we use is designed to enhance the ability of our people, allowing them to make better informed decisions, and equipping them with the best understanding of asset performance and material condition.

From data analytics to digital twins, from AI to VR, we're ensuring our people have the right skills. Investing in these technologies also means we can invest more in our people.

Digital Thread

The Digital Thread is a holistic view of an asset's data throughout its entire lifecycle – its digital DNA. The typical lifecycle of an asset starts in design, then build and onto the operational phase, including maintenance and refits/life extension and finally disposal. So we need to create a powerful framework of digital technologies encompassing all elements: concept, design, manufacturing, operation, post-life, and retirement. All of the multiple sources of digital data need to come together to allow a seamless transition of information from one phase of a project to another.

Working at this scale, it is essential that we collaborate effectively with our partners, supply chain and industry, and the Digital Thread methodology allows us to do that. In the Type 31 programme, we are responsible for the design and build of the five frigates, while also being a key long-term partner supporting the warships through life. So a consistent Digital Thread will allow us to successfully transition from the start of the programme through to the operational phase.

Delivering value through data

During design and build, we employ Industry 4.0 practices to help provide a seamless data flow which delivers efficiencies during the construction phase. During the support and maintenance phase, we will apply our own range of digital technologies and data analytics to deliver value for our customers through our iSupport^{360} framework.

The advanced analytics that underpin iSupport^{360} help us simplify complex problems, reduce risk and inform the customer at every stage of the asset's life, providing a fully immersive support service. Real-time analysis also means we can optimise maintenance and increase the asset's efficiency and availability. We have to look at how all our technologies and capabilities can work across any of the assets we manage – be they ship, submarine, critical infrastructure, or people.

To deliver this Digital Thread, we need to invest in our people and give them the skills to embrace advances in technology. We recognise we will need new skills to support this technology growth, and so we are working closely with partners such as Strathclyde, Edinburgh and Cranfield Universities. Whatever the engineering or technology challenges, physical or digital, we know as engineers we have the ability to solve them.

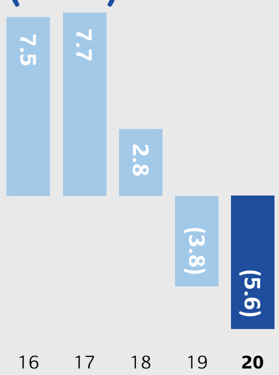
Delivering on our strategy

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.

2020 results

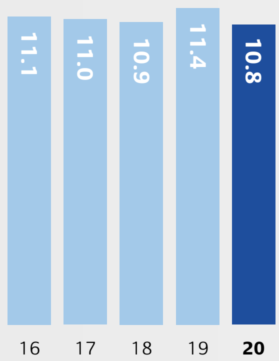
Underlying revenue growth (%)

(5.6)%



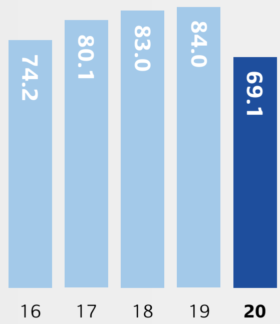
Underlying operating margin (%)

10.8%



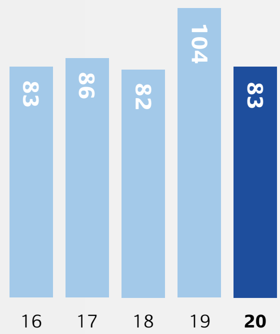
Underlying EPS (p)

69.1p



Underlying operating cash conversion (%)

83%



	Underlying revenue growth (%)	Underlying operating margin (%)	Underlying EPS (p)	Underlying operating cash conversion (%)
Definition	Underlying revenue growth is defined as the increase/decrease in revenue, including JVs, when compared to that of the previous year. Refer to page 57 for a reconciliation of statutory to underlying revenue and note 1 for details of our revenue recognition policy.	Underlying operating margin is defined as underlying operating profit expressed as a percentage of underlying revenue. Refer to page 57 for a reconciliation of statutory to underlying operating profit.	Underlying earnings after tax divided by the weighted average number of ordinary shares. Refer to note 10.	Underlying 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. Refer to page 61 for a calculation.
Commentary	Revenue decline was driven by the impact of step downs related to the end of QEC and Magnox contracts and exits and disposals made in the last financial year. Excluding these, underlying revenue grew by 2.7%.	The underlying margin of 10.8% includes the benefit of IFRS 16, which had a positive 0.5 percentage point impact. The majority of the decline in underlying margin related to performance in the Aviation sector.	The decline in underlying EPS primarily reflects the lower underlying operating profit. The adoption of IFRS 16 had a minimal impact on underlying EPS, with higher operating profit offset by higher finance charges.	The movement in the year has normalised as expected following anticipated strong working capital performance during the last financial year. The definition this year has changed to reflect adoption of IFRS 16 and prior years have not been restated as the standard has been adopted prospectively, in line with our statutory accounting policy.
Link to strategy	**Grow in the UK and internationally**	**Focus on value creation**	**Grow in the UK and Internationally** **Focus on value creation**	**Focus on value creation**

Linked to management remuneration

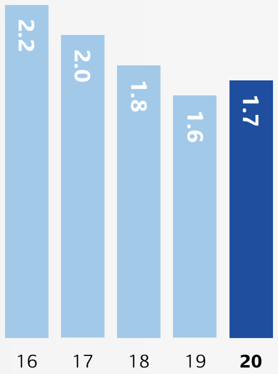
Our remuneration policy, as detailed on pages 118 to 124, includes reference to underlying EPS, underlying operating cash flow and underlying ROCE.

Changes to our KPIs

We updated our KPIs this year to better reflect our strategy as outlined at the Capital Markets Day in June 2019. We now include CO_2e emissions to recognise an increased focus on ESG and sustainability, and underlying earnings per share (EPS) as it is a key way we monitor the success of our strategy and is therefore linked with our remuneration policy. We have removed two debt related KPIs as we believe the net debt to EBITDA ratio is the best measure of performance and is a key measure in our capital allocation policy set out on page 17.

Underlying net debt to EBITDA

1.7x



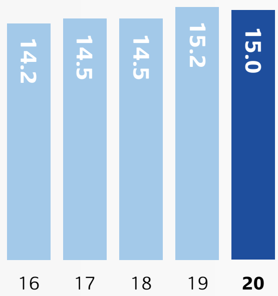
Definition: Underlying net debt to EBTIDA is calculated as net debt (excluding lease obligations) divided by underlying earnings before interest, tax, depreciation and amortisation (excluding JVs), plus JV dividends received. Refer to page 63 for a calculation. JV debt is non-recourse and is therefore excluded from net debt.

Commentary: Net debt excluding leases payable at 31 March 2020 was £922.1 million, giving a net debt to EBITDA ratio of 1.7 times, well within our covenant levels of 3.5 times.

Link to strategy: **Focus on value creation**

Underlying return on invested capital (ROIC) (%)

15.0%



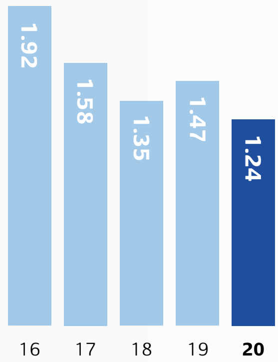
Definition: Underlying return on invested capital is defined as underlying operating profit divided by net debt (excluding lease obligations) and shareholder funds, excluding retirement benefit deficits or surpluses. Refer to page 64 for a calculation.

Commentary: The return on invested capital reduction reflects the reduction in underlying operating profit. Note that JV finance costs are excluded from this measure reflecting the non-recourse nature of the debt.

Link to strategy: **Focus on value creation**

Total injuries rate

1.24

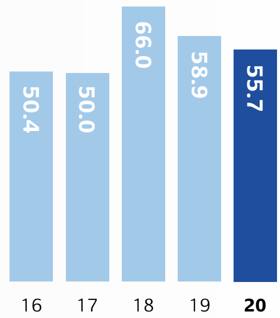


Definition: Reported injuries across the entire Group for every 100,000 hours worked by Babcock employees (excluding JVs).

Commentary: Our total injury rate has reduced by 16% compared to the previous year, reflecting efforts across the Group to improve performance. Sadly however one employee died this year following an incident involving inspections on an armoured vehicle. This tragic incident underlines the importance of our efforts to do better every year.

CO_2e emissions ($tCO_2e/£m$)

55.7



Definition: Estimated tonnes of CO_2e emitted as a direct result of revenue-generating operations (excluding JVs).

Commentary: We continue to reduce our emissions year on year, both the intensity ratio and in absolute terms. This reflects the efforts made across all sectors to reduce emissions, partly through the increased use of technology. Prior to 2018, some data associated with overseas operations was unavailable.

Link to strategy: **Use technology to strengthen our offering**

Operational performance measures

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

- **Underlying revenue growth**
- **Underlying operating margin**

Critical support: defence

HMS Portland in the Frigate Support Centre dry dock during the Type 23 life-extension programme

Felicity Knell
Dynamic Survey Team Leader, Type 23 life-extension project

“We work collaboratively with our customer, to deliver highly capable platforms back to the Royal Navy as part of the Type 23 life-extension programme.

The work at our Devonport facilities continues at pace, with parallel programmes of deep maintenance and structural upgrade work on Type 23s happening simultaneously.”

Archie Bethel CBE
Chief Executive

Resilient business model ready for the year ahead

At Babcock we pride ourselves on the fact that we support customers responsible for providing critical services: our work saves lives, supports national defence and protects communities.

Overview

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

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

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

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

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

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

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

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

Our strategy

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

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

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

This will deliver our medium term financial targets:

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

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

Progress in the year

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

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

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

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

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

Sale of Holdfast

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

Order book and pipeline

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

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

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

Health and safety

The health and safety of our employees is of paramount importance, and we work hard to ensure all our people get home safe every day. I was therefore deeply saddened by the death of one of our colleagues in January, following an incident involving inspections on an armoured vehicle. This tragic incident serves to strengthen our focus on ensuring that we have a world class safety culture. In Spain, one of our air ambulance pilots tragically died after contracting the COVID-19 virus. He had been working with us for over 12 years, carrying out numerous flights with the utmost professionalism and commitment to service.

ESG strategy

This year we have introduced a new ESG strategy for the Group. Sustainability is at the heart of our business, and is a key part of our planning, our operational delivery and our approach to through-life support. We are committed to minimising the impact of our operations on the environment, focusing on the safety of our people and ensuring a positive impact in the communities in which we operate. Full details of our ESG strategy and the progress we are making is be available on pages 36 to 53.

Looking ahead

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

During the year, I announced my intention to retire as Chief Executive. The search for a new CEO is progressing, and I have agreed to stay on until a new person is in place to ensure an orderly transition. It has been an honour and a privilege to have served at for Babcock for 16 years and I am proud to have helped it grow into the company it is today, providing vital services for national defence, saving lives and protecting communities. This gives me the confidence to know that, despite the current uncertainty, the Group’s strong liquidity position, robust business model, record order book and focus on critical services will allow us to continue to deliver for all our stakeholders next year and beyond.

COVID-19 impacts and mitigations

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

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

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

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

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

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

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

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

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

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

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

Tom Newman
Managing Director, Strategic Partnering Programme

Partnering with the UK Government: a year of progress

At the end of 2018, Babcock and the UK Government signed a Joint Ways of Working Charter and launched a programme to develop collaborative relationships across the Group's UK public sector business. Now one year on, the programme has brought renewed focus and energy across the Group.

The Babcock and UK Government Strategic Partnering Programme (SPP) has now been underway for over a year, and our relationship continues to grow in strength. We are working closely with teams from the Cabinet Office and Ministry of Defence on projects of mutual interest and value.

The Joint Ways of Working Charter underpins the deep commitment each party has to the other, and by focusing on ensuring successful operational delivery in some of our most critical contracts we are empowering our teams to achieve excellent results.

A wide range of projects are now underway across the Defence business in our Marine, Land and Nuclear sectors, and the programme is gaining excellent traction. We have been delighted to find that both customer and Babcock staff have been keen to participate in a programme that supports our joint success.

One great example of the progress we have made together is in the work going on in the Defence Support Group, where a combined team has improved the availability of critical equipment for our end user, the Army. You can see more detail on that on the next page.

Operational excellence

The SPP also enables Babcock to get feedback from across our UK Government customer base in a unique way that ensures common areas of strength and opportunity are identified. Cabinet Office-led workshops, conferences and other events allow Babcock to demonstrate the broad range of the capability we deliver. They also allow representatives across the UK Government to hear about how Babcock teams are solving complex challenges that may not be widely understood.

These events are supported by twice-yearly executive reviews that have ensured alignment around priorities at the most senior level. We have also worked closely with the Cabinet Office to deliver against its social value agenda, helping to bring greater emphasis on Diversity and Inclusion, SME supply chain involvement and the Environment.

Strong alignment

The SPP programme aligns strongly with Babcock's aim to deliver operational excellence, and to continue to improve how we serve our customers. This includes making sure that we take the time to listen to them, to hear and understand their views. One year on, we can see that the launch of the SPP has brought renewed focus and energy to our drive to improve.

Work is now underway to ensure that the best practice developed on our UK Government contracts can be brought to bear wherever Babcock does business, with the launch of a new Strategic Customer Management process. This will use the latest technology and thinking to ensure that our customers remain at the heart of everything we do.

Training session at Bovington

Strategic Partnering Programme in Land Defence

Babcock has delivered the Land Equipment Service Provision and Transformation Contract for the UK Ministry of Defence (MOD) since 2015.

The contract involves Babcock's Defence Support Group (DSG) business supplying vehicle support to the British Army across eight service categories, including Maintenance Repair & Overhaul, Inventory & Repair Management and the Training Uplift Fleet.

The UK MOD wanted DSG to provide them with a transformed equipment support environment, together with an intelligent partner who would flexibly and efficiently meet the needs of the Army.

The challenge

At the start of the contract it became apparent that there was a lack of clarity over delivery requirements. Babcock was achieving all its key performance indicators in the contract, but this wasn't meeting the customer's real need.

Babcock was achieving all the key performance indicators in the contract, but that wasn't meeting its customer's real need. Several unilateral attempts were made to solve the mismatch of expectations, but these didn't address the complex and interdependent nature of the contract.

The solution

The MOD was approached by the Cabinet Office during the early rollout of the Strategic Partnering Programme. It was recognised that this would be a great opportunity to refocus and improve, and the SPP 'workstream' approach was adopted.

Joint teams were formed, consisting of the people involved in delivering the service on a day-to-day basis. Over a period of several months these teams conducted joint root cause analysis which ensured they understood each other's issues, requirements, constraints and dependencies. From the root cause analysis, the teams were then able to develop joint solutions which were gradually refined, implemented and reflected within the contract.

As a result of the workstream approach, the Inventory & Repair Management service was able to jointly develop a complete 'user guide', known as the Joint Service Manual.

This 200-page manual articulates all of the interface processes for the Inventory & Repair Management service: providing process maps, detailed descriptions, and clear timelines and responsibilities for all parties.

Fundamentally, the manual has removed operational ambiguity from the service – something that wouldn't have been possible without the customer and Babcock working together. The SPP and workstreaming approach not only enabled the teams to arrive at this output together, it also helped to ensure that the conclusions were mutually beneficial; thereby ensuring everyone was committed to embedding the improvements.

The results

The improvement work undertaken as part of the SPP has delivered service improvements and contract amendments to the transformation contract, making it much more effective.

What started as a way to fix a problem has now progressed into a collaborative focus on continuous improvement, transformation and value, with all parties now working together more effectively.

The benefits have included deeper and more transparent forecasting, a new KPI to accurately measure performance and improvements in key front line metrics.

The process has resulted in a strengthening of the relationship between Babcock and the customer, and a team which is now much better placed to support the British Army's ability to train and fight.

s172(1) Statement and Stakeholder engagement

Why they matter to us	Their issues	How Babcock engages with its stakeholders
Customers Babcock works with public and private customers. By focusing on their needs, we aim to improve our performance and build our relationships in order to promote the long-term success of the Group.	• Delivery • Safety • Value for money • Relationship	• Babcock engages at all levels with its customers from the front line, where we deliver our services alongside our customers, to the Board
Investors The support of our investors is vital to the long-term performance of the Company.	• Financial performance • Governance • People and culture	• Annual Report and Accounts • AGM • Investor section of Babcock website • Investor roadshows • Results presentations • Stock exchange announcements • Investor visits
Employees With some 35,000 employees across the globe, Babcock's long-term success depends on the engagement of its employees.	• Remuneration and reward • Employee development • Reputation • Health & Safety • Diversity & Inclusion	• Through sector and business unit line managers • Inductions • Employee training • being babcock programme • Babcock Code of Conduct • HSE teams
Regulators and industry bodies We manage complex assets in highly regulated sectors, for example, nuclear, defence and aviation. We have to maintain positive and constructive relationships with regulators in order to be able to operate as we do.	• Regulations, policies & standards • Governance & transparency • Trust & ethics • Compliance	• Dedicated compliance teams • Participation in industry bodies
Supply chains Our external supply chains are an important part of our performance.	• Good working relationships • Prompt payment	• Group procurement function • Supplier Code of Conduct • Supplier conferences & workshops • Supplier due diligence
Communities Where we have major operations, such as at Plymouth, Faslane or Rosyth, we are often one of the largest employers in the local area. We are aware of the impact that we have on those communities.	• Employment • Health & Safety • Environment • Armed Forces Reservists Support	• Sponsorship • Employee volunteering • University partnerships • STEM Ambassadors

The Directors have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the Shareholders as a whole while having regard for all stakeholders. We describe how they have done so in the table below. The Directors believe that stakeholder engagement remains vital to building a sustainable business. Further information can also be found in the Sustainable business section on pages 36 to 53.

How the Board fulfilled its s172 duties

The Board continually works to foster its relationships with customers. During the year, in order to understand their priorities, the Board, principally through the Chair and the Executive Directors, have had regular meetings with the Group's key customers. The Board received briefings on these engagements at its monthly meetings. In addition, it heard the reports on the wider customer relationship from the Sector CEOs, who attend each Board meeting.

The Board considered these priorities in all its decisions. For example, during the year, the Board reviewed specific strategic bids. The Board assessed whether these bids, in particular the T31, addressed the customer's key issues. In addition, over the year, the Board has overseen the development of the Strategic Supplier Partnership with the Group's principal customer. This programme has enhanced the Group's relationship with its key customer. The Board is now looking to take the lessons learnt from this programme to see if they are relevant to other customer relationships.

Acting in a way that the Board believes is most likely to promote the Group's success for the benefit of its members as a whole is at the heart of the Board's actions. During the year, the Board sought to understand the priorities of the Babcock shareholders through its dedicated investor relations team. At its meeting to review and decide on the strategy, performance and culture of the Group, the Board took into account the feedback it received.

For example, the Board approved the messaging in the Group's Capital Markets Day in June 2019, including those around our strategy, our core strengths, our key markets and our medium term financial targets.

The Board is well aware that the Group's long-term success depends on the engagement of its employees, which in turn depends on the Board taking into account their interests in its decision making process. During the year, the Board sought to understand the interests of its employees through a number of different channels.

Babcock has established a formal workforce advisory panel, the Group Employee Forum, with representatives from across Babcock's UK and European operations. Senior management attended its meetings to listen to employee concerns and reported those concerns to the Board. The Board, particularly through the Remuneration Committee, considered these in its review of the Group's resource strategy (please see page 124 for more information) and its remuneration structures during the year, including in its decisions on the remuneration of the senior executive team (for more information, please see page 121). During the year, the Board was keen to enhance its engagement with employees and decided to hold a number of employee focus groups to understand better its employees' viewpoints and their priorities. The Board will receive the feedback from these sessions during the course of the year.

The sectors maintain dedicated functions in order to manage the Group's compliance requirements. During the year, the Board received monthly updates as part of each sector's operational review on any significant engagement with regulators. For example, the relationship between the Nuclear sector and the Office of Nuclear Regulation is of particular importance for our operations in Devonport. The Nuclear sector CEO included a status update as part of his monthly report to the Board.

Babcock has a centralised procurement function. During the year, the Board received a briefing from the Group Head of Procurement to ensure that the Board understood its supply chain risk. The Board applied its understanding of supply chain risk in its reviews during the year of the Group's major tenders, as supply chain strategy and plans for these projects was a key factor.

Babcock aims to build positive relationships with the communities which host its businesses. In the main, the sectors hold these relationships at a local level where the most relevant knowledge is. Relevant developments in community relationships are included in the monthly sector reports to the Board. For more information, please see page 47. However, during the year, the Board was keen to bring more focus to these relationships and decided to introduce a Group-wide ESG strategy. For more information, please see page 38.

Intelligent support across...

Defence

Babcock is a trusted partner for key defence programmes around the world.

We are the market leader for defence support in the UK, and have a significant presence in many overseas markets, all of which share similar characteristics:

- Evolving threats to national security
- Budgets under consistent pressure to deliver value
- Upward budget pressure from NATO commitments
- Demand for technology to drive efficiency
- Growth in naval shipbuilding programmes
- Air forces requiring advanced training on new fleets
- Large land fleets requiring through-life support and life extensions

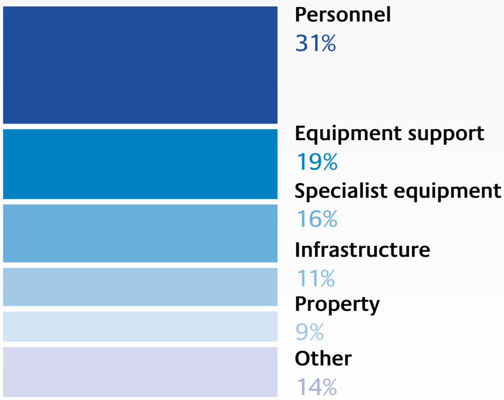
UK defence

Our primary market is UK defence, where we provide critical assets and services to all of the UK's armed forces every day. 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 across more critical programmes than any other provider, 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 market, the growth in any individual year is partly dependent on the phasing of MOD spend.

Over the last year, the UK market has seen an increased budget, and milestones achieved across major programmes. The continued drive is the UK's continued commitment to meet the objectives outlined in the Strategic Defence and Security Review (SDSR) 2015 and a renewed commitment to meet the NATO spending target of at least 2% of GDP.

UK defence spend 2019

£38.0bn



Source: UK MOD

Defence spending in the UK rose last year to £38.0 billion, £1.4 billion higher than 2018, with £16.1 billion spent on MOD equipment and support. Around 19% of the total defence spend, £7.1 billion, was designated to supporting MOD equipment, an increase of around £300 million. This is the main area of spend where Babcock operates.

In March 2020, the MOD's equipment plan outlined a £180.7 billion available budget allocated to equipment and support over the next ten years. The MOD came under scrutiny to address last year's deficit and has since successfully reduced the shortfall to £2.9 billion. The reduced forecast is the product of identifying and delivering efficiency initiatives and improving forecasting, rather than reductions in procurement or support programmes. In 2019, the Government uplifted the budget by an additional £2.2 billion.

The Government also identified a requirement to accelerate their pledge to mobilise, modernise and transform defence, improving productivity, reducing costs and delivering next generation capabilities. The forthcoming Integrated Review, though delayed by the impacts of COVID-19, will provide the UK with opportunities to update and validate equipment and support requirements and deliver efficiency to ensure the UK retains capabilities to defend against modern threats.

International defence

International markets offer significant long-term potential, both in terms of increased spend in current markets and expansion into new markets, and our bid pipeline includes many opportunities. Australia continues its major procurement of sea, land and air assets, as well as significant capability upgrades to cyber and command, control, communications, computers and intelligence (C4I) systems. 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. In Europe, there are many significant long-term opportunities. In France, the market is seeing increasing demand for both fixed and rotary wing training, providing opportunity for us to capitalise on our successful training operations.

Emergency services

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

Demand for increasingly complex and technical emergency services continues to grow across the world.

Emergency medical services

Markets across the world vary in structure. Regional authorities in Europe provide a source of steady demand, though market growth in each country is limited. This year saw delays in the award of new contracts in Italy and Spain, partly due to increased regulatory processes and partly due to competitor challenges. Our growth is supported by entering new markets, and this year we started services in Norway. We see other opportunities across Europe to expand our offering over the coming years.

We are actively exploring opportunities to enter the market in Canada, building from our entry into firefighting this year.

Firefighting

In aerial firefighting, activity levels in our markets were lower this year, with fewer fires in our countries compared to last year, given wetter weather conditions. However, the demand for aerial firefighting remains high as the global climate changes. The trend towards crossing borders in firefighting operations continues across Europe, and this year we provided support to other countries at the request of the European Union, such as flying missions across Greece, Sweden and Israel in support of their firefighting activities.

We started operations in North America this year with our entry into Manitoba, Canada. The North American market is maturing, with more outsourcing contracts coming to market as the spread of fires go beyond state and province responsibility. Our work in Manitoba has allowed us to showcase our expertise, and we hope to build on this further.

Police

We entered a new market this year and will be training police officers for the first time working with the London Metropolitan police force. This complements the work we do on looking after London's fleet of police vehicles.

Civil nuclear

The civil nuclear market remains a long-term growth opportunity but is challenged in the short term.

The civil nuclear market remains a significant long-term growth opportunity both in the UK and, increasingly, overseas, as ageing power stations have their generating life extended or are brought offline, and as new power stations are built.

In the UK, however, many of the opportunities in this space continue to see delays. Political and economic factors have affected several key milestones and decisions in the UK across generation, operational support, decommissioning and, in particular, nuclear new build. Developments overseas, particularly in Canada, offer significant opportunity to expand and demonstrate internationally our unique UK experience and capability, however our exposure is currently limited.

During the year, the civil nuclear industry saw further consolidation of the supply chain across the market, changing the competitive landscape in the UK and overseas with some major acquisitions.

Decommissioning

The Nuclear Decommissioning Authority (NDA) budget during the year saw a modest increase to £2.2 billion, but should see a further increase to around £2.7 billion of funding next year. BEIS continues to manage the liabilities for decommissioning all nuclear sites. In 2019, these obligations were calculated at around £157 billion. Sellafield, accounting for the majority of the liabilities, continues to be an opportunity for engineering packages.

The launch of the consultation on the new NDA business plan for 2020-2023 and its implementation will likely be a focus over the short term. A key part of the business plan is focused to ensure Magnox, transferred back to NDA control in September 2019, is managed effectively.

Critical support: emergency services

Beechcraft King Air 250 air ambulance landing at Tromsø airport, Norway

Agneta Karlfeldt
COO/Chief Flight Nurse Fixed Wing, Scandinavian Air Ambulance

"We work around the clock in the harshest weather conditions and most remote locations – from the Arctic Circle to the most inaccessible areas of the Mediterranean coast. The terrain often makes road travel long and circuitous.

Our air ambulance services are vital to local communities, who would otherwise not be able to access the hospital services they need. Our customers trust us because they know we have the specialist expertise required to work in these complex environments where emergencies happen."

Archie Bethel CBE
Chief Executive

Sustainability is at the heart of our business

Sustainability is a key part of our planning, our operational delivery and our approach to through-life support. It's about thinking and acting for the long term – for all our stakeholders.

The global sustainability agenda is increasingly important to our customers, our employees and our shareholders, and we take our responsibility to operate ethically and deliver in a sustainable manner seriously.

Sustainability is an integral part of our business. We think and act for the long term, and we are a trusted partner to our customers. We also work closely with our suppliers to ensure the same standards apply throughout our supply chain.

As we display in case studies throughout this report, our businesses actively assess the impact that our operations have on our wider stakeholder base.

This year, we have enhanced our Group-wide approach by introducing a new role – Group Head of Sustainability – and I am delighted to champion the Sustainability agenda at Board level.

Environmental responsibility

Incorporating sustainability into our everyday operations is key to ensure successful, long-term delivery outcomes, and we have a responsibility to leave a positive impact on our environment.

We recognise the impact of CO_2 and other greenhouse gases on our environment, and we are committing to reducing the impact associated with our own energy usage.

We will continue to enhance the use of technology to reduce our current footprint. We are also addressing water and waste management activities, and are working with our supply chains to promote sustainable delivery.

Social responsibility

We rely on the support and collaboration of local communities, small businesses and our people where we live and work.

The health and safety of our employees is of paramount importance, and we work hard to ensure all our people get home safe every day. I was therefore deeply saddened by the death of one of our colleagues in January, following an incident involving inspections on an armoured vehicle. This tragic incident serves to strengthen our focus on ensuring that we have a world class safety culture.

Our delivery programmes are by their very nature long term, and we are 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. In support, we continue to invest in technical apprenticeships, graduate schemes, management training and talent development programmes.

We are also committed to providing a fair, equal and inclusive environment for all of our people. We run employee Diversity & Inclusion networks across our operations, and we ask for employee feedback through sector questionnaires and Group-wide focus groups to ensure we actively address questions and concerns.

Our STEM Ambassadors have been continuing their volunteer outreach activities in local schools and colleges, to engage and inspire the next generation. Local initiatives are a key feature of the value that Babcock brings, not just to our customers and employees but to the wider community. We actively engage with communities in which we operate, to become a part of the environment and to enhance social cohesion.

Governance

Babcock has always been and will always be committed to doing business honestly and openly. We hold our leaders to account for ensuring their businesses operate according to the standards we expect.

Our Group-wide Code of Business Conduct lays out our policy of strict ethical conduct, highlighting the fundamental importance of conducting all business activities to the highest standards of honesty and integrity. A key contributor to our ability to deliver effectively is our corporate values, expressed in being babcock (see page 43), which underpin our activities so that we operate in a safe, respectful and trusted environment.

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 content of the non-financial information disclosure has been expanded from previous years as we are providing greater transparency into our policies, standards and governance approach to operational activities. We are committed to increasing this transparency over the upcoming years and have structured the sustainable business report to provide insights based on global standardised reporting standards in three key areas: Environment, Social and Governance.

Reporting requirement	Policies and standards	Additional information	Page
Environmental matters	Health, Safety and Environment Policy* Energy Policy* Procurement Environmental Policy*	Clean inputs Responsible consumption Health, safety and environmental risk	40 41 87
Employees	Code of Conduct** Health, Safety and Environment Policy* HR Matters Policy* being babcock (see page 43) Joint Ways of Working Charter	People and potential Gender diversity and pay gap Corporate integrity Women in Babcock People risk s172(1) statement Remuneration Note 25 - Share based payments	44 46 49 52 88 30 121 199
Human rights	Code of Conduct** Supplier Code of Conduct** Modern Slavery Statement**	Corporate Integrity Diverse and robust supply chains	49 50
Social matters	Anti-Bribery and Corruption/ Ethical Policy** Code of Conduct** Diversity and Inclusion Charter* Canada Indigenous Peoples Policy*	People and potential Corporate integrity Community engagement s172(1) statement	44 49 7, 47 30
Anti-bribery and corruption	Anti-Bribery and Corruption/ Ethical Policy** Whistleblowing structure Supplier Code of Conduct**	Diverse and robust supply chains Corporate integrity Principal risks and management controls Governance statement	50 49 80 96
Description of principal risks and impact on business activity		Principal risks and management controls	80
Business model		Our business model	14
Non-financial KPIs		Delivering on our strategy	21

* Available to employees through the Babcock intranet but not published externally.
** Available on the Babcock website and available to employees through the Babcock intranet.

ESG strategy

We are committed to delivering in a sustainable way for all our stakeholders. Saving lives and enabling our customers to increase the performance, efficiency and lifespan of their critical assets and services are inherently sustainable activities. We augment our operational delivery by minimising the impact of our operations on the environment, focusing on the safety of our people and ensuring a positive impact in communities in which we operate.

This year we have introduced a new Group-wide ESG strategy. Although a significant number of activities take place within contract teams and business units, this Group-wide strategy enables us to leverage the experience and scale of the organisation, to more effectively contribute to the communities in which we operate and the environment in which we live.

We are aligning our activities to the UN Sustainable Development Goals so that we can demonstrate the ways in which our actions actively contribute toward these global objectives.

We are also seeking to enhance transparency, including providing insight into our governance, processes and metrics. These metrics are being established across each of our key Sustainability principles, and will enable us to clearly articulate the impact our activities and operations have on the environment and the people who are so crucial to our future. We aim to communicate these metrics in association with global standards and industry specific disclosures.

This strategy is championed by the Group Chief Executive and signed off by the Board. Operational metrics and key areas of focus are reviewed at Executive Committee meetings.

Our sustainability charter

The safety and wellbeing of our people is our priority. We encourage a diverse and inclusive employee base where each person feels respected and able to fill their potential.

We play an active part in our local communities to enhance development and inspire the next generation.

We partner with our supply chains to identify innovative solution and ensure timely delivery of quality products and services.

We use innovative solutions to reduce our energy needs, while focusing on cleaner energy and other natural resources.

We integrate environmental sustainability into our programme design, optimise use of resources and minimise waste through increased re-use and recycling.

We believe that ethical behaviour underpins our sustainability activities. We establish robust processes and controls to identify opportunities and manage corporate risks.

	Sustainability at Babcock	Alignment to UN SDGs	Focus areas
Environmental	Clean inputs	7	Clean electricity, alternative energy
	Responsible consumption	6, 12, 14, 15	CO_2e outputs, water consumption, waste disposal
Social	People and potential	3, 4, 5, 8, 10	Home safe everyday, employee feedback, Diversity and Inclusion, talent and development
	Community engagement	3, 4, 5, 8	Volunteering, corporate sponsorship, university partnerships
Governance	Diverse and robust supply chains	16, 12	Due diligence, cyber essentials, modern slavery
	Commercial integrity	16	Prompt payment, anti-bribery and corruption

Using our technology skills in the fight against COVID-19

Our engineers were proud to use their technical skills to develop new solutions in the global fight against the virus.

Ventilator challenge

Babcock joined forces with a leading medical equipment company to design, manufacture and supply critical care ventilators in response to the UK Government's urgent request for help from industry.

Working round the clock, our specialists developed a brand-new design. And when the technical requirements changed, we were able to make sure that our ground-breaking Zephyr Plus ventilator was flexible enough to meet the UK's need.

Combining our engineering expertise and ability to create innovative supply chain solutions with developments in medical technology has resulted in a solution that can help medics in these extreme circumstances.

We are incredibly proud of what our people, our suppliers, and everyone involved in the project has achieved in such a short space of time.

Air ambulance innovations

Babcock has been providing aerial emergency medical services throughout the crisis.

To help patients reach the hospital care they needed, we were able to create, test and certify the use of new isolation stretchers. These pods allow the safe transportation of COVID-19 patients, protecting the crew and others against exposure to the virus.

We drew on the experience and innovation of our experts to create a new framework system which enables the pods to work seamlessly with the onboard medical systems.

Our engineers in the UK and Spain also collaborated to design and develop a new on-board barrier which effectively separates the medical teams from the flight crews across our fleet of life-saving aircraft.

Projects like these would normally take several months, but working with new guidance from the European Union Aviation Safety Agency and national regulators, we were able to accelerate the process to just a few weeks.

Environmental

Clean inputs

We use innovative solutions to reduce our energy needs, while focusing on cleaner energy and other natural resources.

We recognise that working sustainably makes strategic business sense. Groupwide activities support increasing local focus on managing clean inputs. Our sectors and business units also drive this agenda through activities that directly support our customers' needs. Sustainability is embedded throughout the organisation and is a central consideration in the decision making process.

Babcock's Board and senior management are committed to delivering continual environmental improvements across the organisation.

Energy governance

At Group level, an energy and environmental working group meets quarterly with representatives from each sector. The working group, chaired by the Group Energy Manager, designs and reviews the energy and environmental policy and shares best practice.

Sectors and business units set KPIs appropriate to their individual businesses. Energy consumption data is collated into a central database, enabling reduction targets to be established and monitored regularly.

Babcock has held the Carbon Trust Standard for its UK operations since 2010, and will be seeking reaccreditation in 2020. The continuous monitoring of energy consumption and the attention to environmental policies ensure that the environmental impact of the Company's operations is minimised.

Energy management and procurement

We have advanced energy management practices in place across the organisation which allow us to effectively manage our consumptions and emissions. We have implemented a Metering, Monitoring and Targeting (MM&T) strategy which allows us to easily identify and remediate any inefficiencies.

Our Group-wide energy database is key to managing our energy consumption, and provides us with a holistic view of our impact.

The procurement of electricity for our UK activities has been largely centralised for some time, providing benefits including the avoidance of costs.

Babcock has committed to purchasing its power for UK operations in a responsible manner.

Biomass, which features a carbon footprint less than 15% of coal-fired electricity, is our primary energy source.

This form of renewable energy also supports healthy, sustainably managed working forests which help to fight climate change.

We also benefit from local alternative energy solutions as demonstrated at Devonport Dockyard. Under a Power Purchase Agreement (PPA), Devonport Dockyard purchases 100% of its power and a major percentage of its steam requirements from the adjacent MVV, energy from waste, CHP plant.

The facility takes in waste from the local area and converts it into electrical and steam energy. This bespoke arrangement reduces the carbon footprint and environmental impacts of our operations.

In our Aviation business, we are working with our customers and supply chain to identify opportunities to add OEM-approved bio-jet fuel in order to use Sustainable Aviation Fuel (SAF) in our Emergency Medical Service, Aerial Firefighting and Oil and Gas-related activities.

Energy improvements in civil nuclear

This year we introduced a range of energy improvements at our sites in Chester and Whetstone.

In Chester, we installed new air compressors which require less power to run and produce a higher capacity of compressed air. As well as LED lighting in the high bay workshop, we've installed new gas-fired warm air heaters with timers, winter/summer modes and an automatic roller shutter door in the main workshop area.

Using more efficient heaters together with new doors to keep the heat in resulted in our using 33% less electricity and 41% less gas than the previous year.

In Whetstone, we have installed a new boiler and immersion heater and new electric heaters. We've also made some repairs to reduce heat loss, and now control both lighting and heating with timers.

As a result, in 2019/20 we used 14% less electricity and 12% less gas than in 2018/19.

Environmental

Responsible consumption

We take our responsibility for managing the impact of our operations and those of our supply chain on the environment seriously.

We are currently working to implement standards for good practice across the Group: on reducing waste and on increasing recycling and the use of recycled, low-impact and recovered materials.

We are also focused on improving efficiency in our energy use across all of the Group's operations. We are pleased that our actions in managing local demand have improved our energy consumption and emissions figures. These also reflect reductions in business travel due to COVID-19.

We have a diverse range of operations, some of which are within highly regulated arenas where the potential for environmental harm is significant. To ensure risks are appropriately managed and impacts minimised, we operate Environmental Management Systems across the organisation. We currently have 23 business units operating ISO14001 accredited EMS. Our management systems allow us to understand, monitor and manage our environmental impacts, while delivering continual improvements.

Climate change impact

We recognise that climate change will result in consequences, not just to our business but to the environment in which we operate. Issues that might affect Babcock include floods, hurricanes, fires and droughts. We identify the risks of climate change on our operations at a contract level and this is reviewed at business unit and sector Board level. We then communicate any material risks to the Audit and Risk Committee on a bi-annual basis.

Having reviewed climate-related risks, we do not believe that there will be direct material adverse impact on our operations over the short or medium term. We will continue to assess emerging climate-related risks and will identify appropriate mitigation activities. Our improvement plans for 2020/21 include performing long-term risk assessments on the assumption of an increase in CO_2.

We also recognise that climate change could result in an increased demand for our services and products in response to climate-related challenges. For example, in our LGE business which provides optimised solutions for the transportation of liquefied gas as an alternative to more polluting fuels and in our aerial emergency services (medical transportation and firefighting activities in Europe, Australia and North America).

Supply chain

Our supply chain has an important part to play in supporting our efforts to reduce emissions. This year, we introduced a Group-wide procurement policy that requires environmental aspects to be taken into account as part of the competitive tender process. We are working closely with our suppliers to reduce packaging where feasible. We have also implemented more recycling and re-use initiatives in order to minimise waste.

Carbon emissions

We recognise the impact that greenhouse gas emissions have on our environment. We are committed to reducing our impact and will review appropriate, accredited targets over the coming year.

Babcock Group Energy Consumption and Emissions

		2017/18	2018/19	2019/20
UK/UK offshore				
Scope 1: Direct emissions from owned/controlled operations	tCO_2e	76,614.3	70,515.9	62,754.5
Scope 2: Indirect emissions from the use of electricity and steam	tCO_2e	96,251.5	73,416.0	59,721.3
Scope 3: Emissions – business travel, electric transmission and distribution	tCO_2e	20,790.8	17,723.2	13,304.4
Total emissions	**tCO_2e**	**193,656.5**	**161,655.2**	**135,780.2**
Underlying energy consumption used to calculate emissions	**kWh**	**644,939,237.2**	**595,419,932.2**	**530,000,509.8**
Global (excluding UK/UK offshore)				
Scope 1: Direct emissions from owned/controlled operations	tCO_2e	105,010.5	94,405.1	107,205.4
Scope 2: Indirect emissions from the use of electricity and steam	tCO_2e	8,144.8	7,314.3	4,572.7
Scope 3: Emissions – business travel, electric transmission and distribution	tCO_2e	850.1	319.9	361.2
Total emissions	**tCO_2e**	**114,005.4**	**102,039.2**	**112,139.3**
Underlying energy consumption used to calculate emissions	**kWh**	**446,044,504.7**	**401,624,794.3**	**450,404,800.4**
Babcock Group Total (UK/UK offshore and Global)				
Scope 1: Direct emissions from owned/controlled operations	tCO_2e	181,624.8	164,921.0	169,959.9
Scope 2: Indirect emissions from the use of electricity and steam	tCO_2e	104,396.3	80,730.4	64,294.0
Scope 3: Emissions – business travel, electric transmission and distribution	tCO_2e	21,640.8	18,043.1	13,665.6
Total emissions	**tCO_2e**	**307,661.9**	**263,694.5**	**247,919.5**
Underlying energy consumption used to calculate emissions	**kWh**	**1,090,983,741.9**	**997,044,726.4**	**980,405,310.1**
Revenue	**£m**	**4,659.6**	**4,474.8**	**4,449.5**
Intensity Ratio	**tCO_2e/£m**	**66.0**	**58.9**	**55.7**

Our emissions data is reported in line with the Greenhouse Gas Protocol Corporate Accounting & Reporting Standard under the 'Operational Control' approach. Figures for UK operations follow conversion factors published by BEIS. Non-UK operations use emission factors applicable to the fuel source and location. Appropriate conversion factors have been used to calculate the underlying energy consumption figures. Scope 1, 2 and 3 sources have been divided by the annual revenue to provide the intensity ratio (tCO_2e per £m). Figures for prior years have been adjusted to include data unavailable last year, and figures for this year include an element of estimated data. Certain data, estimated to be immaterial to the Group's emissions, has been omitted as it has not been practical to obtain (operations in Oman, South Korea, Canada and Australia). Metering and monitoring improvements are being implemented to capture these data streams.

Environmental

Responsible consumption continued

Sustainable buildings

Across the organisation we continue to develop and improve our built estate and we strive to achieve excellent sustainability credentials with all developments. Sustainability considerations are at the core of the design and decision making process. We aim to deliver high quality assets which meet the current and future needs of our staff and customers whilst minimising our environmental impacts.

In 2019 we opened the Babcock Technology Centre in Bristol, which houses 850 people and is home to staff from across all four of our sectors. The accommodation is over five floors and the facilities include a gym and canteen. The building was designed and built to Building Research Establishment Environmental Assessment Method (BREEAM) Excellent standard, as were the recent new buildings at our sites in Devonport and Rosyth.

This year RAF Valley and RAF Cranwell also achieved Defence Related Environmental Assessment Method (DREAM) accreditations for construction.

Zero to landfill

All Babcock businesses are committed to minimising waste across their operations. For example, our dockyard in Rosyth has been zero to landfill for a number of years now.

Last year our power business in the UK, Babcock Networks Limited, achieved 100% diversion of construction waste from landfill across all overhead line projects, equating to 39,462 tonnes.

Over the coming year, we will improve our recycling and re-use activities. We will also assess the opportunity to attain zero to landfill in other business areas.

Waste management

We also actively help our customers meet their waste management targets.

Babcock manages the rental leases for the UK MOD's white fleet, and is supporting the MOD and the UK Government in the transition to 'Road to Zero', which includes a commitment to convert 25 per cent of combustion engines to ultra-low emission by 2022, and 100 per cent by 2030.

An example of effective management of emissions can be seen in our Type 31 build work, where we are transporting steel, rebar and concrete to Rosyth by sea instead of by road. This reduces the number of lorries on our roads by approximately 3,500 over the three month-period it would have taken to deliver the material, thereby reducing CO_2 emissions, noise impact and enhancing road and site safety.

At RAF Brize Norton, we challenged well-established processes to make significant environmental improvements to our use of water. Demonstrating that we were able to use waste potable water to conduct hyper-sterilisation tasks has reduced water wastage by almost 500,000 litres per year.

Protocols have been developed and validated which reduce the fluid used in testing and preparing the anti-icing delivery vehicle used by AirTanker from an average of 80,000 litres a year to around 30,000 litres.

These improvements have had a direct impact on our local environment, as previously all applied de-icing fluid and unused water went into the RAF Brize Norton ground water system.

Protecting biodiversity

Babcock's work to refurbish the overhead power line from Landulph to Exeter involved going through a number of Sites of Special Scientific Interest.

The area included the habitats of wildlife such as great crested newts, dormice and protected birds, and even a goshawk nest.

Our environmental advisor identified at an early stage that the ecological surveys provided to us lacked scope and detail, and so we took a proactive approach to make sure we could protect the habitats without incurring undue delays.

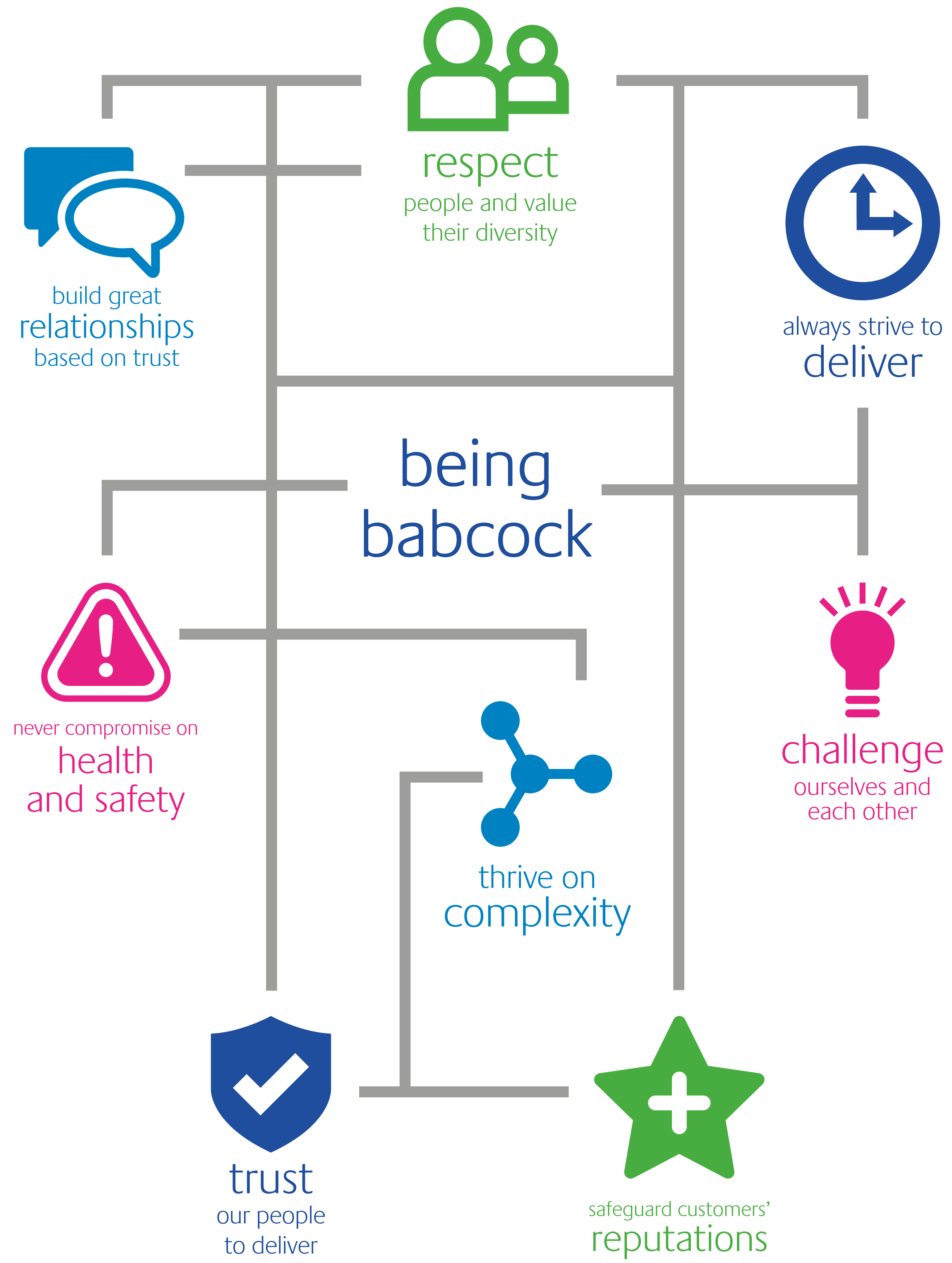
We deployed a specialist ecologist who conducted additional surveys and consulted with key stakeholders like Natural England.

We used the latest methodology – Environmental DNA surveys – and additional dormice surveys, and used these to plan our work, calculating the permanent and temporary habit impact at the design stage.

We even liaised with a goshawk specialist and with the agreement of the Forestry Commission we were able to do the essential work safely and without any impact to the birds of Haldon Forest.

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.



Social

People and potential

We recognise that our people are critical to our ability to deliver our strategic goals. We need to ensure that their workplace is safe, is inclusive, welcomes diversity and offers everyone the chance to develop to their full potential.

In order to serve our customers effectively, we need to have the right people, with the right skills, and the right behaviours, in the right place.

Safety at Babcock

Home safe every day

Safety is, without question, our number one priority. We are committed to continuing our efforts to make sure that every one of our people, and the people whom we work alongside, goes **Home safe every day**. Safety is at the heart of our drive to deliver operational excellence for our customers. We believe that focusing on safety is essential to having a high-performing, open and constructive safety culture, where our people can speak up, be heard, invested in and trusted.

Governance

The Group's Board and Executive Committee review safety commentary and performance reports on a monthly basis. The Board additionally receives half-yearly reports on our safety performance and initiatives.

Our Corporate Safety Steering Group (CSSG) is the highest level of professional, collective management of health and safety issues within the Group. Its role is to:

- Recommend and set Group safety strategy, policy and standards for all matters relevant to the protection of the environment and the health and safety of the Group's employees and any other persons affected by our undertakings
- Assure the Group Executive Committee and the Board of Directors of the delivery of these policies and standards

Safety review

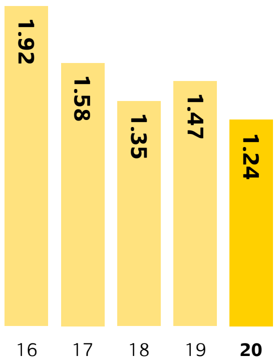
In January, an incident involving inspections on an armoured vehicle resulted in the tragic death of one of our long-serving colleagues. This is currently under investigation by the appropriate authorities. In Spain, whilst we have recorded zero work-related fatalities an EMS captain from our Ciudad Real base died after contracting the COVID-19 virus. He had been working with us for over 12 years, carrying out numerous flights with the utmost professionalism and commitment to the service.

Our incident reductions this year demonstrate Babcock's refocused safety culture and the continual improvement from our people. The number of Injuries In the period has reduced by 21%, and the more serious 'Babcock riddor' injuries have reduced by 24% compared to the previous year. Similarly, our total injury rate (injuries per 100,000 hours worked) has reduced by 16% and the Babcock riddor injury rate by 22%.

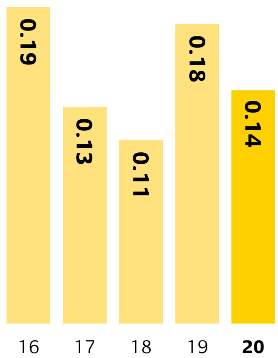
While we continue to strive for further improvements, the Group's performance continues to be better than industry norms, with an injury rate of 1.24 per 100,000 hours compared to 2.44 for the manufacturing sector, including shipbuilding and repairs, as reported in the 2019 Health and Safety Executive statistics.

	2015/16	2016/17	2017/18	2018/19	**2019/20**
Total number of injuries	2,084	1,720	1,389	1,452	**1,141**
Fatalities	1	7	2	4	**1**
Major injuries	38	27	12	24	**20**
Over-three-day injuries	164	107	101	145	**111**
Babcock ridder[1] totals	202	141	115	173	**132**

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'.

- Facilitate and enable corporate learning around the Group, raising awareness of appropriate topics throughout the business
- Own and deliver Group-wide health, safety and environmental initiatives and projects.

Sector safety leadership teams implement these Group policies and standards, as well as their own more detailed plans specific to their individual activities and territories.

There are also sector specific industry standards and regulations that must be adhered to, for example, Nuclear, Aviation and Product safety, and the sectors have subject matter experts to address this.

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
- 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 a sharing best practice.


Babcock apprentice Luke Day

Apprentices at Rosyth

This year saw Modern Apprentices Luke Day and Caitlin Thompson join us at Rosyth.

Electrical apprentice Luke has been fascinated by all things electrical since he was a young boy. "Working on-site has definitely been the highlight of my time here to date. The skills that people have at Rosyth are unbelievable, and the level of engineering which went into building the site itself is phenomenal."

Electrical Technical Design apprentice Caitlin is following in her family's footsteps, joining both her father and uncle at the site. Caitlin has known she wanted to be an engineer since primary school. "I did a Foundation Apprenticeship in Manufacturing Engineering when I was at school. It has really helped with my current Modern Apprenticeship, as it gave me a much better idea of what engineering entailed."


Babcock apprentice Caitlin Thompson

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

The annual Group Safety Conference promotes the Group safety vision, the sharing of health and safety initiatives and activities. It also recognises the efforts made every day by Babcock personnel, customers and suppliers. Last year's event (our thirteenth) had the theme of 'Empower, Lead, Succeed'.

Safety leadership is the primary driver for a positive safety culture. When we have a positive safety culture, we create an environment where we listen and take notice, we don't walk by and we take time to stop and think. We collectively learn from our mistakes and successes to achieve our goals safely.

Diversity & Inclusion

At Babcock we believe diversity is about embracing the advantages people with different experiences, skills and outlooks can bring to our teams.

Respect, Women in Babcock and Family Friendly Working

Our initiative, 'All together different', continues to drive our diversity agenda, led by our cross-business Diversity Steering Group, chaired by senior executives. This year we focused on three diversity initiatives: Respect, Women in Babcock and Family Friendly Working.

The Respect initiative sets to drive cultural change to deliver the respect element of being babcock.

Women in Babcock focuses on reducing the gender balance disparity in the workplace by improving gender equity.

The global Family Friendly Working initiative aims to recognise the evolution of the working day and family life and explore how technology can be utilised to adapt our way of working.

In Nuclear, the Cavendish Gateway Scheme, a work experience programme, delivered over 150 work placements, including placements for young women from disadvantaged areas. In Aviation, a sector-wide Respect survey was undertaken to assess employee views. The results from the survey will be used to inform future policy. Our Marine and Land sectors conducted reviews of their family friendly policies.

Social

People and potential continued

Employee networks

Babcock has a range of employee networks in place across the business. This year saw the development of the Neuro-diversity and Young Professionals Network. The Company is affiliated with Stonewall and our Pride in Babcock network continues to be very active, undertaking awareness-raising activities, as well as celebrating Pride month. During our Dialogue Week, we hold events across the Group, which this year included a presentation to our Devonport workforce on unconscious bias from retired footballer John Barnes.

We encourage our employees to engage with these networks as a way of promoting momentum around diversity and inclusion. For the organisation, it is not only crucial that we are able to recruit from the widest pool of talent but also to ensure that we can retain and reward those most suitable for the job. This will allow us to deliver our best for our customers and to safeguard the future of Babcock.

Gender diversity and pay gap

Like others in the defence, engineering and aviation industry, recruiting female employees with Science, Technology, Engineering and Maths (STEM) qualifications and experience can be a challenge, because of the relatively low numbers of women who choose careers in STEM. This, coupled with a low staff turnover, affects our ability to improve our gender mix. We are working hard to change this: 18.8% (6,155) of our total workforce is female, (male: 26,664) with 26% (23) female senior managers (male: 64), and, we have 4 (33.3%) female Board Directors (male: 8).

We have continued to work to improve the environment for women within our organisation, and are implementing a series of actions and development programmes 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 2020, 22% 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 13.4 % (2018: 14.1%) and a median pay gap of 15.8% (2018: 16.0%). This compares to a UK average of 17.3%.

Whilst this is a step in the right direction, we are committed to grow our talent pipeline in the longer term through our STEM engagement programme and to attract the best diverse talent available. We will also focus on helping all our employees to fulfil their potential. More details can be found in our 2019 Gender Pay Gap report, available on our website.

Training and education

We have found our existing employees to be great advocates for our organisation, and so we have used their experiences to give colour to 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.

We offer 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. A further cohort started studying for the Babcock MBA this year.

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 is making increasing use of higher and degree apprenticeships, both to retain existing employees and to invest in future talent. We currently offer around 50 apprenticeship routes across all levels, from two to seven, although our focus remains on creating opportunities for those seeking to join the workforce and, as such, 80% of our apprentices study at levels two and three.

We have further developed our degree apprenticeship programmes with our framework of university partners. Last year we launched degree-level programmes in digital, engineering, business and commercial disciplines.

561

Graduates on programme

Graduates recruited in 2019/20: 202

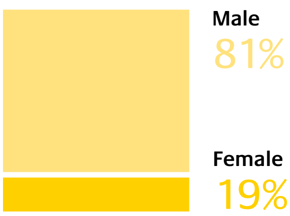
1,175

Apprentices on programme

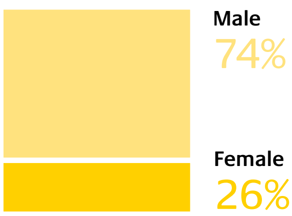
Apprentices recruited in 2019/20: 445

Diversity

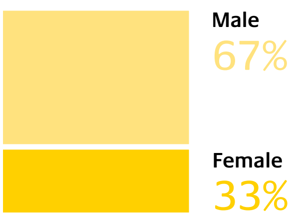
Total workforce diversity



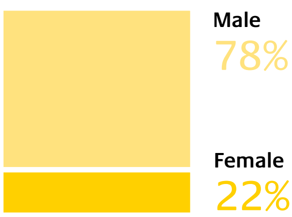
Senior manager diversity*



Board diversity



Graduate diversity



* Executive Committee and direct reports.

Social

Community engagement

Our partnership with the communities in which we operate is at the core of Babcock's business. It's truly a partnership – we need each other's support to thrive and grow.

Playing noughts and crosses with the Devonport divers on annual Bring Your Child to Work Day

University engagement

We partner with a broad range of academic establishments to support funded research, PhDs or their advisory boards. Examples of current partnerships include Strathclyde University Advanced Nuclear Research Centre, Cranfield University Through-life Engineering Services Centre, Bristol University South West Nuclear Hub, University of Exeter, University of Valencia and Centum Research and Technology. Key areas that we are working on include digitally enabled asset management; advanced manufacturing and maintenance techniques; digital twins and analytics; and artificial intelligence.

STEM

Babcock supports its employees to become trained STEM Ambassadors so they can support our extensive schools engagement programme. Over the past 12 months, we have conducted over 500 employee days of STEM activity, with 270 events engaging nearly 30,000 students. We have delivered activities in schools such as 'guess my job', hosted work experience weeks, attended careers fairs, judged awards such as the F1 in Schools National Finals, and supported cross-school programmes such as the Tomorrow's Engineers EEP Robotics Challenge, and the Big Brick Build.

We also support STEM-focused educational initiatives and charities through the year. We supported the UK's Year of Engineering and participated in larger events like the Plymouth Armed Forces day and the Big Bang UK Young Scientists and Engineers Fair, showcasing technology and engineering activities from across the Group. Our exhibits included demonstration of nuclear safety, a miniature wind tunnel showing how air forces act on aircraft and a LEGO submarine.

We also supported National Storytelling Week, attended various local events such as the Devon County show and participated in the STEM event hosted on board the new Prince of Wales aircraft carrier.

Our Marine sector has successfully worked with the Royal Navy to deliver joint STEM events to around 600 pupils, and 3,220 students have attended activities hosted by our Plymouth-based STEM Ambassadors.

Indigenous activities

We have specific policies and approaches designed to meet local community needs, especially in Canada, South Africa and Australasia.

Babcock is committed to strengthening the relationship with indigenous peoples, building partnerships with them through a framework which focuses on skills development, workforce inclusion and procurement.

We consult with indigenous peoples when we undertake activities, to ensure that our projects are carried out in a way that respects their rights and traditions.

In Canada, Babcock works with the Canadian Council for Aboriginal Business (CCAB) to further strengthen its involvement with Indigenous communities. We donated to the First Nations Technical Institute (FNTI), which is an Indigenous-owned and governed post-secondary institute located on the Tyendinaga Mohawk Territory.

Collaboration in the Caithness Community

The Cavendish Dounreay Partnership is responsible for delivering the safe and secure clean-up of the Dounreay nuclear site on behalf of the Nuclear Decommissioning Authority. As part of the parent body team (PBO), Cavendish Nuclear is actively engaged in supporting key initiatives in the local area, working as part of the Caithness and North Sunderland Regeneration Programme, established to combat the job losses that will result from the Dounreay's decommissioning.

Since 2015, through its socio-economic programme, Cavendish Nuclear has been actively involved in the Wick Harbour project, one of the key enabling projects on the CNSRP programme. Wick Harbour Authority (WHA) identified the potential to secure the Operations and Maintenance base for the Beatrice Offshore Windfarm (BOWL). As the Board of WHA is voluntary, they recognised that to turn this into a reality they would require a project manager and so Cavendish Nuclear funded the secondment of a project manager. In 2017, WHA & BOWL signed an initial 25-year contract which has seen the creation of around 150 jobs. Our project manager continues to support WHA on future opportunities.

Social

Community engagement continued

FNTI started the Aviation programme for indigenous people in 1990 in response to an absence of indigenous pilots in northern communities. Today they have over 150 graduates in various positions in the aviation industry and a current enrolment of 40% indigenous women.

UK Whole Force by Design

Babcock is committed to supporting the MOD and our Armed Forces in the implementation of Whole Force By Design.

We hold the Gold award from Defence Relationship Management in recognition of our support to Reserves, Service Leavers and Veterans. With over 150 Volunteer Reserves, we employ one of the largest bodies of reserves of any commercial organisation.

We have active Sponsored Reserve forces supporting the Army (REME) and, through our Joint Venture AirTanker, the RAF.

We have provided Contractors on Deployment and have contracted to support future requirements.

Porty's Whizzing Recovery

Senior Support Engineer, Katherine Terris, who works on HMS Bulwark in Plymouth, has written a children's picture book about Devonport Royal Dockyard. Entitled 'Porty's Whizzing Recovery', it is illustrated by local student April Howard. The story focuses on marine-themed characters, from young ship Porty, to Simon the seagull and Trevor the submarine. It aims to take young readers on a journey of discovery about some of the work that takes place on the Devonport site.

Katherine, who is also a STEM ambassador and advocate for encouraging women into STEM-based careers, felt inspired to share her experience of working at Devonport. "The idea of writing a children's book to raise awareness about what we do in an age-appropriate way really appealed to me. It is important that more young people learn about STEM-based careers, and that is what I've tried to introduce, recognising that readers are of primary school age.

"There are also a large number of children around the Plymouth area whose parents work for Babcock, and the book helps them to learn more about what happens when they head off to work."

Running Clyde

Our team at HMNB Clyde is now in its fourth year of association with the Babcock 10K race series. The race series provides an ideal platform to build a variety of activities, from walking challenges to blood pressure checks and dietary advice.

It's across the local community where our support is most welcome. The three events that make up the series on the west coast of Scotland give local athletics a welcome boost and encourage people in the community to give running a try.

Support for the Armed Forces community

We are proud to be a major employer of service leavers, veterans and reserves.

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.

Members of the Armed Forces community 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 our employment opportunities are made available to service leavers and veterans. We also participate in careers fairs for those leaving the Armed Forces.

We understand that Armed Forces spouses need flexibility 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.

Support for the Reserve Forces

We actively support our reservist employees, providing a minimum of ten days special paid leave per year for reserves or uniformed cadet instructors with a full training commitment.

We promote reserve service to all those in the Group, including all our new graduates and apprentices.

Corporate integrity

We are committed to conducting business honestly and openly, and with integrity. As well as being the right and proper way to behave, this supports our long-term success.

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 ensure good governance and ethical behaviour across our Group, we have developed a series of Group policies to guide our actions and those of our employees, suppliers and partners. An outline of our controls can be found on page 82.

Code of Business Conduct

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 Code of Business Conduct 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 whistleblowing hotlines.

We implement and observe appropriate training and procedures designed to ensure that we and others working for us understand what our Code of Business Conduct and our Suppliers' Code of Business Conduct means for them in practice. We treat seriously breaches of our Codes or associated guidance.

Employees can raise (confidentially if they wish) without fear of unfavourable consequences for themselves, any concerns they have that our Code or its associated guidance is not being followed.

More details of our risk management procedures can be found on pages 80 to 92 and the Ethics Policy and Code of Business Conduct and Suppliers' Code of Conduct can be found on our website. Further information about the whistleblowing process can be found on page 82.

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.

Our Modern Slavery Transparency Statement is reviewed and approved annually by the Board. It is available on our website.

Cyber security

Our ability to deliver secure IT and other information assurance systems to maintain the confidentiality of sensitive information is critical for our customers. Babcock's Group Security Board meets quarterly to provide governance covering cyber and other security and informational assurance risks, issues and threats facing the Group.

Babcock is a key member of the joint MOD and industry Defence Cyber Protection Partnership which is an initiative to ensure the defence supply chain understands the cyber threat and is appropriately protected against attack. Babcock is represented on all the working groups and DCPP Executive committee. Babcock's core IT Services are certified to ISO27001 (Information Security) and ISO22301 (Business Continuity).

Governance

Diverse and robust supply chains

Diverse and robust supply chains enable us to provide quality and timely delivery. We work closely with our suppliers to develop and deliver innovative solutions that drive value to our customers.

External expenditure via third-party suppliers, including Original Equipment Manufacturers (OEMs), accounts for approximately 50% of our turnover and our approach and ability to manage these relationships impacts our ability to deliver performance and margin.

Our procurement and supply chain function develops and delivers optimal supply chain solutions which enable us to return value to our customers, shareholders and communities.

We buy a wide range of goods and services and need reliable, high performing suppliers across our supply chain.

We work with over 10,000 suppliers. These range from OEMs to Small and Mid-size Enterprises (SMEs). Of these suppliers, 300 are strategic, and are key partners in our ability to deliver continuous improvement and innovative quality outputs.

Small and Mid-size Enterprises

We recognise the value that SMEs play in the wider economy and we actively encourage them to engage with us. Working closely with SMEs ensures that we have access to optimal solutions and provides enhanced flexibility and agility. See case study below for further examples of our engagement with SMEs.

Governance

The development and execution of our supply strategy is aligned with the overall business requirements, for both short and longer term.

To ensure a robust supply chain, we have developed a series of procedures that guide our Group-wide procurement activity. In addition, each sector has supporting policies which outline their operating principles and ways of working.

Our supply base design is balanced to meet our customer, regulatory and financial performance requirements. It considers supply chain risk and addresses appropriate mitigating actions.

Business critical suppliers are reviewed with the Audit and Risk Committee on an annual basis to address any risks or concerns.

Effective engagement

Our activities ensure that we continue to deliver value through working effectively with our supply chains.

By improving upfront supply chain involvement in bid processes, we have been able to engage earlier with potential suppliers.

This enables our suppliers to actively support the design and implementation stages with innovative solutions and deliver enhanced productivity and increased quality.

We use our business intelligence tools, which include ratings agencies, ERP systems and spend analytics, to enable us to work collaboratively with our suppliers and focus on innovation and other value-add initiatives.

The e--procurement tools that we are implementing will embed and in some cases improve our robust processes that enable us to ensure sustainable relationships with our suppliers.

Supporting Small and Mid-size Enterprises

We recognise the value that working with SME suppliers can bring, and we actively engage with SMEs as part of our supply chain design activities.

Procurement teams lead market-warming activities before letting contracts. This enables SMEs to understand the opportunities available and also allows us to offer guidance on the bidding process. We run industry supplier days to maintain and develop a strong working relationship with SMEs which identifies their capabilities for current and future opportunities. "Lunch and learn" sessions have been held with SMEs to share best practice across a range of topics.

Our procurement teams attend national and local conferences and exhibitions, including DPRTE, DSEI and Farnborough to seek out new suppliers and discuss opportunities during 'meet the buyer' events.

Supplier code of conduct

Our Group-wide Suppliers' Code of Conduct (available on the Group's website) is designed to provide clarity about our expectations of suppliers, including compliance with all applicable laws.

While we recognise that our suppliers operate in different geographic and economic environments, we expect that products and services are delivered in a way that support Babcock's high standards and contribute to the reputation of Babcock and our customers.

The Code reflects the same standards that we hold ourselves and enables a consistent approach to our customers in delivering to the highest ethical standards.

Suppliers and the extended supply chain are expected to meet these standards at all times, and should either be willing to subscribe to our Code or have equivalent standards and procedures in their own businesses.

Our intention is to be a good partner and to work with suppliers to support necessary improvements, but we will not accept any behaviour which is contrary to our ethical codes or health, safety and environmental working practices.

Supplier due diligence

Before engaging with suppliers, we assess their ability to demonstrate that they are 'fit for business', with financial, commercial, safety and governance capability. We also look for potential suppliers to support our social purpose and sustainability agenda.

Suppliers also demonstrate they are 'fit for purpose', with technical, health and safety capability and security compliance to meet our contractual requirements.

Businesses use appropriate processes to qualify, on-board and periodically revalidate suppliers to ensure compliance with commercial, regulatory and legal requirements.

Protecting the information and physical assets of our customers is an important part of what we do. We always expect high standards of commercial confidentiality. For certain types of supply we have and continue to develop exacting standards of security compliance.

In the UK, we use the JOSCAR due diligence tool, which is a shared industry-wide management system for defence contractors that collects standardised information about individual suppliers across the UK supply chain.

Certain suppliers will be selected for an audit based on risk assessment. These checks will assess suppliers' approach to human rights, data protection, modern slavery, health, safety and environmental issues. If risks are identified, we work with suppliers to address them.

Prompt payment

We understand the importance of predictable payments when running a business and encourage good practice across the Group. Twenty-one legal entities submit returns to Companies House according to the Payment Practices and Performance Regulations. Average payment for these entities over the past six months is 34.5 days.

We support the Prompt Payment code and encourage our suppliers to adopt the code themselves and promote adoption of the code throughout their own supply chains.

COVID-19 supply risk

We are working closely with our supply chain to determine the impact of COVID-19 lockdown on their business and the deeper supply chain. At this time, we have not identified material supply chain risk, however, we maintain an open channel of communication with our suppliers,

Modern Slavery training: supply chain

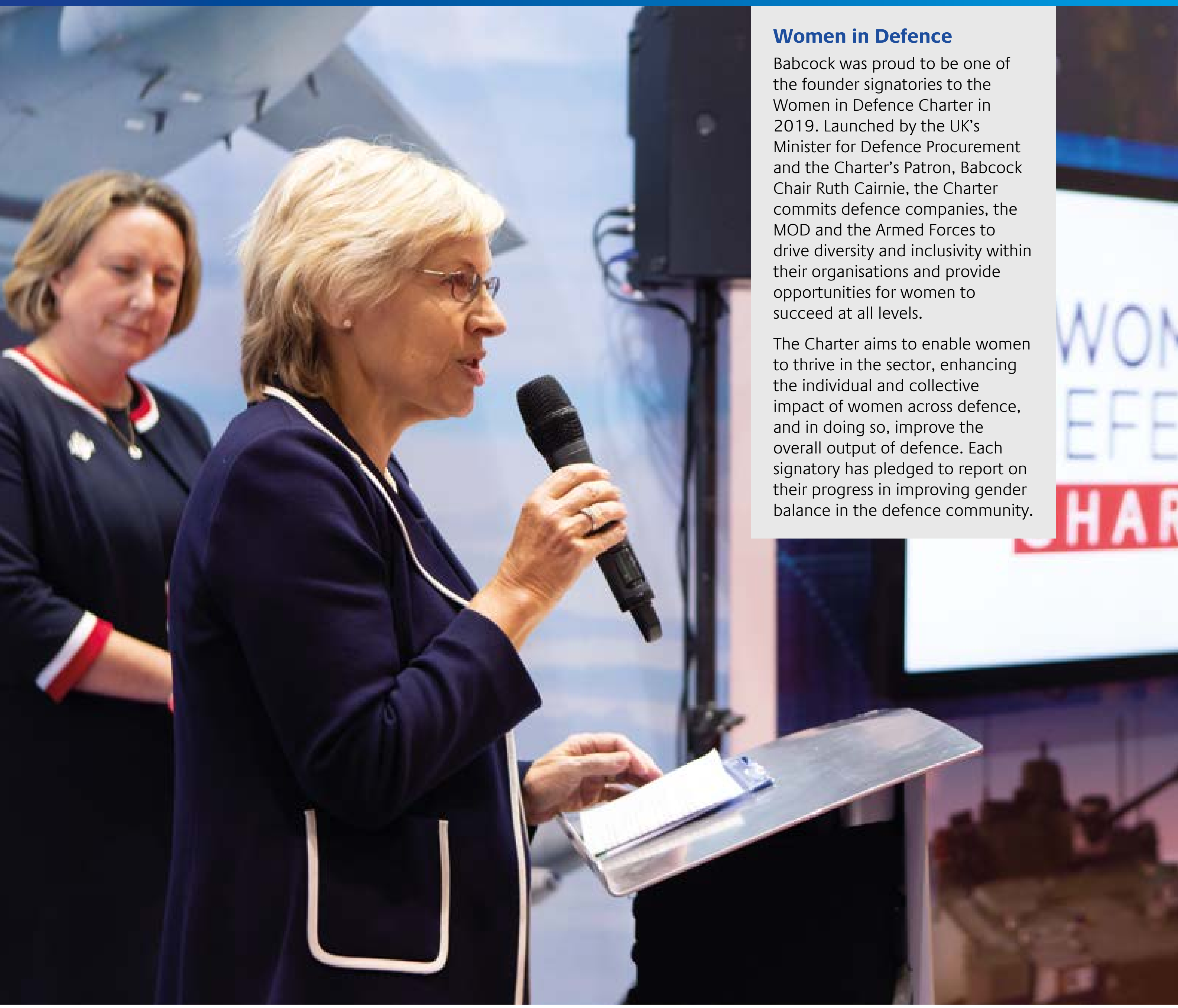
An important part of our vigilance regarding Modern Slavery relates to scrutiny of our supply chain.

This year, we have developed bespoke e-Learning modules for key procurement and supply chain employees. This aims to ensure staff are alert to any potential for modern slavery in the supply chain and to provide advice on how they can address concerns, including by contacting an independent whistleblowing hotline.

Employees involved in supplier selection and engagement are now required to complete the awareness training programme.

Women in Babcock

Like others in the engineering sector, we face challenges recruiting female employees with STEM qualifications and experience, not least because fewer women study these subjects than men. This, coupled with a low turnover of staff, means it will take time to close the gender gap – but we are committed and focused on doing just that.



Women in Defence

Babcock was proud to be one of the founder signatories to the Women in Defence Charter in 2019. Launched by the UK's Minister for Defence Procurement and the Charter's Patron, Babcock Chair Ruth Cairnie, the Charter commits defence companies, the MOD and the Armed Forces to drive diversity and inclusivity within their organisations and provide opportunities for women to succeed at all levels.

The Charter aims to enable women to thrive in the sector, enhancing the individual and collective impact of women across defence, and in doing so, improve the overall output of defence. Each signatory has pledged to report on their progress in improving gender balance in the defence community.

Women in Aviation

Babcock has joined over 100 organisations in signing the Women in Aviation and Aerospace Charter, a Government-supported initiative to make aviation a fairer and more gender-balanced sector.

Since signing, Babcock has attended numerous workshops and events linked to the Charter, including at the House of Commons, and is supporting the work to mature benchmarking and initiative targets which will help organisations in the industry achieve gender equity. Our membership of the Charter complements our internal 'Fly High' initiative, which works to increase applications from women to our Aviation graduate schemes.

Women in Nuclear

We are part of the industry initiative to achieve a target of having 40% of the nuclear sector's workforce being made up of women by 2030. Currently 29% of Cavendish Nuclear's Board of Directors are women, well above the industry average.

In January, Cavendish Nuclear's Strategy Director Lynsey Valentine took up the role of President of Women in Nuclear UK, demonstrating our continued commitment to drive and lead change to maintain an inclusive workforce culture.

Critical support: defence

HMS Trenchant (UK MOD Crown Copyright)

Daniel Carlson
Graduate Mechanical Engineer, Defence Systems Technology

“I develop new submarine concepts which demonstrate our design capability and help us deliver for customers globally.

Our team works across key defence partnerships, and we use events and conferences to showcase our depth of expertise in design, engineering practice and submarine upkeep.”

Franco Martinelli
Group Finance Director

Strong performances across our defence businesses, weakness in Aviation

Overview

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

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

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

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

COVID-19 and outlook for next year

The impact of the Coronavirus (COVID-19) pandemic creates uncertainty as we enter the year ahead. However, the very nature of Babcock's business – supporting non-discretionary defence, emergency services and nuclear power programmes and services – has ensured that the majority of our work has continued throughout the pandemic, with our employees designated as critical workers by governments in the UK and internationally.

All our major sites have remained operational throughout, and our aerial emergency medical services business in particular has played a vital role in the response to the pandemic, particularly in Italy, Spain and France.

As a critical supplier to governments in the UK and internationally, we are working very closely with our customers to ensure we continue to support them as countries start to ease lock-down measures. Looking ahead, we will continue to deliver critical services across all three markets, although we expect to see lower productivity levels as our customers prioritise their critical programmes. Work in our short cycle businesses and our adjacent markets is more uncertain and is likely to see a greater impact.

Given the uncertain impact of COVID-19, our medium term targets, outlined on page 27 will not be achieved in the current financial year. The drivers of our strategy remain unchanged and the long term characteristics of our business remain strong. We will continually assess our medium term targets as we emerge from the pandemic and they are aiming points for us to return to.

We enter the new financial year faced with uncertain times. We provide some commentary on the year ahead across our sector operational reviews, set out on pages 68 to 77, but we are unable to provide detailed financial guidance at this time. Given the current uncertainty, the Board has deferred the decision on our final dividend until there is greater certainty on the impact COVID-19 will have on our business and stakeholders. We will provide an update in our AGM trading statement on 4 August 2020.

Adjustments between statutory and underlying

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

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

Statutory to underlying reconciliation

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

Income statement

Statutory performance

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

Underlying revenue performance

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

Underlying operating profit performance

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

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

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

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

FY20 step downs

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

Exceptional items

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

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

Aviation market

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

Aviation: Goodwill impairment

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

Aviation: Oil and Gas

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

Aviation: Restructuring

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

Aviation: Other (including Italy anti-trust fine)

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

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

Capacity restructuring

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

Exits and disposals

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

Cash costs of exceptional items

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

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

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

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

Finance costs

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

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

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

Underlying organic growth

	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Underlying revenue						
31 March 2019	**1,086.0**	**1,318.9**	**1,620.2**	**1,135.5**	**–**	**5,160.6**
Exchange adjustment	(0.1)	–	(24.0)	(12.3)	–	(36.4)
Disposals	–	–	(37.9)	(8.7)	–	(46.6)
Step downs excl. disposals	(51.4)	(270.8)	(23.2)	–	–	(345.4)
Organic growth excl. step downs	172.4	62.8	18.5	(114.2)	–	139.5
31 March 2020	**1,206.9**	**1,110.9**	**1,553.6**	**1,000.3**	**–**	**4,871.7**
Underlying revenue growth	11.1%	– 15.8%	– 4.1%	– 11.9%	–	– 5.6%
Organic growth at constant exchange rates	11.1%	– 15.8%	– 0.3%	– 10.1%	–	– 4.0%
Organic growth excl. step downs at constant exchange rates	15.9%	4.8%	1.1%	– 10.1%	–	2.7%

	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Underlying operating profit						
31 March 2019	**141.2**	**143.5**	**146.0**	**160.5**	**(2.8)**	**588.4**
IFRS 16 impact	2.2	0.8	2.6	17.9	0.1	23.6
Exchange adjustment	(0.1)	–	(1.6)	(1.5)	–	(3.2)
Disposals	–	–	(4.3)	(3.0)	–	(7.3)
Step downs excl. disposals	(2.0)	(25.0)	(12.5)	(10.0)	–	(49.5)
Organic growth excl. step downs	2.7	7.0	3.7	(42.9)	1.7	(27.8)
31 March 2020	**144.0**	**126.3**	**133.9**	**121.0**	**(1.0)**	**524.2**
Underlying operating profit growth (pre-IFRS 16)	0.4%	– 12.5%	– 10.1%	– 35.8%	– 57.1%	– 14.9%
Organic growth at constant exchange rates (pre-IFRS 16)	0.5%	– 12.5%	– 6.0%	– 33.0%		– 13.1%
Organic growth excl. step downs at constant exchange rates (pre-IFRS 16)	1.9%	4.9%	2.5%	– 26.7%		– 4.7%

Tax charge

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

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

Pensions

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

Amortisation of acquired intangibles

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

Exchange rates

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

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

Earnings per share

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

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

Dividend

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

Cash flow and net debt

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

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

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

* Adjustments for exceptional cash flows (including lease payments) and acquired intangible amortisation.
** Additional leases entered into during the year less exceptional payments which we include in underlying cash flow for the purpose of explaining net debt movement.

Our underlying free cash flow excludes exceptional lease cash payments. Cash flows relating to onerous leases before the adoption of IFRS 16 continue to be considered exceptional cash flows. The IFRS 16 additions line has been adjusted by the amount of exceptional lease payments; being defined as the net increase to lease obligations (additions) after underlying lease principal payments and foreign exchange impact are removed. The table below provides the reconciliation between the statutory cash flow and trading cash flow table above.

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

IFRS 16 impact

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

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

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

Operating cash flow

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

Working capital

Total underlying working capital cash outflows for the period, excluding excess retirement benefits, were £26.8 million compared to a £86.8 million inflow last year, which benefited from the Fomedec working capital unwind. The working capital out flow this year represents a £23.0 million outflow in receivables and a £10.9 million outflow in inventories partly offset by a £7.4 million inflow in payables.

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

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

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

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

Provisions

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

Capital expenditure

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

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

Cash interest paid

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

Taxation

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

Pensions

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

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

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

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

Dividends

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

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

Free cash flow

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

Exceptional cash movement

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

Net debt

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

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

Net debt to EBITDA

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

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

Pre IFRS 16 (per debt covenants):

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

Post-IFRS 16:

	31 March 2020 £m
EBITDA + JV dividends (pre-IFRS 16)	**542.6**
IFRS 16 EBITDA adjustment	**153.0**
EBITDA + JV dividends (post-IFRS 16)	**695.6**
Net debt excl. leases payable	**922.0**
Leases payable	**672.8**
Net debt (post-IFRS 16)	**1,594.9**
Net debt / EBITDA	**2.3x**

Interest cover

Pre IFRS 16 (per debt covenants):

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

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

Return on invested capital (ROIC)

Pre IFRS 16:

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

Post-IFRS 16:

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

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

Pensions

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

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

Available financial capital

The Company defines available financial capital (AFC) as shareholder equity, net debt plus undrawn committed borrowing facilities. Available financial capital also includes surplus cash held on deposit as a result of fully drawing the revolving credit facility in March 2020.

Objective

To ensure an appropriate level of AFC to:

i. provide sufficient liquidity to see the Group through any periods of tightened liquidity in the market
ii. maintain operational flexibility and meet financial obligations
iii. fund the Group's organic and acquisitive growth
iv. maintain necessary headroom to cover the peaks and troughs in the Group's working capital cycle

Policy

The Board aims to maintain a balance between equity and debt capital which optimises the Group's cost of carry whilst allowing access to both equity and debt capital markets at optimum pricing when appropriate. During the current COVID-19 crisis the Group has fully drawn its revolving credit facility to ensure availability of funds. The Group, in considering its capital structure and financial capital, views net debt to EBITDA between 1.0 And 1.5 times as our target range and sustainable in normal market and economic conditions, while providing financial flexibility to the Group.

Performance

The Group's gearing, used by the Group to monitor capital, was at 1.7 times net debt to EBITDA (see KPIs on page 21) in 2019/20 (2019: 1.6 times), slightly outside our target range. Debt ratios continue to be well below covenanted levels, ensuring sufficient headroom. The Company believes that capital markets remain accessible if or when required, even with the current economic uncertainty.

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

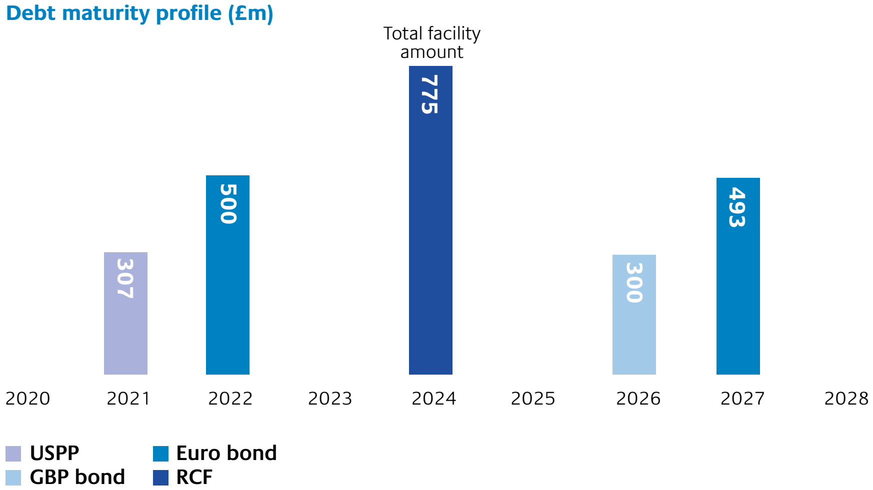
All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required. It remains the Group's policy to ensure the business is prudently funded and that sufficient headroom is maintained on its facilities to fund its future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

Updates this year

The Group continues to keep its capital structure under review to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective. During the financial year, the Group was able to take advantage of favourable market conditions to refinance and term out the maturity of some of its debt at attractive terms. The Group amended its committed Revolving Credit Facility (RCF), increasing the facility's size to £775 million and extended the facility's maturity for another five years to August 2024. The Group also issued a €550 million Eurobond (hedged at £493m), maturing in September 2027, and used the proceeds to fully repay a £100 million Term Debt Facility and a £40 million loan note and repay its RCF facility.

The Group's other main corporate debt comprise of the following: a £300m Sterling bond, maturing October 2026, a €550 million Eurobond, maturing October 2022, and US$500 million of US private placement notes (hedged at £307m), maturing March 2021. Taken together, these debt facilities provide the Group with a total of around £2.4 billion of available committed banking facilities and loan notes. For further information see note 2 of the Group financial statements.

Debt maturity profile (£m)



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 2020, the Group had 60% fixed rate debt (2019: 74%) and 40% floating rate debt (2019: 26%) based on gross debt including derivatives of £3,019.1 million (2019: £1,336.4 million). The percentages for this year include the fully drawn down revolving credit facility which if excluded would result in 80% fixed rate debt and 20% floating rate debt.

Liquidity

Objective

i. To maintain adequate committed borrowing facilities
ii. 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
iii. To monitor and manage bank credit risk, and credit capacity utilisation

Policy

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

Each of the Group's sectors 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 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. In March 2020, the Group's RCF was fully drawn down as a liquidity contingency measure given the current economic and market uncertainty. This led to the Group holding a significantly higher cash balance than in previous years of £1.35 billion at 31 March 2020. Surplus cash was invested in short term deposits diversified across several well credit rated financial institutions. We expected to payback the revolving credit facilities in the short term.

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 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 loss of £12.7 million in the income statement for the year ending 31 March 2020 (2019: £5.9 million gain). 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 £4.2 billion, representing 90% of the total assets of the Group's defined benefit pension schemes. It also has employees in two industry-wide pension 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 pension schemes have been closed to new members for some years. The Group continues to review its options to reduce the risks inherent in such schemes. In the last financial year, it closed the Babcock International Group Pension Scheme to future accrual for some employees, and is consulting with employees who are in the Rosyth Royal Dockyard Pension Scheme 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 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 in the defined contribution pension scheme is borne by the employees.

Investment strategy

The Group has previously agreed long-term investment strategies with trustees across the three largest schemes designed to generate sufficient assets by April 2037 to be fully self-sufficient, although the expectation is that this target will be met significantly earlier. In the last financial year the Group agreed a revised strategy with the trustees of the Babcock International Group Pension Scheme designed to target the scheme being self-sufficient by 2026. It also operates within an agreed risk budget to ensure the level of risk taken is appropriate.

To implement the investment strategies, each of the three largest schemes' Investment Committees has divided its scheme's assets into growth assets, low risk assets and matching assets, with the proportion of assets held in each category differing by scheme reflecting the schemes' different characteristics. The growth assets are de-risked over time by comparing and equating the expected and required returns each month, as at 31 March 2020 growth assets were 22% of the total assets held across the three largest schemes. 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 adverse changes in interest rates and inflation.

Actuarial 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 Babcock International Group Pension Scheme as at 31 March 2019 was completed, work continues on the valuation of the Rosyth Royal Dockyard Pension Scheme as at 31 March 2018, and work has commenced on the valuation of the Devonport Royal Dockyard Pension Scheme as at 31 March 2020.

Cash contributions

	2020 £m	2019 £m
Future service contributions	**26.0**	48.4
Deficit recovery	**47.3**	36.4
Longevity swap	**15.3**	10.7
Total cash contributions — employer	**88.6**	95.5

Cash contributions made by the Group into the defined benefit pension schemes during the year are set out in the table above. In the 2020/21 financial year, the total cash contributions expected to be paid by the Group into the defined benefit pension schemes are £102.4 million. £9.3 million of this is for salary sacrifice contributions, £26.3 million is in respect of the cost of future service accrual substantially reduced as sections of the Babcock group scheme were closed to future accrual during the year, £51.6 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 not expected to increase significantly over the medium term except for possible top up payments for the Rosyth Royal Dockyard Pension Scheme of around £90m expected to be paid over two years. 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 £4,411.3 million, net of longevity swaps, in comparison to a valuation of the liabilities based on AA corporate bond yields of £4,266.1 million. The total net accounting surplus, pre deferred tax, at 31 March 2020, was £145.2 million (2019: deficit of £28.0 million), representing a 104.3% 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 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 independent trustees in each of the largest schemes, and in addition has appointed professional trustees with specialist investment expertise.

Accounting valuations

	Devonport		Babcock		Rosyth	
	2020	2019	**2020**	2019	**2020**	2019
Discount rate %	**2.4**	2.4	**2.4**	2.4	**2.4**	2.4
Inflation rate (RPI)	**2.6**	3.2	**2.6**	3.2	**2.6**	3.2
Inflation rate (CPI)	**1.8**	2.1	**1.8**	2.1	**1.8**	2.1
Rate of increase in pensions in payment %	**2.0**	2.2	**2.6**	3.0	**2.8**	3.3
Life expectancy of male currently aged 65 years	**20.7**	20.6	**22.1**	21.7	**19.8**	19.7

Marine

HMS Queen Elizabeth aircraft carrier (UK MOD Crown Copyright)

2020 underlying performance highlights

Revenue as % of Group
25%

Operating margin
11.9%

Revenue growth
+11.1%

We ensure the UK Royal Navy goes to sea safely by supporting their ships and crews around the world

We support navies around the world through the delivery of complex ship and submarine sustainment programmes

We deliver marine technology solutions to improve our customers' complex, safety-critical operations

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

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

Financial review

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

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

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

Operational review

UK Defence

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

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

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

Marine continued

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

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

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

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

International Defence

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

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

HMS Ambush (UK MOD Crown Copyright)

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

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

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

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

Adjacent markets: Energy and Marine

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

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

Outlook for the year ending 31 March 2021

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

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

Key Platform Characteristics:

Length overall	138.7m
Beam, maximum	19.8m
Design draft	5.0m
Displacement	6,095te
Main engine power	32.8 - 40MW
Speed	28+ Knots

36 metres
At 36 metres from keel to mast, each frigate will be roughly six times the height of a giraffe

26,000 metres
There are 26,000 metres of pipe on each vessel; three times the height of Everest

139m long
At 139m long, each frigate will be seven times as long as a cricket pitch

Type 31: a proven platform design

Babcock Team 31 has been contracted by the UK Ministry of Defence to deliver five Type 31 Frigates, with the first ship scheduled to be in the water in 2023. The contract was awarded in November 2019, kick-starting another decade of ship-build activity for the historic dockyard at Rosyth.

Babcock is the prime contractor and the programme lead, working with major suppliers like Thales, Lloyds Register, TYCO and Raytheon to meet the challenging Type 31 programme, and potential international customer needs. We have a fully integrated project team based in Bristol, Rosyth and Crawley with extensive ship design and build experience.

The ship is based on the design of the Iver-Huitfeldt class currently in service with the Danish Navy, and will leverage the skills of an existing and experienced workforce at Rosyth and around the UK. Its smart build credentials means it is designed for pre-outfitting, enabling rapid assembly and supporting time and cost efficiencies. We have developed a dynamic and flexible build strategy that will enable the concurrent assembly of different modules and on-time delivery capability

Our Arrowhead 140 solution provides the Royal Navy a new class of ship with proven ability to deliver a range of peacekeeping, humanitarian and warfighting capabilities whilst offering communities and supplies chains throughout the UK a wide range of economic and employment opportunities.

We are committed to a programme of investments to deliver prosperity in line with the UK's National Shipbuilding Strategy. At its height, the programme will use a workforce of around 1,250 highly skilled roles, and support an additional 1,250 roles within the wider supply chain.

Build

Over the past decade Babcock has invested substantially in its Rosyth facility transforming the dockyard into one of the UK's most modern maritime support facilities. Building on the knowledge and expertise developed during the Aircraft Carrier programme, we have begun construction works for a new Module Assembly Hall, capable of housing two Type 31 Frigates for parallel build and assembly activity.

The building will enable productivity gains from improved access, digital connectivity and a dry benign environment.

Digital transformation is at the heart of the site's growth. We are investing in facilities and advanced manufacturing equipment to support the integration of technology and new working practices, creating a dynamic, effective and efficient digitally enabled facility.

A new 'pulse line' will be installed, providing a state-of-the-art automated panel manufacturing line. This is a cornerstone of the digital transformation on-site, creating a paradigm shift in the manufacturing process.

Nuclear

We have supported the Continuous At Sea Deterrent for 50 years

We sustain the entirety of the UK's submarine fleet

We take a leading role in all civil nuclear: from new build, to operational support, to decommissioning

The Low Level Refuel Facility at our Devonport site

Financial review

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

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

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

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

Operational review

Defence

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

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

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

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

2020 underlying performance highlights

Revenue as % of Group	Operating margin	Revenue growth
23%	11.4%	-15.8%

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

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

Civil Nuclear

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

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

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

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

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

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

Outlook for the year ending 31 March 2021

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

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

Land

We ensure the British Army can focus on their missions safely by supporting all of their vehicles

We enable the British Army to do their job with our technical training programmes

Our people support the British Army by contributing to front-line support and joining reserve forces

EMTC vehicle diagnostics lesson at MOD Lyneham

Financial review

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

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

Underlying operating profit of £133.9 million was slightly ahead of our expectations and includes the impact of £18.4 million of step downs. These relate to foreign exchange movements, exits and disposals, and a £10.2 million reduction in profits from our Holdfast (RSME) JV. Excluding these step downs and the benefit of IFRS 16, underlying operating profit increased by £3.7 million. This increase represents the strong performance of South Africa and an improved performance in our ALC JV.

The step down in the Holdfast (RSME) profit contribution was less than originally expected as we were able to realise more lifecycle operating cost savings in the year.

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

Operational review

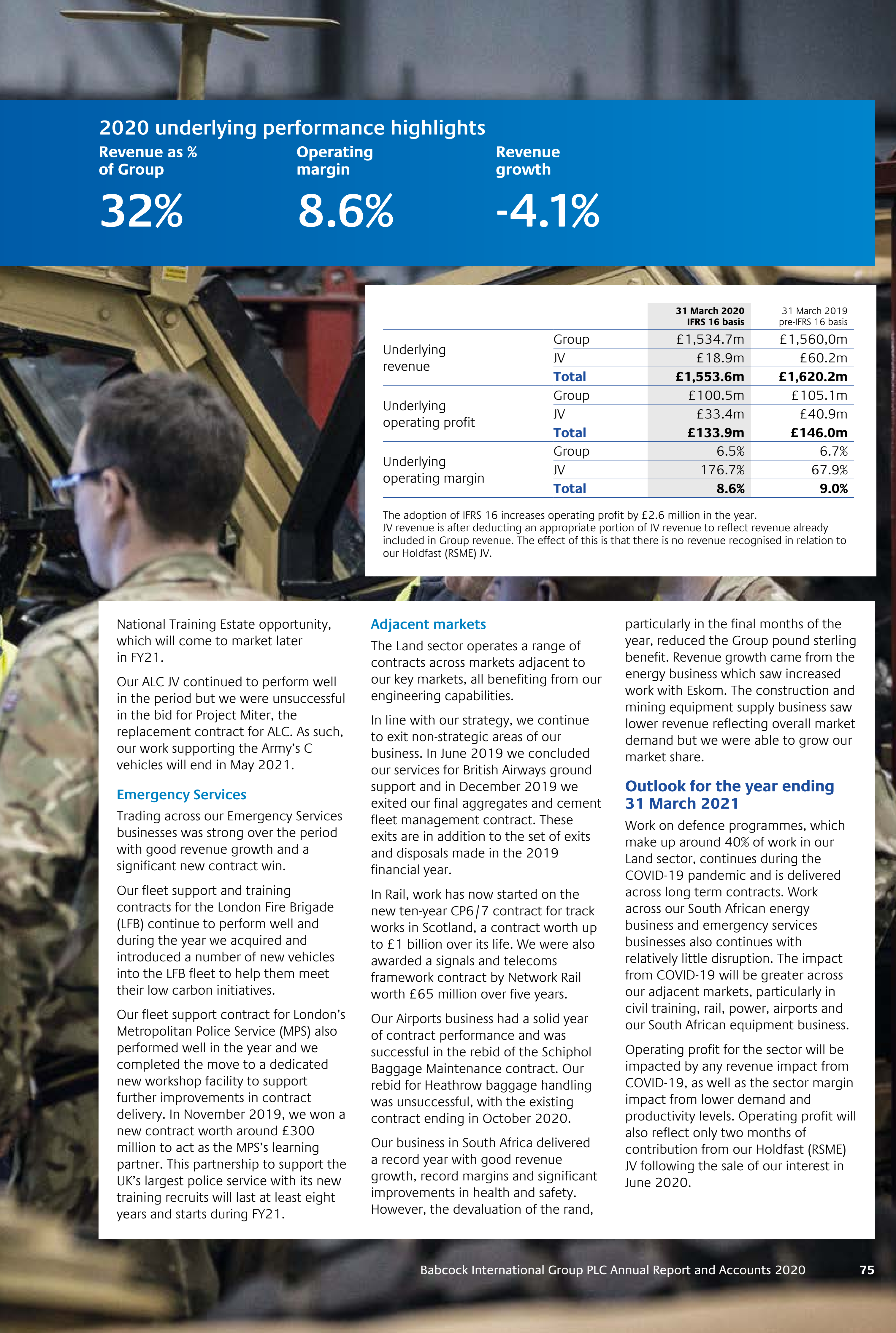
Defence

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

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

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

Additionally, we secured a two-year extension to our contract to support the British Army in Germany and have successfully pre-qualified for the



2020 underlying performance highlights

Revenue as % of Group	Operating margin	Revenue growth
32%	8.6%	-4.1%

		31 March 2020 IFRS 16 basis	31 March 2019 pre-IFRS 16 basis
Underlying revenue	Group	£1,534.7m	£1,560,0m
	JV	£18.9m	£60.2m
	Total	**£1,553.6m**	**£1,620.2m**
Underlying operating profit	Group	£100.5m	£105.1m
	JV	£33.4m	£40.9m
	Total	**£133.9m**	**£146.0m**
Underlying operating margin	Group	6.5%	6.7%
	JV	176.7%	67.9%
	Total	**8.6%**	**9.0%**

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

National Training Estate opportunity, which will come to market later in FY21.

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

Emergency Services

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

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

Our fleet support contract for London's Metropolitan Police Service (MPS) also performed well in the year and we completed the move to a dedicated new workshop facility to support further improvements in contract delivery. In November 2019, we won a new contract worth around £300 million to act as the MPS's learning partner. This partnership to support the UK's largest police service with its new training recruits will last at least eight years and starts during FY21.

Adjacent markets

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

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

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

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

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

Outlook for the year ending 31 March 2021

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

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

Aviation

We save lives with our aerial emergency medical and search and rescue services

We protect communities with our firefighting operations

We support the defence of nations by supporting air forces in the UK and overseas

Post-flight checks on a UK Royal Air Force Hawk T1 at RAF Valley

Financial review

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

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

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

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

Operational review

Defence

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

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

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

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

2020 underlying performance highlights

Revenue as % of Group	Operating margin	Revenue growth
20%	12.1%	-11.9%

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

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

Aerial Emergency Services

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

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

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

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

Adjacent markets: Oil and Gas

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

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

Outlook for the year ending 31 March 2021

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

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

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

Critical support: emergency services

Metropolitan Police motorcyclist at a Babcock maintenance facility

Laura Molyneux
Head of Curriculum, Police Education Qualifications Framework contract

"Working in close collaboration with the Metropolitan Police Service and our Higher Education Institute partners, we designed two unique education programmes that will equip the growing number of new officers for the challenges of policing London.

These programmes will deliver a highly trained, skilled and diverse workforce who are passionate about making a difference to London's communities and keeping the city safe."

Franco Martinelli
Group Finance Director

Our principal risks and how we manage them

Babcock has an established process that aims to identify, evaluate and manage risk. Internal control processes are in place as part of the risk management regime.

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 controls the risk appetite of the Group through its delegated authorities, which impose strict controls. For example, the Board must approve 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, although they are reviewed by the whole Board prior to submission) and all financing arrangements (unless delegated to the Board's Finance Committee).

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.

Babcock is, however, a large and developing group of businesses. Factual circumstances, business and operating environments will change. On an ongoing basis, the Group might identify new risks or better understand the significance of existing risks or a change in a risk.

This means that the risks identified on pages 83 to 92 are not and cannot be an exhaustive list of all the principal risks that could affect the Group.

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

Principal and emerging risks, risk mitigation and controls

The Board has identified the risks and uncertainties that it currently considers to be of greatest significance to Babcock and these are described overleaf from page 83 to page 92. These risks 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 opposite and overleaf about our risk management approach and general controls). The Board has identified these principal risks, having reviewed the Group's risk register, a process that combines a bottom-up review, starting at business unit level, with challenge and review by senior management, as well as a top-down strategic review by Group management. These reviews include, as a matter of course, emerging risks, which are "new" risks that may challenge the Group in the future. They may begin to evolve rapidly or simply not materialise. The Group's risk reviews include a scan of the horizon to identify any such emerging risks.

COVID-19 is an example of such an emerging risk. This pandemic presents a number of different risks across our business – it impacts our employees and the way we work; it impacts our customers and their priorities. We describe on page 27, and the pages following, those impacts and their effect on our principal risks. We also describe our responses to these impacts. However, the full scale of the disruption caused by COVID-19 is still evolving. While it does, we will continue with our approach of protecting the Group and its key stakeholders and will prioritise the health and safety of our employees, the needs of our customers, financial discipline and business continuity.

Risk management framework

Board

The Board is ultimately responsible for the Company's risk management and internal control system. The Board delegates oversight of certain risk management activities to the Audit and Risk Committee.

Executive Committee

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.

Audit and Risk Committee

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 142. It also receives in-depth presentations on individual major risks throughout the year.

Group Security Committee

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 Chair of the Committee, and the Group's Chief Information Officer and Chief Information Security Officer attend each meeting. The Board receives regular reports on security and information assurance matters.

Internal Audit

The Audit and Risk Committee receives regular reports from the internal audit function provider, which was Ernst & Young in the financial year to 31 March 2020, as well as management reports relating to internal control and risk issues.

Internal controls

Senior Group management (with sector Chief Executives having responsibility for risk identification and risk management in their businesses) monitor the internal control systems.

Read more on page 82.

Group risk management

The Group Risk and Insurance Manager (who reports to the Group Finance Director), working with senior operational management teams, is responsible for the risk register and seeks to ensure a coherent and consistent Group best practice approach to risk assessment and risk management. We build the risk register through both bottom-up and top-down reviews. Each business unit and then each sector identifies the risks, including emerging risks, relevant to their specific area, along with the controls and assurance activities in place to mitigate those risks. These risk assessments are subject to regular review and challenge by Group senior management that overlays on the bottom-up review an assessment of the strategic risks facing the Group, for example, technology, disruptors and change in government policy, to create the risk register. The Audit and Risk Committee reviews the risk register at least once every year.

Company employees

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	Group management review annual budgets and medium-term financial plans before submission to the Board for approval. Management prepare updated forecasts for the year 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 receives 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 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 actual or potential disputes, their progress and potential outcomes. The Group has an internal legal service.
Credit controls	Group Finance and an Executive Director review all significant credit risks and take appropriate risk limitation actions.
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 with whom it does business. In addition, there is an anti-bribery and corruption governance structure in place with detailed policy and procedures (available on the Babcock website), supported by 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. We require those working on our behalf or in consortium with us 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, as well as legal, financial and accounting matters. These policies and procedures are available to employees on the Group intranet. The sectors supplement these by further business unit-specific policies and procedures.
Whistleblowing hotline	All employees have access to a confidential whistleblowing hotline. They may call, email or write a letter 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). The hotline sends all reports received to the Company Secretary, who is responsible for ensuring the Group investigates them. He submits a report to the Board of all the investigations and their result. See page 110.
Critical supplier reviews	Sectors regularly review the vulnerability of their key supply chain partners whose continued ability to supply the Group the sector considers critical to its business performance. The sectors 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

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. It follows that the responses of our customers to the COVID-19 outbreak in the territories we operate in may have a significant financial or operational impact on us.

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's exit from 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.

In addition, the counter measures adopted by governments and our other customers around the world as they seek to manage the disruption caused by the COVID-19 outbreak will impact our operations and may decrease revenues whilst increasing costs, causing a negative impact on profits and cash flows.

Potential impact

Whether caused by COVID-19 or not, 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 as well as a reduction in spend.

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 co-operative, partnering approach to customer/supplier relationships
- 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

In the ordinary course of our business, 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.

Following the COVID-19 outbreak, we have worked even more closely with our customers in order to understand their priorities in response to the pandemic. All our regions have their business continuity plans in place to help us manage the disruption. We have implemented those plans in consultation with our key customers. The Board will continue to monitor the impact and disruption caused by COVID-19 and will continue to implement a range of measures to mitigate the operational, financial and commercial impacts as they emerge.

The nature of our contracts, bid processes and markets

We seek to win and operate long-term high-value contracts for the provision of complex and integrated services to our customers. This has a number of key risks. Bidding for these contracts typically involves a protracted and detailed tendering process, often under public procurement rules. There are usually only a relatively limited number of customers in each of our market sectors. Failure to realise the pipeline of opportunities and to secure rebids can mean missed opportunities for growth and loss of revenue. The contracts we bid for often entail a substantial transfer of risk from the customer to the supplier. Mobilisation of contracts may be difficult and the transitioning from mobilisation to business as usual may not be effective. We may not deliver the contractual requirements due to ineffective contract change management or the failure to manage our supply chain. COVID-19 may increase the likelihood of each of these key risks arising.

Risk description

Bidding requires a substantial investment in terms of 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 our markets, 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. 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 the customer aborts a bid process or we withdraw due to scope changes as it progresses, this is a significant waste of limited resource with substantial expenditure written off.

If we win a public procurement bid and a losing bidder challenges the award, 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 we may not replace soon with 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, whether by us or by our supply chain, 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. We 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. We are maintaining our dialogue with our customers to understand their intentions regarding their pipeline.

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

Group policies and procedures continue to 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. These reviews also consider the performance of our supply chain. In the current circumstances, a particular focus is the impact of COVID-19 on it.

Culture and values

Given the nature of our customers and the markets in which we operate, our culture and values are central to our business. Indeed, we believe that 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, 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 our markets, 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 36 to 51. (See also health, safety and environmental risks on page 87.)

We seek to reinforce to all employees through a number of different processes our values, for example, our induction training and our "being babcock" programme. We encourage all our employees to use our whistleblowing reporting lines where they see evidence of behaviour which is not in keeping with our values. The Board monitors and reviews all reports and their investigations.

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's exit from the European Union, the terms of the UK's future relationship with the EU 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 highly regulated environments.

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.

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 or cargo for remuneration 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. Following the UK's exit from the EU, the EU authorities may, depending on the terms of any exit, no longer consider the Company as an EEA national and 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, we have reorganised the operations of those Babcock companies which hold an EU operating licence, to separate those parts of their business which need a licence, from those parts which do not. We transferred the companies holding the licences once reorganised, 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

We are a multi-national company based in a number of locations worldwide. 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 we must manage and control 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).

As a global company, we are dependent on the ability of our personnel to maintain their physical health and wellbeing in order to carry out their roles either from our work sites or from remote locations.

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.

If we have caused or contributed to an incident because 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 may be insured against, as well as potentially 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.

Business disruption may occur when personnel are not able to work or communicate due to a pandemic such as the current COVID-19 outbreak.

Mitigation

Our goal is for everyone to go “home safe every day”. Accordingly, 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. Sector safety leadership teams and the Corporate Safety Steering Group (CSSG) oversee the implementation of policy, strategy and initiatives across all our businesses. An internal safety audit programme reviews different businesses throughout the year and reports back to the CSSG.

The Board receives half-yearly reviews of health and safety and environmental performance. In addition, 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 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.

In respect of the current COVID-19 outbreak, we have taken a number of measures across the Group. Our first priority is the safety of our employees. Our employees deliver essential services on which our customers and the wider community rely. The continuation of these services is key. We have reviewed our methods of working across the Group to institute the appropriate protective measures, including issuing new work guidelines, asking employees to work from home where they can, changing shift schedules, instituting infection control at work sites and ordering the wearing of protective equipment.

People

Our business delivery and future growth depend on our ability 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 is likely to remain so 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 and 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. 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 45 and 46 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 an 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 ERP system 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 is being 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 and South African Rand, as well as increasingly, Australian Dollar, Canadian Dollar, Norwegian Krone 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.

Growth and acquisitions

Our strategy is to build on our core strengths in order to enable us to solve complex problems for our customers, improving their performance and reducing their costs. We have built our core strengths organically or by acquisition.

Risk description

We look to develop innovative service offerings and products underpinned by technology, which focus on the higher- value contracts. Inevitably, this means a focus on larger customers in certain territories. However, these offerings and products may not differentiate us from more commoditised competitors or we may lose contracts or growth opportunities through price.

Potential impact

Our services and products may not differentiate us from more commoditised competitors or we may lose contracts or growth opportunities through price. Where we have acquired a strength through acquisition, the financial benefits of acquisitions may not be realised as quickly and as efficiently as expected and be a diversion to management.

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

We are in constant dialogue with our customers at all levels, from the Board down to the frontline, in order to ensure that we understand their key needs and drivers. Through this engagement, we aim to focus on those services and products, which we believe will deliver real improvements and efficiencies to our customers. If we acquire a strength through acquisitions, management submit a detailed business case, with forward-looking projections, to the Board in respect of each 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 2023. 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 2023, the Directors considered the Company's business model as set out on pages , including, in particular, the core strengths of the Company, such as its long-term contracts, which account for around 80% of its business, as well as its order book of around £17.6 billion and its bidding pipeline of around £17 billion. 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 83 to 92, and the Group's solvency and liquidity risks identified within the Group's risk management framework in the context of the controls and mitigating matters described on pages 80 to 82.

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, which are a £775 million five-year multi-currency revolving credit facility, US$500 million loan notes, and three tranches of notes (€550 million 1.75% notes, £300 million 1.875% notes and €550 million 1.375% notes) issued under the Group's Eurobond programme, as well as the availability and continued access to debt markets.

The Directors then considered the impact that the COVID-19 outbreak might have on the Group's business model and budget and mapped out certain scenarios of varying severity and impact on the Group, including changes in Government spending. The scenarios assume an appropriate management response, including deferral of non-essential capital and revenue expenditure as well as the deferral of dividends. The cashflow impacts of these scenarios were overlaid on the budget and forecast to assess the impact on the Group's liquidity and solvency, in particular to stress test the headroom available to the Group under its existing borrowing facilities.

The Directors also considered a deterioration in the relationship with the Group's principal customer, the loss of a significant contract and a significant increase in interest rates, coupled with a significant devaluation of Sterling to the Euro by around 20% 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 a three year period.

Having considered these scenarios, 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 2023. In making this statement, the Directors have assumed that maturing facilities will be refinanced on commercially acceptable terms and the Group is able to drawdown its existing facilities as required.

Critical support: civil nuclear

Gas circulator fluid drive being lifted at Dungeness B

Joseph Hicks
Mechanical Engineer, Dungeness B

“We have a strategic relationship with EDF Energy supporting their fleet of nuclear reactors, which is of national importance.

We provide services on fuel route optimisation and maintenance optimisation, all of which contribute to supporting the UK’s energy supply and keeping the country’s lights on.”

Ruth Cairnie
Chair

Chair's introduction

I am pleased to present my first Chair's report on the work of the Babcock Board. Since joining the Board in April last year, I have focused much time engaging with Babcock's stakeholders in order to get a real understanding of the Company.

My induction into the Group over the last year has been designed to give me insights into all aspects of the Company, including importantly our ways of working and our governance in practice. In addition to familiarising myself with all of our governance structures and processes, I have been keen to understand first-hand how we interface with key stakeholder groups and what their views are.

To understand more about the work we undertake, the experiences of our workforce and the ways in which we interact with them, over the course of my first year I have visited key sites within every sector, both in the UK and internationally; some of the locations are shown on the following page.

I plan to continue with a programme of regular visits across the business, as soon as this becomes possible again.

These visits have given me the opportunity to meet and talk with a range of our employees from sector management to local managers and the front line, as well as groups of graduates and apprentices, and diversity networks. Across the operations, I have been struck by our employees' deep understanding of our customers' needs, as well as their absolute commitment to deliver. As covered in the Strategic report, this culture of customer focus and service has underpinned the many ways in which we have responded to the COVID-19 pandemic.

I have also met with a number of our major customers. I see it as an important part of the Chair's role to have a strong relationship with key customers that complements the depth and breadth of the Group's management relationships, through a programme of regular senior-level meetings. I intend to develop this role further, and am committed to supporting the continued improving momentum of dialogue with our primary customers. We have been pleased to welcome customers to participate in a number of contract reviews at the Board during the year.

I have also enjoyed meeting many of Babcock's shareholders to hear, directly from them, their views, concerns and priorities. The Board and I are clear about the importance of corporate governance and its role in the long-term success of the Group.

Purpose and culture

At the Board we recognise the essential role that a clear purpose and a strong corporate culture play in assuring the Group's long-term success. During the year the Board has worked to clarify Babcock's purpose, which we describe on page 10, and we expect to do more on this over the coming year. This purpose is underpinned by the corporate culture, based on strong values that I found in evidence across my induction visits.

A key role of the Board is to ensure that the Company's purpose, strategy, culture and values are coherent, and reinforce each other. Our values are clearly set out in our Code of Business Conduct and are described in our being babcock principles on page 43.

They require us, 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 has mechanisms in place to check the progress on embedding these values within all parts of the Company's business. For example, our ethics policy is available to all on the website and appropriate training is given on the standards expected of our employees; as described on page 49, the Board reviews and monitors all reports to our whistleblowing line, which encourages employees to report any breach of our Code of Conduct or our ethics policy.

All our stakeholders, from our employees to our government customers, are placing increasing emphasis on the global sustainability agenda. We expect this will only grow in importance as time goes on. The Board has sought to ensure that we have the appropriate level of focus on these matters and we were pleased to support a new Group-wide environmental, social and governance (ESG) strategy this year. This has allowed us to bring together much of the activity that is being driven at sector level; you will see this work reflected in this Annual Report. The Board will continue to review the strategy and monitor progress in implementation. For example, this will include actions to increase the diversity of our people across the organisation.

Compliance with the UK Corporate Governance Code

My first year as Chair coincides with the first year that Babcock is reporting under the new UK Corporate Governance Code. The new Code places an increased emphasis on corporate purpose and culture, as addressed above, and risk. It also asks companies to provide information that enables shareholders to assess how directors have performed their duty under section 172 of the Companies Act 2006, as well as encouraging companies to engage with its employees.

In this report we describe our governance structure on pages 102 and 103, including the responsibilities of the Chair, the Board, the Non-Executive Directors and the Executive Directors.

We also describe the purpose and principal responsibilities of the Audit and Risk Committee, the Remuneration Committee and the Nominations Committee. The reports of those Committees follow on pages 106 to 136. We set out our s172(1) statement and our statement on stakeholder engagement on pages 30 and 31.

The Board considers that the Company complied with all the provisions of the Code throughout the year to 31 March 2020. 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 137 provides further cross references.

Board developments

I would like to take this opportunity to thank Ian Duncan and Jeff Randall for their service to the Group, as they step down from the Board after the AGM. Ian has served for nine years and Jeff for six. Russ Houlden, who joined the Board on 1 April 2020, will take over Ian's role as Chair of the Audit and Risk Committee. Russ is well qualified for the role as the current Chief Financial Officer of United Utilities Group PLC, until he retires in July.

Kjersti Wiklund has taken over Jeff's role as Chair of the Remuneration Committee. She has served on Babcock's Remuneration Committee for over a year and is also the Chair of the Remuneration Committee of Trainline plc.

In addition to Russ joining the Board, I am also pleased to welcome Carl-Peter Forster who joined the Board on 1 June 2020 and will become our new Senior Independent Director at the AGM. He is currently the Chair of Chemring Group PLC and the Senior Independent Director at IMI plc. Sir David Omand will step down from the role of Senior Independent Director at the AGM, and has stepped down as a member of the Audit and Risk and Remuneration Committees; he will remain a member of the Board while we conclude the appointment of a successor with strong government experience and insights, and the Nominations Committee has determined his continued independence.

2021

I have described above some of the actions that the Board has taken in the last year in progressing our work on governance. Developing and fine-tuning our governance will be an ongoing exercise and since the year end, we have already taken some further steps. The executive membership of the Board has been simplified with John Davies, Land sector CEO, stepping down. We have also reduced the memberships of both the Audit and Risk Committee and the Remuneration Committee with a view to making their workings more flexible and efficient.

Looking forward, we will keep the effectiveness of our governance under review. This is particularly relevant as we work through the impacts of the pandemic, which have brought into sharp focus the importance of paying attention to the needs of all our stakeholders.

Chair induction visits to date

- Bovington to visit Land's DSG operations
- Faslane to visit Marine's operations at the Clyde Naval Base
- Rosyth to visit Marine's Rosyth Royal Dockyard
- Albacete to visit Aviation's HEMS operations
- Bristol to visit Marine's Technology operations
- Plymouth to visit Marine's Devonport Royal Dockyard
- Wick to visit Nuclear's operations at Dounreay
- Anglesey to visit Aviation's operations at RAF Valley
- London to visit Land's Park Royal operations for the Metropolitan Police
- Donnington to visit Land's DSG operations

Board of Directors

Ruth Cairnie
Chair

Appointed: April 2019

Tenure: One year

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

External appointments: Ruth is currently the Senior Independent Director of Associated British Foods plc. She is Patron of the Women in Defence Charter, the Chair of POWERful Women, an initiative to advance gender diversity within the energy sector and a trustee of Windsor Leadership.

Previous roles: She has been a Non-Executive Director of Rolls Royce Holdings plc, ContourGlobal plc and Keller Group PLC and a member of the finance committee of the University of Cambridge.

Qualifications: She is a Master of Advanced Studies in Mathematics from the University of Cambridge and holds a BSc Joint Honours in Mathematics and Physics from the University of Bristol.

Sir David Omand GCB
Senior Independent Director

Appointed: April 2009 and Senior Independent Director January 2012

Tenure: 11 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: 4 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: 9 years. Ian will retire from the Board at the 2020 AGM.

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 at 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: 2 years

Nationality: British

Experience: Lucy is currently the Group Transformation Officer at Virgin Money UK PLC and brings experience in industries at the forefront of growth and technology-based innovation and an understanding of complex outsourcing and global strategic partnerships.

Previous roles: She was a Non-Executive Director of Berendsen PLC and, in her executive career, Lucy was Chief Executive Officer of UBM EMEA until September 2018 and 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 prior to that had a 19-year career at BT.

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

Russ Houlden
Independent Non-Executive Director

Appointed: April 2020

Tenure: 2 months

Nationality: British

Experience: Russ brings accounting and treasury management experience along with his extensive knowledge of driving performance improvement.

External appointments: Russ is currently the Audit Committee Chairman of Orange Polska SA, which is listed on the Warsaw Stock Exchange.

Previous roles: He was Chairman of the Financial Reporting Committee of the 100 Group (from 2013 to March 2020), Chief Financial Officer (from 2010 to July 2020) of United Utilities Group PLC and Chief Financial Officer of Telecom New Zealand (from 2008 to 2010).

Qualifications: Russ holds a first class honours degree in Management Sciences from Warwick Business School and is a Fellow of the Chartered Institute of Management Accountants, a Chartered Global Management Accountant and a Fellow of the Association of Corporate Treasurers.

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

Myles Lee
Independent Non-Executive Director

Appointed: April 2015

Tenure: 5 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 Trane Technologies 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: 2 years

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 Spectris PLC, Trainline plc and Zegona Communications 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.

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: 6 years. Jeff will retire from the Board at the 2020 AGM.

Nationality: British

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

External appointments: Jeff is an Independent Non-Executive at BDO, the accounting and business-services firm, and Fundsmith, 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.

Carl-Peter Forster
Independent Non-Executive Director

Appointed: June 2020

Nationality: German

Experience: Carl-Peter brings extensive manufacturing and international experience.

External Appointments: Carl-Peter is currently the Chairman of Chemring Group PLC and Senior Independent Director of IMI plc.

Previous roles: Carl-Peter held senior leadership positions in some of the world's largest automotive manufacturers, including BMW, General Motors and Tata Motors (including Jaguar Land Rover). He was also previously a Non-Executive Director of Rexam PLC and Rolls-Royce plc.

Qualifications: Carl-Peter holds a Diploma in Economics from Bonn University and a Diploma in Aeronautical Engineering from the Technical University in Munich.

Archie Bethel CBE
Chief Executive

Appointed: Board Director May 2010 and Chief Executive September 2016

Tenure: 10 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 Engineering and Senior Management roles in Vetco Gray International Inc. in both the UK and US. He was also Chief Executive of Scottish Enterprise Lanarkshire and Chief Operating Officer of Motherwell Bridge Group.

Qualifications: BSc, MBA and DSc (h.c.) from University of Strathclyde. Archie is a Chartered Mechanical Engineer, a Fellow of the Royal Academy of Engineering and a Fellow of the Royal Society of Edinburgh.

Franco Martinelli
Group Finance Director

Appointed: Board Director August 2014

Tenure: 6 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.

Executive Committee

B Board

Biographies for Archie Bethel CBE and Franco Martinelli are on page 99.

Archie Bethel CBE
Chief Executive

Franco Martinelli
Group Finance Director

John Howie MBE
Chief Executive, Marine

Simon Bowen
Chief Executive, Nuclear

John Davies
Chief Executive, Land

Neal Misell
Chief Executive, Aviation

Jon Hall
Managing Director, Technology

Kevin Goodman
Group Director of Organisation and Development

Kate Hill
Group Director of Communications

Jack Borrett
Group Company Secretary and General Counsel

John Howie MBE

Appointed: 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: 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 that, 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.

John Davies

Appointed: July 2010

Experience: John joined Babcock in 2010 on the acquisition of VT Group, and was appointed Divisional Chief Executive of the then Defence and Security division. In November 2015, he moved to lead the Support Services division and is now sector CEO, Land. Previously John worked extensively across the support services and defence sectors within Bombardier, BAE Systems and VT Group. John is a lawyer by background and a graduate of the University of Manchester and Chester Law College.

Neal Misell

Appointed: April 2020

Experience: Neal is the sector CEO for Aviation. He joined Babcock following the acquisition of VT Group in 2010. Neal worked initially as the Integration Director bringing together the Babcock and VT Group non-defence businesses. In 2011, he was appointed Managing Director of the Critical Services business which covered Babcock's vehicle and asset management contracts in Emergency Services and Airports. In February 2016, Neal was appointed Managing Director of the Military Aviation business focused on the RAF, French Air Force and Royal Navy. Neal is also a Board Director of the Ascent and Airtanker Joint Ventures.

Jon Hall

Appointed: 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 a Fellow of the Institution of Mechanical Engineers. He holds a PhD from Bath University for research work in technology.

Kevin Goodman

Appointed: 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.

Kate Hill

Appointed: April 2017

Experience: Kate joined Babcock in 2014 on the acquisition of the Avincis Group. She was subsequently appointed Babock's Group Director of Communications. Prior to her role as Communications Director at Avincis, she was a Partner in a financial PR consultancy, which she joined from Royal Dutch Shell plc where she held a number of senior communications roles. Trained as a journalist, Kate is a member of the Chartered Institute of Public Relations.

Jack Borrett

Appointed: 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.

Key areas of Board focus during the year

Key matters considered	Outcome
Review of Group's strategy	The Board reviewed the Group's strategy at an offsite all-day meeting in November. This year, the review included testing the strategy against the medium-term targets set out at the Group's Capital Markets Day. The Board received regular updates on performance against strategy during the year and reviewed the Group's strategic projects such as T31.
Environmental, social & governance (ESG)	The Board initiated a review of the Group's ESG activities and strategy. The Board considered the review and approved the introduction of the new Group-wide ESG strategy. The strategy demonstrates the Board's commitment to delivering the Group's business model in a sustainable way. The strategy sets out a clear framework for our ESG priorities across the Group and allows us to focus our activities to share more effectively the positive impact within the communities in which we work and serve.
Principal and emerging risk, and risk appetite	The Board, either by itself or through the Audit and Risk Committee, reviewed the major risks that the Group faces in its business model and its appetite for those risks. As part of that review, the Board considered and approved the Group's risk management system.
Monthly operational reports	The Board considered at its monthly meetings an operational report from the Chief Executive, supported by a monthly report from each of the sector CEOs, who attend the monthly meetings. Due to the importance of the relationship, the Board received regular updates from Tom Newman, the senior executive who is dedicated to working on progressing the Strategic Partnering Programme with the UK Government.
Budget review, trading statements, results	The Board agreed the Group's budget and received a monthly report from the Group Finance Director on the Group's performance against that budget. It reviewed and approved all the trading statements and results announcements before their release. This year, the Board focused on its liquidity strength by renewing the Group's five-year revolving credit facility of up to £775 million and issuing €550 million of eight-year bonds expiring in 2027. In addition, the Board refined its capital allocation approach, which it announced at the half year.
Ethics review, health & safety review	Health and safety is at the forefront of everything that the Group does. The Board received monthly reports on performance to ensure that the Group is living up to its aim of "Home Safe Every Day". The Board also recognises the importance of its reputation. It conducted its annual ethics review and assured itself that Babcock's Code of Conduct was understood and complied with throughout the Group. The Board reviewed all reports to the Group's whistleblowing line quarterly to make sure that they were appropriately dealt with and no issue had been reported that has a Group significance.

Our governance framework

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.

Chair

The Chair is responsible for the leadership and overall effectiveness of the Board. In particular, her 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

Shareholders can bring matters to his attention, if they have concerns, which have not been resolved through the normal channels of Chair, Chief Executive or Group Finance Director, or if they believe these channels are inappropriate. The Chair looks to the Senior Independent Director as a sounding board and he is available as an intermediary between the other Directors and the Chair. The Senior Independent Director is also responsible for leading the Non-Executive Directors in the annual performance evaluation of the Chair. 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 98 to 99). They play an important role in the formulation and progression of the Board's agreed strategy 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

Reviews the structure, size and composition of the Board and Committees and oversees succession planning for the Board and across the Group.

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. For its membership, please see page 100.

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 81.

Diversity Steering Group: co-ordinates the implementation of our equality and diversity policy. See page 45.

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 page 44.

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 40.

Sector Management Boards

Each of our four business sectors has its own management board 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

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 ten scheduled full Board meetings each financial year, with two other meetings devoted solely to strategy. The Chair 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

Chair	
Mike Turner*	3 of 3
Ruth Cairnie	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**	11 of 12
Victoire de Margerie**	11 of 12
Ian Duncan	12 of 12
Lucy Dimes**	11 of 12
Myles Lee	12 of 12
Kjersti Wiklund	12 of 12
Jeff Randall	12 of 12

* Mike Turner retired from the Board after the AGM in July 2019.
** Sir David Omand, Victoire de Margerie and Lucy Dimes were unable to attend certain meetings due to pre-existing commitments.

Composition of the Board

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

Date	Chair	Executive Directors	Independent Non-Executive Directors
1 April 2019 – 2 April 2019	1	3	7
3 April 2019 – 18 July 2019	1	3	8
19 July 2019 – 31 March 2020	1	3	7
1 April 2020 – 31 May 2020	1	2	8
1 June 2020 – 10 June 2020	1	2	9

During the financial year and up to the date of this report, changes to the Board were the appointment of Ruth Cairnie, the retirement of Mike Turner, John Davies's stepping off the Board on 31 March 2020 and the appointments of Russ Houlden and Carl-Peter Forster as Independent Non-Executive Directors, on 1 April 2020 and 1 June 2020 respectively.

Board effectiveness

The Board and its Committees review their skills, experience, independence and knowledge to enable the discharge of their duties and responsibilities effectively. Each year, an evaluation is conducted to assess these aspects and also the effectiveness of the ways of working at the Board and Committees. The last two reviews have been conducted internally by the Company Secretary and so, in line with the Corporate Governance Code, this year the review should have been carried out by an external evaluator. However, with a new Chair having been appointed during the year and with a number of changes occurring to the Board composition, it was decided that an external review would add much more value in a year's time once the membership changes, and a number of procedural changes introduced by the new Chair, have bedded down. Therefore, the review for the financial year ending 31 March 2020 has once again been an internal process conducted by the Company Secretary. The Board remains fully committed to external review, which it sees as a valuable support to its continuous development and improvement.

The review was conducted via confidential one-on-one meetings between the Company Secretary and each Director. Topics considered included the balance of skills, experience, independence and knowledge on the Board; its diversity; how the Board, its Committees, the Chair and individual Directors performed and how they worked together; as well as other factors relevant to effectiveness.

The main conclusions from the prior year's review focused on the pending change of Chair and need for further recruitment, given the length of tenure of both Sir David Omand and Ian Duncan. Progress is therefore reflected in the appointments that have been announced. This year, there was general satisfaction regarding the way in which the Board and its Committees function, the support given to them, the matters covered at meetings, the way issues are dealt with, and the contribution of individual Directors. A number of developments were noted as positive including the external input received for the annual strategy review, the external review of senior talent, the participation of customers in some contract reviews at the Board, and the streamlining of membership of the Board and Committees.

The Board discussed the evaluation at its meeting in March 2020. The focus for the current financial year will be to align further the Board's agenda and workings with the strategy and strategic priorities set out in the Group's Capital Markets Day, to shift the balance of the Board's time further towards strategic rather than operational matters. At a private meeting, Sir David Omand, SID, led a review of the Chair's performance, which confirmed her effectiveness.

Board induction and development

New Non-Executive Directors receive comprehensive and tailored induction programmes. The Chair's induction, parts of which are described on pages 96 and 97, was built using induction programmes developed previously for Lucy Dimes and Kjersti Wiklund as a starting point. The Company Secretary will set up a similar programme for Carl-Peter Forster and Russ Houlden as and when circumstances allow. The programme will involve:

- Meetings with the Executive Directors and the sector CEOs
- An overview of the Group's governance policies, corporate structure, and business functions
- Details of risks and operating issues facing the Group
- Visits to key operational sites, which will include Devonport, Rosyth, Bristol and the Group's EU operations
- Briefings on key contracts and customers.

In addition, the Company Secretary arranges training and ongoing updates as requested or as required. Non-Executive Directors may at any time make visits to any Group business and presentations are made to the Board during the year.

Nominations Committee

Introduction

The core function of the Nominations Committee is to review the structure, size and composition of the Board and its Committees and, crucially, to consider and oversee succession plans for the Board and across the Group, taking into account inclusion and diversity. I believe that effective succession planning, underpinned by a vibrant talent agenda, is at the heart of the long-term success of any company. There should be a clear link between strategy, succession planning and the culture of an organisation.

Membership of the Committee

I chair the Committee and all the independent Non-Executive Directors are members. Members of the Executive team, for example the Chief Executive or the Group Director of Organisation and Development, attend by invitation as required.

Responsibilities of the Committee

The Committee is responsible for:

- Board nominations – the Committee leads on the appointment process for Directors and makes recommendations regarding candidates to the Board
- Board composition – the Committee considers the balance of skills, diversity, knowledge and experience of the Board (as well as the Committees) and makes recommendations with regard to any changes
- Succession planning – the Committee oversees and reviews the succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company and the skills and expertise required by the Company for the future.

Diversity

The Board has a clear objective to see increasing diversity on the Board, in senior executive management roles and throughout the workforce as a whole. The strategic plans involve developing the business in both existing and new market sectors and with new, and new types of, customers, both in the UK and internationally. Diversity is important to underpin our credibility across our chosen business areas and to support new thinking and flexibility in our approach. We recognise that across the whole organisation we have much work to do on diversity but progress is being made, including in gender diversity (please see pages 45 and 46).

In considering recommendations for appointments to the Board, the Committee takes into account the Board's policy to foster and encourage greater diversity of gender, ethnicity, outlook, background, perception and experience. This is factored into instructions given to search consultants and into the short-listing process. Currently, the Board's gender diversity is 33.3% female (4 women out of 12) and we will aim to maintain a good representation of women on the Board. The membership has become slightly more international with the appointment of Carl-Peter Forster.

Activities undertaken by the Committee during the year

This was a busy year for the Committee with a number of key changes:

Board nominations

At the beginning of the year, the Committee, led by Sir David Omand, Senior Independent Director (SID), oversaw my appointment as Chair and kept under review my induction programme to ensure that I met and heard from our stakeholders. The Committee then undertook the appointment of Russ Houlden (effective 1 April 2020) and Carl-Peter Forster (effective 1 June 2020) to the Board.

Russ Houlden provides valuable expertise in accounting, reporting and performance improvement as well as international experience. He will chair the Company's Audit and Risk Committee after Ian Duncan's retirement at the AGM.

Carl-Peter brings extensive manufacturing and international experience to the Board. He will take over as the Group's SID from the AGM at which point Sir David Omand will step down from that role.

The Committee has also had to consider a successor for Chair of the Remuneration Committee, as Jeff Randall announced his retirement. The Committee was pleased to recommend the appointment of Kjersti Wiklund, who has sat on the Remuneration Committee for over a year and has relevant experience as the current Chair of the Remuneration Committee of Trainline plc.

Over the latter part of the year, and ongoing, a key area of focus for the Committee has been the search for a new Chief Executive, following Archie Bethel's decision to retire.

In the Committee's searches, the first step is to develop a candidate specification that takes into careful consideration the future needs in terms of skills, experiences, capabilities, style and diversity. Independent search consultants are appointed to support the Committee through a structured process of candidate identification, review, short-listing, interview and referencing. In its searches for a new Chair of the Audit and Risk Committee and for a new SID, the Committee appointed MWM Consultants. MWM does not have any connection with the Group other than as a senior recruitment consultant. The process for appointing a new Chief Executive Officer is still in progress and details will be disclosed in due course.

Board composition

During the year, the Committee reviewed the composition of the Board and its Committees to determine the best structure for the future, taking into account the challenges and opportunities facing the Group. This review led to some recommendations regarding Committee membership as well as addressing Executive representation on the Board.

Regarding Executive membership the Committee recommended that the Board should be simplified and have just two Executive Directors, the Chief Executive Director and the Group Finance Director. Accordingly, effective 31 March 2020, John Davies stepped down from the Board. He continues to lead the Land sector as CEO and remains a key member of the Group Executive Committee. The current practice of having all the sector CEOs attending Board meetings will continue.

Regarding Committee membership, past practice has been to have all the Non-Executive Directors as members of all the Board's Committees. The Committee recommended a simplification, with fewer members of the Audit and Risk and Remuneration Committees. The Committee believes that the reduced size will improve the flexibility of each Committee, whilst retaining the skills and competences to be effective. The new membership of the Audit and Risk Committee consists of Ian Duncan, Russ Houlden, Lucy Dimes, Myles Lee and Kjersti Wiklund. The new membership of the Remuneration Committee consists of Kjersti Wiklund, Carl-Peter Forster, Jeff Randall, Russ Houlden and Victoire de Margerie. All Non-Executive Directors will continue to sit on the Nomination Committee.

As well as considering the membership of the Board and its Committees, the Committee reviewed the continued independence of Sir David Omand, as he has served on the Board for over nine years. The Committee recommended to the Board that he remains independent. The Committee welcomes his expertise and the continuity of support he is providing as the composition of the Board evolves. However, Sir David will step down as Senior Independent Director with effect from the AGM. In addition, he will no longer serve on either the Audit and Risk Committee or the Remuneration Committee.

Succession planning

The Committee recognises the key role that succession planning for Directors and senior management plays in building a team capable of achieving the Group's strategic goals in the short, medium and longer term. Over the last year we have undertaken a review of senior talent in the organisation, as an important ingredient of the overall talent development strategy that is one of the Group's core enablers. This review was supported by independent external consultants,

During the current year, the Committee will look to build on the review by overseeing the career pathways mapped out for those in the succession pipeline. In these reviews, diversity will be a prominent feature. The Committee is committed to working hard to have as broad a list of future candidates as possible.

Ruth Cairnie
Committee Chair

Nomination Committee membership and attendance during the year

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

* Lucy Dimes was unable to attend one meeting due to a pre-existing business commitment.

Audit and Risk Committee

Introduction

The principal purpose of this report is to look back over the financial year ending 31 March 2020 and to describe the Committee's responsibilities during that period. Most of the period was not under the shadow of the Coronavirus (COVID-19). However, the impact of COVID-19 was a significant issue, which the Committee considered in relation to the financial statements for the year to 31 March 2020. How the Committee considered the impact is described later in this report.

This is my final report as Chair of the Audit and Risk Committee as, having completed nine years on the Board, I have decided to step down with effect from the end of the Company's next AGM. As previously announced, my successor will be Russ Houlden, who joined the Board on 1 April 2020. Please see page 98 for further details of his background and qualifications.

Membership of the Committee

The Audit and Risk Committee was during the year made up entirely of all the independent Non-Executive Directors. Committee membership, as well as attendance at its meetings in the year, is set out below. However, with effect from the beginning of the current financial year, the Committee decided to streamline its membership in order to make its operation more efficient and Sir David Omand decided to step down as a member of the Committee after 11 years of service. Currently, the members of the Committee are Ian Duncan, Russ Houlden, Kjersti Wiklund, Myles Lee and Lucy Dimes.

Unless otherwise stated, members were members throughout the year. Please see pages 98 and 99 for further details of the backgrounds and qualifications of the members of the Committee.

The Board is satisfied that Ian Duncan, who has been Chair 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 Senior Independent Director of Bodycote PLC, as well as being the Chair of its Audit Committee. He is also a Non-Executive Director and Audit Committee Chair of SIG PLC.

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 the Company manages them
- 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 112)
- 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 are on the Company's website.

Committee meeting attendance

In addition to the members of the Committee, the Committee, at its discretion, usually invites the Group Chair, the Chief Executive, the Group Finance Director, the sector Chief Executives and the Group Financial Controller to attend meetings. 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.

During the year to 31 March 2020, 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 2020. The Committee Chair also met PwC and EY in the absence of executive management before every meeting. The Committee invites the auditors to address the Committee without executives present at least once a year.

The Committee reviews its terms of reference annually 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 2020, the Committee met four times. At these meetings, and at additional meetings after the year end, the Committee considered the following matters and issues:

Financial results

- full-year and half-year financial statements and related results announcements
- reports 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 2020 (see pages 110 and 111)
- 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 93 for further details).

Fair, balanced and understandable assessment

The Committee advised the Board on the requirement for a statement from it that the Annual Report and Accounts for the year to 31 March 2020 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.

To satisfy itself, the Committee circulates 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. He reviews the relevant draft, its consistency with his understanding of matters and the appropriateness of the weighting given to them, and confirms 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 plans

The Committee reviewed and approved internal and external audit plans for the year.

Internal audit

At each meeting, the Committee received 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 included follow-up reports on any matters identified in earlier reports as requiring attention or improvement. The reports contain tracking information to enable the Committee to see the control performance of business units over time as well as how quickly they address any matters.

Risk and internal controls

- review of the principal and emerging risks facing the Company and how they are managed or mitigated
- review of the Group's risk management and internal control systems and 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 COVID-19 outbreak and the Company's response to the outbreak and related lockdown. Earlier in the year, the Committee had considered one of the Group's principal risks – the nature of its contracts, bid processes and markets with particular reference to the Aviation sector. In addition, the Committee considered its business-critical suppliers and the potential impacts of disruption upon the Group in the event of one of their failures.

Fraud

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

Whistleblowing

The Committee has monitored the Group whistleblowing policy on behalf of the Board. It receives regular reports of calls and emails to the Group's external independent whistleblowing services and how the Group investigates them. With effect from 1 April 2020, the Board has decided that it will review the whistleblowing reports. The total number of whistleblowing reports in the year to 31 March 2020 was 66 (2019: 71). For further explanation of the whistleblowing procedure, please see page 82.

Audit/non-audit fees and auditor independence

The Committee reviews the audit and non-audit fees for the external auditor and considers them in relation to auditor independence. The Committee is satisfied that PwC maintained its independence throughout the year.

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

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 reporting of the Group's 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 2020 and how the Committee addressed them are set out in the table below.

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. Additionally, an external provider conducted a review of a number of the Group's most significant and complex long-term contracts. The results of this review confirmed that the Group's long-term contract accounting is consistently conservative.
Cash generating units and carrying value of goodwill	Goodwill is allocated to the Group's cash generating units (CGUs): Marine, Land, Aviation and Nuclear. The Committee reviewed and challenged management's assessment of the goodwill held on the Group's balance sheet by considering, amongst other matters, management's evaluation of the cash flows resulting from the Group's budget and strategy plan, the terminal value assessment, noting the reduced long-term growth rate of 2% (2019: 3%) reflecting management's assessment of the uncertain economic conditions in which the Group is operating and the appropriateness of the discount rates used in the value in use calculations. The Committee noted the highly competitive trading conditions experienced in oil and gas and was satisfied with adjustments made by management to the budget and strategy plans of the Aviation CGU in this regard and additionally with the higher discount rate, reflecting CGU-specific risk factors, of 10.9% (2019:10%) used in the value in use assessment of this CGU. These adjustments, together with the reduced long-term growth rate applied to all CGUs, resulted in an impairment charge of £395 million. The value in use calculations presented significant headroom in respect of the other CGUs. The Committee discussed the results of its review with the external auditor and was satisfied with management's assumptions and with the conclusion to recognise an impairment charge of £395m in relation to the Aviation CGU and, following appropriate sensitivity testing of key assumptions, that no impairment charge was necessary for the other CGUs. The Committee was also satisfied that appropriate disclosures were included in the financial statements. Note 11 on page 182 to 183 provides information on key assumptions and sensitivity analyses performed.

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 80 to 82, with the principal risks facing the Group described on pages 83 to 92. 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 considered the Group's risk management process, which identifies the risks, the controls and the mitigations before reporting them to the Committee.

During the year, the Committee continued to develop an assurance map, which sets out the Group's principal risks and considers the sources of assurance available in relation to them. The Group measures these sources of assurance 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 our out-sourced internal auditor, now BDO previously Ernst & Young.

Detailed and bottom-up risk registers, which sector and Group review and challenge, support the Group's risk management process. The schedule of delegated authorities and the Group's system of financial reporting add additional assurance.

Significant issue	How the Committee addressed it
Exceptional items	The Group recognised exceptional charges of £502.9m on a pre-tax basis. The Committee reviewed all the charges to assess whether their classification as exceptional was appropriate. In Aviation Oil and Gas, the market has deteriorated significantly in the year with pricing levels reduced following the re-emergence of two large helicopter providers from US Chapter 11 protection. As a result, the business has impaired certain Oil and Gas right of use assets. In addition, the business had exited from its Oil and Gas business in Ghana and the Congo. The impact of trading in the oil and gas business combined with the delay of contract awards in aerial emergency services led to a reshaping of the Aviation sector cost base. In Nuclear, the end of the Magnox contract, along with the ongoing trading environment in the civil nuclear market, has also led to a reshaping of the Cavendish cost base. In addition, there were further restructuring charges relating to additional costs from actions taken in the prior financial year, as well as further restructuring in the Rail business. There were charges relating to other exits and disposals, consisting of a gain on the sale of Context IS, partially offset by additional costs from exits in the prior financial year and the costs of exiting our nuclear manufacturing business. There were also other exceptional items, principally relating to additional costs from Aviation's Brexit-related restructure and the fine in Italy together with associated legal costs described on page 59. The Committee was satisfied with the quantum of the charges and their classification as exceptional.
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 used in respect of the same factors by other companies and the pensions industry more widely. The Committee was satisfied that the assumptions fell within acceptable ranges. See note 26 on pages 202 to 204.
Adoption of IFRS16 – Leases	The Company adopted IFRS 16 on 1 April 2019. At the Committee's request, the Company undertook a completeness exercise across the Group. The Committee asked PwC to assess the robustness of that exercise. Having considered PwC's conclusions, and having discussed with management, the Committee is satisfied that the Company has implemented IFRS 16 appropriately and duly reflected the new accounting standard in the financial statements for year to 31 March 2020.
Impact of COVID-19	Following the outbreak of COVID-19 and the subsequent national lockdowns, the Company did experience disruption in its operations. For the year to 31 March 2020, the impact of those disruptions was not significant. However, the Committee, as part of its going concern review and its viability review, also had to consider the impact of COVID-19 on the Group's future operations. Management prepared a number of stress tests and scenarios for the Board. The Committee reviewed the assumptions upon which the management based the tests and scenarios. After its review, the Committee was satisfied that it was appropriate to prepare the Group's financial statements for the year to 31 March 2020 on a going concern basis and to make the viability statement as set out on page 93.
Disclosure in the financial statements for the year to 31 March 2020	In the previous financial year, the FRC sent a letter to the Company suggesting areas of improvement. The Company made changes to its financial statements for the year ending 31 March 2019 in order to address the points made by the FRC, following which the FRC closed the matter. This year, the Committee has reviewed the financial statements to ensure that they continue to reflect the FRC's comments.

These bottom-up risk reviews carried out by the Sectors also include emerging risks. However, the Group separately also considers emerging risk as part of its strategic or top-down risk review. Top global emerging risks include globalisation/geopolitical risk, environmental risk/climate change, technological risk, cyber risk and societal risk. The Group will continue to develop its approach to the review of emerging risk during the current year.

The Group's internal auditors test the process through an agreed plan, which the Committee approves on an annual basis. The internal auditor reported on progress to every scheduled meeting of the Committee. Where the internal auditor does identify areas for improvement, it reports on the remedial plans. Follow-up visits assure the Committee of compliance.

After the review, the Committee was satisfied that the Group's risk identification process did allow the Committee to identify and evaluate the Company's principal and emerging risks. A statement regarding the effectiveness of the internal controls and control processes, including those over financial reporting, is on page 141 and 142.

Internal audit

The Committee considers that it is appropriate to have an internal audit service provided by an external advisor, but keeps this under review. In the year to 31 March 2020, the Committee was satisfied with the service provided by EY acting as internal auditor. However, as the Committee wishes EY to participate in its upcoming tender for the external audit, EY had to stand down as internal auditor with effect from 31 March 2020 in order to comply with the FRC's December 2019 Revised Ethical Standard.

Accordingly, the Committee conducted a tender for the internal audit service and, after a robust process, decided to appoint BDO as its new internal auditor with effect from 1 April 2020. BDO has prepared, and is now working to, its internal audit plan for the year ending 31 March 2021. The Committee will review the findings of BDO's reports during the course of the current financial year.

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 2020, PwC has been the Group's external auditor, following its reappointment by Shareholders at the AGM on 18 July 2019 on the recommendation of the Board. The Chair 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 continues to expect to tender the external audit during the course of the current financial year. PwC, having been auditor since 2002, will not participate in any such tender. The Committee confirms that the Group complies 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 not offered to the auditor are those listed in appendix B of the FRC's revised ethical standard 2019 including 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. The Committee Chair must approve any non-audit work, subject to the Group Financial Controller being able to approve any single expenditure of £10,000 or less, although, 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 2020, the Committee is satisfied that PwC provided these services effectively and the services did not prejudice the objectivity or independence of the auditor.

For the year ended 31 March 2020, non-audit fees paid to the auditor were £0.1 million, representing 3% of the audit fee. A breakdown of fees paid to the auditor is set out in note 4 on page 177.

Ian Duncan
Committee Chair

Audit and Risk Committee membership and attendance during the year

Ian Duncan (Chair)	4 of 4
Sir David Omand*	3 of 4
Jeff Randall	4 of 4
Myles Lee	4 of 4
Victoire de Margerie	4 of 4
Lucy Dimes	4 of 4
Kjersti Wiklund	4 of 4

* Sir David Omand was unable to attend one meeting due to a pre-existing business commitment.

Kjersti Wiklund
Chair

Annual Statement of the Remuneration Committee Chair

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report ("DRR") for the year ended 31 March 2020, my first following my appointment as Chair of the Remuneration Committee on 1 April, having served on the Committee since I joined the Board in April 2018. I would like to thank Jeff Randall, who served as the Committee Chair up to the end of the 2019/20 financial year, for his hard work and commitment to the Committee over the last six years.

At the time of writing this DRR, I am mindful that the COVID-19 pandemic continues to affect Babcock's employees and other stakeholders – and society more generally. As set out elsewhere in this Annual Report, the last financial year has had its challenges, but the Group has made progress in driving forward its strategy, with revenue growth in its defence business and the award of significant opportunities, such as the contract to build the next generation of the UK's warships. However, the unprecedented situation brought on by the pandemic has framed the Committee's discussions in recent months and has led the Committee to defer a number of decisions (details of which are set out later in this Report). The Committee nevertheless believes that the Remuneration Policy proposed for the next three years (and its implementation for the 2020/21 financial year) remains fit-for-purpose and provides sufficient flexibility to reflect the impact of the pandemic in our approach to remuneration, in particular how we incentivise and reinforce success for Babcock going forward.

New Remuneration Policy

Our current remuneration policy ('Policy') was approved at the 2017 AGM and hence is due for renewal at the 2020 AGM. During 2019 and early 2020, the Committee reviewed the Policy taking into account the Company's desire to retain and attract top executive talent, promote the strategic and financial performance of the business and maintain executive alignment with long-term shareholder interests.
The Committee considered feedback received from shareholders since the adoption of the current Policy in 2017, as well as developments in UK corporate governance and trends in market practice. The Committee was also mindful of the need to ensure that the proposed new remuneration policy is transparent, easy to understand, consistent with the Company's purpose, values and strategy and provides an appropriate link to long-term performance.

The Committee's conclusion is that the 2017 Policy remains broadly fit for purpose. No changes are therefore proposed to the overall quantum or structure, being based on fixed pay, annual bonus with mandatory deferral and a performance-based long-term incentive. We believe the current arrangements enable the Company to recruit and retain the best talent as they are competitive with the remuneration structures offered by our competitors for talent. Furthermore, the use of both an annual bonus and a three-year PSP helps ensure the variable pay component reinforces our key shorter-term objectives as well as capturing long-term value creation for shareholders. However, the Committee believes that some revisions are required to bring the Policy in line with corporate governance changes and evolving investor expectations. These are described in detail below.

Earlier this year, we consulted with shareholders (representing a total of c.60% of our issued share capital) and shareholder representative bodies.
I would like to express my gratitude for the feedback, which supported our proposal to maintain the same overall incentive structure as previously and helped to shape the changes to the current Policy, which we have decided to propose. We had a high level of engagement and are pleased to report that virtually all investors who provided feedback indicated support for the proposed approach.

Summary of proposed changes to the Policy

The changes to the Executive Directors' remuneration policy for 2020 are set out below.

1. **Rebalancing the annual bonus and PSP performance measures.** Every year the Committee reviews the performance measures, their weightings and their targets for both the annual bonus and the PSP to ensure their alignment with strategy and business priorities respectively. Prior to the COVID-19 outbreak, the Committee had considered simplifying the annual bonus by removing the EPS measure and increasing the weighting for PBT and Cashflow (both measured on an underlying basis) to 40% each. Non-financial measures will continue to be weighted 20%. For the PSP the Committee was considering the inclusion of a new measure focused on cashflow to ensure the scorecard better reflects the Group's strategic focus. This remains the current intention. However, for the 2020/21 financial year, due to the pandemic, the Committee has delayed its decisions on both the annual bonus and the PSP, as it may decide to make adjustments to make sure that they reflect our priorities as we emerge from the current crisis. Any revisions to the current intention will be consistent with the Policy.
2. **Aligning pensions.** We have already committed that new Executive Director hires will be offered a pension aligned with that offered to the general UK workforce, consistent with investor preferences. In the proposed 2020 Policy, we will be extending this commitment to the incumbent Directors, whereby pensions will be reduced over the course of the life of the Policy to that of the workforce by 1 April 2023.
3. **Promoting long-term share ownership.** Consistent with the new provisions under the UK Corporate Governance Code, a new requirement to maintain a shareholding post-termination will be adopted in the 2020 Policy. The required level of post-termination holding will be the same as the current in-post shareholding requirement and cover the 2 years following departure.

Remuneration outcomes for 2019/20

Remuneration for the Executive Directors in 2019/20 was consistent with the Remuneration Policy. The Committee reviewed, and was satisfied that, the remuneration outcomes reflected Company performance and the broader context, including Shareholders' experience. After due consideration, and with no discretion required to be used, the Committee approved the following outcomes:

2019/20 annual bonus

The 2019/20 annual bonus was based 80% on underlying financial performance measures (30% on EPS, 20% on PBT and 30% on OCF) and 20% on non-financial measures. While financial performance for the 2019/20 financial year was below the threshold levels set for the Group measures, the Committee determined that some payout would ordinarily be warranted by the achievement of many of the non-financial performance objectives set at the start of the year (ranging from 14% to 38% of maximum bonus for the Executive Directors). However, the final decision on the payment of the bonus warranted for the 2019/20 year will be delayed until after the Board makes its decision on the final dividend. Please see page 130 for more detail.

2017 PSP awards

The vesting of PSP awards granted in 2017 was based on performance measured over 1 April 2017 to 30 March 2020, with EPS, ROCE (both measured on an underlying basis) and TSR equally weighted. Performance against the targets set at the start of the cycle for each element was below threshold, resulting in 2017 PSP awards lapsing in full. Please see page 130 for more detail.

Remuneration for 2020/21

Decisions made for remuneration in 2020/21 are as follows:

Salary/fees

The Committee reviewed the executive director salaries in early 2020. The expectation is that the average increase in the UK workforce for the current financial year would be between 2% and 2.5%. The Committee decided to set the increase for the Executive Director salaries at 2%. In light of the impact on our employees and other stakeholders of the COVID-19 pandemic, the Committee accepted a proposal by the Chief Executive to suspend the implementation of annual salary increases and keep this under review during the 2020/21 financial year. In addition, the Executive Directors and other senior executives volunteered a temporary 20% reduction to their base salaries. The Non-Executive Directors volunteered a similar reduction to their annual fees.

Pension

The pension for incumbent Executive Directors will reduce to 21.5% of salary, as the first step in the transition from the prior arrangement (a contribution of 25% of salary) to alignment with the workforce over the new Policy period.

2020/21 annual bonus

It is currently anticipated that the 2020/21 annual bonus will be based 80% on underlying financial performance measures (40% on PBT and 40% on OCF), and 20% on non-financial measures. The Committee will disclose targets in the 2020/21 Directors' Remuneration Report. However, the Committee decided to defer its final decision on the annual bonus until it had a better understanding of the impact of the pandemic. Therefore, it will determine the appropriate structure for the bonus in the first half of the financial year. Any final decisions around the annual bonus for Executive Directors will be consistent with the Policy and considered in the context of the bonus for the broader participant population.

2020 PSP awards

PSP awards will be granted in 2020 consistent with the new Policy. However, the granting of awards will be delayed until at least the half year, to allow the Committee sufficient time to consider the appropriate weighting of measures and performance ranges in the context of the ongoing impact of the COVID-19 pandemic. The targets – which would normally be disclosed prospectively in this report – will be disclosed in the RNS statement announcing the granting of these awards.

In February, after 16 years of service with the Group, Archie Bethel announced his intention to retire as Director and Group Chief Executive. The Nomination Committee has started the search for his replacement. Archie's remuneration arrangements will remain in line with our Policy.

Please see page 126 for a summary of his outcomes for the last financial year and page 131 for his arrangements for the current financial year. In addition, in order to simplify the workings of the Board, John Davies stepped off the Board on 31 March 2020 and is no longer an Executive Director, although, as the CEO of the Land Sector, he remains a key member of the senior leadership team. However, we disclose below on page 126 his pay outcomes for the last financial year.

Finally, the composition of the Committee has been reviewed for 2020 onwards. To streamline its membership in order to make its operation more efficient and following Sir David Omand's decision to step down as a member of the Committee after 11 years' service, from 1 April 2020, the membership of the Committee was Kjersti Wiklund (Chair), Jeff Randall, Victoire de Margerie and Russ Houlden, with Carl-Peter Forster joining the Committee on his appointment to the Board on 1 June 2020.

Kjersti Wiklund
Committee Chair

Remuneration Committee membership and attendance during the year

Jeff Randall (Chair)	7 of 7
Sir David Omand	6 of 7
Ian Duncan	7 of 7
Myles Lee	7 of 7
Victoire de Margerie*	6 of 7
Lucy Dimes	7 of 7
Kjersti Wiklund	7 of 7

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

Compliance statement

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 2018, 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 4 August 2020. A binding resolution to approve the remuneration policy will also be proposed at the Meeting.

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

Remuneration at a Glance

This section provides an overview of the Company's performance over the 2019/20 financial year and the remuneration received by our Executive Directors. Full details can be found in the Annual Report on Remuneration on pages 125 to 136.

2019/20 remuneration outcomes

Annual bonus

The annual bonus for the 2019/20 financial year was based on a mix of financial and non-financial measures, the performance targets for which (and actual performance against these) are set out below:

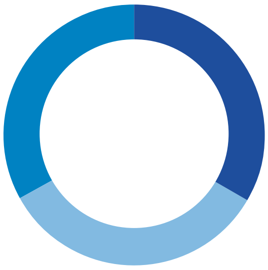
Measures	Warranted payout (% of max. bonus) A Bethel		F Martinelli		J Davies		Performance targets			
	Max	Actual	Max	Actual	Max	Actual		Threshold	Target	Stretch
Group Earnings per Share (EPS)	30%	0%	30%	0%	30%	0%	Actual 69.7p	70.5p	74.2p	81.6p
Group Profit Before Tax (PBT)	20%	0%	20%	0%	10%	0%	Actual £432.0m	£437.7m	£460.7m	£506.8m
Group Operating Cash Flow (OCF)	30%	0%	30%	0%	15%	0%	Actual £306.7m	£351.6m	£378.1m	£404.6m
Sector Profit Before Interest & Tax (PBIT)[1]					10%	10%	*Of budget	95%*	100%*	110%*
Sector Operating Cash Flow (OCF)[1]					15%	15%	*Of budget	93%*	100%*	107%*
Non-financial[2]	20%	14%[3]	20%	16%	20%	13.3%[3]				
Total	100%	14%	100%	16%	100%	38.3%				

1. Given the commercially sensitive nature of sector measures, targets and outcomes are not disclosed.
2. Several measures have been merged into an overall assessment in this table for disclosure purposes.
3. The Committee reduced the non-financial outcome for Archie Bethel and John Davies to take account of the fatality in the year.

Based on actual outturn as set out above, the Executive Directors would have received payouts under the 2019/20 annual bonus of between 14.0% and 38.3% of maximum bonus. However, the Committee has delayed the decision on payment of the annual bonus until after the Board's decision on the final dividend for the 2019/20 financial year. 40% of any bonus earned will be deferred in shares for three years under the Deferred Bonus Plan.

2017 PSP

The 2017 PSP vests subject to three performance measures, the targets for which (and actual performance against these) are summarised below:



	Performance range			
Measure & weighting	Threshold (25% vesting)	Stretch (100% vesting)	Outcome	Warranted vesting (% of total award)
EPS growth (3-year CAGR) 33%	4% p.a.	11% p.a.	(4.4%) p.a.	0%
Return on Capital Employed (ROCE) (3-year average) 33%	12.0%	14.5%	11.7%	0%
Relative Total Shareholder Return (TSR) (vs FTSE350) 33%	Median	Median +9% p.a.	Below median	0%
TOTAL				**0%**

Based on the performance outcomes set out above, 2017 PSP awards shall lapse in full.

Implementation of the Remuneration Policy in 2020/21

For the 2020/21 financial year, the Committee's intention at the time of writing this report is for the Remuneration Policy to be implemented as set out in the table below. As set out earlier in this Report, the Executive Directors have volunteered a temporary 20% reduction to their base salaries, and the Chair and Non-Executive Directors have also volunteered a temporary reduction to their fees of 20%. The measures, their weightings and targets for the annual bonus and PSP are expected to be finalised following publication of this report and will be confirmed in next year's DRR or earlier if applicable through RNS.

Element of remuneration	Implementation for 2020/21
Base salary	Unchanged from 2019/20, with any inflationary increase currently suspended until later in the year: Archie Bethel: £796,000 Franco Martinelli: £446,000
Pension	Reduced from 25.0% to 21.5% of salary
Benefits	Unchanged from 2019/20
Annual bonus and DBP	Awards of up to 150% of salary, based on the achievement of financial targets (80% weighting) and non-financial measures (20% weighting). 40% of any bonus earned deferred in shares for 3 years.
PSP	Awards of 200% of salary based on: EPS, ROCE, free cashflow, relative TSR

Alignment of the Remuneration Policy

The Committee believes that the proposed Policy complies with the six pillars set out in paragraph 40 of the 2018 Corporate Governance Code.

Clarity: The Committee believes that the disclosure of the remuneration arrangements is transparent with clear rationale provided on its maintenance and any changes to policy. The Committee remains committed to consulting with shareholders on the Policy and its implementation.

Simplicity: The policy and the Committee's approach to implementation is simple and well understood. The performance measures used in the long-term incentive plans, along with those in the bonus, are well aligned to Babcock's strategy.

Risk: The Committee has ensured that remuneration arrangements do not encourage and reward excessive risk-taking by setting targets to be stretching and achievable, with discretion to adjust formulaic bonus and PSP outcomes.

Predictability and proportionality: The link of the performance measures to strategy and the setting of targets balances predictability and proportionality by ensuring outcomes do not reward poor performance.

Culture: The policy is consistent with Babcock's culture as well as strategy, therefore driving behaviours which promote the long-term success of the Company for the benefit of all stakeholders.

Remuneration Policy Report

The Remuneration policy set out in this section is to be submitted to a binding Shareholder vote at the 2020 AGM and it is intended that this policy will apply for three years from that date. The key changes from the previous remuneration policy and the rationale for the changes are explained in the Committee Chair's introduction on pages 113 to 115.

Key principles of the Remuneration policy

Our policy for Executive Directors 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, to incentivise and reward success. The focus of our executive remuneration is, therefore, weighted towards performance-related pay with a particular emphasis on long-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.

Remuneration policy for Executive Directors

Base salary

Purpose and link to strategy	To recruit and retain the best executive talent to execute our strategic objectives at appropriate cost.
Operation	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.
Opportunity	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.
Performance metrics	Business and individual performance are considerations in setting base salary.

Pension

Purpose and link to strategy	To provide market competitive retirement benefits.
Operation	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.
Opportunity	Policy for new appointments Executive Directors appointed after 1 April 2020 will receive pension benefits up to the value equivalent to the maximum level of pension benefits provided under the Company's regular defined contribution pension plans as offered to the wider workforce in the relevant market as may be in effect or amended from time to time. Transition arrangements for existing Executive Directors The existing directors will transition from the arrangements immediately prior to the new policy (25% of salary) to alignment with the workforce, as per the new appointment policy, by 1 April 2023.
Performance metrics	Not performance-related.

Benefits

Purpose and link to strategy	Designed to be competitive in the market in which the individual is employed or to meet costs effectively incurred at the Company's request.
Operation	A range of benefits is provided which may include (but is not limited to): life insurance; medical insurance; car and fuel benefits and allowances; home to work travel and related costs; accommodation benefits and related costs. Other benefits (e.g. relocation) may be offered if considered appropriate and reasonable by the Committee.
Opportunity	Benefit values vary by role and are periodically reviewed and set at a level that 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.
Performance metrics	Not performance-related.

Annual Bonus

Purpose and link to strategy	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.
Operation	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 is deferred into Company shares for three years. Dividend equivalents accrued during the deferral period are payable in respect of deferred shares when (and to the extent) these vest. Malus and clawback provisions 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.
Opportunity	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.
Performance metrics	Performance is determined by the Committee on an annual basis by reference to Group and/or sector financial measures, e.g. PBT, OCF, as well as the achievement of non-financial objectives. The weighting on non-financial objectives is limited to 20%, unless the Committee believes exceptional circumstances merit a higher weighting. The Committee retains discretion to vary the financial measures and their weightings annually, to ensure alignment with the business priorities for the year.

Performance Share Plan (PSP)

Purpose and link to strategy	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.
Operation	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 PSP awards before they are released. Malus and clawback provisions 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.
Opportunity	Maximum annual PSP award opportunity is 200% of base pay. 16.7% of the maximum award opportunity will vest for threshold performance.
Performance metrics	Vesting of PSP awards is subject to continued employment and Company performance over a three-year performance period. It is intended that PSP awards made during the life of this Policy will be based on the achievement of stretching EPS, cashflow (added for the 2020 Policy), TSR and ROCE targets, equally weighted. The Committee will review the performance measures, their weightings, and performance targets annually to ensure continued alignment with Company strategy.

All-employee plans – Babcock Employee Share Plan

Purpose and link to strategy	To encourage employee ownership of Company shares.
Operation	Open to all UK tax-resident employees, including Executive Directors, of participating Group companies. The plan is an HMRC approved share incentive plan that allows an employee to purchase shares 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.
Opportunity	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 ten shares purchased. The matching rate is reviewed periodically, and any future offer will be bound by the prevailing HMRC limit.
Performance metrics	Not performance-related.

Approach to recruitment remuneration

In the case of hiring or appointing a new Executive Director, the Committee may make use of any of the components of remuneration (and subject to the same limits) set out in the Policy above.

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 external appointment to 'replace' incentive arrangements forfeited on leaving a previous employer over and above the limits set out in the Policy in the table above. 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 the relevant Listing Rule, if required.

When appointing a new Executive Director by way of promotion from an internal role, the pay structure 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.

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.

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, cashflow and ROCE are effective measures of long-term performance for the Company, providing a good balance between shareholder value creation and line of sight for Executives.

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.

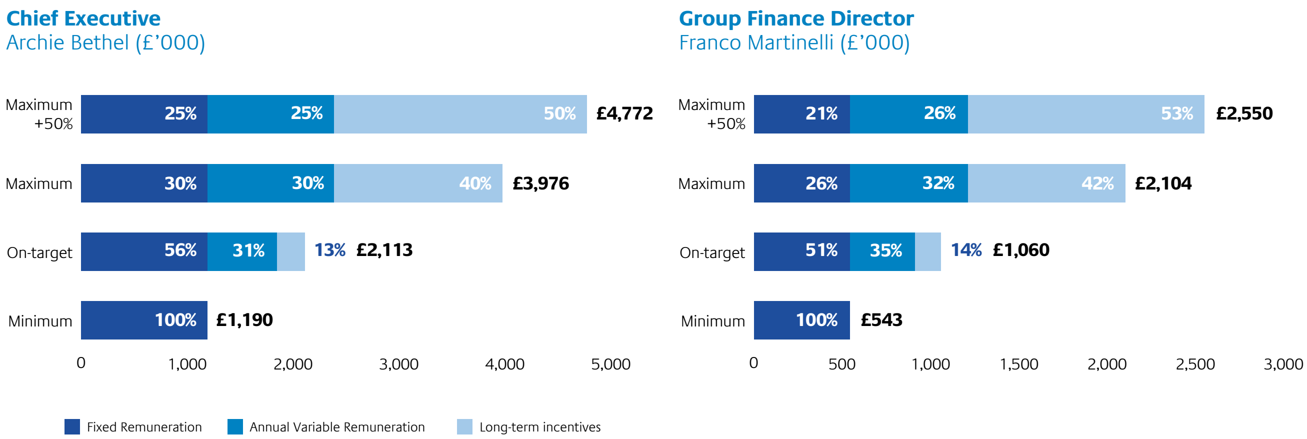
Executive Director and general employee remuneration

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 four different performance scenarios: 'Minimum', 'On-target', 'Maximum' and 'Maximum+50%'.

Potential reward opportunities are based on the Company's Remuneration Policy and implementation in 2020/21, as outlined in the Committee Chair's statement and later in the Annual Report on Remuneration, applied to base salaries as at 1 April 2020. Note that the projected values exclude the impact of any share price movements except in the 'Maximum+50%' scenario.



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 that are not at risk.

The 'On-target' scenario reflects fixed remuneration as above, plus a payout of 55% 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 payout of all incentives (150% of salary under the annual bonus, 200% of salary under the PSP).

The 'Maximum+50%' scenario reflects fixed remuneration, plus full payout of all incentives with the value of the PSP also reflecting an increase of 50% in the share price from grant.

Shareholding guidelines for Executive Directors

The Committee sets shareholding guidelines for the 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). Executive Directors are 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.

For the 2020 Policy onwards, the shareholding requirements will be extended post-cessation such that departing Executive Directors will be required to hold vested Company shares, received through incentive plans granted from the 2020/21 financial year onwards, for two years at a level equal to the lower of their actual shareholding on cessation and the in-post shareholding requirement. Any shares purchased by an Executive Director will not be part of this holding requirement.

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 Executive Directors' service contracts:

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

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.

Name	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.

Chair 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)
Ruth Cairnie (Chair)	3 April 2019	2 April 2019	AGM 2022
Sir David Omand	1 April 2009	17 May 2018	AGM 2021
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
Russ Houlden	1 April 2020	4 February 2020	AGM 2023
Carl-Peter Forster	1 June 2020	6 April 2020	AGM 2023

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 additional responsibilities such as acting as Senior Independent Director, Chair of the Audit and Risk Committee, and Chair of the Remuneration Committee. 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.	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 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 Committee engages with employees through the Babcock Employee Forum, which is attended by representatives from across the Group's business operations. The Committee's policy on remuneration for Executive Directors is presented to the Forum together with an explanation as to how it aligns with the wider company pay policy. The representatives not only give feedback on the policy, but also explain it to their business operations. The Committee takes the feedback it receives into account in its decision-making on executive remuneration.

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 the Remuneration policy and arrangements and commits to undergoing consultation with leading shareholders in advance of any significant changes to the Remuneration policy. In developing the proposed Policy set out in this Report, we consulted with shareholders representing a total of c.60% of our issued share capital, as well as shareholder representative bodies. We had a high level of engagement and are pleased to report that virtually all investors who provided feedback indicated support for the approach initially proposed.

The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate.

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 independent Non-Executive Directors. The membership of the Committee during the year to 31 March 2020 (with each member serving throughout the year) as well as attendance at Committee meetings in the year is shown below. The Group Chair 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.

The 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 and its terms of reference comply with the provisions of the UK Corporate Governance Code.

In total there were seven meetings in the year to 31 March 2020.

Committee membership and attendance during the year

Jeff Randall (Chair)	7 of 7
Sir David Omand	6 of 7
Ian Duncan	7 of 7
Myles Lee	7 of 7
Victoire de Margerie*	6 of 7
Lucy Dimes	7 of 7
Kjersti Wiklund	7 of 7

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

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 Chair. 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 £92,234 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.

Matters considered

The Committee considered a number of matters during the year to 31 March 2020, including:

- reviewing the Remuneration policy against market trends and corporate governance best practice
- agreeing how to align incumbent Executive Directors' pension arrangements to those of the general UK workforce
- agreeing Executive Director salaries for the financial year 2020/21
- 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 2019/20 annual bonus plan
- agreeing the level of vesting of PSP and DBMP awards granted in 2016

- considering performance against the measures applied to, and level of payout of, the 2018/19 annual bonus
- agreeing the level of 2019 PSP awards
- reviewing share ownership guidelines for senior executives
- 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 2019 Annual Report on Remuneration at the 2019 AGM:

	2017 Remuneration policy		2019 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%	355,040,155	98.1%
Against	13,528,165	3.5%	6,915,419	1.9%
Total votes cast (excluding withheld votes)	382,342,770	100.0%	361,955,574	100%
Votes withheld	4,341,748		19,437	
Total votes cast (including withheld votes)	386,684,518		361,975,011	

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

	Archie Bethel £'000		Franco Martinelli £'000		John Davies £'000	
Fixed remuneration	**19/20**	18/19	**19/20**	18/19	**19/20**	18/19
Salary[1]	**796**	780	**446**	437	**430**	421
Benefits in kind and cash[2]	**223**	221	**1**	1	**20**	24
Pension[3]	**199**	195	**112**	109	**107**	106
Annual variable remuneration						
Annual bonus (cash)[4]	**100**	409	**64**	240	**148**	207
DBP (deferred annual bonus)[5]	**67**	273	**43**	160	**99**	138
Long-term incentives						
PSP[6]	**–**	77	**–**	59	**–**	57
Dividends[7]	**–**	14	**–**	11	**–**	10
Total (of which)	**1,385**	1,969	**666**	1,017	**804**	963
Fixed remuneration[1,2,3]	**1,218**	1,196	**559**	547	**557**	551
Annual variable remuneration[4,5]	**167**	682	**107**	400	**247**	345
Long-term incentives[6,7]	**–**	91	**–**	70	**–**	67

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 19/20 received £221,210 (18/19: £218,181) in connection with his accommodation costs in London, at the Company's request, to enable him to lead the business effectively.
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): this is the part of total annual bonus earned for performance during the year (see page 128) that is not required to be mandatorily deferred into shares under the DBP (see page 119) and that is paid in cash. The decision on the payment of 19/20 bonuses set out above (including the granting of associated DBP awards) will be delayed until the Board makes a decision on a final dividend in respect of the 19/20 financial year.
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. PSP: for 19/20, represents the lapsing in full of the 2017 awards that were subject to performance to 31 March 2020 (see page 130). Note: the difference between the PSP figures shown for 2018/19 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 464.60p on 14 June 2019.
7. Dividends: the total value of dividends accruing on long-term incentive awards (other than on mandatory deferral of bonus awards under the DBP) vesting on performance to 31 March 2020 (for 19/20) and 31 March 2019 (for 18/19), payable in cash on exercise of the award.

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 2020. 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 2017/18 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 2018/19 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 2020 are set out in the following table:

Director[1]	**Accrued pension at 31 March 2020 £'000 pa**	Normal retirement age[2]
Franco Martinelli	**66**	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	**2019/20 £'000 pa**	2018/19 £'000
Archie Bethel	**5**	5
Franco Martinelli	**3**	3
John Davies	**3**	3

Annual bonus

2019/20 Annual bonus (audited)

The 2019/20 annual bonus was based on a mix of financial and non-financial measures. The financial element, weighted 80%, was based on the Group's underlying PBT and EPS performance (based on budgeted FX rates), and 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.

The table below summarises performance against each financial measure, and the bonus outcome.

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	70.5p	74.2p	81.6p	69.3p	Maximum potential (% of salary)	**45.0%**	**45.0%**	**45.0%**
					Outturn (% of salary)	0%	0%	0%
Achieving budgeted Group cash flow	93% of budget	Budget (£378.1m)	107% of budget	£300.3m	Maximum potential (% of salary)	**45.0%**	**45.0%**	**22.5%**
					Outturn (% of salary)	0%	0%	0%
Achieving budgeted Group PBT[2]	95% of budget	Budget (£460.7m)	110% of budget	£429.1m	Maximum potential (% of salary)	**30.0%**	**30.0%**	**15.0%**
					Outturn (% of salary)	0%	0%	0%
Achieving budgeted sector cash flow	93% of budget	Budget[3]	107% of budget	[3]	Maximum potential (% of salary)			**22.5%**
					Outturn (% of salary)			22.5%
Achieving budgeted sector PBIT[2]	95% of budget	Budget[3]	110% of budget	[3]	Maximum potential (% of salary)			**15.0%**
					Outturn (% of salary)			15.0%
Non-financial objectives[4]					Maximum potential (% of salary)	**30.0%**	**30.0%**	**30.0%**
					Outturn (% of salary)	21.0%	24.0%	20.0%
Total					Maximum potential (% of salary)	**150.0%**	**150.0%**	**150.0%**
					Outturn (% of salary)	21.0%	24.0%	57.5%

1. Threshold vesting is: 10% of maximum for the Group PBT and sector PBIT elements; 27.5% of maximum for the EPS element; and 15.9% of maximum for the Group and sector cash flow elements. 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 19/20 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 19/20, the Themes were Growth, Technology/Processes, Resources and Reputation. 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 payout 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:

	Archie Bethel	Franco Martinelli	John Davies
Growth	In a challenging year, further clarified the Group's strategy and drove progress in the Group with good revenue growth in the defence business and the award of significant tenders, including the UK's next generation of warships, a long-term position on the major submarine projects in the US and Australia and the expansion of the Group's aviation defence operations in France.	Secured the refinancing of the Group's revolving credit facility until August 2024 and the issue of a €550 million Eurobond, giving the Group reassurance on its liquidity in the current circumstances. Continued the emphasis on the Group's strategy to concentrate on three focus markets, delivered across our four sectors, by leading on the rationalisation of the Group's portfolio (for example the sale of Context).	Made good progress in our Defence Support Group business, helped by working collaboratively with the Cabinet Office's Strategic Partnering Programme. Won strategic bids, such as the bid for the Metropolitan Police Service's learning partner and the bid to be one of Network Rail's key track work suppliers.
Technology/Processes	Continued to drive the initiative to embed technology across the Group and established the technology group to work across all sectors. An example of progress made is iSupport360 and its role in winning the contract to build the UK's next generation of warships.	Continued to lead the rollout of the Group's enterprise resource programme. A particular highlight was the implementation of the system in our Defence Support Group business.	Working with Franco Martinelli, John Davies oversaw the implementation of the Group's enterprise resource programme in our Defence Support Group business.
Resources	Reinvigorated the Group's safety programme, which resulted in a reduction in the Group's total injury rate as well as its RIDDOR rate.	Oversaw the restructuring programmes to right size the cost base of our Aviation and Nuclear sectors.	Continued to champion the Group's effort to improve its diversity and talent development with over 30% of key talent pool being female and 30% of the 2020 graduates also being female.
Reputation	Championed the continued development of our Strategic Partnering Programme with the Cabinet Office and leading the initiative to share the learning across all the Group's business lines.	Developed the Group's environmental, social and governance function with the introduction of a new Group policy and a new Group Head of Sustainability. Continued the improvement in investor relations.	Worked extensively to deepen further our Defence Support Group's relationship with the MOD through the Strategic Partnering Programme.

The annual bonus outcome is primarily determined by the extent to which the financial targets and non-financial objectives are met. The Committee was satisfied that the outcomes against the financial measures were reflective of the underlying performance of the Group and so no discretion was applied. However, the Committee is clear that the key underpin to the annual bonus scheme is the Group's health and safety performance. In the year, the Committee reduced the outcomes for Archie Bethel and John Davies due to the fatal accident involving an employee in the Land sector.

The 2019/20 bonus outcomes for each Executive Director are as follows:

	Payment for financial targets (% salary)	Payment for non-financial targets (% salary)	Total bonus (% salary)	Total bonus
Archie Bethel	0%	21.0%	21.0%	£167,160
Franco Martinelli	0%	24.0%	24.0%	£107,040
John Davies	37.5%	20.0%	57.5%	£247,250

The decision on the payment of the bonus warranted by performance against the targets set at the start of the 19/20 year shall be delayed until such time as the Board makes its decision on the final dividend in respect of the 2019/20 financial year.

40% of the earned annual bonus will be deferred into Company shares under the DBP. Deferred shares normally vest after three years, subject to continued employment.

Long-term incentive schemes (PSP)

2017 PSP awards vesting for the period ending March 2020 (audited)

The Executive Directors were granted PSP awards in 2017, which were subject to three-year TSR, EPS and ROCE targets for the period ending 31 March 2020. Performance against these measures is as follows:

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)	Actual performance	% of each element vesting
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	33%	Median TSR	Median TSR + 9% p.a.	Below median	0%
Adjusted basic underlying EPS growth to 31 March 2020	33%	4%	11%	(4.4%)	0%
3-year average ROCE	33%	12%	14.5%	11.7%	0%
Total vesting					0%

The Committee was satisfied that the outcomes against the measures were reflective of the underlying performance of the Company and so no discretion was applied. As a result, the Executive Directors' 2017 PSP awards will lapse in full.

PSP awards granted during 2019/20 (audited)

The Executive Directors were granted PSP awards in 2019, which were subject to three-year TSR, EPS and ROCE targets for the period ending 31 March 2022. Due to the fall in the share price since the previous PSP grant, the Committee decided that 2019/20 PSP awards should be scaled back by 20% in value, to 160% of salary.

PSP awards made in 2019/20* (audited)

Director	Number of shares	Face value (£)[1]	Face value (% of salary)[2]	% of award receivable for threshold performance	End of performance period
Archie Bethel	263,685	£1,273,599	160%	16.7%	31 March 2022
Franco Martinelli	147,743	£713,599	160%	16.7%	31 March 2022
John Davies	142,443	£688,000	160%	16.7%	31 March 2022

1. Based for Directors on three-day average share price (of 483p) at time of grant.
2. Expressed as a percentage of salary at the date of the award (13 June 2019).

* In the form of nil-cost options.

The performance targets that were attached to these awards are summarised in the table below:

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	33%	Median TSR	Median TSR + 9% p.a.
3-year cumulative adjusted basic underlying EPS	33%	231.5p	248.0p
3-year average ROCE	33%	11%	14%

Deferred Bonus Plan awards made during 2019/20* (audited)

The Executive Directors were granted DBP awards in 2019. The awards (details of which are set out below) will normally vest after three years subject to continued employment only.

Director	Number of shares	Face value (£)[1]	Face value (% of salary)[2]	% of award receivable for threshold performance	End of performance period
Archie Bethel	56,453	£272,668	34%	n/a	n/a
Franco Martinelli	33,087	£159,810	36%	n/a	n/a
John Davies	28,570	£137,993	32%	n/a	n/a

1. Based for Directors on three-day average share price (of 483p) at time of grant.
2. Expressed as a percentage of salary at the date of the award (13 June 2019).
* In the form of nil-cost options.

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

The table below sets out the total remuneration received by each Non-Executive Director:

	Base fee £'000		Additional fee[1] £'000		Total £'000	
Fixed remuneration	**19/20**	18/19	**19/20**	18/19	**19/20**	18/19
Mike Turner	**112**	330	**0**	0	**112**	330
Ruth Cairnie[2]	**253**	n/a	**0**	n/a	**253**	n/a
Sir David Omand	**72**	71	**0**	0	**72**	71
Ian Duncan	**61**	60	**15**	15	**76**	75
Jeff Randall	**61**	60	**15**	15	**76**	75
Myles Lee	**65**	64	**0**	0	**65**	64
Victoire de Margerie	**65**	64	**0**	0	**65**	64
Lucy Dimes	**61**	60	**0**	0	**61**	60
Kjersti Wiklund	**61**	60	**0**	0	**61**	60

1. Relating to Chairmanship of the Audit and Risk Committee (Ian Duncan), and Remuneration Committee (Jeff Randall).
2. Reflects Ruth Cairnie's fee as a Non-Executive director (from 3 April 2019 until 18 July 2019) and as Chair of Babcock from 19 July 2019 to 31 March 2020.

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 2020/21

The Committee has set the remuneration for Executive Directors for 2020/21 in line with the proposed 2020 Policy.

Base salary

Executive Directors' base salaries are reviewed each year with any changes usually taking effect from 1 April. In early 2020 the Committee approved increases to the Executive Directors' salaries of 2% for 2020/21, in line with increases for the wider UK workforce. However, in light of the ongoing impact on our employees and other stakeholders of the COVID-19 pandemic, the Committee has accepted a proposal by the Chief Executive to suspend the implementation of annual salary increases and keep this under review during the 2020/21 financial year. In addition, the Executive Directors have volunteered a 20% reduction to their base salaries.

	2020/21*	2019/20
Archie Bethel	**£796,000**	£796,000
Franco Martinelli	**£446,000**	£446,000

* Subject to review during the 2020/21 financial year.

Pension

The pension for the Executive Directors will reduce to 21.5% of salary as the first step in the transition from the prior arrangements (25% of salary) to alignment with the workforce over the new policy period.

2020/21 Annual bonus

The structure of Executive Director annual bonus for 2020/21 is expected to be unchanged from that in 2019/20, other than for the removal of EPS and the reweighting of OCF and PBT (OCF from 30% to 40%, PBT from 20% to 40%). Non-financial objectives continue to be weighted 20%. However, at the time of drafting this Report, the Committee was considering the impact on the structure of the bonus of the ongoing COVID-19 pandemic, and will take this into account in the final decision around the bonus for 2020/21, which will be consistent with the shareholder-approved Policy. The Group financial performance targets and non-financial objectives will be disclosed 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 under the categories of:

- Operational excellence: continue to enhance reputation as a trusted partner for our customers
- Growth: focus on our three markets with leadership positions and grow our international business
- Technology: strengthen our offering through the increased adoption of technology
- Resources: develop and retain our people to meet the future growth plans of the business
- Value creation: act to deliver our medium term Capital Markets Day financial targets

40% of any earned bonus will be deferred into shares for three years.

2020 PSP awards

Due to the impact of the current COVID-19 pandemic, the Committee has decided to delay the PSP awards for 2020 until such time as the Committee believes that it can agree appropriate performance ranges. Any award will be consistent with the new Policy, with vesting currently intended to be based on four measures: EPS, cashflow, ROCE (all measured on an underlying basis) and Relative TSR. The weighting of these measures and the targets – which would normally be disclosed prospectively in this report – will be disclosed in the RNS statement announcing the granting of these awards.

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, 15.1% and 12.5% of his retained interests in the 2016 PSP award and the 2016 legacy deferred bonus matching plan award, totalling 5,377 shares, vested at the normal time and in line with other participants, on 15 June 2019. In addition to the vesting of these shares, Mr Rogers was paid a cash sum of £4,544, representing the total value of dividends accruing on his 2016 PSP award and his legacy deferred bonus matching plan award.

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, 15.1% of his retained interests in the 2016 PSP, totalling 8,654 shares, vested at the normal time and in line with other participants, on 15 June 2019. Mr Tame was also paid a cash sum of £7,313, representing the total value of dividends accruing on his 2016 PSP award. Mr Tame's 2016 DBP award (the value of which was disclosed in the 2016 Directors' Remuneration Report) also vested on 15 June 2019.

Non-Executive Directors' fees (including the Chair)

There are no changes to the fees for the Chair and the Non-Executive Directors for the 2020/21 financial year. In line with the Executive team, the Chair and Non-Executive Directors volunteered a temporary 20% reduction in their fees.

Annual rate fee	**Year to 31 March 2021 £**	Year to 31 March 2020 £	% change since last review (% p.a.)
Chair	**336,000**	336,000	0%
Senior Independent Director (inclusive of basic fee)	**72,000**	72,000	0%
Basic Non-Executive Director's fee (UK based Directors)[1]	**61,000**	61,000	0%
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 2021.
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 remuneration from the prior year for the CEO compared to the average employee. The analysis is based on UK employees as they are operating in the same geography and macro-economic background as the Chief Executive.

	% change 2018/19 to 2019/20	
	Chief Executive	Other employees
Base salary	2%	2.4%
Taxable benefits	1%	(2.6)%
Single-year variable	(75)%	6.4%

Relative importance of spend on pay

	2019/20	2018/19	% change
Distribution to shareholders	£152m	£151m	1.1%
Employee remuneration	£1,606m	£1,612m	(0.4)%

CEO pay ratio

The table below provides disclosure of the ratio between the CEO's salary and total remuneration and that of the lower quartile, median and upper quartile UK-based employee for the 2019/20 financial year.

Financial year	Calculation methodology		P25 (lower quartile)	P50 (median)	P75 (upper quartile)	CEO
FY19/20	C	**Total remuneration ratio**	**47:1**	**37:1**	**27:1**	
		Total remuneration (£'000)	£29.2	£37.6	£50.6	£1,385
		Salary ratio	**32:1**	**22:1**	**18:1**	
		Salary (£'000)	£25.1	£36.3	£43.6	£796

Figures for the CEO are calculated using the data from the Executive Directors' single figure table on page 126. Total remuneration figures for the lower quartile (P25), median (P50) and upper quartile (P75) employees were determined using the 'single figure' methodology, providing a like-for-like comparison with CEO remuneration. The employees representing P25, P50 and P75 were determined using a projected forecast based on the first nine months of the financial year (i.e. to 31 December 2019). This selection methodology excludes any annual bonus component, as the results for employee annual bonuses for the 19/20 financial year are not known at the time of publication. Through analysing previous years' data, it is understood that the employees identified as representing the 25th, 50th and 75th percentile would not be bonus eligible, therefore the exclusion of this remuneration component is deemed as unlikely to have a significant impact on the ratios reported. This Option C was chosen for practical reasons, primarily relating to the number of employing entities and employees covered by this analysis.

The Committee has considered the pay data for the three employees identified and believes that it fairly reflects pay at the relevant quartiles amongst our UK workforce. The three individuals identified were full-time employees during the year. None received an exceptional incentive award which would otherwise inflate their pay figures. No adjustments or assumptions were made by the Committee with the total remuneration of these employees calculated in accordance with the methodology used to calculate the single figure of the CEO.

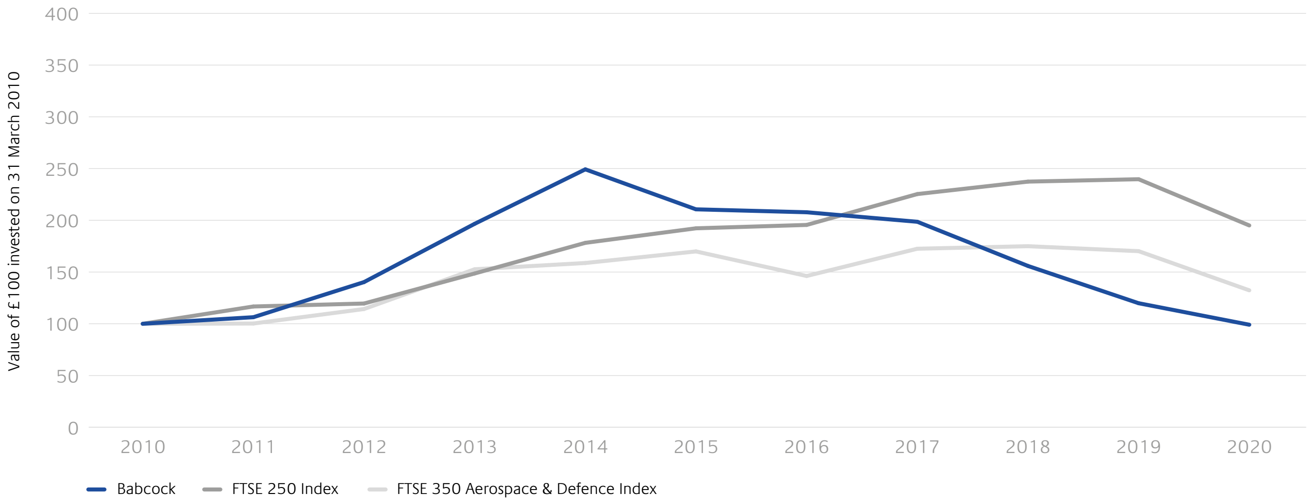
As this is the first year of reporting the CEO pay ratio using the above methodology, there is no comparative data against which to compare the pay ratios above. The Committee will consider the median pay ratio of 37:1 in the context of the ratio reported in future years as well as the figures produced by sector comparators and across the FTSE more generally.

The CEO pay ratio is based on comparing the CEO's pay to that of Babcock's UK-based workforce. The Committee expects that the ratios will be largely driven by the CEO's incentive pay outcomes, which will likely lead to greater variability in his pay than that observed at other levels who, consistent with market practices, have a greater proportion of their pay linked to fixed components. The Committee takes into account these ratios when making decisions around the Executive Director pay packages, and Babcock takes seriously the need to ensure competitive pay packages across the organisation.

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 31 March 2010. 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.

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



The table below details the historical CEO pay over a ten-year period.

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	**2019/20**
Peter Rogers[1]										
Single figure (£'000)	1,792	2,185	2,731	3,809	4,448	2,491	1,091			
Bonus vesting (% max)	98%	99%	99%	93%	78%	60%	66%			
DBMP matching shares vesting (% max)	n/a	n/a	n/a	n/a	88.4%	57.8%	17.0%			
PSP/CSOP vesting (% max)	82.9%	57.8%	58.8%	94.7%	83.5%	37.3%	26.5%			
Archie Bethel[2]										
Single figure (£'000)							1,844	2,079	1,969	**1,385**
Bonus vesting (% max)							66%	61%	58%	**14%**
DBMP matching shares vesting (% max)							17.0%	20.0%	n/a	**n/a**
PSP vesting (% max)							26.5%	23.9%	15.1%	**0%**

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 2020 and Directors' interests in shares and options under the Company's long-term incentives are set out in the sections below:

	At 31 March 2019	At 31 March 2020							
	Shares held	Shares held	Option 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	424,063	**460,416**	**0**	**0**	**616,878**	**118,387**	**300%**	**331%**	**Yes**
Franco Martinelli	322,509	**336,014**	**0**	**0**	**345,578**	**69,957**	**200%**	**422%**	**Yes**
John Davies	197,202	**210,852**	**0**	**0**	**333,121**	**57,859**	**200%**	**283%**	**Yes**
Ruth Cairnie	n/a	**50,000**							
Jeff Randall	5,758	**6,097**							
Sir David Omand	0	**0**							
Ian Duncan	0	**0**							
Myles Lee	20,000	**30,000**							
Victoire de Margerie	4,800	**7,061**							
Lucy Dimes	5,000	**5,000**							
Kjersti Wiklund	2,100	**2,100**							
Former directors[3]									
Mike Turner	107,384	**107,384**							

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 2020 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 2020 and a three-month average share price to 31 March 2020 of 504.08p, and calculated post-tax.
3. Shares held at date of retirement from the Board.

There have been no changes to the continuing Directors' (or their spouses') shareholdings between 31 March 2020 and 10 June 2020.

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 31 March 2020 was 383.2p. The highest and lowest mid-market share prices in the year ended 31 March 2020 were 646.6p and 323.5p, respectively.

Director	Plan[1] and year of award	Number of shares subject to award at 1 April 2019	Granted during the year	Exercised during the year[(a)]	Lapsed during the year	Number of shares subject to award at 31 March 2020	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
Archie Bethel	PSP 2016	110,312		16,657	93,655	**0**		997.17	Jun 2019	Jun 2020
	DBP 2016	13,162		13,162		**0**		997.17	Jun 2019	Jun 2020
	PSP 2017	171,588				**171,588**		891.67	Jun 2022	Jun 2023
	DBP 2017	29,185				**29,185**		891.67	Jun 2020	Jun 2021
	PSP 2018	181,605				**181,605**		859.33	Jun 2023	Jun 2024
	DBP 2018	32,749				**32,749**		859.33	Jun 2021	Jun 2022
	PSP 2019		263,685			**263,685**		483.00	Jun 2024	Jun 2025
	DBP 2019		56,453			**56,453**		483.00	Jun 2022	Jun 2023

Director	Plan[1] and year of award	Number of shares subject to award at 1 April 2019	Granted during the year	Exercised during the year[(a)]	Lapsed during the year	**Number of shares subject to award at 31 March 2020**	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
Franco Martinelli	PSP 2016	84,238		12,719	71,519	**0**		997.17	Jun 2019	Jun 2020
	DBP 2016	12,843		12,843		**0**		997.17	Jun 2019	Jun 2020
	PSP 2017	96,112				**96,112**		891.67	Jun 2022	Jun 2023
	DBP 2017	18,387				**18,387**		891.67	Jun 2020	Jun 2021
	PSP 2018	101,723				**101,723**		859.33	Jun 2023	Jun 2024
	DBP 2018	18,483				**18,483**		859.33	Jun 2021	Jun 2022
	PSP 2019		147,743			**147,743**		483.00	Jun 2024	Jun 2025
	DBP 2019		33,087			**33,087**		483.00	Jun 2022	Jun 2023

Director	Plan[1] and year of award	Number of shares subject to award at 1 April 2019	Granted during the year	Exercised during the year[(a)]	Lapsed during the year	**Number of shares subject to award at 31 March 2020**	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from[3]	Expiry date[4]
John Davies	PSP 2016	81,230		12,265	68,965	**0**		997.17	Jun 2019	Jun 2020
	DBP 2016	13,571		13,571		**0**		997.17	Jun 2019	Jun 2020
	PSP 2017	92,635				**92,635**		891.67	Jun 2022	Jun 2023
	DBP 2017	12,890				**12,890**		891.67	Jun 2020	Jun 2021
	PSP 2018	98,043				**98,043**		859.33	Jun 2023	Jun 2024
	DBP 2018	16,399				**16,399**		859.33	Jun 2021	Jun 2022
	PSP 2019		142,443			**142,443**		483.00	Jun 2024	Jun 2025
	DBP 2019		28,570			**28,570**		483.00	Jun 2022	Jun 2023

(a) Market value of each share at date of exercise (19 Jun 2019) = 480.0p.

1. PSP = 2009 Performance Share 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 119 to 120.
2. The PSP awards are structured as nil priced options. Subject to the rules of the plan concerned, including as to meeting performance targets for PSP awards.
3. Where this date is less than ten years from the date of award, the Committee may extend the expiry date on one or more occasions, but not beyond the tenth anniversary of the award.

General notes:

1. 'Dividend equivalent cash' (an amount representing dividends earned) of 84.5p per vested share had accrued on the PSP 2016 awards and on the DBP 2016 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 464.6p (14 June 2019) for PSP 2016 and DBP 2016 awards.

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

During the year to 31 March 2020 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 2016	16,657	15 Jun 2019	£166,099	£77,388	
	DBP 2016	13,162	15 Jun 2019	£131,248	£61,151	
Franco Martinelli	PSP 2016	12,719	15 Jun 2019	£126,830	£59,092	
	DBP 2016	12,843	15 Jun 2019	£128,067	£59,669	
John Davies	PSP 2016	12,265	15 Jun 2019	£122,303	£56,983	
	DBP 2016	13,571	15 Jun 2019	£135,326	£63,051	

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 2019/20

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

This Remuneration report was approved by the Board on 11 June 2020 and signed on its behalf by:

Kjersti Wiklund
Chair of the Remuneration Committee

Directors' report and other disclosures

The Directors' report comprises this section, the principal risks and management controls section in the Strategic report, 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 184
9.8.4 (12-13)	Shareholder waivers of dividends and future dividends	Financial statements, note 24 on page 198

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

Disclosures required pursuant to Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as updated by Companies (Miscellaneous Reporting) Regulations 2018 can be located as follows:

Topic	Location
Financial risk management regarding financial instruments	Note 2, pages 170 to 173
Greenhouse gas emissions	Page 41
Employee engagement	Pages 30 to 31 and pages 44 to 46
Business relationships	Pages 30 to 31, 50 to 51 and throughout the Strategic report
Post balance sheet events	Note 35 on page 209
Likely future developments in the business of the Group	Page 26 and pages 68 to 77
Details of important events affecting the Group	Pages 24 to 27 and 68 to 77

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.

Dividends

An interim dividend of 7.2 pence per 60 pence ordinary share was declared in the year (2019: 7.10 pence). Given the current level of uncertainty due to COVID-19, the Board has decided to defer the decision on our final dividend for the year ended 31 March 2020. The Board will keep this under review during the financial year as the impact of COVID-19 becomes clearer.

Major shareholdings

As at 31 March 2020, 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%
Standard Life Aberdeen PLC	30,759,102	6.08%
Jupiter Asset Management Limited	27,175,867	5.38%
Polaris Capital Management, LLC	24,507,560	4.85%

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 2019, 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 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 18 July 2019 (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 2020 by the Babcock Employee Share Trust in connection with the Company's executive share plans are to be found in note 24 on page 197.

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.

Borrowing facilities

In August 2019, the Group renewed its five-year multi-currency revolving credit facility of up to £775 million. 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.

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 issued three tranches: €550,000,000 1.75% Notes due in 2022; £300,000,000 1.875% Notes due in 2026; and €550,000,000 1.375 % Notes due in 2027.

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 122 and 123.

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, 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.

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

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 Chair of the relevant meeting (who may exercise, or refrain from exercising, such rights at his/her sole discretion).

The Affected Shares Notice may, if the Directors determine, also require that the Affected Shares must be disposed of within ten 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 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, following the restructuring of the Aviation sector, those companies, in which the Company has an interest and are required to comply with the Regulation, (being those companies operating aviation services in the EU) do meet the requirement of the Regulation, including those relating to nationality. This belief is based on the Company's understanding of the application of the Regulation. 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.

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. The Board reviews notified actual or potential conflicts as soon as possible.

The Board will consider whether a conflict or potential conflict does 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 2020 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. Management review data for consolidation into the Group's financial statements 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 Committee asks the Group Financial Controller to report on the effectiveness of the Group's internal controls, and 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 80 to 82.

Going concern statement

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

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

The baseline plan was adjusted to reflect a range of estimated impacts of COVID-19 on the Group over varying periods (three months and six months). This adjusted baseline plan has then been subject to a further downside stress scenario to twelve months.

The Directors also considered mitigating actions, including deferral of non-essential capital and revenue expenditure as well as the deferral of dividends.

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

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. The Company's financial statements are prepared 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 maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Strategic report

Governance

Financial statements

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 157 to 214) 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 2 to 143 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.

Ruth Cairnie	Chair
Sir David Omand	Non-Executive Director
Carl-Peter Forster	Non-Executive Director
Prof. Victoire de Margerie	Non-Executive Director
Ian Duncan	Non-Executive Director
Lucy Dimes	Non-Executive Director
Russ Houlden	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

Approval of the Strategic report and the Directors' report

The Strategic report and the Directors' report (pages 2 to 143) for the year ending 31 March 2020 have been approved by the Board and signed on its behalf by:

Ruth Cairnie
Chair
11 June 2020

Archie Bethel
Chief Executive

Critical support: adjacent markets

Shergar, an 84,000cbm LPG carrier owned by Petredec, fitted with a Babcock LPG cargo handling solution

Alan Duckett
Director, Sales & Design, LGE

“LGE delivers world-leading, environmentally-focused and engineering-led cargo handling and fuel gas solutions to our customers, through the application of innovation in all that we do; we cultivate our people and our culture to promote high integrity, high performance and a first class attitude to safety in all business endeavours, within the Commercial Marine Industry.”

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 2020 and of the Group's loss 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 statements of financial position as at 31 March 2020; 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 note 4 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 April 2019 to 31 March 2020.

Our audit approach

Overview

Materiality

- Overall Group materiality: £21.4 million (2019: £26 million), based on 5% of profit before tax, adjusted for amortisation of acquired intangible assets and exceptional items.
- Overall Company materiality: £16.5 million (2019: £25 million), based on 1% of total assets restricted for the amount allocated as part of group materiality.

Audit scope

- We conducted our audit work over the complete financial information for 28 of the largest and higher risk reporting components located in the UK, Europe, South Africa and Australia.
- In addition, we performed an audit of specific balances and transactions at one further reporting component and of 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 of tax, treasury and pensions where we performed our audit work, accounted for 84% of Group revenue and 70% of Group profit before tax, adjusted for amortisation of acquired intangibles and exceptional items.

Key audit matters

- Contract accounting and revenue/profit recognition (Group);
- Valuation of defined benefit pension liabilities and pensions assets (Group);
- Goodwill impairment (Group);
- Presentation and classification of exceptional items (Group);
- Completeness and accuracy of lease liability and right of use asset (Group); and
- Impact of Covid-19 (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 judgments, 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 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 judgmental 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. Audit procedures performed by the Group engagement team and/or component auditors included:

- 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;
- Review of internal audit reports; and
- We also agreed financial statement disclosures to underlying supporting documentation and performed a review of component auditors' 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 judgment, to understand thematically any issues within the Group and evaluated 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 judgment, 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 note 3 in the Group financial statements and to section 2 of the Report of the Audit and Risk Committee. 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 judgment 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 and site conditions based on management's expert where applicable; • Forecast contract variations and the outcome of claims to the extent that it is highly probable that a significant reversal of revenue will not occur, and dependent 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 judgments 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 judgment and estimation uncertainty. Where applicable, we: • Attended management's contract review meetings and, through interviews 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), discussion with external legal advisors, in certain cases discussions with customers, 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 obtained supporting evidence of 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 material 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 and to comply with the relevant accounting standards. 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

Valuation of defined benefit pension liabilities and pension assets (Group)

Refer to note 26 of the Group financial statements and to section 6 of the Report of the Audit and Risk Committee.

The Group operates a number of defined benefit pension plans, giving rise to net pension asset of £145m (2019: £28m liability), gross pension assets of £4,411m (2019: £4,582m) and gross pension liabilities of £4,266m (2019: £4,610m), which are significant in the context of the overall balance sheet of the Group.

The valuation of pension liabilities requires judgment and technical expertise in choosing appropriate assumptions such as salary increases, mortality rates, discount rates and inflation levels. Management engaged external actuarial experts to assist them in selecting appropriate assumptions and to calculate the liabilities.

The liabilities for Devonport, Babcock International Group and the Rosyth pension schemes were calculated by performing a full member-by-member valuation at 31 March 2020.

The Group's pension assets, given the Covid-19 uncertainty, require additional judgment regarding the valuation of certain assets.

Inappropriate selection of assumptions or methodologies for calculating the pension liabilities could result in a material difference in the value of the liabilities.

Inappropriate valuation of pension assets due to economic uncertainty could lead to a material difference on the balance sheet.

How our audit addressed the area of focus

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 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;
- Reviewing the calculations prepared by external actuaries to assess the consistency of the assumptions used; and
- Reviewing legal and accounting conclusions received by the Group from third parties for the recognition of surpluses.

Based on our procedures, we found no exceptions and overall considered management's key assumptions to be within acceptable ranges.

For pension assets we have confirmed the valuation with third parties and assessed the reasonableness of the asset valuations.

We assessed the related disclosures included in the Group financial statements and consider them to be appropriate.

Key audit matter	How our audit addressed the area of focus
Goodwill impairment (Group) Refer to note 11 of the Group financial statements and to section 5 of the Report of the Audit and Risk Committee. The Group has goodwill of £2,171m (2019: £2,584m) allocated between the Aviation, Nuclear, Marine and Land sectors which is subject to an annual impairment review. An impairment charge of £395m has been recorded against the Aviation goodwill balance for the year ended 31 March 2020. The impairment assessments used to support the carrying value of the Group's four goodwill cash generating units ('CGUs') involve the application of subjective judgment about future business performance. Management considered certain assumptions in the value in use calculations supporting the impairment assessments, including the forecast cash flows, the short and long 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, creating additional impairments.*	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 including Covid-19 considerations 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 with 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. For the Aviation CGU we performed alternative sensitivity scenarios to ascertain the extent of changes in assumptions that would impact the amount of goodwill impairment recognised. Our findings were discussed with the Audit and Risk Committee and we concluded the impairment charge recognised was within an acceptable range. We assessed the related disclosures included in the Group financial statements, including the sensitivities provided in respect of the Aviation Sector CGU for the long term growth rates and discount rates and consider them to be appropriate.

Key audit matter	How our audit addressed the area of focus
Presentation of exceptional items (Group) Refer to note 5 in the Group financial statements and to section 3 of the Report of the Audit and Risk Committee. The Group has recognised net exceptional items related to business reorganisation, restructuring, impairment and legal provisions of £503m before tax for the year ended 31 March 2020. These items comprise a goodwill impairment of £395m, as described above, restructuring costs of £51m, asset impairments of £36m, a legal provision for £46m and other costs of £34m offset by a net profit on exits and disposals of £59m. Restructuring programmes announced within Aviation, Nuclear and Land have led to exceptional costs for redundancies and other costs directly attributable to the programmes. Determining the restructuring costs required management to make judgments over the key inputs and assumptions, including the amount and timing of expected costs that will be incurred. As required by accounting standards, management performed impairment assessments for certain Aviation assets, having identified impairment indicators arising from industry and market conditions. The determination of the recoverable amount of tangible assets requires judgment, 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. *Items may be inappropriately classified as exceptional in the year. Additionally, changes to the key assumptions used by management could result in the calculated exceptional charges being different to those reported in the financial statements.*	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. Additionally, we have challenged the robustness of management's policy and how this was applied. We considered management's programmes for the business reorganisation, restructuring, exits and disposals. We assessed the key inputs and assumptions used by management in calculating business exit and 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 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 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 material items were identified.

Key audit matter	How our audit addressed the area of focus
Completeness and valuation of lease liability and right of use asset (Group) Refer to note 14 and 31 in the Group financial statements and to section 4 of the Report of the Audit and Risk Committee. With the adoption of IFRS 16, the Group has recognised right-of use assets and lease liabilities at 31 March 2020 of £639m and £673m respectively and incurred depreciation charges of £129m on the right-of-use assets and interest of £28m on the lease liabilities for the year ended 31 March 2020. The valuation of the lease liabilities and right of use assets requires judgment when determining the discount rates to obtain the present value of the leases. All leases across the Group and the relevant data points from each lease need to be captured to ensure all leases are recorded accurately. *The impact of not capturing all leases across the Group, not capturing all relevant data points from each lease and/or inaccurately calculating the right-of-use asset or lease liability could be material.*	We assessed management's process for identifying the completeness of the Group's leases. We agreed the lease input data back to the lease contract for a sample of leases. We recalculated the right-of-use asset and lease liability balances for the sample selected and compared these to the outputs from management's IFRS 16 model. We recalculated the depreciation charge on the right of use assets and interest charge on the lease liabilities. We tested the assumptions used in the incremental borrowing rates used to discount the future cash flows associated with the right-of-use assets and lease liabilities, including consideration of management's methodology compared to common practice. We considered potential impairment indicators to the carrying value of the right of use assets and tested any relevant impairment charges where previous onerous lease provisions were in place at the adoption date. We assessed the reconciliation of the lease liabilities as determined under IFRS 16 to that under the previous leasing standard, IAS 17. We assessed the appropriateness and completeness of the disclosures included in the Group financial statements. No material issues were identified from our work.
Impact of Covid-19 (Group) Refer to section 5 of the Report of the Audit and Risk Committee. The Covid-19 outbreak has been declared a pandemic by the World Health Organisation. It has caused significant disruption and economic uncertainty globally. The outbreak has had an impact to the Group's future expected cash flows due to the heightened uncertainty, which has a direct impact on the going concern assessment and asset impairment assessments. Additionally, there is a heightened risk of the Group's controls being bypassed with some employees working remotely more often in line with government advice. Management has included Covid-19 considerations when modelling future cash flows and assessing assets for impairment. *Changes to the Group's future cash flows and the general economic environment as a result of Covid-19 could result in impairments to the Group's assets and reduce liquidity.*	We reviewed and evaluated management's cash flow forecasts and the process by which they were determined and approved, agreeing the forecasts with the latest Board approved budgets and confirming the mathematical accuracy of underlying calculations. We assessed management's forecast assumptions and various scenarios in respect of the impact of Covid-19 on the Group's ability to continue as a going concern. We concluded management's adjusted forecasts in relation to Covid-19 were reasonable. We have assessed the Group's liquidity and confirmed the revolving credit facility terms to support management's going concern assessment. We considered any potential impairment indicators to the carrying value of assets including pension assets and the broader impact to the Group's financial statements as detailed in the 'Goodwill Impairment' and 'Valuation of defined benefit pension liabilities and pensions assets' Key Audit Matters above. We have tested journal entries posted at both a component and Group level to underlying support with consideration to the risk of management override of controls. We assessed the related Covid-19 disclosures included in the Group financial statements and consider them to be appropriate.

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 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 28 components that, in our view, required an audit of their complete financial information due to their size and/or risk. 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 Australia.

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.

Due to the current restrictions on travel and social distancing measures, the Group engagement leader and senior members of the Group team used video conferencing to oversee the component auditor work and had remote discussions with management in the UK, France, Italy, Spain, South Africa and Australia during the audit. Senior team members also attended the clearances for our significant risk components telephonically. During 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 84% of Group revenue and 70% of Group profit before tax adjusted for amortisation of acquired intangible assets and exceptional items.

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 judgment, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£21.4 million (2019: £26 million).	£16.5 million (2019: £25 million).
How we determined it	5% of profit before tax, adjusted for amortisation of acquired intangibles assets and exceptional items.	1% of total assets restricted for the amount allocated as part of group materiality.
Rationale for benchmark applied	Given the contractual nature of the business, and consistent with the prior year, we adjusted for amortisation of acquired intangible assets and exceptional items as this better reflects the underlying performance and nature of operations. When a business is acquired, the value of contractual relationships is fair valued and included on the balance sheet as intangible assets, representing the future profitability of the contracts.	Considering the nature of the business and activities in the Company (holding activities) we use the Company total assets value as a basis for the calculation of the overall materiality level.

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 £16.5 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 million (Group audit) (2019: £1 million) and £1 million (Company audit) (2019: £1 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.
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 2020 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 80 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 93 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 142, 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 108 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 appointed by the members during 2002 to audit the financial statements for the year ended 31 March 2003 and subsequent financial periods. The period of total uninterrupted engagement is 18 years, covering the years ended 31 March 2003 to 31 March 2020.

John Waters (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

11 June 2020

Group income statement

For the year ended 31 March 2020	Note	2020 £m	2020 Total £m	2019 £m	2019 Total £m
Revenue[1]	3		**4,449.5**		4,474.8
Cost of revenue			**(3,940.5)**		(3,928.3)
Gross profit			**509.0**		546.5
Distribution expenses			**(9.3)**		(11.9)
Administration expenses			**(344.3)**		(352.9)
Goodwill impairment			**(395.0)**		–
Profit on disposal of subsidiaries			**74.7**		14.8
Operating (loss)/profit before share of results of joint ventures and associates	3, 4		**(164.9)**		196.5
Share of results of joint ventures and associates	3, 15		**58.6**		83.8
Group and joint ventures and associates					
Operating profit before amortisation of acquired intangibles and exceptional items		**497.2**		559.3	
Investment income		**27.0**		29.1	
Underlying operating profit[2]	3	**524.2**		588.4	
Amortisation of acquired intangibles	5	**(87.3)**		(101.0)	
Exceptional items – Group	5	**(500.8)**		(160.8)	
Exceptional items – joint ventures and associates		**(2.1)**		–	
Investment income – Group		**(1.1)**		(1.3)	
Joint ventures and associates finance costs		**(22.8)**		(24.1)	
Joint ventures and associates income tax expense		**(16.4)**		(20.9)	
Operating (loss)/profit			**(106.3)**		280.3
Finance costs					
Investment income	3	**1.1**		1.3	
Retirement benefit interest	26	**(0.1)**		0.3	
Finance costs	6	**(85.9)**		(62.7)	
Finance income	6	**13.0**		16.0	
			(71.9)		(45.1)
(Loss)/profit before tax	3		**(178.2)**		235.2
Income tax expense	8		**(15.0)**		(35.4)
(Loss)/profit for the year			**(193.2)**		199.8
Attributable to:					
Owners of the parent			**(195.2)**		199.4
Non-controlling interest			**2.0**		0.4
			(193.2)		199.8
Earnings per share	10				
Basic			**(38.6)p**		39.5p
Diluted			**(38.6)p**		39.4p

1. Revenue does not include the Group's share of revenue from joint ventures and associates of £422.2 million (2019: £685.8 million).
2. Including IFRIC 12 investment income but before exceptional items and amortisation of acquired intangibles.

Group statement of comprehensive income

For the year ended 31 March 2020	Note	2020 £m	2019 £m
(Loss)/profit for the year		**(193.2)**	199.8
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		**(26.3)**	(31.0)
Fair value adjustment of interest rate and foreign exchange hedges		**(12.0)**	(0.5)
Tax on fair value adjustment of interest rate and foreign exchange hedges		**2.5**	0.4
Hedging gains reclassified to profit or loss		**–**	(1.3)
Fair value adjustment of joint ventures and associates derivatives	15	**(14.4)**	1.8
Tax, including rate change impact, on fair value adjustment of joint ventures and associates derivatives	15	**2.3**	(0.3)
Items that will not be reclassified to income statement			
Remeasurement of retirement benefit obligations	26	**99.9**	(58.4)
Tax on remeasurement of retirement benefit obligations		**(20.2)**	10.4
Impact of change in UK tax rates		**0.9**	(0.4)
Other comprehensive income/(loss), net of tax		**32.7**	(79.3)
Total comprehensive (loss)/income		**(160.5)**	120.5
Total comprehensive (loss)/income attributable to:			
Owners of the parent		**(160.4)**	122.3
Non-controlling interest		**(0.1)**	(1.8)
Total comprehensive (loss)/income		**(160.5)**	120.5

Group statement of changes in equity

For the year ended 31 March 2020	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 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**
Transition to IFRS 16	**–**	**–**	**–**	**–**	**(22.4)**	**–**	**–**	**(22.4)**	**–**	**(22.4)**
At 1 April 2019	**303.4**	**873.0**	**768.8**	**30.6**	**975.8**	**(74.4)**	**(32.1)**	**2,845.1**	**17.4**	**2,862.5**
Total comprehensive income	**–**	**–**	**–**	**–**	**(114.6)**	**(21.6)**	**(24.2)**	**(160.4)**	**(0.1)**	**(160.5)**
Dividends	**–**	**–**	**–**	**–**	**(152.1)**	**–**	**–**	**(152.1)**	**(1.8)**	**(153.9)**
Share-based payments	**–**	**–**	**–**	**–**	**2.9**	**–**	**–**	**2.9**	**–**	**2.9**
Tax on share-based payments	**–**	**–**	**–**	**–**	**1.9**	**–**	**–**	**1.9**	**–**	**1.9**
Own shares	**–**	**–**	**–**	**–**	**(2.9)**	**–**	**–**	**(2.9)**	**–**	**(2.9)**
Transactions with non-controlling interests (note 30)	**–**	**–**	**–**	**–**	**(0.2)**	**–**	**–**	**(0.2)**	**0.2**	**–**
Net movement in equity	**–**	**–**	**–**	**–**	**(265.0)**	**(21.6)**	**(24.2)**	**(310.8)**	**(1.7)**	**(312.5)**
At 31 March 2020	**303.4**	**873.0**	**768.8**	**30.6**	**710.8**	**(96.0)**	**(56.3)**	**2,534.3**	**15.7**	**2,550.0**

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

Group statement of financial position

As at 31 March 2020	Note	2020 £m	2019 £m
Assets			
Non-current assets			
Goodwill	11	**2,171.3**	2,584.2
Other intangible assets	12	**379.5**	448.9
Property, plant and equipment	13	**951.1**	1,014.3
Right of use assets	14	**638.8**	–
Investment in joint ventures and associates	15	**148.0**	153.2
Loan to joint ventures and associates	15	**48.6**	42.5
Retirement benefits surpluses	26	**325.3**	226.9
IFRIC 12 financial assets		**12.8**	15.5
Other financial assets	22	**21.5**	93.8
Deferred tax asset	16	**190.6**	150.9
		4,887.5	4,730.2
Current assets			
Inventories	17	**193.5**	196.5
Trade and other receivables	18	**930.8**	917.1
Income tax recoverable		**13.6**	11.1
Other financial assets	22	**153.9**	48.0
Cash and cash equivalents	19, 28	**1,351.4**	275.2
		2,643.2	1,447.9
Total assets		**7,530.7**	6,178.1
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	24	**303.4**	303.4
Share premium		**873.0**	873.0
Capital redemption and other reserves		**647.1**	692.9
Retained earnings		**710.8**	998.2
		2,534.3	2,867.5
Non-controlling interest		**15.7**	17.4
Total equity		**2,550.0**	2,884.9
Non-current liabilities			
Bank and other borrowings	21	**2,050.0**	1,357.6
Lease liabilities		**534.8**	–
Trade and other payables	20	**2.1**	2.0
Deferred tax liabilities	16	**115.2**	103.2
Other financial liabilities	22	**35.6**	9.3
Retirement benefit deficits	26	**180.1**	254.9
Provisions for other liabilities	23	**30.4**	40.5
		2,948.2	1,767.5
Current liabilities			
Bank and other borrowings	21	**400.1**	53.9
Lease liabilities		**138.0**	–
Trade and other payables	20	**1,366.3**	1,381.4
Income tax payable		**5.9**	22.1
Other financial liabilities	22	**9.0**	4.9
Provisions for other liabilities	23	**113.2**	63.4
		2,032.5	1,525.7
Total liabilities		**4,980.7**	3,293.2
Total equity and liabilities		**7,530.7**	6,178.1

The notes on pages 161 to 214 are an integral part of the consolidated financial statements. The Group financial statements on pages 158 to 214 were approved by the Board of Directors on 11 June 2020 and are signed on its behalf by:

A Bethel
Director

F Martinelli
Director

Group cash flow statement

For the year ended 31 March 2020	Note	2020 £m	2019 £m
Cash flows from operating activities			
Operating profit before amortisation of acquired intangibles and exceptional items		**417.4**	452.5
Amortisation of acquired intangibles and exceptional items	5	**(582.3)**	(256.0)
Operating (loss)/profit before share of results of joint ventures and associates	3	**(164.9)**	196.5
Depreciation and impairment of property, plant and equipment		**94.2**	123.1
Depreciation and impairment of right of use assets		**143.6**	–
Amortisation of intangible assets		**96.5**	110.0
Goodwill impairment		**395.0**	–
Investment income	3	**1.1**	1.3
Equity share-based payments		**2.9**	2.4
Profit on disposal of subsidiaries, businesses and joint ventures and associates	29	**(74.7)**	(14.8)
Loss/(profit) on disposal of property, plant and equipment		**3.3**	(5.4)
Loss on disposal of intangible assets		**0.2**	0.3
Cash generated from operations before movement in working capital and retirement benefit payments		**497.2**	413.4
Increase in inventories		**(10.9)**	(34.0)
(Increase)/decrease in receivables		**(8.4)**	138.8
Increase in payables		**7.4**	4.1
Increase in provisions		**62.4**	10.7
Retirement benefit contributions in excess of income statement		**(73.5)**	(25.1)
Cash generated from operations		**474.2**	507.9
Income tax paid		**(72.4)**	(74.0)
Interest paid		**(84.9)**	(63.1)
Interest received		**13.5**	15.6
Net cash flows from operating activities		**330.4**	386.4
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	29	**101.6**	29.5
Dividends received from joint ventures and associates	15	**52.0**	44.6
Proceeds on disposal of property, plant and equipment		**30.1**	78.5
Purchases of property, plant and equipment		**(145.5)**	(194.3)
Purchases of intangible assets		**(29.1)**	(32.7)
Investment in, loan movements and interest received from joint ventures and associates	15	**(6.4)**	(14.6)
Net cash flows from investing activities		**2.7**	(89.0)
Cash flows from financing activities			
Dividends paid	9	**(152.1)**	(150.5)
Lease principal payments	28	**(175.0)**	(26.4)
Lease assets issued and repaid	28	**19.9**	(19.4)
Bank loans repaid	28	**(140.0)**	(103.4)
Loans raised and facilities drawn down	28	**1,202.4**	–
Dividends paid to non-controlling interest		**(1.8)**	(2.8)
Transactions with non-controlling interest	30	**–**	(0.5)
Movement on own shares		**(2.9)**	–
Net cash flows from financing activities		**750.5**	(303.0)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**1,083.6**	(5.6)
Cash, cash equivalents and bank overdrafts at beginning of year		**275.2**	286.3
Effects of exchange rate fluctuations		**(10.1)**	(5.5)
Cash, cash equivalents and bank overdrafts at end of year	28	**1,348.7**	275.2

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 142, 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 2019:

- IFRS 16, 'Leases', effective from 1 January 2019 and endorsed by the EU. Operating leases have now been recognised on the statement of financial position; the impact of this standard has been to recognise a lease liability and right of use asset on the Group's statement of financial position in relation to almost all leases formerly classified as operating leases. The change has resulted in an improvement in operating profit, with the depreciation of the right of use asset being less than the operating lease charge under IAS 17. This has however been offset by an increase in interest charge with an immaterial net impact on profit before tax resulting from the Group's maturity of leases on adoption. Please refer to Note 31 and below for further details.

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 2019 and did not have a material impact on the consolidated financial statements:

- IAS 19, 'Employee Benefits', amended effective from 1 January 2019. The amendment related to treatment of plan amendments, curtailments and settlements.
- IFRIC 23, 'Uncertainty over Income Tax Treatments', effective from 1 January 2019.
- IFRS 9, 'Financial Instruments', amended effective from 1 January 2019.
- Annual improvement 2015-2017 Cycle, effective from 1 January 2019. Including clarifications on IFRS 3, IFRS 11, IAS 12 and IAS 23.

The following standards and amendments to IFRSs become effective for the period beginning on 1 April 2020 or later, but have been early adopted by the Group for the period beginning on 1 April 2019:

- IFRS 9 and IFRS 7, 'Financial Instruments' and 'Financial Instruments: Disclosures', amended effective from 1 January 2020. Amendments to IFRS 7 and IFRS 9 have been issued which modify specific hedge accounting requirements and allow it to be assumed that the interest rate benchmark is not altered as a result of the uncertainties of LIBOR reform when performing hedge effectiveness testing. These amendments are effective from 1 January 2020 with early adoption allowed. The Group has elected to early adopt for the year ending 31 March 2020. There is no impact on the Group's fair value hedge accounting as a result of adopting the amendments.

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

Transition

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

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

The following practical expedients have been adopted on transition:

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

Subsequent measurement

Right-of-use assets are held at cost less accumulated depreciation and impairment. Any impairments are determined in line with IAS 36, 'Impairment of Assets'. Depreciation is charged on a straight-line basis over the full length of the lease.

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

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 judgements and estimates have been made in applying the Group's accounting policies 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:

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

Critical accounting estimates and judgements (continued)

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 around 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 historical 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.

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. In addition to the inflation and discount rate estimates, a key judgement relates to the availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 26.

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 16.

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. This year the Group impaired the goodwill within the Aviation operating segment and, accordingly, reasonably possible changes exist which would give rise to a further impairment. The carrying value of goodwill is included as a critical accounting estimate given this impairment and also as a result of the significance of the remaining 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.

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

Revenue (continued)

(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.

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.

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 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 on a systematic basis consistent with the transfer to the customer of the goods and services to which the asset relates, provided that the contract is expected to result in future net cash inflows. These costs are classified as current assets on the basis that the contracts represent the normal trading cycle.

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

Revenue (continued)

(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 on a systematic basis consistent with the transfer to the customer of the goods and services to which the asset relates. 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. These costs are classified as current assets on the basis that the contracts represent the normal trading cycle.

(f) Principal versus agent considerations

A number of the Group's contracts include promises in relation to procurement activity undertaken on behalf of customers at low or nil margin, together with other promises. 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 performance obligation by performance obligation 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, the exit of business lines or markets and 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.

Provisions

A provision is recognised in the statement of financial position 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 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.

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

Goodwill and intangible assets (continued)

(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.

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 statement of financial position 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 includes lease obligations and consists of the total of loans, bank overdrafts, cash and cash equivalents, joint venture and associate loans and 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. The Group's key performance indicators exclude lease obligations from net debt in order to more closely align with the Group's debt covenants which are prepared on a pre-IFRS 16 basis and the financial review presents net debt and related performance measures including and excluding lease obligations for this purpose.

Strategic report
Governance
Financial statements

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

Leases

For all leases in which the Group is a lessee (other than those meeting the criteria detailed below), the present value of future lease payments are capitalised to the statement of financial position in accordance with IFRS 16 'Leases', with a corresponding right of use asset recognised. Depreciation of right of use assets is recognised as an expense in the income statement on a straight-line basis over the shorter of the asset's useful life or expected term of the lease.

Interest on the lease liability is recognised as a finance expense in the income statement over time, with the rate being determined at lease inception based on a number of factors including asset type, lease currency and lease term.

Right of use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, with the impairment expense being recognised in the income statement. Where a lease is terminated early, any termination fees or gain or loss relating to the release of right of use asset and lease obligation are recognised as a gain or loss through the income statement.

Payments in respect of short-term leases not exceeding 12 months in duration or low-value leases are expensed straight-line to the income statement as permitted by IFRS 16 'Leases'.

As a lessor, the Group recognises assets held under a lease in the statement of financial position 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.

In previous years, under IAS 17, 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.

Inventory

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 statement of financial position 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 statement of financial position 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.

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 statement of financial position 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.

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

Foreign currencies (continued)

Exchange differences arising from the translation of the statement of financial positions 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 statement of financial position reflects the IAS 19 measurement of the schemes' surpluses or deficits at the statement of financial position 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.

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.

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

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 (e.g. 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.

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 2020 or later periods but which the Group has not early adopted.

Standards, amendments and interpretations that are not yet effective and the impact on the Group's operations is not expected to be material:

- IFRS 3, 'Business Combinations', amended effective from 1 January 2020. The amendment related to the definition of a business on a combination.
- IAS 1, 'Presentation of Financial Statements', and IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', amendments effective from1 January 2020 related to the definition of material.
- IFRS 17, 'Insurance Contracts', effective 1 January 2021.

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 available financial capital as shareholder equity, net debt plus undrawn committed borrowing facilities. Available financial capital includes surplus cash held on deposit as a result of fully drawing the revolving credit facility in March 2020.

Objective on available financial capital

To ensure an appropriate level of capital and available financial capital to maintain liquidity and the 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 which is particularly relevant as a result of the COVID-19 crisis.

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 between one and one and a half times, 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 as we are currently experiencing during the COVID-19 crisis. This is not to rule out acquisition spikes above one and a half 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 one and a half times or below within a reasonable time frame.

Performance

The interest and net debt to EBITDA ratios, used by the Group to evaluate capital, are set out below. The net debt to EBITDA ratio aligns with the Group's key performance indicator as set out and defined on page 21 noting that the measure is calculated on a pre-IFRS 16 basis to more closely align with the Group's debt covenants. Net debt to EBITDA is broadly unchanged at 1.7 times in 2020 (2019: 1.6 times). Interest cover is as presented in the financial review on page 56, on a pre-IFRS 16 basis, in order to more closely align with the Group's debt covenants.

	2020	2019
Interest cover – covenant basis	**11.5**	13.0
Net debt to EBITDA – covenant basis	**1.7x**	1.6x

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 well below covenanted levels. Current debt covenanted ratios reflect the strength of the Group in the current crisis and will leave sufficient headroom for funding of organic growth and for bolt on acquisitions when circumstances allow. 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 excluding lease obligations divided by underlying earnings before interest, tax, depreciation and amortisation but excluding IFRS 16 depreciation), ROIC (defined as underlying operating profit divided by net debt excluding lease obligations 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 excluding IFRS 16 interest). Net debt to EBITDA and ROIC align with the Group's key performance indicators as set out and defined on page 21 noting that the measures are calculated on a pre-IFRS 16 basis, to more closely align with the Group's debt covenants. Interest cover is as presented in the financial review on page 63 on a pre-IFRS 16 basis, in order to more closely align with the Group's debt covenants.

Through the monitoring of these metrics it remains the Group's intention to ensure the business is prudently funded and to maintain statement of financial position strength at this time, balancing risk and price on the capital markets and retaining sufficient flexibility to fund future organic and acquisitive growth as described further within its capital allocation policy on page 64.

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 and SEK. The USD exposure arises firstly through the USD500 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. Similarly, the EUR exposure arises firstly through EUR 550 million of Eurobonds which are retained as hedges against our Euro businesses and also through a further EUR 550 million raised in the year, which are swapped into Sterling and secondly, 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 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 statement of financial positions 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 GBP to Euro, being £7.2 million (2019: Euro to US Dollars £15.2 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 £0.7 million (2019: £0.5 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 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 (2019: ±50bp), with pre-tax effect annualised and an additional shift in variable rates for the floating rate element of the gross debt, offset by short-term money market deposits of surplus cash. All other variables are held constant. The Group believes ±50bp is an appropriate measure of volatility at this time.

	2020		2019	
	£m +50bp	**£m –50bp**	£m +50bp	£m –50bp
Net results for the year	**(1.1)**	**1.1**	(2.0)	2.0
Equity	**9.8**	**(9.8)**	1.9	(1.9)

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 2020, the Group had 60% fixed rate debt (2019: 74%) and 40% floating rate debt (2019: 26%) based on gross debt including derivatives of £3,020.4 million (2019: £1,336.4 million). The percentages for this year include the fully drawn down revolving credit facility which if excluded would result in 80% fixed rate debt and 20% floating rate debt. For further information see note 22.

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 cash and/or availability under committed credit lines (see note 21).

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 corporate debt facilities include: a £775 million Revolving Credit Facility maturing in August 2024, US$500 million US private placement notes maturing in March 2021, a EUR 550 million Eurobond maturing in October 2022, a £300 million ten year Sterling bond maturing in October 2026 and a EUR 550 million Eurobond maturing in September 2027. These borrowing and debt facilities provide the Group with total available committed banking facilities and loan notes of £2.4 billion and sufficient sources of liquidity and headroom to meet the Group's ongoing commitments. For further information see note 21.

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 statement of financial position 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 2020				
Bank and other borrowings*	**429.4**	**21.3**	**1,303.7**	**823.6**
Derivative financial instruments	**113.1**	**8.7**	**(6.2)**	**(23.4)**
Trade and other payables**	**1,119.1**	**1.0**	**0.7**	**0.3**
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

* 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 statement of financial position 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 are 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 2020				
Forward derivative contracts – hedges:				
• Outflow	**790.7**	**147.3**	**91.9**	**494.9**
• Inflow	**894.8**	**156.2**	**85.9**	**488.9**
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

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 naval ships and infrastructure in the UK and internationally.

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

The Group Chief Executive, the chief operating decision maker as defined by IFRS 8, monitors the results of these reporting segments and makes decisions about the allocation of resources. The Group's business in South Africa meets the definition of an operating segment, as defined by IFRS 8. However the business represents less than 10% of the Group's revenues, profits and assets and, as permitted by IFRS 8, the Group 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 of the Land sector.

On 1 April 2019 a single Nuclear operating segment was established by combining our naval nuclear business, included within the Marine operating segment, with our civil nuclear business within the Nuclear operating segment. The 2019 comparatives have been restated to reflect this.

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

* Before amortisation of acquired intangibles and exceptional items.

3. Segmental information (continued)

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

* Before amortisation of acquired intangibles and exceptional items.

Inter divisional revenue is immaterial.

Revenues of £2.3 billion (2019: £2.2 billion) are derived from a single external customer. These revenues are attributable across all sectors.

The segment assets and liabilities at 31 March 2020 and 31 March 2019 and capital expenditure and lease payments for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure		Lease payments	
	2020 £m	2019 (restated) £m	**2020 £m**	2019 (restated) £m	**2020 £m**	2019 (restated) £m	**2020 £m**	2019 £m
Marine	**719.8**	687.4	**402.9**	427.3	**32.4**	30.0	**9.1**	–
Nuclear	**545.9**	517.0	**163.0**	145.4	**23.5**	28.7	**3.7**	–
Land	**1,630.6**	1,673.2	**427.4**	515.5	**21.7**	16.2	**17.7**	4.6
Aviation	**2,567.6**	2,466.9	**433.1**	408.3	**90.5**	141.4	**143.0**	21.8
Unallocated	**2,066.8**	833.6	**3,554.3**	1,796.7	**6.4**	10.7	**1.5**	–
Group total	**7,530.7**	6,178.1	**4,980.7**	3,293.2	**174.5**	227.0	**175.0**	26.4

Capital expenditure represents additions to property, plant and equipment and intangible assets. Proceeds from the sale of assets totalled £30.1 million (2019: £78.5 million). Proceeds are in the main within the Aviation sector. See note 20 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 including lease obligations, 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 15.

3. Segmental information (continued)

The segmental depreciation on tangible assets and amortisation of intangible assets for the years ended 31 March 2020 and 31 March 2019 is as follows:

	Depreciation		Amortisation of intangible assets	
	2020 £m	2019 (restated) £m	**2020 £m**	2019 (restated) £m
Marine	**8.1**	8.1	**10.0**	9.7
Nuclear	**25.8**	21.0	**0.7**	0.9
Land	**10.1**	17.9	**37.6**	46.2
Aviation	**30.6**	39.9	**41.2**	46.6
Unallocated	**6.1**	6.9	**7.0**	6.6
Group total	**80.7**	93.8	**96.5**	110.0

The geographic analysis for non-current assets by location of those assets for the years ended 31 March 2020 and 31 March 2019 is as follows:

	2020 £m	2019 £m
United Kingdom	**2,745.3**	2,825.3
Rest of Europe	**1,335.2**	1,165.7
Africa	**34.9**	34.2
North America	**16.1**	7.0
Australasia	**167.9**	175.0
Rest of World	**37.9**	37.2
Non-current segment assets	**4,337.3**	4,244.4
Retirement benefits	**325.3**	226.9
IFRIC 12 financial assets	**12.8**	15.5
Other financial assets	**21.5**	92.5
Tax	**190.6**	150.9
Total non-current assets	**4,887.5**	4,730.2

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

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

The analysis of revenue for the years ended 31 March 2020 and 31 March 2019 is as follows:

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

The sale of goods at a point in time is mainly in the Land sector. This includes revenue subject to judgement as to whether the Group operates as principal or agent. The sale of goods over time is in the Marine sector. Provision of services over time is across all sectors. Further disaggregation of revenue is set out in the Strategic report on page 4.

4. Operating profit for the year

The following items have been included in arriving at operating profit for the year:

	2020 £m	2019 £m
Employee costs (note 7)	**1,605.6**	1,611.6
Inventories		
• cost of inventories recognised as an expense	**428.3**	504.5
• increase/(decrease) in inventory provisions	**(7.5)**	(5.9)
Depreciation of property, plant and equipment (PPE)	**80.7**	81.0
Depreciation of right-of-use assets	**129.4**	–
Depreciation of property, plant and equipment (PPE) – under finance leases	**–**	12.8
Amortisation of intangible assets		
• acquired intangibles	**81.5**	95.2
• other	**15.0**	14.8
	96.5	110.0
Impairment of goodwill	**395.0**	–
(Loss)/profit on disposal of property plant and equipment	**(3.3)**	5.4
Loss on disposal of intangible assets	**0.2**	0.3
Operating lease rentals payable		
• property	**–**	32.4
• vehicles, plant and equipment	**–**	124.4
Research and development	**0.2**	0.4
Trade receivables charged	**1.2**	1.6
Net foreign exchange (gain)/loss	**12.7**	(5.9)

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:

	2020 £m	2019 £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	**0.9**	0.6
Fees for other services:		
Fees payable to the parent auditor and its associates in respect of the audit of the Company's subsidiaries	**2.2**	1.9
Other non-audit services	**0.1**	–
Total fees paid to the Group's auditor and network firms	**3.2**	2.5

5. Exceptional items and acquired intangible amortisation

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

* Included within the asset impairment charge of £22.2 million is £13.5 million relating to the impairment of owned aircraft and plant and equipment.

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

Aviation market

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

Aviation: Goodwill impairment

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

Aviation: Oil and Gas

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

Aviation: Restructuring

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

Aviation: Other (including Italy anti-trust fine)

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

5. Exceptional items and acquired intangible amortisation (continued)

We have recognised a provision of £46 million in respect of a €51 million fine issued by the Italian Competition Authority to our subsidiary, Babcock Mission Critical Services Italia S.p.A ("BMCS Italy") following an unsuccessful first instance decision. This matter was previously a contingent liability to the Group. The fine relates to a publicly available "tariff list" dating back to 2001 produced by a trade association of which BMCS Italy was a member. BMCS Italy does not understand the basis of this decision, given that the tariff list did not apply to any of the services provided by BMCS Italy and was not relevant to BMCS Italy's activities. In particular, BMCS Italy is convinced that the tariff list did not relate to the helicopter emergency medical services ("HEMS") and, indeed, this lack of relevance was explicitly stated on the front of the list from 2012, two years prior to the acquisition of BMCS Italy by Babcock in 2014. BMCS Italy will appeal this decision.

Restructuring

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

Exits and disposals

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

6. Net finance costs

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

7. Employee costs

	2020 £m	2019 £m
Wages and salaries	**1,323.6**	1,319.2
Social security costs	**156.0**	159.9
Share-based payments (note 25)	**2.9**	2.4
Pension costs – defined contribution plans (note 26)	**85.7**	69.5
Pension charges – defined benefit plans (note 26)	**37.4**	60.6
	1,605.6	1,611.6

The average number of people employed by the Group during the year was:

	2020 Number	2019 Number
Operations	**30,116**	30,554
Administration and management	**4,104**	4,735
	34,220	35,289

Emoluments of the Executive Directors are included in employee costs above and reported in the Remuneration report.

7. Employee costs (continued)

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.

	2020 £m	2019 £m
Salaries	**8.2**	10.3
Share-based payments	**0.6**	0.2
	8.8	10.5

8. Income tax expense

	Total	
	2020 £m	2019 £m
Analysis of tax charge in the year		
Current tax		
• UK current year charge	**56.2**	51.6
• UK prior year charge	**–**	11.6
• Overseas current year charge	**19.4**	22.8
	75.6	86.0
Deferred tax		
• UK current year credit	**(33.4)**	(33.6)
• Overseas current year credit	**(26.0)**	(1.3)
• Overseas prior year credit	**–**	(17.0)
• Impact of change in UK tax rate	**(1.2)**	1.3
	(60.6)	(50.6)
Total income tax expense	**15.0**	35.4

The tax for the year is higher (2019: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2020 £m	2019 £m
(Loss)/profit before tax	**(178.2)**	235.2
(Loss)/profit on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2019: 19%)	**(33.9)**	44.7
Effects of:		
Expenses not deductible for tax purposes	**0.9**	0.4
Re-measurement of deferred tax re change in UK tax rate	**(1.2)**	1.3
Difference in respect of joint venture results	**(14.1)**	(15.9)
Differences in respect of foreign rates and UK consortium relief rates	**(3.5)**	3.4
Adjustments in respect of earlier years	**–**	(5.4)
Other (including effect of exceptional items at effective tax rate)	**66.8**	6.9
Total income tax expense	**15.0**	35.4

In the UK 2019 Budget it was announced that the UK corporation tax rate would not reduce to 17% but would remain at 19% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 19% as this is the tax rate that will apply on reversal. As a result a credit of £1.2 million has been taken to the income statement in respect of the re-measurement of year end UK deferred tax balances to 19%. A further £0.9 million has been credited to reserves in respect of the re-measurement of year end UK deferred tax balances to 19%.

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

The exceptional tax item and the tax effect of the other exceptional items are set out in more detail in note 5.

9. Dividends

	2020 £m	2019 £m
Final dividend for the year ended 31 March 2019 of 22.9p (2018: 22.65p) per 60p share	**115.7**	115.5
Interim dividend for the year ended 31 March 2020 of 7.20p (2019: 7.10p) per 60p share	**36.4**	35.0
	152.1	150.5

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

10. (Loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the profit/(loss) 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

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

Earnings

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

11. Goodwill

	2020 £m	2019 £m
Cost		
At 1 April	**2,589.0**	2,608.0
On disposal of subsidiaries (note 29)	**(20.6)**	(9.4)
Exchange adjustments	**2.7**	(9.6)
At 31 March	**2,571.1**	2,589.0
Accumulated impairment		
At 1 April	**4.8**	7.1
On disposal of subsidiaries (note 29)	**–**	(2.3)
Impairment	**395.0**	–
At 31 March	**399.8**	4.8
Net book value at 31 March	**2,171.3**	2,584.2

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

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

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

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

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

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

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

11. Goodwill (continued)

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

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

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 2019	**1,169.5**	**23.7**	**1,193.2**	**172.0**	**18.6**	**1,383.8**
On disposal of subsidiaries (note 29)	**(7.0)**	**(6.4)**	**(13.4)**	**(1.7)**	**–**	**(15.1)**
Additions	**–**	**–**	**–**	**21.6**	**7.8**	**29.4**
Disposals at cost	**–**	**(17.4)**	**(17.4)**	**(4.5)**	**–**	**(21.9)**
Exchange adjustments	**2.3**	**0.1**	**2.4**	**(0.3)**	**0.4**	**2.5**
At 31 March 2020	**1,164.8**	**–**	**1,164.8**	**187.1**	**26.8**	**1,378.7**
Accumulated amortisation and impairment						
At 1 April 2019	**843.3**	**20.2**	**863.5**	**70.1**	**1.3**	**934.9**
On disposal of subsidiaries (note 29)	**(5.8)**	**(4.1)**	**(9.9)**	**(1.2)**	**–**	**(11.1)**
Amortisation charge	**80.4**	**1.1**	**81.5**	**14.2**	**0.8**	**96.5**
Amortisation on disposals	**–**	**(17.4)**	**(17.4)**	**(4.4)**	**–**	**(21.8)**
Exchange adjustments	**0.8**	**0.2**	**1.0**	**(0.2)**	**(0.1)**	**0.7**
At 31 March 2020	**918.7**	**–**	**918.7**	**78.5**	**2.0**	**999.2**
Net book value at 31 March 2020	**246.1**	**–**	**246.1**	**108.6**	**24.8**	**379.5**
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

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 2019	**125.1**	**38.0**	**615.2**	**644.3**	**113.5**	**1,536.1**
Transfer of leased assets to right-of-use assets	**–**	**–**	**(45.1)**	**(59.8)**	**–**	**(104.9)**
On disposal of subsidiaries (note 29)	**–**	**–**	**(3.8)**	**–**	**–**	**(3.8)**
Additions	**1.3**	**0.2**	**61.7**	**51.9**	**15.3**	**130.4**
Disposals	**(1.3)**	**(6.2)**	**(14.2)**	**(40.6)**	**(8.4)**	**(70.7)**
Reclassification	**–**	**–**	**0.6**	**26.2**	**(26.8)**	**–**
Capitalised borrowing costs	**–**	**–**	**1.4**	**–**	**–**	**1.4**
Exchange adjustments	**0.1**	**–**	**(8.7)**	**7.5**	**2.4**	**1.3**
At 31 March 2020	**125.2**	**32.0**	**607.1**	**629.5**	**96.0**	**1,489.8**
Accumulated depreciation						
At 1 April 2019	**60.4**	**9.8**	**354.5**	**97.1**	**–**	**521.8**
Transfer of leased assets to right-of-use assets	**–**	**–**	**(18.0)**	**(14.1)**	**–**	**(32.1)**
On disposal of subsidiaries (note 29)	**–**	**–**	**(2.2)**	**–**	**–**	**(2.2)**
Charge for the year	**5.1**	**1.8**	**54.6**	**19.2**	**–**	**80.7**
Impairment*	**–**	**–**	**0.2**	**13.3**	**–**	**13.5**
Disposals	**(0.7)**	**(2.1)**	**(13.1)**	**(21.4)**	**–**	**(37.3)**
Exchange adjustments	**–**	**–**	**(3.4)**	**(2.3)**	**–**	**(5.7)**
At 31 March 2020	**64.8**	**9.5**	**372.6**	**91.8**	**–**	**538.7**
Net book value at 31 March 2020	**60.4**	**22.5**	**234.5**	**537.7**	**96.0**	**951.1**
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

* During the year, the Group impaired eight (2019: eight) owned helicopters as a result of the reshaping of our Oil and Gas business, as set out in note 5.

Two of the assets were impaired using market values to estimate fair value less costs of disposal observing Level 2 inputs and six of the assets were impaired as a result of a value in use assessment. The eight assets have been written down to a combined recoverable amount of £28 million.

A capitalisation rate of 3% (2019: 3%) was used to determine the amount of borrowing costs eligible for capitalisation.

13. Property, plant and equipment (continued)

Assets held under finance leases, in the prior year, have the following net book value within property, plant and equipment:

2019	Plant and equipment £m	Aircraft fleet £m	Total £m
Cost	45.1	113.3	158.4
Aggregate depreciation	(18.0)	(24.8)	(42.8)
Net book value	27.1	88.5	115.6

Not all assets held under finance leases were transferred to Right-of-use assets as they were in effect purchased and retained in Property, plant and equipment.

14. Right-of-use assets

	Freehold property £m	Plant and equipment £m	Aircraft fleet £m	Total £m
Cost				
On transition to IFRS 16 – 1 April 2019	**111.3**	**15.4**	**466.0**	**592.7**
Transferred from property, plant and equipment	**–**	**45.1**	**59.8**	**104.9**
On disposal of subsidiaries (note 29)	**(2.3)**	**–**	**–**	**(2.3)**
Additions	**32.5**	**8.4**	**87.2**	**128.1**
Exchange adjustments	**(3.2)**	**–**	**(8.3)**	**(11.5)**
At 31 March 2020	**138.3**	**68.9**	**604.7**	**811.9**
Accumulated depreciation				
Transferred from property, plant and equipment	**–**	**18.0**	**14.1**	**32.1**
Charge for the year	**27.3**	**13.1**	**89.0**	**129.4**
Impairment (see note 5)	**–**	**–**	**14.2**	**14.2**
Exchange adjustments	**(0.9)**	**(0.1)**	**(1.6)**	**(2.6)**
At 31 March 2020	**26.4**	**31.0**	**115.7**	**173.1**
Net book value at 31 March 2020	**111.9**	**37.9**	**489.0**	**638.8**
Net book value on transition to IFRS 16 – 1 April 2019	111.3	42.5	511.7	665.5

The Group impaired 11 right-of-use helicopters as a result of the reshaping of our Oil and Gas business, as set out in note 5.

The assets were impaired as a result of a value in use assessment. The 11 assets were written down to a combined recoverable amount of £17.4 million.

15. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
At 1 April	**153.2**	119.3	**42.5**	27.8	**195.7**	147.1
Disposal of joint ventures and associates (note 29)	**–**	(6.6)	**–**	–	**–**	(6.6)
Loans repaid by joint ventures and associates	**–**	–	**(0.7)**	(2.3)	**(0.7)**	(2.3)
Investment in joint ventures and associates	**0.3**	–	**5.5**	10.8	**5.8**	10.8
Share of profits	**58.6**	83.8	**–**	–	**58.6**	83.8
Interest accrued and capitalised	**–**	–	**3.8**	6.5	**3.8**	6.5
Interest received	**–**	–	**(2.5)**	(0.3)	**(2.5)**	(0.3)
Dividends received	**(52.0)**	(44.6)	**–**	–	**(52.0)**	(44.6)
Fair value adjustment of derivatives	**(14.4)**	1.8	**–**	–	**(14.4)**	1.8
Tax on fair value adjustment of derivatives	**2.3**	(0.3)	**–**	–	**2.3**	(0.3)
Foreign exchange	**–**	(0.2)	**–**	–	**–**	(0.2)
At 31 March	**148.0**	153.2	**48.6**	42.5	**196.6**	195.7

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

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

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

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

Included within joint ventures and associates are:

2020	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit/(loss)* £m	Total comprehensive income/(loss) £m	% interest held
Holdfast Training Services Limited	United Kingdom	**61.5**	**(5.7)**	**69.3**	**18.4**	**14.4**	**74%**
ALC (Superholdco) Limited	United Kingdom	**34.4**	**(14.5)**	**18.9**	**14.6**	**11.2**	**50%**
AirTanker Limited	United Kingdom	**405.1**	**(394.2)**	**38.2**	**9.8**	**7.1**	**13%**
AirTanker Services Limited	United Kingdom	**35.5**	**(5.1)**	**40.2**	**4.4**	**2.6**	**22%**
Ascent Flight Training (Holdings) Limited	United Kingdom	**94.6**	**(69.7)**	**85.9**	**18.0**	**14.8**	**50%**
Naval Ship Management (Australia) Pty Limited	Australia	**13.9**	**(12.4)**	**48.0**	**3.7**	**2.6**	**50%**
Cavendish Dounreay Partnership Limited	United Kingdom	**38.7**	**(16.0)**	**99.8**	**6.9**	**5.5**	**50%**
Cavendish Fluor Partnership Limited	United Kingdom	**3.3**	**–**	**130.1**	**5.2**	**2.2**	**65%**
Other		**45.0**	**(17.8)**	**15.7**	**(1.2)**	**(1.8)**	
		732.0	**(535.4)**	**546.1**	**79.8**	**58.6**	

2019							
Holdfast Training Services Limited	United Kingdom	46.3	(3.6)	80.6	28.4	23.6	74%
ALC (Superholdco) Limited	United Kingdom	19.1	–	19.3	11.3	8.3	50%
AirTanker Limited	United Kingdom	409.3	(390.6)	42.5	13.4	10.2	13%
AirTanker Services Limited	United Kingdom	32.9	–	43.7	5.0	3.1	22%
Ascent Flight Training (Holdings) Limited	United Kingdom	113.5	(98.7)	61.5	5.0	5.3	50%
Naval Ship Management (Australia) Pty Limited	Australia	5.2	(4.1)	23.7	4.2	2.9	50%
Cavendish Dounreay Partnership Limited	United Kingdom	39.4	(19.8)	110.5	7.8	6.2	50%
Cavendish Fluor Partnership Limited	United Kingdom	102.6	(80.2)	390.8	28.9	23.4	65%
ABC Electrification Limited	United Kingdom	2.6	–	50.7	(0.2)	(0.2)	33%
Other		21.8	–	33.9	3.0	1.0	
		792.7	(597.0)	857.2	106.8	83.8	

* Before amortisation of acquired intangibles.

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

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

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

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

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

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

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

16. Deferred tax

	2020 £m	2019 £m
Deferred tax asset	**190.6**	150.9
Deferred tax liability	**(115.2)**	(103.2)
	75.4	47.7

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 2019	**(2.6)**	**4.7**	**72.2**	**(26.6)**	**47.7**
On transition to IFRS 16 – 1 April 2019	**5.0**	**–**	**–**	**–**	**5.0**
Income statement credit	**–**	**7.1**	**18.6**	**33.7**	**59.4**
Tax credit to equity	**–**	**(20.2)**	**–**	**4.5**	**(15.7)**
Transfer to corporation tax	**–**	**(19.9)**	**–**	**(2.1)**	**(22.0)**
Disposal of subsidiary (note 30)	**–**	**–**	**–**	**0.6**	**0.6**
Effect of change in UK tax rate					
• income statement	**(0.5)**	**–**	**0.1**	**1.6**	**1.2**
• equity	**–**	**0.6**	**–**	**0.3**	**0.9**
Exchange differences	**–**	**–**	**–**	**(1.7)**	**(1.7)**
At 31 March 2020	**1.9**	**(27.7)**	**90.9**	**10.3**	**75.4**
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

The net deferred tax assets of £75.4 million includes deferred tax assets of £120.7 million and deferred tax liabilities of £63.3 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.

Deferred tax expected to be recovered within 12 months:

	2020 £m	2019 £m
Deferred tax liability	**(11.6)**	(21.5)
	(11.6)	(21.5)

At the statement of financial position date, deferred tax assets of £90.9 million (2019: £72.0 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 £91.5 million.

17. Inventories

	2020 £m	2019 (restated) £m
Raw materials and spares	**111.9**	102.8
Work-in-progress	**6.0**	7.7
Finished goods and goods for resale	**75.6**	86.0
Total	**193.5**	196.5

The 2019 amounts for Raw Materials and spares have increased by £14.9 million due to a reclassification of fuel and spare parts from Finished goods and goods for resale.

18. Trade and other receivables

	2020 £m	2019 (restated) £m
Current assets		
Trade receivables	**283.6**	255.5
Less: provision for impairment of receivables	**(7.0)**	(6.0)
Trade receivables – net	**276.6**	249.5
Amounts due from customers for contract work	**242.3**	266.0
Accrued income	**108.6**	133.2
Capitalised contract costs	**80.8**	62.9
Contract assets	**431.7**	462.1
Retentions	**8.1**	9.1
Amounts due from related parties (note 34)	**2.9**	11.4
Other debtors	**127.9**	108.3
Prepayments	**83.6**	76.7
	930.8	917.1

Other debtors in 2019 have been restated by £9.3 million as the non-current Trade and other receivables amount was repaid during the current year and is therefore now not shown separately.

Trade and other receivables are stated at amortised cost.

18. 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 2019	**266.0**	**133.2**	**62.9**	**462.1**
Transfers from contract assets recognised at the beginning of the year to receivables	**(240.1)**	**(118.7)**	**–**	**(358.8)**
Increase due to work done not transferred from contract assets	**222.4**	**104.8**	**–**	**327.2**
Amounts capitalised	**–**	**–**	**39.3**	**39.3**
Amortisation of contract assets	**–**	**–**	**(9.9)**	**(9.9)**
Write down of contract assets*	**(4.6)**	**(8.7)**	**(0.2)**	**(13.5)**
Other	**–**	**(2.2)**	**(5.3)**	**(7.5)**
Exchange adjustment	**(1.4)**	**0.2**	**(6.0)**	**(7.2)**
31 March 2020	**242.3**	**108.6**	**80.8**	**431.7**

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

* The asset write downs are included in exceptional charges in Note 5; amounts due from customers for contract work relate to business exits and accrued income relates to the Aviation sector.

No material revenue was recognised in 2020 from performance obligations satisfied in previous periods, arising from changes in stage of completion, or transaction price allocation (2019: No material revenue).

Within the Group's order book £12.8 billion (2019: £10.6 billion) represents the transaction price allocated to unsatisfied or partially satisfied performance obligations. Management expects that 23% (2019: 28%) of the transaction price allocated to unsatisfied performance obligations as at 31 March 2020 will be recognised as revenue during the next reporting period. A further 49% (2019: 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 2020. In addition there are £4.0 billion (2019: £3.4 billion) of orders where pricing is still to be finalised and £0.8 billion (2019: £3.0 billion) of orders within joint ventures and associates.

18. Trade and other receivables (continued)

Movements on the provision for impairment of trade receivables are as follows:

	2020 £m	2019 £m
Balance at 1 April*	**(6.0)**	(4.9)
Provision for receivables impairment	**(3.6)**	(1.6)
Receivables written off during the year as uncollectable	**1.1**	0.2
Unused amounts reversed	**1.0**	0.2
Exchange differences	**0.5**	0.1
Balance at 31 March	**(7.0)**	(6.0)

* 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.

19. Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank and in hand	**289.1**	275.0
Short-term bank deposits	**1,062.3**	0.2
	1,351.4	275.2

The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

	2020		2019	
	Total £m	Floating rate £m	Total £m	Floating rate £m
Currency				
Sterling	**1,214.1**	**1,214.1**	66.4	66.4
Euro	**32.0**	**32.0**	72.7	72.7
US Dollar	**5.6**	**5.6**	5.7	5.7
South African Rand	**53.9**	**53.9**	69.4	69.4
Canadian Dollar	**20.7**	**20.7**	36.8	36.8
Omani Rial	**4.9**	**4.9**	5.6	5.6
Australian Dollar	**1.0**	**1.0**	1.2	1.2
Norwegian Krone	**4.4**	**4.4**	1.9	1.9
Swedish Krona	**4.5**	**4.5**	3.2	3.2
New Zealand Dollar	**9.8**	**9.8**	0.1	0.1
Brazilian Real	**–**	**–**	6.0	6.0
Other currencies	**0.5**	**0.5**	6.2	6.2
	1,351.4	**1,351.4**	275.2	275.2

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.

20. Trade and other payables

	2020 £m	2019 £m
Current liabilities		
Contract cost accruals	**222.8**	188.5
Amounts due to customers for contract work	**207.3**	192.8
Deferred income	**32.8**	40.0
Contract liabilities	**462.9**	421.3
Trade creditors	**474.3**	510.6
Amounts due to related parties (note 34)	**0.7**	1.0
Other creditors	**80.8**	63.9
Other taxes and social security	**125.2**	125.6
Accruals	**222.4**	259.0
	1,366.3	1,381.4
Non-current liabilities		
Other creditors	**2.1**	2.0

Included in creditors is £6.1 million (2019: £19.5 million) relating to capital expenditure which has therefore not been included in working capital movements within the 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 2019	**188.5**	**192.8**	**40.0**	**421.3**
Revenue recognised that was included in the contract liability balance at the beginning of the year	**–**	**(141.1)**	**(38.5)**	**(179.6)**
Increase due to cash received, excluding amounts recognised as revenue	**–**	**158.0**	**33.9**	**191.9**
Amounts accrued	**219.2**	**–**	**–**	**219.2**
Amounts utilised	**(182.1)**	**–**	**–**	**(182.1)**
Disposal	**–**	**–**	**(1.2)**	**(1.2)**
Exchange adjustment	**(2.8)**	**(2.4)**	**(1.4)**	**(6.6)**
31 March 2020	**222.8**	**207.3**	**32.8**	**462.9**
31 March 2018	179.9	173.4	60.0	413.3
Revenue recognised that was included in the contract liability balance at the beginning of the year	–	(143.8)	(56.4)	(200.2)
Increase due to cash received, excluding amounts recognised as revenue	–	168.5	37.4	205.9
Amounts accrued	183.7	–	–	183.7
Amounts utilised	(167.2)	–	–	(167.2)
Disposal	(6.0)	(4.1)	–	(10.1)
Exchange adjustment	(1.9)	(1.2)	(1.0)	(4.1)
31 March 2019	188.5	192.8	40.0	421.3

21. Bank and other borrowings

	2020 £m	2019 £m
Current liabilities		
Bank loans and overdrafts due within one year or on demand		
Secured	**(0.2)**	0.3
Unsecured	**400.3**	38.3
	400.1	38.6
Lease obligations*	**138.0**	15.3
	538.1	53.9
Non-current liabilities		
Bank and other borrowings		
Secured	**19.4**	22.0
Unsecured	**2,030.6**	1,285.1
	2,050.0	1,307.1
Lease obligations*	**534.8**	50.5
	2,584.8	1,357.6

* 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 22.

The carrying amount of the Group's borrowings are denominated in the following currencies:

	2020		
Currency	**Total £m**	**Floating rate £m**	**Fixed rate £m**
Sterling	**1,225.4**	**764.3**	**461.1**
Euro	**1,287.2**	**252.0**	**1,035.2**
US Dollar*	**518.7**	**241.5**	**277.2**
South African Rand	**23.1**	**15.6**	**7.5**
Canadian Dollar	**10.2**	**–**	**10.2**
Australian Dollar	**37.1**	**–**	**37.1**
Norwegian Krone	**0.9**	**–**	**0.9**
Swedish Krona	**20.3**	**–**	**20.3**
	3,122.9	**1,273.4**	**1,849.5**

	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

* US$500 million (2019: US$500 million) has been swapped into Sterling, with US$300 million (2019: US$300 million) equivalent into floating rates and US$200 million (2019: US$200 million) equivalent into fixed rate. This is included in the US Dollar amount above.
EUR550 million (2019: €nil) has been swapped into Sterling, with €275 million (2019: €nil) equivalent into floating rates and EUR275 million (2019: €nil) equivalent into fixed rates. This is included in the Euro amount above.

The weighted average interest rate of Sterling fixed rate borrowings is 1.9%. 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, including £775 million of fully drawn RCF facility expected to be repaid once the current crisis abates:

Total borrowings	**1 year £m**	**1–5 years £m**	**>5 years £m**	**Total £m**
As at 31 March 2020	**1,554.6**	**885.7**	**682.6**	**3,122.9**
As at 31 March 2019	352.6	753.9	305.0	1,411.5

21. Bank and other borrowings (continued)

The effective interest rates at the statement of financial position dates were as follows:

	2020 %	2019 %
UK bank overdraft	**1.1**	1.3
UK bank borrowings	**0.5**	2.4
US private placement – fixed	**6.0**	6.0
US private placement – floating	**2.8**	3.1
8 year Eurobond September 2027– fixed	**2.9**	–
8 year Eurobond September 2027 – floating	**2.8**	–
8 year Eurobond October 2022	**1.8**	1.8
£300 million bond	**1.9**	1.9
Other borrowings	**4.8 – 8.9**	4.8 – 9.7
Leases obligations	**0.4 – 12.6**	0.4 – 9.0

Repayment details

The total borrowings of the Group at 31 March are repayable as follows:

	2020		2019	
	Loans and overdrafts £m	Lease obligations £m	Loans and overdrafts £m	Lease obligations £m
Within one year	**400.1**	**138.0**	38.6	15.3
Between one and two years	**–**	**115.1**	382.2	19.2
Between two and five years	**1,260.4**	**287.3**	623.2	23.5
Greater than five years	**789.6**	**132.4**	301.7	7.8
	2,450.1	**672.8**	1,345.7	65.8

In addition to the lease obligations above, the Group paid £44.3 million (2019: £53.5 million) for the Phoenix contract where the leases are directly on behalf of and benefit to the customer.

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at 31 March:

	2020 £m	2019 £m
Expiring in less than one year	**3.5**	4.6
Expiring in more than one year but not more than five years	**77.6**	778.2
	81.1	782.8

22. Other financial assets and liabilities

Financial instruments and leases granted

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

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

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

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

The Group entered into a facility to sell its 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 lease debtors. Lease debtors are derecognised at the date they are discounted by the bank. At 31 March 2020 the non-recourse balance was £100.9 million which will be recovered over approximately three years.

Interest rate hedges

The notional principal amount of outstanding interest rate swap contracts at 31 March 2020 included £4.2 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 2020:

	Amount £m	Fixed payable %	Floating receivable %	Maturity
Hedged				
Interest rate swap	4.2	4.745	Six month LIBOR	31/3/2029

	Amount US$m	Amount at swapped rates £m	Swap %	Maturity
Hedged – US$				
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 – US$	500.0	307.2		

22. Other financial assets and liabilities (continued)

	Amount EURm	Amount at swapped rates £m	Swap %	Maturity
Hedged – EURO				
Cross currency and interest rate swap	**275.0**	**246.7**	**Fixed 1.375% EUR to fixed 2.931% GBP**	**13/9/27**
Cross currency and interest rate swap	**275.0**	**246.7**	**Fixed 1.375 EUR to floating three-month LIBOR + margin GBP**	**13/9/27**
Total cross currency and interest rate swap – EURO	**550.0**	**493.4**		

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 leases to external customers. At the year end the present value of the minimum lease receivable amounted to £22.3 million (2019: £24.4 million), these were split as £15.4 million (2019: £7.8 million) due within one year and £6.9 million (2019: £16.6 million) between one and five years. In addition there is £16.3 million (2019: £36.5 million) due within one year in respect of our Fomedec contract.

Fair values of non-current borrowings and loans

The fair values of non-current borrowings and loans at the statement of financial position date were:

	2020		2019	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Fair value of non-current borrowings and loans				
Long-term borrowings	**(2,584.8)**	**(2,682.8)**	(1,357.6)	(1,404.6)
Loan to joint venture	**48.6**	**48.6**	42.5	42.5
	(2,536.2)	**(2,634.2)**	(1,315.1)	(1,362.1)

Fair values of long-term borrowings are based on cash flows discounted using the GBP Zero IR Curve as at 31 March 2020 (2019: 4% to 5%).

23. 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 2019	**0.5**	**8.8**	**65.3**	**29.0**	**0.3**	**103.9**
Transition to IFRS 16	–	–	(17.1)	(4.1)	–	(21.2)
On disposal of subsidiaries (note 29)	–	–	–	(0.3)	–	(0.3)
Net charge to income statement	–	9.4	56.0	45.4	0.1	110.9
Utilised in year	0.1	(0.9)	(42.9)	(4.8)	–	(48.5)
Foreign exchange	–	–	(0.4)	(0.8)	–	(1.2)
At 31 March 2020	**0.6**	**17.3**	**60.9**	**64.4**	**0.4**	**143.6**

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

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

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

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

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

(c) The employee benefits and reorganisation costs arise mainly in relation to restructuring (see note 5), acquired businesses, personnel related costs and payroll taxes.

(d) Property and other in the main relate to provisions for the fine in Italy (see note 3), dilapidation costs and contractual obligations in respect of infrastructure. Onerous lease provisions have been utilised and offset against right-of-use assets as part of the IFRS 16 transition (refer to note 31).

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

24. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2019 and 31 March 2020	**505,596,597**	**303.4**
Allotted, issued and fully paid		
At 1 April 2018 and 31 March 2019	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 2020 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 by the Trustees of the Babcock Employee Share Trust (BEST) – a total of 9,526,628 shares (2019: 7,747,703 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	2020 Number	2019 Number
11 June 2015	PSP[1]	11/06/2018 – 11/06/2019	–	23,897
11 June 2015	DBMP[2]	11/06/2018 – 11/06/2019	–	24,279
15 June 2016	DBP[4]	15/06/2019 – 15/06/2020	–	62,845
15 June 2016	PSP[1]	15/06/2019 – 15/06/2020	**17,279**	1,786,612
12 October 2016	PSP[1]	12/10/2019 – 12/10/2020	–	27,578
15 June 2016	DBMP[2]	15/06/2019 – 15/06/2020	**4,733**	444,648
14 June 2017	DBP[3]	14/06/2019 – 14/06/2020	**8,866**	91,284
14 June 2017	DBP[4]	14/06/2020 – 14/06/2021	**179,263**	179,263
14 June 2017	PSP[1]	14/06/2020 – 14/06/2021	**1,358,599**	1,507,664
14 June 2017	PSP[1]	14/06/2022 – 14/06/2023	**839,723**	839,723
13 June 2018	DBP[3]	13/06/2020 – 13/06/2021	**78,746**	84,207
13 June 2018	DBP[4]	13/06/2021 – 13/06/2022	**187,433**	187,433
13 June 2018	PSP[1]	13/06/2021 – 13/06/2022	**1,398,259**	1,628,113
13 June 2018	PSP[1]	13/06/2023 – 13/06/2024	**860,157**	860,157
13 June 2019	DBP[3]	13/06/2021 – 13/06/2022	**83,466**	–
13 June 2019	DBP[4]	13/06/2022 – 13/06/2023	**313,909**	–
13 June 2019	PSP[1]	13/06/2022 – 13/06/2023	**2,825,524**	–
13 June 2019	PSP[1]	13/06/2024 – 13/06/2025	**1,370,671**	–
			9,526,628	7,747,703

Options granted to Directors are summarised in the Remuneration report on pages 113 to 136 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.

24. Share capital (continued)

The table below shows shares already held by the trustees of the BEST and PEST in order to meet these awards.

	2020		2019	
	Shares newly issued by the Company	Shares bought in the market	Shares newly issued by the Company	Shares bought in the market
BEST	–	221,320	–	239,862
Total	–	221,320	–	239,862

A reconciliation of PSP and DBMP movements is shown below:

	2020 Number '000	2019 Number '000
Outstanding at 1 April	7,748	8,027
Granted	4,797	2,838
Exercised	(654)	(830)
Forfeited/lapsed	(2,364)	(2,287)
Outstanding at 31 March	9,527	7,748
Exercisable at 31 March	31	48

The weighted average share price for awards exercised during the year was 497.7p per share (2019: 823.3p per share).

During the year 635,326 ordinary shares (2019: nil shares) were acquired or subscribed for through the Babcock Employee Share Trust ('the Trust'). The Trust holds shares to be used towards satisfying awards made under the Company's employee share schemes. During the year ended 31 March 2020, 653,868 shares (2019: 829,859 shares) were disposed of by the Trust resulting from options exercised. At 31 March 2020, the Trust held a total of 221,320 ordinary shares (2019: 239,862 ordinary shares) at a total market value of £848,098 (2019: £1,183,719) representing 0.04% (2019: 0.05%) 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. The Company meets the operating expenses of the Trust.

The Trust enables 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 scheme. The Trust is a discretionary settlement for the benefit of employees within the Group. The Company is excluded from benefiting under it. It is controlled and managed outside the UK and 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.

25. 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 £2.9 million (2019: £2.4 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £2.4 million (2019: £2.0 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
2019 PSP	1,370,671	472.8	11.0%	6.0	–	70.9	472.8	45%	13/06/19
2019 PSP	3,019,033	472.8	11.0%	4.0	–	70.9	472.8	45%	13/06/19
2019 DBP	313,909	472.8	11.0%	4.0	100%	–	472.8	45%	13/06/19
2019 DBP	93,430	472.8	11.0%	3.0	100%	–	472.8	45%	13/06/19
2018 PSP	860,157	856.0	14.0%	6.0	–	370.9	856.0	56%	13/06/18
2018 PSP	1,699,323	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	1,769,338	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

Both the vesting period and the expected life of all DBMP and PSP awards are three years, but for the DBP they are two years, other than for Executive Directors where the vesting period is three years. The holders of all awards receive dividends.

The PSP awards are split evenly between the performance criteria of TSR, EPS and ROCE. 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 104,756 matching shares (2019: 92,772 matching shares) at a cost of £0.5 million (2019: £0.6 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year 1,000 matching shares were purchased on the open market (2019: nil matching shares) and 713 matching shares vested (2019: 82 matching shares) leaving a balance of 1,205 matching shares (2019: 918 matching shares).

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan and DBP = 2012 Deferred Bonus Plan.

26. Retirement benefits and liabilities

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	2020 £m	2019 £m
Defined contribution schemes	**85.7**	69.5

Defined benefit schemes

Statement of financial position assets and liabilities recognised are as follows:

	2020 £m	2019 £m
Retirement benefits – funds in surplus	**325.3**	226.9
Retirement benefits – funds in deficit	**(180.1)**	(254.9)
	145.2	(28.0)

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 investment strategies which have significantly hedged the interest rate and inflation risk through derivative instruments, made benefit changes in 2014 and 2015 with respect to future service benefits, and in 2019 closed the Babcock International Group Pension Scheme to future accrual for some employees.

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 Devonport Royal Dockyard 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	31/03/2019	31/03/2015	31/12/2016
Number of active members at above date	2,241	643	829	279
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Projected unit
Results of formal actuarial valuation:				
Value of assets	£1,860.8m	£1,480.0m	£714.0m	£253.9m
Level of funding	91%	97%	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.

26. Retirement benefits and liabilities (continued)

The Group's cash contribution rates payable to the schemes are expected to be 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	22.2%	51.1%	20.0%	12.5%	–	–
Future service cash contributions	£12.8m	£7.7m	£3.4m	£0.5m	£1.8m	£26.2m
Deficit contributions	£18.6m	£12.5m	£17.5m	£1.6m	£1.4m	£51.6m
Longevity swap payments	£7.3m	£3.6m	£4.4m	–	–	£15.3m
Expected employer cash costs for 2020/21	£38.7m	£23.8m	£25.3m	£2.1m	£3.2m	£93.1m
Expected salary sacrifice contributions	£6.1m	£0.8m	£1.6m	£0.6m	£0.2m	£9.3m
Expected total employer contributions	£44.8m	£24.6m	£26.9m	£2.7m	£3.4m	£102.4m

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 current agreement with the Rosyth trustees includes annual deficit contributions of £17.5 million until 2032. The Group anticipates that this agreement will be superseded and expects to make additional payments into the Rosyth scheme over the next two years of approximately £90 million, however this is subject to final agreement with the trustees.

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 2020 by independent qualified actuaries for IAS 19 purposes, on a best estimate basis, using the following assumptions:

March 2020	**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	**2.0%**	**2.0%**	**2.0%**	**2.0%**
Rate of increase in pensions (past service)	**2.0%**	**2.6%**	**2.8%**	**2.0%**
Discount rate	**2.4%**	**2.4%**	**2.4%**	**2.4%**
Inflation rate (RPI)	**2.6%**	**2.6%**	**2.6%**	**2.6%**
Inflation rate (CPI)	**1.8%**	**1.8%**	**1.8%**	**1.8%**
Weighted average duration of cashflows (years)	**16**	**15**	**17**	**18**
Total life expectancy for current pensioners aged 65 (years)	**85.7**	**87.1**	**84.8**	**85.8**
Total life expectancy for future pensioners currently aged 45 (years)	**86.8**	**87.7**	**85.9**	**86.9**

March 2019				
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

26. 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:

	2020				2019			
	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	**33.7**	**14.0**	**19.8**	**67.5**	1,267.4	15.0	24.9	1,307.3
Property	**426.0**	**4.6**	**4.4**	**435.0**	337.2	5.6	1.9	344.7
Absolute return and multi-strategy funds	**420.3**	**191.1**	**22.3**	**633.7**	127.6	192.1	18.8	338.5
Low-risk assets								
Bonds	**1,397.4**	**30.3**	**75.0**	**1,502.7**	822.9	33.3	98.3	954.5
Matching assets*	**1,918.7**	**1.4**	**59.2**	**1,979.3**	1,736.7	0.6	87.0	1,824.3
Active position on longevity swaps	**(206.9)**	**–**	**–**	**(206.9)**	(187.1)	–	–	(187.1)
Fair value of assets	**3,989.2**	**241.4**	**180.7**	**4,411.3**	4,104.7	246.6	230.9	4,582.2
Percentage of assets quoted	**100%**	**100%**	**100%**	**100%**	100%	100%	100%	100%
Percentage of assets unquoted	**–**	**–**	**–**	**–**	–	–	–	–
Present value of defined benefit obligations								
Active members	**892.0**	**93.1**	**91.8**	**1,076.9**	1,075.0	93.7	113.5	1,282.2
Deferred pensioners	**863.4**	**82.0**	**45.0**	**990.4**	947.4	86.2	63.8	1,097.4
Pensioners	**2,035.4**	**122.4**	**41.0**	**2,198.8**	2,037.9	131.2	61.5	2,230.6
Total liabilities	**3,790.8**	**297.5**	**177.8**	**4,266.1**	4,060.3	311.1	238.8	4,610.2
Net assets (liabilities) recognized in the statement of financial position	**198.4**	**(56.1)**	**2.9**	**145.2**	44.4	(64.5)	(7.9)	(28.0)

* The matching assets aim to hedge the liabilities and consist of gilts, repos, cash and swaps. They are shown net of repurchase obligations of £2,033 million (2019: £1,655 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 statement of financial position 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:

	2020				2019			
	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	**29.5**	**2.5**	**1.7**	**33.7**	34.2	2.7	2.0	38.9
Incurred expenses	**3.4**	**0.2**	**0.1**	**3.7**	3.4	0.2	0.2	3.8
Past service costs	**–**	**–**	**–**	**–**	24.3	1.0	0.6	25.9
Settlements*	**–**	**–**	**–**	**–**	4.8	–	(12.8)	(8.0)
Total included within operating profit	**32.9**	**2.7**	**1.8**	**37.4**	66.7	3.9	(10.0)	60.6
Net interest (credit)/cost	**(1.6)**	**1.6**	**0.1**	**0.1**	(2.3)	1.5	0.5	(0.3)
Total included within income statement	**31.3**	**4.3**	**1.9**	**37.5**	64.4	5.4	(9.5)	60.3

* Settlement gain in Other schemes is offset by movements in contract balances and is accordingly not classified as exceptional.

26. Retirement benefits and liabilities (continued)

Amounts recorded in the Group statement of comprehensive income

	2020				2019			
	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	**(64.0)**	**(2.4)**	**30.3**	**(36.1)**	110.3	6.1	20.8	137.2
Experience (losses)/gains arising on scheme liabilities	**(27.8)**	**–**	**(1.4)**	**(29.2)**	(35.7)	(5.5)	3.0	(38.2)
Changes in assumptions on scheme liabilities	**172.0**	**12.1**	**(18.9)**	**165.2**	(131.6)	(5.1)	(20.7)	(157.4)
At 31 March	**80.2**	**9.7**	**10.0**	**99.9**	(57.0)	(4.5)	3.1	(58.4)

Analysis of movement in the Group statement of financial position

	2020				2019			
	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	**4,104.7**	**246.6**	**230.9**	**4,582.2**	4,143.2	239.8	351.9	4,734.9
Interest on assets	**96.0**	**5.8**	**3.0**	**104.8**	105.5	6.1	3.8	115.4
Actuarial gain/(loss) on assets	**(64.0)**	**(2.4)**	**30.3**	**(36.1)**	110.3	6.1	20.8	137.2
Employer contributions	**105.1**	**3.0**	**2.8**	**110.9**	88.4	4.4	2.7	95.5
Employee contributions	**0.2**	**–**	**0.1**	**0.3**	0.4	–	0.1	0.5
Benefits paid	**(252.8)**	**(11.6)**	**(6.1)**	**(270.5)**	(301.4)	(9.8)	(28.2)	(339.4)
Settlements	**–**	**–**	**(80.3)**	**(80.3)**	(41.7)	–	(120.2)	(161.9)
At 31 March	**3,989.2**	**241.4**	**180.7**	**4,411.3**	4,104.7	246.6	230.9	4,582.2
Present value of benefit obligations								
At 1 April	**4,060.3**	**311.1**	**238.8**	**4,610.2**	4,065.8	298.8	375.1	4,739.7
Service cost	**29.5**	**2.5**	**1.7**	**33.7**	34.2	2.7	2.0	38.9
Incurred expenses	**3.4**	**0.2**	**0.1**	**3.7**	3.4	0.2	0.2	3.8
Interest cost	**94.4**	**7.4**	**3.1**	**104.9**	103.2	7.6	4.3	115.1
Employee contributions	**0.2**	**–**	**0.1**	**0.3**	0.4	–	0.1	0.5
Experience loss/(gain)	**27.8**	**–**	**1.4**	**29.2**	35.7	5.5	(3.0)	38.2
Actuarial (gain)/loss – demographics	**14.8**	**1.2**	**(1.2)**	**14.8**	(35.4)	(9.3)	(2.5)	(47.2)
Actuarial loss /(gain)– financial	**(186.8)**	**(13.3)**	**20.1**	**(180.0)**	167.0	14.4	23.2	204.6
Benefits paid	**(252.8)**	**(11.6)**	**(6.1)**	**(270.5)**	(301.4)	(9.8)	(28.2)	(339.4)
Past service costs	**–**	**–**	**–**	**–**	24.3	1.0	0.6	25.9
Settlements	**–**	**–**	**(80.2)**	**(80.2)**	(36.9)	–	(133.0)	(169.9)
At 31 March	**3,790.8**	**297.5**	**177.8**	**4,266.1**	4,060.3	311.1	238.8	4,610.2
Net surplus/(deficit) at 31 March	**198.4**	**(56.1)**	**2.9**	**145.2**	44.4	(64.5)	(7.9)	(28.0)

* Settlement effect in Other schemes in a result of a transfer of assets and liabilities from the Babcock Naval Services Pension Scheme back into the Principal Civil Service Pension Scheme. As the Group is reimbursed by MOD for any contributions payable to this scheme, the settlement has an equal impact on both the value of the benefit obligations and the plan assets, hence is it neutral in terms of both the income statement and other comprehensive income,

The movement in net deficits for the year ending 31 March 2020 is as a result of the movement in assets and liabilities shown above.

26. Retirement benefits and liabilities (continued)

The changes to the Group statement of financial position at March 2020 and the charges to the Group income statement for the year to March 2021, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2020 £m	Income statement 2021 £m
Initial assumptions	**4,266.1**	**28.0**
Discount rate assumptions increased by 0.5%	**(326.8)**	**(13.5)**
Discount rate assumptions decreased by 0.5%	**326.8**	**10.1**
Inflation rate assumptions increased by 0.5%	**260.4**	**8.1**
Inflation rate assumptions decreased by 0.5%	**(235.8)**	**(7.5)**
Total life expectancy increased by half a year	**88.1**	**2.5**
Total life expectancy decreased by half a year	**(88.1)**	**(2.5)**
Salary increase assumptions increased by 0.5%	**53.6**	**2.1**
Salary increase assumptions decreased by 0.5%	**(53.6)**	**(2.1)**

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 statement of financial position values would increase or decrease by the same amount as the change in the defined benefit obligations.

27. Movement in net debt

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

28. Changes in net debt

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

29. Disposal of subsidiaries, businesses and joint ventures and associates

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

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

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

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

30. Transactions with non-controlling interests

There were no transactions with non-controlling interest in the current year.

In the previous year, 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.

Also in the previous year, Cognac Formation Aero France was created with a 10% non-controlling interest and the Fomedec business was transferred into this company.

A reconciliation to the March 2019 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. 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 adopted the standard from 1 April 2019.

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

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

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

The impact on the Group statement of financial position at 1 April 2019 is reflected below:

	£m
Non-current assets	
Right-of-use assets	592.7
Deferred tax asset	5.0
Other receivables	(0.4)
Total assets	597.3
Equity and liabilities	
Retained earnings	(22.3)
Total equity	(22.3)
Non-current liabilities	
Lease liabilities	533.7
Provisions	(6.7)
Total non-current liabilities	527.0
Current liabilities	
Lease liabilities	107.1
Provisions	(14.5)
Total current liabilities	92.6
Total equity and liabilities	597.3

31. Adoption of IFRS 16, 'Leases' (continued)

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

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.

	1 April 2019 £m
Operating lease commitments at 31 March 2019	685.5
Effect of discounting	(82.8)
Change in assessment of lease term	38.1
IFRS 16 lease liability at 1 April 2019	640.8

The expense recognised in the income statement in the year relating to low-value and short-term leases amounted to £10.0 million.

Operating lease commitments – minimum lease payments

The minimum operating lease payments for the previous year were:

	2019	
	Property £m	Vehicles, plant and equipment £m
Commitments under non-cancellable operating leases payable:		
Within one year	29.5	121.5
Later than one year and less than five years	78.8	320.6
After five years	33.1	102.0
	141.4	544.1

In addition assets held under finance leases at 31 March 2019 with a net book value of £72.8 million were transferred to Right-of-use assets (see note 14).

32. Contingent liabilities

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

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

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

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

33. Capital and other financial commitments

	2020 **£m**	2019 £m
Contracts placed for future capital expenditure not provided in the financial statements	**14.7**	12.2

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.

2020	2020 Revenue to £m	2020 Purchases from £m	2020 Year end debtor balance £m	2020 Year end creditor balance £m
Joint ventures and associates				
Holdfast Training Services Limited	**67.2**	–	**0.9**	–
First Swietelsky Operation and Maintenance	**9.7**	–	**0.2**	**(0.7)**
FSP (2004) Limited	–	–	–	–
Ascent Flight Training (Management) Limited	**1.6**	–	**0.5**	–
ALC (Superholdco) Limited	**2.3**	–	–	–
Rotary Wing Training Limited	**3.8**	–	–	–
Fixed Wing Training Limited	**3.8**	–	–	–
Advanced Jet Training Limited	**1.9**	–	**0.3**	–
Rear Crew Training Limited	**1.2**	–	**0.2**	–
AirTanker Services Limited	**11.3**	–	**0.2**	–
Alert Communications Limited	**5.0**	–	**0.4**	–
Naval Ship Management (Australia) Pty Limited	**8.7**	–	–	–
Cavendish Dounreay Partnership Limited	**6.6**	–	**0.2**	–
Cavendish Fluor Partnership Limited	**10.2**	–	–	–
Cavendish Boccard Nuclear Limited	**1.6**	–	–	–
	134.9	–	**2.9**	**(0.7)**

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)

All transactions noted above arise in the normal course of business.

(b) Defined benefit pension schemes.
Please refer to note 26 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 25.

35. Subsequent events

Holdfast Training Services Limited

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

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

Italy competition fine

During May 2020 the Group lost a first instance decision in relation to a €51 million fine imposed by the Italian Competition Authority during February 2019 on its subsidiary Babcock Mission Critical Services Italia S.p.A ("BMCS Italy"). The Group had reasonable grounds to believe that the court would overturn the fine or substantially reduce it and the matter was therefore previously reported as a contingent liability. BMCS Italy will appeal the decision but given the loss of the first instance decision the Group has recognised a provision of £46 million in respect of the fine and related legal costs. Further details of this matter are included in note 5.

Details on dividends are given in note 9. There are no further material events subsequent to 31 March 2020 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 2020 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. The Group's interest in the voting share capital is 100% unless otherwise stated. No subsidiary undertakings have been excluded from the consolidation.

Subsidiaries, wholly owned

Airwork Limited

Appledore Shipbuilders (2004) Limited[2]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

Armstrong Technology Associates Limited*

Babcock (Ireland) Treasury Limited
Custom House Plaza, Block 6, IFSC, Dublin, 1, Ireland

Babcock (NZ) Limited
C/O Babcock Central Office, HMNZ Dockyard, Devonport Naval Base, Queens Parade, Devonport, Auckland, 0744, New Zealand

Babcock (UK) Holdings Limited[1]

Babcock Aerospace Limited

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 Airports Limited

Babcock Assessments Limited

Babcock Australia Holdings Pty Ltd
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Aviation Services (Holdings) Limited[1, 14]

Babcock Aviation Services Holdings, S.L.
Plaza Pablo Ruiz, Picasso 1, Torre Picasso, 28020, Madrid, Spain

Babcock B.V.
Bezuidenhoutseweg 1, 2594 AB The Hague, The Netherlands

Babcock Canada Inc.
45 O'Connor Street, Suite 1500, Ottawa, Ontario K1P 1A4, Canada

Babcock Civil Infrastructure Limited

Babcock Communications Cyprus Limited
10 Diomidous Str, Alpha Mega Building, 3rd floor, Office 401, CY2024 NICOSIA, Cyprus

Babcock Communications Limited

Babcock Contractors Limited[2]

Babcock Corporate Secretaries Limited*

Babcock Corporate Services Limited

Babcock Critical Assets Holdings LLP

Babcock Critical Services Limited
110 Queen Street, Glasgow, Scotland, G1 3HD, United Kingdom

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 DS 2019 Limited*

Babcock DSG Ltd

Babcock Education & Training Holdings LLP

Babcock Education and Skills Limited

Babcock Education Holdings Limited

Babcock Emergency Services Limited[2]

Babcock Engineering Limited*

Babcock Engineering Portugal, Unipessoal, LDA
Heliporto de Salemas, Lousa, 2670-769, Lisboa, Loures, Portugal

Babcock Europe Finance Limited[2]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Fire Services (SW) Limited

Babcock Fire Services Limited

Babcock Fire Training (Avonmouth) Limited

Babcock Group (US Investments) Limited

Babcock Holdings (USA) Incorporated[7]
Prentice Hall Corporation Systems Inc., S32 Loockerman Square, Ste. L-100 Dover Delaware, United States

Babcock Holdings Limited[11]

Babcock Information Analytics and Security Holdings Limited*

Babcock Information Analytics and Security Limited[5]

Babcock Infrastructure Holdings LLP*

Babcock Integrated Technology (Korea) Limited

Babcock Integrated Technology GmbH
Am Zoppenberg 23, 42366 Schwalmtal-Waldniel, Germany

Babcock Integrated Technology Limited

Babcock Integration LLP

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[2]
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 Limited[5]

Babcock International Middle East Limited

Babcock International Spain S.L.U.
Mutxamel, Alicante, Aeródromo de Mutxamel, 03110, Partida la Almaina 92, Spain

Babcock International Support Services Limited

Babcock International US Inc
National Registered Agents, Inc., 1209 Orange Street, Wilmington DE 19801, United States

Babcock Investments (Fire Services) Limited

Babcock Investments (Number Four) Limited

Babcock Investments (Number Nine) Limited

Babcock Investments Limited

Babcock IP Management (Number One) Limited

Babcock IP Management (Number Two) Limited

Babcock Ireland Finance Limited
44 Esplanade, St Helier, JE4 9WG, Jersey

36. Group entities (continued)

Subsidiaries, wholly owned (continued)

Babcock Korea Limited
72-1, Shinsan-ro, Saha-gu, Busan-si (Shinpyeong-dong), Republic of Korea

Babcock Land Limited

Babcock Leaseco Limited*

Babcock Luxembourg Finance S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg

Babcock Luxembourg Investments I S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg

Babcock Luxembourg Investments S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg

Babcock Luxembourg S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg

Babcock M 2019 Limited*

Babcock Malta Limited
44 Esplanade, St Helier, JE4 9WG, Jersey

Babcock Malta (Number Two) Limited
44 Esplanade, St Helier, JE4 9WG, Jersey

Babcock Malta Finance (Number Two) Limited[3]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Finance Limited[3]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Holdings (Number Two) Limited[3]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Holdings Limited[3]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Management 2019 Limited*

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, England

Babcock Marine (Rosyth) Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Babcock Marine Holdings (UK) Limited[5]

Babcock Marine Limited

Babcock Marine Products Limited*

Babcock Marine Training Limited[2]

Babcock MCS Congo SA
Avenue Charles de Gaulle, PB 5871, Pointe-Noire, PB 5871, The Republic of 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 Design and Completions Limited

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 Leasing Limited

Babcock Mission Critical Services Ltd

Babcock Mission Critical Services Offshore Limited

Babcock Mission Critical Services Onshore Limited

Babcock Mission Critical Services SAU
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services Topco Ltd[2]

Babcock Mission Critical Services UK Limited

Babcock MSS Limited

Babcock Mission Critical Services Fleet Management SAU
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Networks Ireland Limited (In liquidation)
Unit 2, Red Cow Interchange Estate, Ballymounth, Dublin, 22, Ireland

Babcock Networks Limited

Babcock Norway AS*
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Nuclear Limited

Babcock Offshore Services Australasia Pty Ltd
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Oman LLC
P.O. Box 2315, Ghala, Muscat, 130, Oman

Babcock Overseas Investments Limited

Babcock Power Maintenance Limited*

Babcock Project Investments Limited

Babcock Project Services Limited

Babcock Pty Ltd
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Rail Limited

Babcock Scandinavia Holding AB
Flygstationsvägen 4, 972 54, Luleå, Sweden

Babcock Services Group Limited

Babcock Services Limited

Babcock Skills Development and Training Limited

Babcock Southern Careers Limited*[3]

Babcock Southern Holdings Limited[6]

Babcock Support Services (Investments) Limited

Babcock Support Services GmbH
Am Zoppenberg 23, 41366 Schwalmtal, Germany

Babcock Support Services Limited[10]
110 Queen Street, Glasgow, Scotland, G1 3HD, United Kingdom

Babcock Support Services s.r.l.
Via Foro Buonaparte, 70 20121, Milano, Italy

Babcock Technical Services Limited*

Babcock Training Limited

Babcock UK Finance

36. Group entities (continued)

Subsidiaries, wholly owned (continued)

Babcock US Investments (Number Two) LLC[2]
National Registered Agents, Inc, 1209 Orange Street, Wilmington DE 19801, United States

Babcock US Investments Inc.[2]
National Registered Agents, Inc., 1209 Orange Street, Wilmington DE 19801, United States

Babcock US Investments Limited[5]

Babcock Vehicle Engineering Limited[4]

BMH Technologies (Holdings) GmbH (In liquidation)[2]
Berliner Platz 12, 41061, Moenchengladbach, Germany

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[5]

Bond Mission Critical Services PLC

Brooke Marine Shipbuilders Limited*

Cavendish Nuclear (Overseas) Limited

Cavendish Nuclear Japan KK
GYB Akihabara Room 405, Kandasuda-cho 2-25, Chiyoda-ku, Tokyo, Japan

Cavendish Nuclear Limited[5]

Cavendish Nuclear Manufacturing Limited

Chart Distribution Services Limited*

Chart Services Limited*
110 Queen Street, Glasgow, Scotland, G1 3HD, United Kingdom

Chart Storage & Transportation Limited*

Chepstow Insurance Limited
St Martin's House, Le Bordage, St Peter Port, GY1 4AU, Guernsey

Conbras Servicos Tecnicos de Suporte Ltda
Rua Nilo Pecanha no 50, Suites 314 & 315, Centro, Rio de Janeiro, 20020.100, Brazil

Defence SCS Limited*
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

Devonport Royal Dockyard Limited[12]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

Devonport Royal Dockyard Pension Trustees Limited*
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

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 Projects Limited*

Flagship Fire Fighting Training Limited

FNC Limited*
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

Frazer-Nash Consultancy (Australia) Pty Ltd*
Level 8, 99 Gawler Place, Adelaide SA 5000, Australia

Frazer-Nash Consultancy Limited[8]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

Frazer-Nash Consultancy LLC[2]
Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808, United States

Heli Aviation (Tianjin) Helicopter Sales Co., Ltd. (In liquidation)
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, Room 1102-1103 11/F, Kowloon Building, 555 Nathan Road, Mongkok, Kowloon, Hong Kong

HCTC Limited*

iMAST Limited*

INAER Helicopter Chile S.A.*
2880 Americo Vespucio Norte Avenue, Suite 1102, Conchali, Santiago, Chile

KML (UK) Limited*

Liquid Gas Equipment Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, Scotland, KY11 2YD, United Kingdom

Marine Engineering & Fabrications (Holdings) Limited*

Marine Engineering & Fabrications Limited*

Marine Industrial Design Limited
c/o Babcock Central Office, HMNZ Dockyard, Devonport Naval Base, Queens Parade, Devonport, Auckland, 0744, New Zealand

Peterhouse Group Limited

Peterhouse6 (IETG) Limited

Peterhouse GmbH
Am Zoppenberg 23, 41366 Schwalmtal, Germany

Port Babcock Rosyth Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Rosyth Royal Dockyard Limited[13]
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*

Skills2Learn Ltd

Strachan & Henshaw Canada Inc*
45 O'Connor Street, Suite 1500, Ottawa, Ontario K1P 1A4, Canada

Touchstone Learning & Skills Ltd*

Transfleet Distribution Limited*

Vosper Thornycroft (UK) Limited

Westminster Education Consultants Limited*

36. Group entities (continued)

Subsidiaries, partly owned:

Airwork Technical Services & Partners LLC (51%)
PO Box 248 (Muaskar Al Murtafa'a (MAM) Garrison), Muscat, 100, Sultanate of Oman

Babcock Africa (Pty) Limited (90%)[7]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Holdings (Pty) Ltd (90%)[14]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Services (Pty) Ltd (90%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Aviation Services Holdings International Limited (49.82%)[14]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Dyncorp Limited (56%)[12]

Babcock Education and Training (Pty) Ltd (90%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Emergencias Aéreas España Holding, S.L.U. (49.82%)
Avenida de Burgos, 17, 7a planta, 28036, Madrid, Spain

Babcock Financial Services (Pty) Ltd (90%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Holdings (Italy) S.p.A. (49.82%)
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%)
Sala no. 2022, 1 Andar, Terminal A, Aeroporto Internacional do Maputo, Distrito Urbano 2, Mozambique

Babcock Mission Critical Services (Ireland) Limited (49.82%)
13-18 City Quay, Dublin 2, Ireland

Babcock Mission Critical Services España SAU (49.82%)
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services France SA (49.82%)
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%)
Piazza Castello no. 26, 20121, Milan, Italy

Babcock Mission Critical Services Portugal, Unipessoal, LDA (49.82%)
Heliporto de Salemas, Lousa, 2670-769, Lisboa, Loures, Portugal

Babcock Mission Critical Services, Scandinavia AB (49.82%)[2]
c/o Ashurst Advokatbyra AB, PO Box 7124, 10387, Stockholm, Sweden

Babcock Moçambique Limitada (90%)
Av. Samora Machel 3380/1, Mozambique

Babcock Namibia Services Pty Ltd (90%)
Unit 5 Ground Floor, Dr Agostinho Neto Road, Ausspann Plaza, Ausspanplatz, Windhoek, Namibia

Babcock Ntuthuko Aviation (Pty) Limited (66.78%)*
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Engineering (Pty) Limited (46.37%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Powerlines (Pty) Limited (46.81%)*
Plot 17295, Molekangwetsi Cresent, Gaborone West Phase 1, Botswana

Babcock Plant Services (Pty) Ltd (64.82%)[5]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock SAA FW AB (49.82%)*
Flygstationsvägen 4, 972 54, Luleå, Sweden

Babcock Scandinavian AirAmbulance AB (49.82%)
Lägervägen 3, 832 56, Frösön, Sweden

Babcock Scandinavian AirAmbulance AS (49.82%)
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Scandinavian Aviation Services AS (49.82%)
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Scandinavian Engineering AS (49.82%)
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Scandinavian Holding AS (49.82%)
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock TCM Plant (Proprietary) Limited (90%)[7]
Plot 17295, Molekangwetsi Cresent, Gaborone West Phase 1, Botswana

Babcock Zambia Limited (90%)
4th Floor, Consulting House, Broadway, Ndola, Zambia

Cognac Formation Aero (90%)
Base Aérienne 709 Cognac 16100 Châteaubernard, France

INAER Helicopter Peru S.A.C. (In liquidation) (70%)
Av. De La Floresta No 497 Int., Lima, Peru

National Training Institute LLC (70%)
PO Box 267, MadinatQaboos, Sultanate of Oman, 115 Oman

Joint ventures and associates (equity accounted):

ABC Electrification Ltd (33.3%)[12]
8th Floor, The Place, High Holborn, London, WC1V 7AA

AirTanker Holdings Limited (13.3%)
Airtanker Hub RAF Brize Norton, Carterton, Oxfordshire, England, OX18 3LX, United Kingdom

AirTanker Services Limited (22.3%)[15]
Airtanker Hub RAF Brize Norton, Carterton, Oxfordshire, England, OX18 3LX, United Kingdom

ALC (Superholdco) Limited (50%)[15]
3rd Floor, Chancery Exchange, 10 Furnival Street, London, England, EC4A 1AB, United Kingdom

Alert Communications Group Holdings Limited (20%)

Ascent Flight Training (Holdings) Limited (50%)

Cavendish Boccard Nuclear Limited (51%)

Cavendish Dounreay Partnership Limited (50%)[12]

Cavendish Fluor Partnership Limited (65%)

Debut Services (South West) Limited (50%)
20 Triton Street, Regent's Place, London, NW1 3BF, United Kingdom

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

FSP (2004) Limited (50%)[2]
Kintail House, 3 Lister Way, Hamilton International Park, Blantyre, G72 0FT, Scotland

Holdfast Training Services Limited (74%)

Naval Ship Management (Australia) Pty Ltd (50%)
Level 10, 40 Miller Street, North Sydney NSW 2060, Australia

Okeanus Vermogensverwaltungs GmbH & Co. KG (50%)
Vorsetzen 54, 20459, Hamburg, Germany

Wholly owned subsidiaries, unless otherwise stated, with registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom, currently in Members Voluntary Liquidation:

2019 S&H Limited; Babcock Careers Guidance Limited[6]; Babcock Careers Management Limited[3]; Babcock Environmental Services Limited; Babcock Lifeskills Limited; BIL Solutions Limited; Capital Careers Limited (88.3%); Cura Classis UK (Hold Co) Limited (48%); F N Consultancy Limited; FNC Group Limited; FNCG 2019 Limited; INS Innovation Limited; Scimco Limited; Surrey Careers Services Limited (94.1%)[5]; UKAEA Limited.

Wholly owned subsidiaries with pending applications for voluntary strike off under s1003 of the Companies Act 2006:

Alstec Limited; Babcock Group International Limited; First Engineering Limited; Merlin Communications Group Limited; Municipal Vehicle Hire Limited; Northern Cable Installations Limited; Transfleet Truck Rentals Limited.

Notes

* Dormant entity.

1. 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.
2. Holding of two types of ordinary shares.
3. Holding of three types of ordinary shares.
4. Holding of six types of ordinary shares.
5. Holding of ordinary and preference shares.
6. Holding of ordinary and deferred shares.
7. Holding of ordinary and redeemable preference shares.
8. Holding of ordinary and two types of preference shares.
9. Holding of ordinary and three types of preference shares.
10. Holding of ordinary and five types of preference shares.
11. Holding of two types of ordinary shares and two types of preference shares.
12. Holding of one type of ordinary share only, where more than one type of share is authorised or in issue.
13. Holding of two types of ordinary shares, where more than two types of share are authorised or in issue.
14. Holding of one type of ordinary share and one type of preference share, where more than two types of share are authorised or in issue.
15. Year end 31 December.

Company statement of financial position

As at 31 March 2020	Note	2020 £m	2019 (restated) £m
Fixed assets			
Investment in subsidiaries	5	**2,466.5**	2,466.5
Current assets			
Trade and other receivables	6	**3,944.1**	3,736.6
Cash and cash equivalents		**865.0**	–
Creditors: Amounts falling due within one year:			
Trade and other payables	7	**(2,482.7)**	(2,098.0)
Net current assets		**2,326.4**	1,638.6
Total assets less current liabilities		**4,792.9**	4,105.1
Creditors: Amounts falling due after more than one year:			
Trade and other payables	7	**(2,054.0)**	(1,361.7)
Net assets		**2,738.9**	2,743.4
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		**763.1**	767.6
Total shareholders' funds		**2,738.9**	2,743.4

The accompanying notes are an integral part of this Company statement of financial position. Company number 02342138.

Please refer to note 2 for details of the restatement of the 2019 results.

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 £143.9 million (2019: £184.3 million).

The financial statements on pages 215 to 221 were approved by the Board of Directors on 11 June 2020 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 2020	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Total equity £m
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
Profit for the year	**–**	**–**	**–**	**–**	**143.9**	**143.9**
Other comprehensive income	**–**	**–**	**–**	**–**	**1.8**	**1.8**
Dividends	**–**	**–**	**–**	**–**	**(152.1)**	**(152.1)**
Share-based payments	**–**	**–**	**–**	**–**	**2.9**	**2.9**
Tax on share-based payments	**–**	**–**	**–**	**–**	**1.9**	**1.9**
Own shares	**–**	**–**	**–**	**–**	**(2.9)**	**(2.9)**
Net movement in equity	**–**	**–**	**–**	**–**	**(4.5)**	**(4.5)**
At 31 March 2020	**303.4**	**873.0**	**768.8**	**30.6**	**763.1**	**2,738.9**

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, 38A-38D, 40A-40D, 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:

- IFRS16, 'Leases.'
- IFRS 9, 'Financial instruments', amended.
- IAS 19, 'Employee Benefits', amendment. The amendment related to treatment of plan amendments, curtailments and settlements.
- IFRIC 23, 'Uncertainty over Income Tax Treatments'.

The adoption of these standards has not had any impact on the amounts recognised in the prior period and is not expected to affect the current or future periods.

2. Significant accounting policies (continued)

Restatement

The comparatives at 31 March 2019 have been restated to recognise £76.2 million non-current other financial assets – currency and interest rate swaps and £76.2 million other financial liabilities – currency and interest rate swaps due after more than one year reflecting cross currency interest rate swaps with an external party and swaps issued to a subsidiary undertaking under the same terms, for which a legal right of offset did not exist. The value of the adjustment at the beginning of the comparative period, 1 April 2018, is £47.7 million non-current other financial assets – currency and interest rate swaps and £47.7 million other financial liabilities – currency and interest rate swaps due after more than one year. There was no impact on profit or net assets.

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 statement of financial position date.

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 statement of financial position 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.

2. 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 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.

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 statement of financial position 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 estimates 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 (2019: £0.6 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 £4.3 million (2019: £5.7 million); these amounts are calculated on a different basis from 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 2020 as at the date of exercise was £0.4 million (2019: £0.5 million) and the net aggregate value of assets received by Directors in 2020 from Long Term Incentive Plans as calculated at the date of vesting was £0.4 million (2019: £0.5 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

	2020 £m	2019 £m
At 1 April 2019 and 31 March 2020	**2,466.5**	2,466.5

6. Trade and other receivables

	2020 £m	2019 £m
Non-current debtors		
Amounts due from subsidiary undertakings	**351.9**	313.8
Preference shares in a subsidiary undertaking	**–**	943.7
Other financial assets – currency and interest rate swaps	**–**	76.2
Other debtors	**0.1**	0.4
	352.0	1,334.1
Current debtors		
Amounts due from subsidiary undertakings	**2,489.7**	2,386.6
Preference shares in a subsidiary undertaking	**981.9**	–
Other financial assets – currency and interest rate swaps	**104.7**	–
Income tax recoverable	**2.8**	6.2
Deferred tax	**13.0**	9.7
	3,592.1	2,402.5
Total trade and other receivables	**3,944.1**	3,736.6

There are no material provisions held against trade and other receivables under the expected credit loss model.

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.

Interest rates on amounts owed by subsidiary operations:

	Non-current		Current	
	2020 £m	2019 £m	2020 £m	2019 £m
EURIBOR + 4%	**81.9**	85.3	**58.3**	62.8
EURIBOR + 2%	**12.4**	11.8	**–**	–
GBP LIBOR + 4%	**73.5**	58.3	**51.4**	51.4
GBP LIBOR + 5%	**140.0**	140.0	**–**	–
USD LIBOR + 4%	**18.0**	5.8	**1.7**	–
STIBOR + 4%	**–**	–	**14.0**	7.2
BBSW + 4%	**11.5**	12.6	**2.9**	3.4
NIBOR + 4%	**12.8**	–	**8.1**	11.8
4.5%	**–**	–	**100.8**	100.8
5.4%	**1.8**	–	**–**	–
Interest free	**–**	–	**2,252.5**	2,149.2
	351.9	313.8	**2,489.7**	2,386.6

7. Trade and other payables

	2020 £m	2019 £m
Amounts due within one year		
Bank loans and overdrafts	**547.7**	404.0
Amounts due to subsidiary undertakings	**1,821.9**	1,685.9
Other financial liabilities – currency and interest rate swaps	**104.7**	–
Accruals and deferred income	**8.4**	8.1
	2,482.7	2,098.0
Amounts due after one year		
Bank loans and other borrowings	**2,030.6**	1,285.1
Other financial liabilities – currency and interest rate swaps	**23.1**	76.2
Other creditors	**0.3**	0.4
	2,054.0	1,361.7

The Company has £2,554.6 million (2019: £2,047.1 million) of committed borrowing facilities, of which £2,443.1 million (2018: £1,331.9 million) was drawn at the year end.

7. Trade and other payables (continued)

The effective interest rate applying to bank loans and other borrowings were as follows:

	2020 %	2019 %
UK bank overdraft	**1.1**	1.6
UK bank borrowings	**0.5**	2.4
US private placement – fixed	**6.0**	6.0
US private placement – floating	**2.8**	3.1
8 year Eurobond October 2022	**1.8**	1.8
8 year Eurobond September 2027 – fixed	**2.9**	–
8 year Eurobond September 2027 – floating	**2.8**	–
£300 million bond	**1.9**	1.9

The amounts due to subsidiary undertakings are repayable on demand and £1,821.9 million (2019: £1,685.9 million) is interest free.

8. Other financial assets and liabilities

The notional principal amount of outstanding interest rate swap contracts at 31 March 2020 included interest rate swaps in relation to

- US$500 million (2019: US$500 million) US$ to GBP cross-currency swap
- €550 million (2019: nil million) Euro 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 158 to 214.

9. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2019 and 31 March 2020	**505,596,597**	**303.4**
Allotted, issued and fully paid		
At 1 April 2018 and 31 March 2019	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 2020 (2019: 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 2020 these amounted to £340.7 million (2019: £255.4 million), of which the Company had counter-indemnified £302.6 million (2019: £215.8 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.

Financial calendar

Financial year end	31 March 2020
2019/20 full-year results announced	11 June 2020
Annual General Meeting	4 August 2020

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: +44 (0)37 1664 0300
(Calls are charged at standard geographic rate and will vary by provider. Calls outside the United Kingdom 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

Link Share Dealing Services provide Babcock shareholders with a low-cost, execution only share dealing service. To use the service, either log on to www.linksharedeal.com or call +44 (0)37 1664 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. We are open 8.00am to 4.30pm, Monday to Friday, excluding public holidays in England and Wales. Terms and conditions apply.

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

Babcock operates a Dividend Reinvestment Plan (DRIP) whereby shareholders can choose to invest their cash dividend to buy further shares on the market.

For details on how to join the DRIP please log on at www.babcock-shares.com using your Investor Code reference number or call Link Market Services Trustees Limited on +44 (0)37 1664 0381. 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 9.00am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales. Alternatively email shares@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.

Further information about ShareGift may be obtained on 020 7930 3737 or from www.ShareGift.org.

Five-year financial record

	2020 IFRS 16 basis £m	2019 Pre-IFRS 16 basis £m	2018 Pre-IFRS 16 basis £m	2017 Pre-IFRS 16 basis £m	2016 Pre-IFRS 16 basis £m
Continuing revenue	**4,449.5**	4,474.8	4,659.6	4,547.1	4,158.4
Operating (loss)/profit from continuing operations	**(164.9)**	196.5	370.6	359.6	352.5
Share of profit from joint ventures	**58.6**	83.8	68.5	56.7	34.6
(Loss)/profit before interest from continuing operations	**(106.3)**	280.3	439.1	416.3	387.1
Net interest and similar charges	**(71.9)**	(45.1)	(48.0)	(54.2)	(57.0)
(Loss)/profit before taxation from continuing operations	**(178.2)**	235.2	391.1	362.1	330.1
Income tax expense	**(15.0)**	(35.4)	(53.4)	(46.5)	(39.0)
(Loss)/profit from continuing operations	**(193.2)**	199.8	337.7	315.6	291.1
(Loss)/profit for the year	**(193.2)**	199.8	337.7	315.6	291.1
Non-controlling interest	**(2.0)**	(0.4)	(1.4)	(3.8)	(4.5)
(Loss)/profit attributable to owners of parent	**(195.2)**	199.4	336.3	311.8	286.6
Non-current assets	**4,887.5**	4,730.2	4,750.3	4,866.5	4,551.8
Net current assets/(liabilities)	**610.7**	(77.8)	72.2	(239.9)	(245.7)
Non-current liabilities	**(2,948.2)**	(1,767.5)	(1,911.5)	(1,934.4)	(1,949.8)
Total net assets	**2,550.0**	2,884.9	2,911.0	2,692.2	2,356.3
Equity holders of the parent	**2.534.3**	2,867.5	2,892.9	2,669.8	2,338.5
Non-controlling interest	**15.7**	17.4	18.1	22.4	17.8
Total equity	**2,550.0**	2,884.9	2,911.0	2,692.2	2,356.3
Total (loss)/earnings per share – basic	**(38.6)**	39.5	66.6p	61.8p	57.0p
Dividend per share	**7.2p**	30.0p	29.5p	28.15p	25.8p

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC® C022913

This report is printed on paper certified in accordance with the FSC® (Forest Stewardship Council®) and is recyclable and acid-free. Pureprint Ltd is FSC certified and ISO 14001 certified showing that it is committed to all round excellence and improving environmental performance is an important part of this strategy. Pureprint Ltd aims to reduce at source the effect its operations have on the environment and is committed to continual improvement, prevention of pollution and compliance with any legislation or industry standards. Pureprint Ltd is a Carbon/Neutral® Printing Company.

Designed and produced by Black Sun Plc

Babcock International Group PLC
33 Wigmore Street
London
W1U 1QX
UK

+44(0)20 7355 5300
www.babcockinternational.com