babcock™

Creating a safe and secure world, together

Annual Report and Financial Statements 2021

Babcock is an international aerospace, defence and security company. We have a leading naval business, and provide value-add services across the UK, France, Canada, Australasia and South Africa. We also operate in, and export to, additional markets.

Our strategy is to focus on our core activities in the UK, using our capabilities to work on exports from the UK and to develop our international presence in our target countries. We operate in attractive markets and are positioning ourselves for future growth.

Last year saw us begin a programme of significant change for the Group and this work will continue throughout the coming year. We now have a refreshed strategy, a more collaborative way of working and an emphasis on embedding a new culture and focus on ESG. This transformation is encapsulated in our purpose: *to create a safe and secure world, together.*

Contents

FY21 key financials

Revenue	Statutory operating loss	Underlying operating (loss) / profit
£4,183m	£(1,643)m	£(28)m
2020: £4,429m	2020: £(76)m	2020: £378m
(Restated, see page 31)	(Restated, see page 31)	(Restated, see page 31)

Statutory cash generated from operations	Underlying free cash flow	Net debt / EBITDA (covenant basis) (see page 28)
£471m	£170m	2.5x
2020: £445m	2020: £56m	2020: 2.3x
(Restated, see page 177)	(Restated, see page 32)	(Restated, see page 43)

Statutory to underlying adjustments

The Group uses various alternative performance measures, including underlying operating profit, to enable users to better understand the performance and earnings trends of the Group. The Directors believe the alternative performance measures provide a consistent measure of business performance year to year and they are used by management to measure operating performance and as a basis for forecasting and decision-making. The Group believes they are also used by investors in analysing business performance.

This presentation allows for separate disclosure and specific narrative to be included concerning the adjusting items. This helps to ensure performance in any one year can be clearly understood by users of the financial statements. These alternative performance measures are not defined by IFRS and therefore there is a level of judgement involved in identifying the adjustments required to calculate the underlying results. As the alternative performance measures used are not defined under IFRS, they may not be comparable to similar measures used by other companies. They are not intended to be a substitute for, or superior to, measures defined under IFRS.

For further details see the Financial review on pages 30 to 49.

Forward-looking statements

Statements in this Annual Report, including those regarding the possible or assumed future or performance of Babcock or its industry, as well as any trend projections or statements about Babcock's or management's beliefs or expectations, may constitute forward-looking statements. By their nature, forward-looking statements involve known and unknown risks and uncertainties as well as other factors, many of which are beyond Babcock's control. These risks, uncertainties and factors may cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements. No assurance is given that any forward-looking statements will prove to be correct. The information and opinions contained in this Annual Report do not purport to be comprehensive, are provided as at the date of the Annual Report and are subject to change without notice. Babcock is not under any obligation to update or keep current any information in the Annual Report, including any forward-looking statements.

Key messages

1. Following extensive reviews, we now have a turnaround plan to restore Babcock to strength without the need for new equity.

2. We did not adapt our approach quickly enough to match the changing world around us and this led to underperformance. We are now aiming to put this right.
See page 8 for details.

3. The contract profitability and balance sheet review has had a significant impact on our financials but the vast majority of the impacts are one-off.
See page 33 for details.

4. We have established a more appropriate baseline for financials going forward.

5. Our strategy review has now been completed and we are focusing on being an international aerospace, defence and security company.

6. We are well placed in our markets for future opportunities.
See page 18 for details.

7. We are aligning our portfolio and aim to generate at least £400 million of disposal proceeds over the next 12 months.

8. Our new operating model will help improve performance and control.
See page 13 for details.

9. Babcock will be a better place to work.
See page 22 for details.

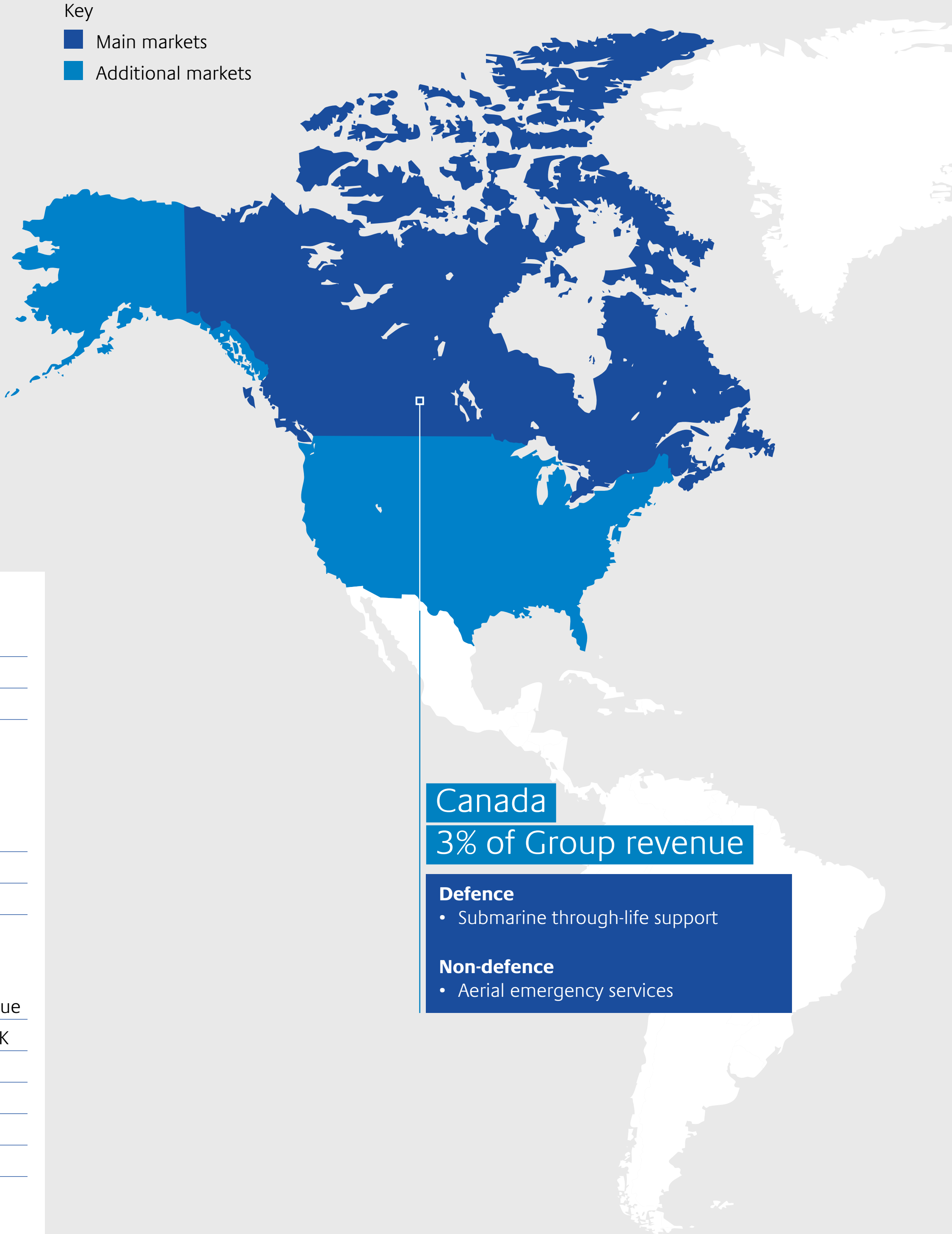
10. ESG is becoming central to all that we do and we continue to make good progress, including a commitment to net zero for our estate, assets and operations, by 2040.
See page 62 for our ESG report.

What we do

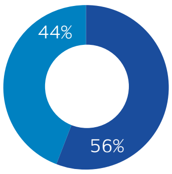
Babcock is an international aerospace, defence and security company with a leading naval business, and provides value-add services across our main markets of the UK, France, Canada, Australasia and South Africa. We also operate in, and export to, additional markets.

The markets in which we operate

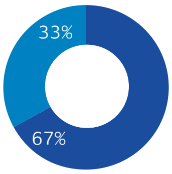
Key
- Main markets
- Additional markets



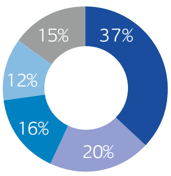
Revenue profile



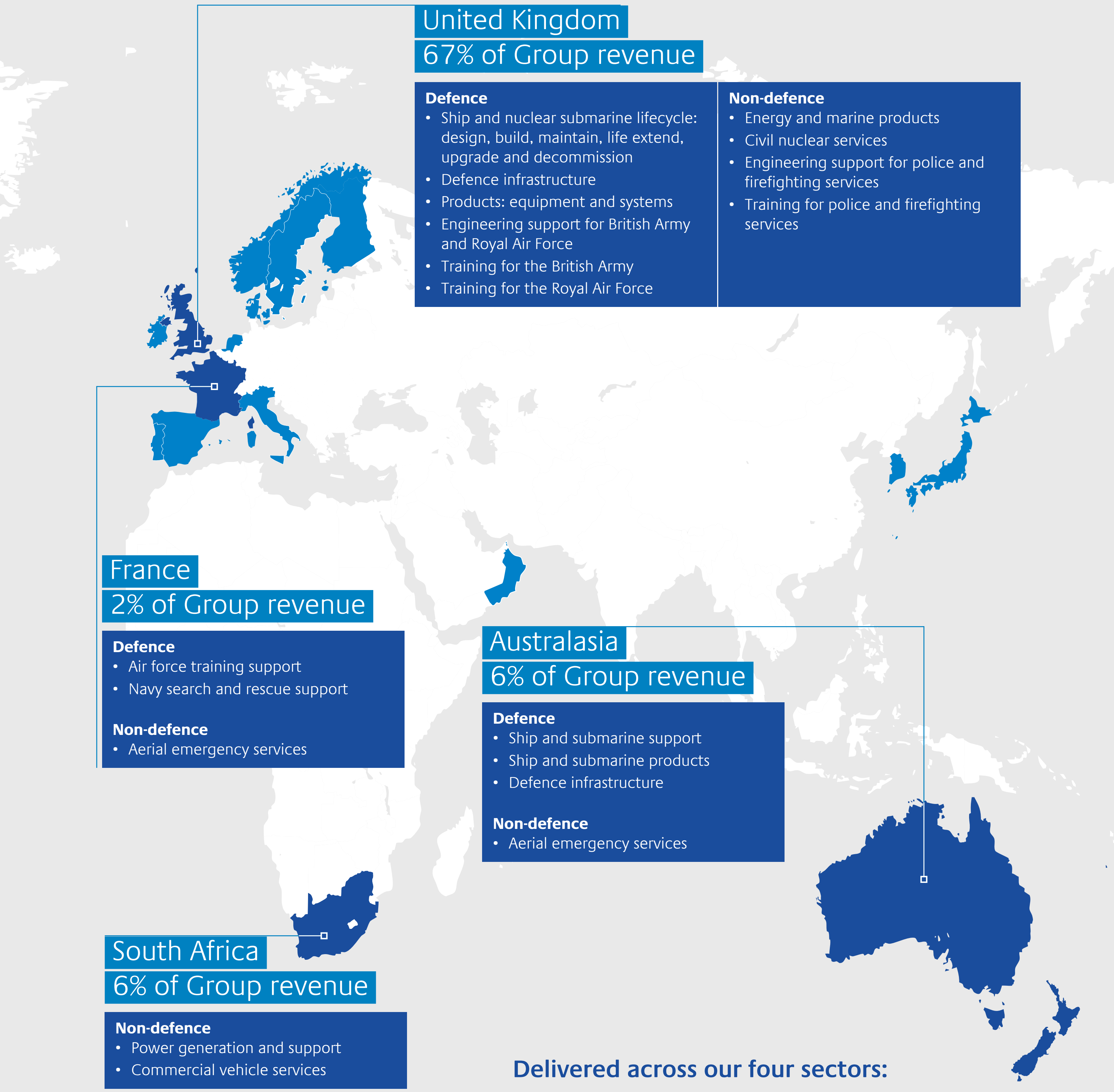
- Defence
- Non-defence



- UK
- International



International revenue
- Europe, excl. UK
- South Africa
- Australasia
- North America
- Rest of world



United Kingdom
67% of Group revenue

Defence
- Ship and nuclear submarine lifecycle: design, build, maintain, life extend, upgrade and decommission
- Defence infrastructure
- Products: equipment and systems
- Engineering support for British Army and Royal Air Force
- Training for the British Army
- Training for the Royal Air Force

Non-defence
- Energy and marine products
- Civil nuclear services
- Engineering support for police and firefighting services
- Training for police and firefighting services

France
2% of Group revenue

Defence
- Air force training support
- Navy search and rescue support

Non-defence
- Aerial emergency services

Australasia
6% of Group revenue

Defence
- Ship and submarine support
- Ship and submarine products
- Defence infrastructure

Non-defence
- Aerial emergency services

South Africa
6% of Group revenue

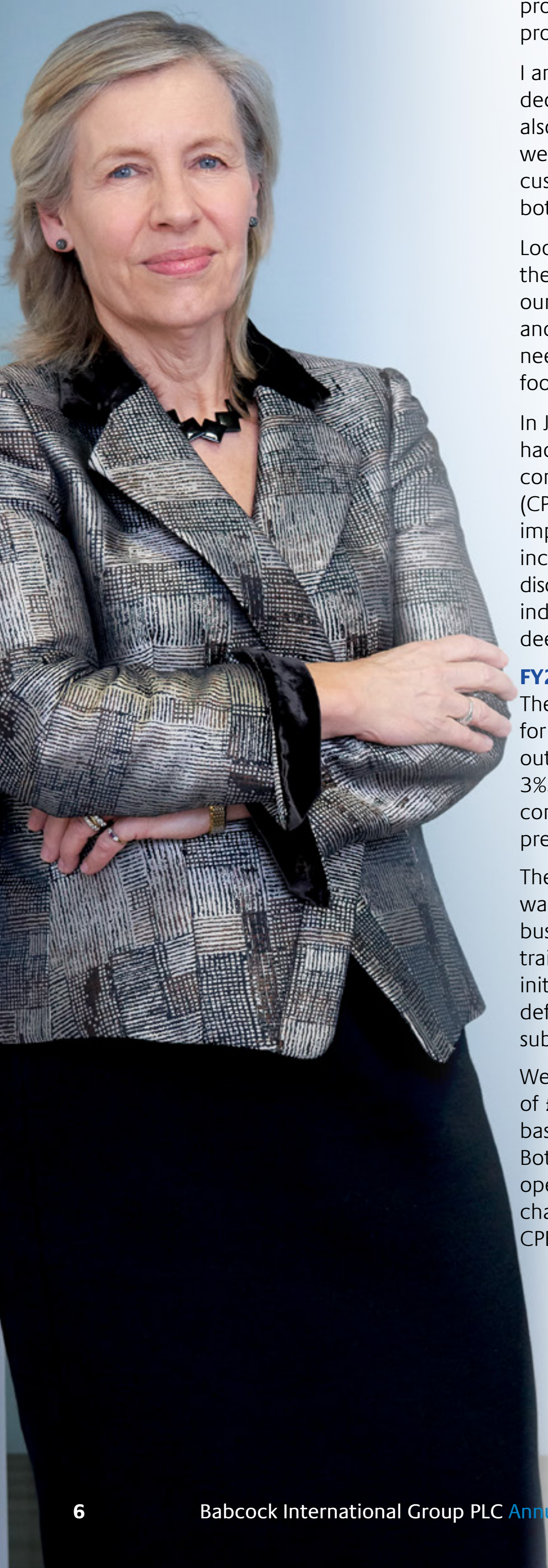
Non-defence
- Power generation and support
- Commercial vehicle services

Delivered across our four sectors:

Marine, Nuclear, Land and Aviation

See pages 50-57

Returning Babcock to strength



This has been a very challenging year for Babcock. We needed to mitigate the ongoing operational restrictions due to the COVID-19 pandemic that prevailed throughout the year. As a result of our efforts, we have been able to maintain progress delivering our customers' critical programmes and services.

I am very proud of the extraordinary dedication demonstrated by our staff, and also of our sustained focus on the care and wellbeing of all our teams. I know that our customers and partners have appreciated both our flexibility and our commitment.

Looking to the longer term, we have faced the very significant challenge of reviewing our strategic direction, operating model and financial baseline and taking the steps needed to set the Company on a sound footing for the future.

In January 2021 we announced that we had commenced a detailed review of our contract profitability and balance sheet (CPBS), which was likely to lead to negative impacts on the Group's balance sheet and income statement. Subsequently in April we disclosed the early results of the review which indicated a significant, unexpected and deeply disappointing level of adjustments.

FY21 results

The Group's reported financial performance for FY21 is in line with the expectations set out in April. Organic revenue declined by 3%, with demand for our services largely continuing despite the challenges presented by the pandemic.

The impact of the pandemic on demand was felt most strongly in our non-defence businesses such as civil aviation and civil training. Our defence businesses did initially suffer some interruption, but most defence programmes and sites were subsequently reopened.

We are reporting a statutory operating loss of £1,643.0 million and, on an underlying basis, an operating loss of £27.6 million. Both the statutory and the underlying operating losses are primarily due to charges taken as a result of the CPBS review.

To allow a useful comparison to last year's results, and as a better measure for the future, our financial report this year focuses on the Group's underlying operating profit excluding the one-off impacts of that review.

On that basis, our underlying operating profit was £222.4 million in FY21, compared to £377.6 million the previous year (restated), mainly reflecting disposals and lost businesses as well as a significant impact from COVID-19.

The social distancing restrictions required in our operations led to less effective delivery, such that the impact of COVID-19 on profitability has been materially greater than on revenue. These restrictions, as well as higher levels of employees working from home, continue to date.

The year-on-year decline in profitability of £155.2 was exacerbated by significant credits which benefited the results of the previous financial year. These are covered in more detail in our Financial review on pages 30 to 49.

Addressing underperformance

When I became Chair in 2019, it was clear that we needed to address a pattern of underperformance compared to the expectations set by the Board, and this was reinforced by the frustrations expressed to me by several of our stakeholders.

The path to understanding and resolving these issues started with the early steps I outlined in last year's Report, which have continued and accelerated this year.

Governance has been strengthened through changes in the Board's processes and there has been significant development in the membership of the Board including a new Senior Independent Director and new Chairs of the Audit and Remuneration Committees.

A new CEO

We also moved quickly to secure a new CEO with a search started in February 2020 upon the announcement of Archie Bethel's retirement. It was essential that the transition avoided any uncertainty or instability in the business, particularly given the critical nature of our work.

"Whilst it has been a year of profound challenge, I am confident that we have the right team, the right strategy and the right governance to ensure we are able to take advantage of the opportunities before us.

"We are on a clear path to return Babcock to strength."

I was therefore delighted that, despite COVID-19, we were able to conduct a thoughtful and robust process at some pace, appointing David Lockwood to take up the position of CEO in September 2020. The Board subsequently appointed David Mellors as CFO in November.

Driving progress

The new management team has since been driving rapid progress across a full range of priorities within an overall agenda supported by the Board.

This has included reviewing the strategic and operational way forward for the business and, most notably, the CPBS review.

Unlike the review I referred to last year, which looked at a sample of contracts and focused on technical accounting, this was an executive-led review of the business fundamentals and underlying assumptions for a much broader range of contracts. It also incorporated an extensive assessment of the carrying values on the balance sheet.

The review, including our annual goodwill impairment test, highlighted a large number of issues and the need for a significant write down of our balance sheet. As well as changes in estimates and accounting policies, the total charge of £2.0 billion includes prior year errors. More detail of the findings can be seen on page 33.

The review has demonstrated that, in an evolving and increasingly competitive environment, our governance framework, business management and internal and financial controls were not fully effective in some parts of the business.

Despite compliance with most provisions of the Corporate Governance Code, there have been weaknesses in some aspects of our governance framework, notably in Aviation. There have also been weaknesses in its practical implementation, including instances across the businesses, affecting this year as well as prior periods.

We have paid careful attention to ensuring that, as we introduce a completely new operating model and changes in governance and controls, we can be confident that our processes are fit for the strategic path we are now setting out. These changes are being supported by a strong focus on tone from the top.

Response to review findings

The various elements of our response are set out in this Annual Report as follows:

- The findings of the CPBS review are presented in detail in the Financial review (see page 33);
- The work of the Audit Committee in reviewing every finding and its correct accounting treatment is covered in the Audit Committee report, alongside the Committee's assessment of controls;
- The enhancements in governance are set out in my introduction to the Governance section;
- The changes in internal controls linked to the new operating model are set out on page 47.

The Board fully acknowledges the extent and seriousness of the accounting issues and weaknesses identified. We are satisfied however that we have taken the necessary steps, and at sufficient pace, to be able to look forward to a positive future.

The Board believes that with execution of our plans, the future of the Company can be secured without the need for new equity. Our new Executive team has a proven track record of delivering business turnaround and transformation at listed companies.

And we are confident that the strategic clarity, simpler and more accountable operating model, new people strategy and revised governance will result in improved financial transparency and control, a stronger balance sheet and the capability to create and capture future opportunities.

We have also developed a new Group purpose: ***to create a safe and secure world, together***. We believe this reflects our continued commitment to our customers' critical operations, our focus on empowerment and collaboration throughout the organisation and with partners.

It also reflects our refreshed commitment to ESG, including our new goal to reduce carbon emissions and achieve net zero in our estate, assets and operations by 2040. The new purpose will support our intention to drive cultural change throughout the business.

Whilst it has been a year of profound challenge, I am confident that we have the right team in place, the right strategy and the right governance to ensure we are able to take advantage of the opportunities before us.

We are on a clear path to return Babcock to strength.

Ruth Cairnie
Chair

Creating a new approach

We did not adapt our approach to match the changing world around us quickly enough. This led to underperformance for our customers, our employees and our investors. We are now aiming to put this right.

What the world looks like now

- The world is more unstable with new and evolving threats to national security

See page 18 for a detailed look at the defence market

- Many exciting opportunities exist across our markets but our customers demand more sophisticated relationships and outputs
- Our aspirations around the Avincis acquisition in 2014 have not played out, most notably the growth opportunity in oil and gas and the sustainability of high margins
- The UK's Nuclear Decommissioning Authority has moved large civil nuclear projects in-house which has changed the shape of our civil nuclear business

How we are responding to it

- Developed a refreshed strategy

See page 16

- Aligning our portfolio
- Creating a new operating model that will increase collaboration and reduce complexity and duplication, and improve our internal and financial controls
- Established a more appropriate baseline for future financial performance
- Increasing focus throughout our business on cash and returns
- Building a stronger balance sheet with lower leverage
- Implementing a new people strategy

See page 22

This new approach aims to create

- A better place to work for our employees
- Improved and more consistent delivery for our customers
- Increased ability to meet our budgets
- Improved quality and predictability of earnings, with profits backed by cash
- An appropriate balance sheet
- A return to growth

Meet the CEO

David Lockwood became Babcock's CEO on 14 September 2020. Having spent his first few months listening to colleagues, customers and investors, he's been making significant changes. In this short Q&A he talks about returning the Company to strength.

Q What attracted you to Babcock?
The Company does really exciting things but has the potential to do so much more. When I first spoke to the Chair it was clear that Babcock was on a journey of strategic, operational and cultural change, and the interaction between those three elements is what's really excited me throughout my career.

Q What was it like joining the Company in the middle of a global pandemic?
I like to get out and about to meet people and customers to understand how an organisation works. Obviously that wasn't possible, so I had to learn a lot of new ways of working, so I could reach and understand the organisation in ways I hadn't thought about before.

Q And what did you learn about the business?
That we had consciously been run as a federation rather than a unified Group. It was a model that had served in the past but which now needed to change to address today's challenges and opportunities. And I learned that the good bits were better than I thought and the bad bits were worse.

Q You say the bad bits were worse – what do you think went wrong?
I think we probably set ourselves unattainable objectives for the business we were. When you overreach you can do a lot of self-harm in trying to achieve the unattainable. And like any athlete, if you aren't fit for the challenge you set yourself, if you strain for something out of reach, you open yourself up to injury. To stick with the analogy, when I arrived, Babcock had pulled a hamstring.

Q So how will you get Babcock back to full strength?
In the near term we have to rein in the challenges, focus on our recovery, and get fitter. The strategic piece is making sure we're competing in the right events and the new operating model is how we get fit. And like any athlete who has gone through a period of being out of condition, we need to regain our confidence, and that's the work we're doing on culture.

We are aiming to become an athlete capable of performing with confidence. We will be fit for what we're taking on today, and then as we get fitter still, we can take on more.

Q How would you describe your strategy?
We will focus on our core activities in the UK, and then use them to develop internationally in two ways. Firstly to work on exporting from the UK, much more heavily embracing the aims of the UK Government and its strategy. And secondly to develop international presence in our target countries, focusing on our capabilities, particularly in Marine and value-add services. It's pretty simple. And there's loads to go for.

We're already focusing on the things that matter at a Group level. Overreaching can often mean a weak balance sheet, so focusing on where we want to compete – and divestments are part of that – will allow us to drive things differently.

Q What's your personal focus for the coming year?
Once the direction is set, the main role of a CEO is to coach, and I'll be concentrating on two distinct areas. First the cultural development – our new purpose, a greater emphasis on ESG and so on. The second is international, both the international countries in which we operate, and exports.

Q What difference are shareholders going to see?
All of this aims to deliver sustainable cash-backed margin and growth, which drives the investment proposition, which generates sustainable, predictable returns to shareholders. Babcock will be competitive on the world stage.

David Lockwood
Chief Executive Officer

Adam Collins
Motor Cycle Technician
UK

Detailed reviews completed and turnaround underway

David Lockwood
Chief Executive Officer

"Our direction is set, and we are ensuring that we have all the elements in place to take advantage of the many opportunities which lie before us."

Our new approach

We announced a series of reviews in January 2021 of our strategy, portfolio and operating model, alongside a deep dive into the profitability of our contracts and balance sheet position to establish a financial baseline. These reviews have now been concluded, and the results make a compelling argument for the significant change needed in order to unlock the Group's potential.

The reviews showed that Babcock was being run as a federation rather than a unified Group, an approach which may have served us in the past but does not meet the needs of today's market. The last few years have seen a move to in-source civil nuclear work in the UK, increased customer demands on each new programme, the need for a more agile supply chain and the requirement for more innovative solutions to the evolving threats in international defence. We did not adapt to the changing world around us quickly enough.

We also have to accept that the expectations we had for the Avincis acquisition in 2014 have not played out. Growth in the markets Avincis served has not been as expected, most notably in oil and gas, and the profitability of those businesses has been under pressure for some years. Many of these pressures are highlighted in our contract profitability and balance sheet review ('CPBS') with just over half of adjustments by value relating to businesses that came from this acquisition. Most importantly, we have already started to implement a plan to fix this: removing costs and taking a different approach to contract bids. We are disposing of our oil and gas business and are further reviewing the aerial emergency services businesses.

As a Group, it seems that we sometimes have been optimistic in setting objectives. This led to a pattern of underperformance which we are determined to address. We are doing just that, and have instituted a number of changes to enable us to be fit to take advantage of the significant opportunities we can see ahead.

We now have a more appropriate baseline for the financial performance of the Group. We have set a new strategy as outlined below, with a greater focus on maximising our fundamental strengths in the UK and internationally, both in our target countries and through exports like the new Type 31 frigate and High Frequency communications. I'm pleased to say that the international defence market is responding positively. And we are undergoing a wide-ranging refresh of our culture – not just in terms of the new ways of working captured in the changes to the operating model, but in the rolling-out of a new people strategy and a new emphasis on ESG throughout the Group.

Strengths of the Group

Our business is based on some key fundamental strengths across the Group, including:

- Deep technical expertise and highly skilled people across critical and complex engineering
- Ownership of key sites and infrastructure including the Devonport and Rosyth dockyards
- Strong relationships with our customers, including a deep understanding of their challenges
- Strong niche positions in Canada, Australasia and South Africa, with a developing position in France
- A range of platforms, systems and products that are highly competitive in international markets

Our strategy

We are an international aerospace, defence and security company with a leading naval business, and we provide value-add services across the UK, France, Canada, Australasia and South Africa. We are focused on five strategic actions:

1. Aligning our portfolio
2. Implementing our new operating model
3. Rolling out our new people strategy
4. Developing our new ESG strategy
5. Exploring growth opportunities

Together this should lead to returns for our shareholders, improved delivery for customers and a better place to work for our employees.

1) Aligning our portfolio

Our strategy review defined the markets we wish to serve and therefore the best portfolio to hold. With this in mind, we considered which businesses we are the best owner of and on which we could earn a sufficient return on capital and this has led to us identifying businesses that may be divested. This portfolio alignment will reduce complexity, increase focus and increase the effective use of the Group's capital by disposing of the businesses that are outside the perimeter of our strategy.

We are targeting proceeds of at least £400 million over the next 12 months from these divestments. Some of these processes are underway and we will update the market when material progress is made.

As announced in March 2021, we have agreed the conditional sale of our oil and gas aviation business. This deal is expected to complete over the summer subject to the satisfaction of the relevant third-party conditions.

2) Implementing our new operating model

We are creating a business that is more efficient and effective. We are reducing layers of management within the business to form a flatter structure that will simplify how we operate, improve line of sight, shorten communication lines and therefore increase business flexibility and our responsiveness to market conditions. Sadly, these changes will result in approximately 1,000 employees leaving the Group over the 2022 financial year with an estimated restructuring cost of £40 million.

These changes will also reduce our operating cost base. Some of the savings will be recognised across long-term projects, for example where they form part of existing contract efficiency assumptions, and some savings will benefit our customers via the contract structure. As such, the expected realisable annualised savings are approximately £40 million. The benefit in FY22 will be roughly half this due to timing.

These changes will also create a leaner organisation and should help our decision-making – giving more power to the teams closer to the customer. The changes also aim to improve our internal and financial controls, see further details in our Financial review on page 30.

3) Rolling out our new people strategy

We are developing an organisation that shares capability, talent, innovation and best practice across the Group and removes complexity. The new operating model is a key pillar of our new people strategy. On top of this, we will create an agile and inclusive workplace, improve our diversity, create a new approach to talent management and we will harmonise our people policies and processes. All of these will combine to make Babcock a better place to work for our employees.

Delivering our new operating model and new people strategy requires us to embrace a new culture to unlock the potential that exists within the business – one which continues our tradition of focus on the customer, but which enables more innovation and collaboration. We have begun that process with the articulation of our new purpose: creating a safe and secure world, together. It's a recognition of the positive role we can and should take in creating a safe and secure world, as a responsible member of society, and of the fact that almost everything we do is collaborative – whether it is working together across the different parts of the Group, working with our customers, or working with our partners and suppliers. We have started to transform our culture and that work will continue throughout the coming financial year.

4) Developing our new ESG strategy

We have continued to make great progress on developing our ESG strategy in a year of many challenges. We have a plan to reduce harmful emissions and integrate sustainability into programme design and have set a new target for the Group: to achieve net zero carbon emissions for our estate, assets and operations by 2040.

We want to make a positive difference to our communities, including providing high-quality jobs that support local economies, and we are focused on being a collaborative, trusted partner across the supply chain. We have reaffirmed our commitment to championing inclusion and diversity across the Group, including setting a new target to ensure that 30% of our senior leadership roles are filled by women by 2025. Additionally we are actively working on meeting the recommendations of the Parker Review as we support increasing the representation of ethnicity on UK boards.

5) Exploring growth opportunities

While our immediate focus has been on completing our reviews and getting a more appropriate baseline in place, we are also exploring the growth opportunities ahead of us. The markets we address offer favourable medium-term growth and we will focus on opportunities for defence and value-add services in the UK, France, Canada, Australasia and South Africa.

Work on key programmes critical to the national security of the UK is the core of what Babcock does. Given our strong market position today, growth in the UK will mainly be dependent on market growth. There are areas where we will also look to increase our share, for example secure defence communications.

Growth in international markets can come from market growth and an increase in market share. We aim to develop our international presence in our target markets of France, Canada, Australasia and South Africa. We are bidding for contracts that, if won, would offer significant growth, for example pilot training in Canada.

Our range of products have further opportunities for growth including in our equipment and systems exports and international demand for the Type 31 platform. We aim to export a lot more in the future from the UK, embracing the aims of the UK Government and its strategy.

Recent business development

The Group continued to win work across all markets and sectors in the year and, as of 31 March 2021, our contract backlog was £8.7 billion. We now report a contract backlog rather than an order book as in previous years. Our new measure does not include around £6.0 billion of work expected to be done by Babcock as part of framework agreements and, to align with the change in presentation of revenue, does not include a contribution of joint ventures and associates of around £2.0 billion.

In June 2021, we signed a tripartite Memorandum of Implementation with the UK's MOD and Ukraine's MOD to be the prime contractor on a major programme of naval defence projects. The programme includes the enhancement of capabilities on existing naval platforms, the delivery of new platforms, including fast attack missile craft, a modern frigate capability, shipborne armaments and the training of naval personnel. It also involves working together to regenerate Ukrainian shipyards by developing, implementing and completing a Shipyard Regeneration Plan.

Also in June 2021, we were awarded a contract with the French MOD for an expansion of our existing defence aviation training activities. This five-year contract is worth around €500 million and started in June 2021. We also won a logistic support contract worth £150 million as part of the UK MOD's £3.2 billion Battlefield and Tactical Communication Information Systems (BATCIS) programme of opportunities to deliver the next generation tactical communications and information systems.

We are currently in active discussions regarding Type 31 export opportunities with a number of countries, including Greece, Indonesia and Poland.

Summary of financial performance in FY21

Our financial performance in the year was in line with the early indications we gave in April 2021, though this now includes presentational changes as covered in the Financial review. Organic revenue decline was 3% with demand for most of our work holding up well despite the pressures of the COVID-19 pandemic.

We made a statutory operating loss of £1,643 million in the year, mainly as a result of charges taken in our CPBS including the impairment of goodwill (see page 33). On an underlying basis, our operating loss was £27.6 million, again mainly due to CPBS charges. For the most useful comparison to last year, and as a better measure for future periods, we focus in this report on the Group's underlying operating profit excluding the one-off CPBS adjustment. On this basis, we had an underlying operating profit of £222.4 million in the year compared to £377.6 million last year (restated), both of which now exclude our share results of joint ventures and associates.

This decline in profit reflects disposals and lost business as well as a significant impact from COVID-19. The year-on-year decline is exacerbated by significant credits that benefited the results of the previous financial year. These are covered in more detail in our Financial review.

The COVID-19 pandemic had a material impact in the year and continues to cause uncertainty across our markets. The impacts in the year were most severe for our non-defence businesses (e.g. civil aviation and civil training) where activity in some cases stopped. The defence businesses saw some interruption and increased costs initially. Subsequently, most defence programmes and sites were reopened, albeit with social distancing restrictions and higher levels of employees working from home. This led to less efficient delivery, hence profitability was affected proportionately more than revenue.

Health and safety performance in the year

While our total injuries rate was lower this year, at 1.01 reported injuries for every 100,000 hours worked (2020: 1.24), we saw an increase of 36% in the more serious 'Babcock RIDDOR' injury rate. Tragically, in August 2020, during a firefighting mission an aircraft crash-landed in Spain near the Portuguese border causing the immediate fatality of the co-pilot. The pilot, who had suffered major injuries, subsequently passed away. The incident is currently under investigation by the appropriate authorities. This incident and the increase in serious injuries underlines how crucial it is we continue to focus on improving our health and safety performance.

Trading in the first quarter for FY22

Trading in the quarter ended 30 June 2021 was in line with our expectations across all four sectors. Net debt (excluding operating leases) was £1,140 million, higher than at 31 March 2021 but lower than the average net debt for FY21.

Outlook

We are confident that we have established a clear strategic path to return Babcock to strength, but the extent of the transformation we are undergoing means that FY22 will be a year of transition. The impact of COVID-19 on performance in FY22 is uncertain. While activity levels have broadly recovered, the additional costs from operating in a COVID-secure way remain. These costs, combined with the uncertainty over business interruption from increased cases and potential new variants, mean that we do not currently expect a material boost in profitability from COVID-19 restrictions easing. As such, we remain cautious about the progress we will be able to make on profitability.

Free cash flow will be impacted by the material cash outflows previously communicated, particularly additional pension contributions and exceptional cash costs, both restructuring costs and the Italy fine. In addition, we are still investing in facilities and IT upgrades and we will be unwinding the historical management of working capital around period ends. As such, free cash flow (before disposal proceeds) in the 2022 financial year is expected to be significantly negative.

We are confident about our prospects for the markets we serve. We believe that with our improved strategic focus and operational delivery, and with efficiencies generated by the new operating model, we can significantly improve the Group's profitability, and most importantly its cash generation, over the medium term but this will take time to deliver.

Delivering for all our stakeholders

Over the medium and long term we are focused on delivering value for all of our stakeholders, including:

- **Returns for our shareholders**: a return to growth with improving margins and better cash conversion
- **Improved delivery for our customers**: consistent delivery and partnering with customers to solve their challenges
- **A better place to work for our employees**: an open, collaborative and diverse workplace that engages our employees

Our direction is set, and we are ensuring that we have all the elements in place to take advantage of the many opportunities which lie before us. We look forward to sharing updates on our progress as we move forward

David Lockwood OBE
Chief Executive Officer

Our strategy

We are focused on being an international aerospace, defence and security company with a leading naval business, providing value-add services across the UK, France, Canada, Australasia and South Africa.

UK naval business

Strengths

- Owns key sites and infrastructure including the Devonport and Rosyth dockyards
- Deep technical expertise across critical and complex engineering
- Customer relationships

Growth drivers

- Increase in UK defence budget
- Increase in shipbuilding
- Defence and nuclear infrastructure
- Increased submarine support with more classes in service

UK value-add services

Strengths

- Deep technical expertise across critical and complex engineering
- Deep technical expertise in civil nuclear
- Customer relationships

Growth drivers

- Long-term opportunities in civil nuclear

International

Strengths

- Strong niche positions in Canada and Australasia and South Africa
- Developing position in France
- Range of platforms, systems and products that are highly competitive in international markets
- Customer relationships

Growth drivers

- First generation outsourcing
- Equipment and systems
- Potential for Type 31 exports

Supported by

Our five strategic actions

Delivering

Returns for our shareholders

A return to growth with improving margins and better cash conversion

Improved delivery for customers

Consistent delivery and partnering with customers to solve their challenges

A better place to work for our employees

An open, collaborative and diverse workplace that engages our employees

Strategic actions

1. Align the portfolio

- We will align the Group's portfolio by divesting certain businesses to reduce complexity, increase focus and improve the effective use of the Group's capital by disposing of the businesses that are nearer the perimeter of our strategy
- This is expected to generate disposal proceeds of at least £400 million over the next 12 months

2. Implement our operating model

- We are creating a business that is more efficient and effective
- A flatter structure will simplify how we operate, improve communication and increase business flexibility and our responsiveness to market conditions
- The new structure will reinforce a one company culture and remove duplication
- This new model will generate annualised cost savings of approximately £40 million, helping to create a stronger Babcock
- The new model will also help our internal and financial controls

3. Roll out a new people strategy

See page 22 for more details

- We will develop an organisation that shares capability, talent, innovation and best practice across the Group and removes complexity
- We will communicate our purpose and create a culture that better supports and empowers our people
- We will create an agile and inclusive workplace, which supports work-life balance
- We will improve diversity across the Group
- We will take a new approach to talent, learning and performance
- We will harmonise people policies and processes

4. Develop our ESG strategy

See page 62 for more details

- We will reduce emissions and set science-based targets to get to net zero across our estate, assets and operations by 2040
- We will integrate environmental sustainability into programme design to minimise waste and optimise resources
- We will make a positive difference to the communities we're proud to be part of and provide high-quality jobs that support local economies
- We will be a collaborative, trusted partner across the supply chain, helping to tackle common challenges
- We will ensure the safety and wellbeing of all our people

5. Explore growth opportunities

See page 18 for opportunities across our defence markets

- The markets we address offer favourable medium-term growth. We will focus on opportunities for defence and value-add services in the UK, France, Canada, Australasia and South Africa
- Growth in the UK will mainly come from market growth, given our strong market position today. There are areas where we will also look to increase our share, for example defence secure communications and shipbuilding
- Growth in international markets can come from market growth and an increase in market share. We are bidding for contracts that, if won, would offer significant in-market growth, for example pilot training in Canada
- Our products have further opportunities for growth including growth in our equipment and systems exports and international demand for the Type 31 platform

Babcock across defence

Defence is our largest market and at the heart of what we do. We have a crucial role in delivering critical defence services in the UK, France, Canada, Australasia and we make products for several other nations including the USA and Korea.

Our customers are all facing similar demands:

- A more unstable world with new and evolving threats to national security
- Budgets under pressure to deliver value for money
- A greater need for applied technology

Defence markets offer significant resilience and long-term potential, both in terms of increased spend in our current markets and expansion into new markets, and our bid pipeline includes many opportunities. We are focused on the UK, France, Australasia and Canada markets, as well as export opportunities across the world.

UK

Market position

Our primary market today is the UK, where we provide critical support to all of the UK's armed forces. 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 requirements evolve and complexity increases.

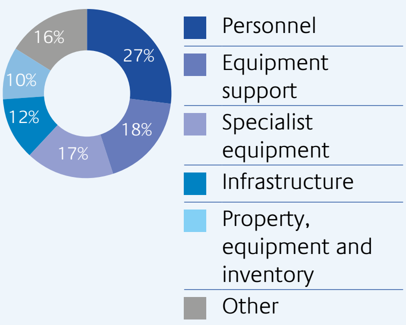
Over the last year, the UK has seen a significant uplift in budget commitments. Defence spending rose to £39.8 billion in 2020, an increase of £1.8 billion or around 2%, adjusted for inflation compared with 2019, with an estimated £19.5 billion spent on MOD equipment and equipment support, an increase of around 13%. Around 18% of the total defence spend (of around £7 billion) was designated to supporting MOD equipment, slightly lower than last year.

Growth year on year is dependent on the phasing of MOD spend, whereas long-term UK market growth is driven by the MOD's longer-term spending commitments, which will soon see the biggest uplift in over 30 years. In November 2020, the UK announced a defence spending uplift of £24 billion which will raise defence spending as a proportion of GDP to an estimated 2.2%, exceeding the NATO pledge of 2%. In total, £190 billion was pledged to be spent over the next four years. The budget uplift framework was populated with detailed plans and commitments in the Integrated Review released in March.

Opportunities

The budget uplift produces a variety of potential outcomes for UK defence. The deployment of a carrier strike group will require available ships and submarines with trained personnel and support ships to be ready. The confirmation of volumes of operational F35s and the new Tempest programme may present further opportunities for support to operational training. The continued commitment to the Continuous At Sea Deterrent may require two streams of nuclear ballistic submarine maintenance in future, combined with two streams of attack class submarine support while both classes transition, while the

UK defence spend 2020 £39.8bn



Source: UK MOD departmental resources 2020 – GOV.UK (www.gov.uk).

UK Integrated Review

In March 2021, the UK published the Integrated Review which sets out the Government's strategic framework for national security and international objectives out to 2025, including future threats, capability investment and innovation in R&D. We outline below the highlights from the report most relevant to us.

Naval

- A commitment to develop the next generation of warships, including multi-role research vessels and support ships to supply carriers, with investment set to double to £1.7 billion a year. This sets out a strategic approach to the UK's core industrial base, including shipbuilding in Scotland.
- Confirming the carrier strike group deployment schedule highlights the requirement for support ships, submarines and trained crew and presents opportunities for the wider UK supply chain.
- Continued commitment to the nuclear deterrent and an increase in the cap on the number of UK nuclear warheads from 180 to 260 requires UK industry to enable the continued support of current classes while gearing up infrastructure, support technology and supply chain for the future classes.

Carrier Strike Group © Crown Copyright 2021 Image: UK MOD.

Air Force

- The confirmation of the Tempest programme to provide the Royal Air Force with a modern aircraft to counter future threats. Babcock currently has no involvement with this programme.

Land

- The investment of an additional £3 billion in new army equipment, (including upgrading Challenger 2 to 148 Challenger 3 vehicles) will not directly benefit Babcock, but may present opportunities in the future.
- The Warrior capability sustainment programme, where we had previously targeted supporting the prime contractor, has been cancelled .

Type 31 programme may present further opportunities to progress into the Type 32 class.

Risks

We recognise that our position as the UK's second largest defence supplier represents a significant reliance on the UK MOD, which is identified as a key principal risk outlined by the Group, see page 87. Reputational and execution risk on the volume of critical programmes is also routinely reviewed.

A shift of threat level towards innovative airborne and cyber threats may trigger a response to further move budget allocation away from traditional land-based requirements to new areas.

Canada

Market position

Working with the Royal Canadian Navy, Babcock has transferred the skills and expertise required for UK submarine services to provide through-life support and maintenance to Canada's fleet of Victoria Class submarines.

Opportunities

The Canadian Government has committed to the long-term funding of defence to grow its force size and enhance capabilities. It has also pledged to keep defence spending steady to more closely meet NATO commitments. The Canadian Government's shipbuilding strategy may provide additional surface ship opportunities in the future as new variants are commissioned. In addition, we continue to target future military aviation training opportunities in Canada.

Risks

A preference for native companies could limit Babcock's exposure to further opportunities given our relatively modest footprint in the country. This is highlighted as one of the Group's principal risks, see page 89. Our current work is based around one programme and we do not own any infrastructure.

Australasia

Market position

Babcock provides naval support programmes to the Royal Australian Navy and Royal New Zealand Navy. In Australia, we provide both submarine and surface ship programmes entailing through-life support for the Collins Class submarines, Canberra Class landing helicopter platform docks and ANZAC Class frigates. Babcock also provides unique defence exports for weapons handling and launch systems for their future frigate and submarine programmes. In New Zealand, we provide maintenance programmes for their fleet of frigates through the managed dockyard in Auckland.

Opportunities

Australia has set out a significant increase in defence spending over the next 10 years. A key beneficiary of the increase are the ship and submarine building programmes to address the evolving threats in the Indo-Pacific region. The new frigate and submarine programmes present a good opportunity for naval defence contractors.

Risks

Competition remains strong in Australia and we may need to develop a larger in-country presence for some major programmes in the pipeline.

France

Market position

In partnership with the French Air Force, Babcock developed a first-generation outsourcing programme of support for fixed wing air training. Babcock built from that position with rotary wing support for French Navy search and rescue operations, with clear overlap with our aerial emergency services maintenance and support business.

Opportunities

The French defence budget will benefit from the third year in a row of increased spend. There is opportunity to use our status as a maritime and aviation support and training provider to deliver integrated support and training requirements as additional programmes may mature into an outsourced contracting framework.

Risks

With limited infrastructure, there is a risk that French companies will be prioritised for national recovery plans designed to support the defence sector's supply chain.

Products

Market position

Babcock offers a number of defence products in naval market categories. A major offering in our product category is the UK's Type 31 frigate programme, building on our capability with the design, build and assembly of the Queen Elizabeth Class aircraft carriers.

We have unique solutions for weapons handling and launch systems, primarily for submarines but also for surface ships, with supply and support to the UK, Australia, Spain, and Korea. We are also involved in the production of vertical missile tubes for the US-UK common missile compartment programme. In addition to weapons handling and launch systems we have expertise in designing innovative equipment launch and discharge systems.

Opportunities

Type 31 presents the largest product opportunity for Babcock, with potential for international export plus the Type 32 variant recently included in the UK Integrated Review. In addition to current build programmes, the Fleet Solid Support ships (FSS) will be required to support the carrier strike group on deployment and Babcock is well placed for some of this work. Outside of shipbuilding there is a potential to combine our equipment discharge system knowledge with autonomous technology for deployment in a variety of applications.

Risks

UK shipbuilding decisions receive a great deal of political attention and bidding processes are competitive.

Our business model

Customer challenges

Maintaining national security
We help our customers maintain national security and save lives. Our customers have complex and valuable assets that need to be available for as long as possible and many defence assets need constant sustainment to ensure there are no gaps in defence capability.

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

Safety and regulatory
Safety and regulatory compliance underpin all work. We and our customers operate in heavily regulated environments where the health, safety and wellbeing of all stakeholders is the number one priority.

Our inputs

Our people
We rely on our people, and their experiences and skills, to deliver for our customers and solve challenges every day. We aim to better support and empower our workforce. See our people strategy on page 22.

Our assets
We operate a range of assets in our business, ranging from complex engineering facilities through to aircraft for the delivery of emergency services. We own critical national infrastructure in the UK including the Devonport and Rosyth dockyards.

Our technology and know-how
Across our business we use our technology and our engineering know-how to solve customer challenges. We have a deep understanding of our customers' assets and are able to integrate multiple technologies to support their needs. Read more about our innovation and technology on pages 24 to 27.

What we do

Deliver critical programmes
We provide through-life support for our customers' assets to deliver material improvements in the performance, availability and cost of supporting these assets.

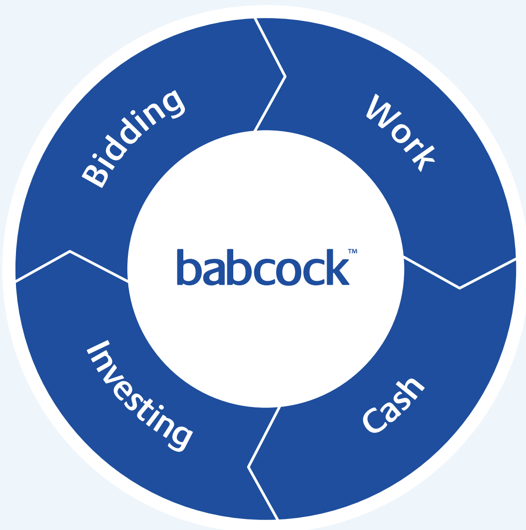
Design and manufacture
We design and manufacture a range of equipment, from warships to weapons handling and launch systems for submarines.

Deliver critical services
We deliver critical services for all our customers, from supporting naval and air base operations to emergency services and complex nuclear services.

How we do it

Bidding
We continually monitor opportunities across our markets, for new and existing customers. We have a multi-gate review process for contract bids to help ensure we only bid on value-creating work. Any contract worth more than £25 million, or lasting five years or more, requires approval from the CEO and CFO.

Delivering across long-term contracts



Work
Our contract backlog of £8.7 billion represents contracted work and provides a base level of revenue for the years ahead. This is supplemented by new business wins, in contract growth and short-cycle work. Contract extensions and variations also add to the our work over time. Revenue is recognised as we deliver on our contracts and performance obligations are satisfied.

Investing
The cash we generate funds reinvestment into the business, principally through capital expenditure to develop sites, equipment and IT infrastructure. It pays our suppliers, employees and lenders and covers our tax liabilities and the funding of our pensions schemes.

Cash
Performance across contracts drives revenue, profits and cash. We aim to improve our cash generation throughout the year as covered in our Financial review, see page 40.

Creating stakeholder value

Customers
Delivering for our customers and partnering with them on the challenges they face.

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

Employees
Creating a better place to work where employees are valued and motivated at all times.

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

Supply chain
Creating jobs and nurturing investment through collaboration with our supply chain and paying our suppliers on time.

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 pages 58 to 59 and 114 to 116 for details on how we engage with stakeholders

Unlocking potential

To become the organisation we aspire to be so we can deliver on our new purpose – *to create a safe and secure world, together* – we recognise that we need a new relationship with our people. In January 2021 I was appointed Babcock's first Chief HR Officer and it is my role to unlock the potential of our people to drive business performance that will deliver for our shareholders, customers and each other.

Over the last few months we have been undertaking reviews of our business performance, our financial baseline and our strategic priorities, along with our operating model. What is overwhelmingly clear is that we have not been leveraging our full potential, strength and capability as a single integrated Group.

We have listened to feedback from our workforce on how it feels to be part of our organisation, and taken a hard look at what we need to do to have a more efficient, agile, sustainable and people-focused business. Our federated structure has resulted in an organisation that is not as efficient as it needs to be and is far too complex. The new operating model we announced in April will support changes to the way in which we deliver our work, including the following:

- **operating as one Babcock,** sharing capability, talent, innovation and best practice Group-wide
- **reducing layers and complexity** to enable more accountability, efficiency and agility
- **enabling functional activity to be centrally coordinated,** providing consistency across the business in the way we do things
- implementing **a new people strategy,** to better support and empower our people
- building **a better, more sustainable business,** which delivers for all our stakeholders

In addition to our new operating model, we have made some progress over recent months to achieving a people-focused business with the introduction of 'agile working', which seeks to offer our employees flexibility in the way in which they can deliver their work.

I recognise there is much more to be done and we need a step change in areas such as inclusion and diversity, employee experience and career development to create an organisation where all of our people feel a sense of belonging and that their contributions are valued.

I am currently working with a range of stakeholders to develop a people strategy that will more closely align with the organisation we want to become and put our people at the core of what we do.

While our people strategy is not yet finalised, it will seek to address a number of challenges by:

- Communicating our purpose and principles – defining who we are, the culture we want, and our shared goals. By developing a consistent purpose and set of principles, we will clarify our expectations of people who work for Babcock. This will create the basis for an integrated, collaborative organisation, which is greater than the sum of its parts and invested in our future. It will also provide clarity on what it means to deliver for our shareholders, customers and each other.
- Creating a safe and welcoming workplace – effectively connecting and engaging all our people to be a company that values diversity, where everyone can be themselves. We have a way to go on this and will be honest and transparent about what matters and our journey to get there. We will take action, tackle issues and overcome barriers to create the inclusive and engaging workplace that our people deserve.

A business where employees are trusted to make decisions about how they work, balancing personal preferences with company and customer needs.
A culture that enables work-life balance, supports family commitments and promotes inclusivity, where employees are empowered to use personal judgement and make individual choices.
A business that focuses on output and deliverables, not presence or location…

This is our new reality.

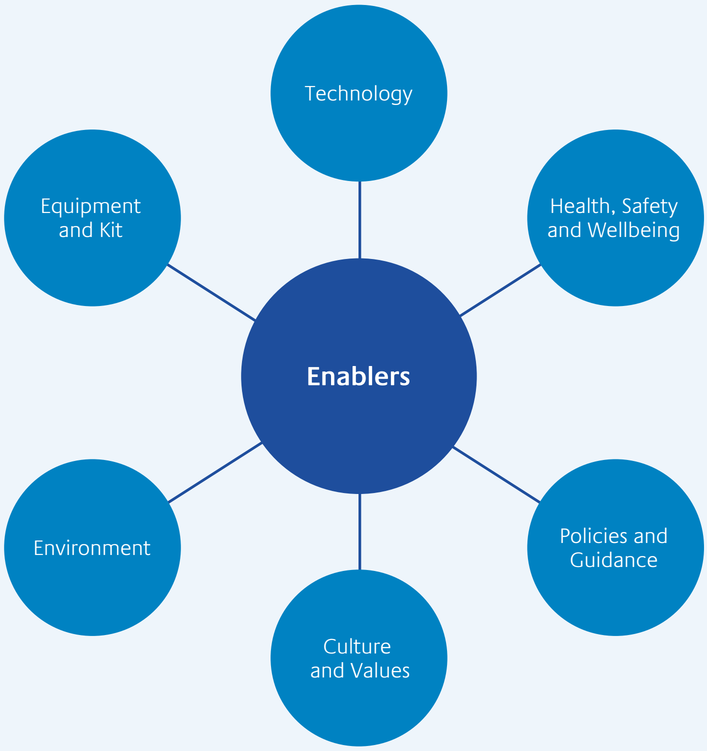
Nikki Fox
Chief Human Resources Officer

- Developing impact-focused, collaborative leaders – there will be a fundamental shift in leadership expectations, creating leaders who 'think, connect and do'. We will set a new standard for leadership and expect leaders to act as role models for our purpose, principles and behaviours in how they support their teams.
- Driving performance and unleashing potential – enabling our people to perform at their best. We will actively recruit new people, and will develop our existing employees, through robust talent, learning and performance processes.
- Harmonising people policies and processes – building solid and aligned foundations that underpin being part of a single Babcock. We will develop a consistent proposition and experience for all Babcock employees that is delivered through an appropriately structured and highly capable people function, with simplified and clear people processes.

This is a very exciting time to be part of Babcock, and I am delighted to be leading the work we are doing around our people strategy and I look forward to working with our trades unions as we return Babcock to strength and offer a better experience for all our people, a better place to work and a better partner to our customers.

Nikki Fox
Chief Human Resources Officer

Agile Working Enablers



Babcock employees gardening at Rosyth as part of an initiative to support mental health charities.

Sustainability matters

As we reshape the business, it's evident that sustainability needs to take centre stage in our thinking at all levels, from the Board to the front line.

It's a fundamental part of the responsible management of any business. It's what all our stakeholders, from customers to investors to our own people, demand. And rightly so.

This isn't about paying lip-service to the notion of responsible business; it's about being a business that we are proud to be a part of, one which enables us to live our purpose: ***to create a safe and secure world, together***.

Last year we developed an ESG strategy, and this year we are building on it. We are still at the start of our journey but we're developing the targets that we want to be measured by as we make progress along the route.

Our commitment to addressing the global climate crisis by delivering net zero emissions by 2040 is just one example.

One thing is clear, there is no chance that we will turn back.

For details of what we are doing on ESG see pages 62 to 81.

Innovating for the future

Technology is changing the way we work and what we deliver. That means our customers are increasingly turning to us for tomorrow's technology solutions. The impact of the COVID-19 pandemic alone has shown us that.

Over the last year we have taken a hard look at how we can foster innovation and technology across the Group. It was clear that whilst there were areas in which we excelled, we needed to be more flexible and proactive in driving and sharing innovation across the Group.

The responsibility for business performance and customer delivery rests on all our people, so innovation in Babcock goes beyond the technical engineering and digital domains. Innovation is vital to our service delivery and business performance, so it matters in all our operational and functional areas. It can range from continuous 'lean' thinking to larger 'landmark' capability development programmes.

That's why, as well as acting on key themes in our technology road maps, we are growing our innovation platforms and knowledge transfer networks – encouraging our people to be curious and to collaborate, to put good ideas into practice.

We believe this is an important factor in increasing our operational efficiency and our access to new markets – whether that is in deploying our full capability internationally, or exploiting the growth of new asset types and operating environments facing our customers.

As our customer requirements have changed and evolved, we've also been looking at new ways of innovating and how we can harness the wealth of expertise we have in Babcock and share that knowledge in ways that will make a real difference to how we run our business.

We know we can do things differently and we know we need to do things differently.

My appointment to the new role of Babcock's Chief Innovation & Technology Officer is a sign of the Group's commitment to driving change.

Jon Hall, PhD
Chief Innovation & Technology Officer

Fostering innovation

Over the current financial year, working together with our leadership team we will nurture and foster innovation within Babcock, supported by our new people Strategy (see page 22). We will build on our inherent engineering ingenuity, harness the expertise of our people through knowledge-sharing platforms and continue to invest in our technology capabilities both in the UK and internationally. This focus on innovation will be promoted by increased collaboration and reach across the Group, aided by our 'lean' or operational excellence programmes.

We will drive growth through our extensive technology programmes, but we also need people who understand the increasingly complex world of digital systems and data; people who can translate and transform that data to bring about real, tangible benefits to how we design, build and look after our customers' assets.

So investing in next generation skills will be a key enabler of how we work with our customers and manage their assets, and our businesses. We will create a Babcock Digital Academy to build wider digital awareness across Babcock. This will be a network to integrate and embed the latest thinking around data exploitation and digital technology, and an opportunity to share ideas and best practice. Using technology such as machine learning to assess corrosion, for example, will drive significant efficiencies, reduce costs, increase availability and tap into new markets – whatever the industry.

We have also started an internal campaign to encourage our own people to innovate, and to 'think BIG' and contribute through our new knowledge-sharing hub, BIG Ideas. I'm delighted that so many of our people have jumped on board since we launched the hub to have their say. It isn't just about platforms of course; it's how we share information, and our people are critical to achieving that.

Randika Vithanage, Senior R&D Engineer, using a high temperature ultrasonic roller probe at the University of Strathclyde's Technology Innovation Centre laboratory in Glasgow.

Strathclyde Case study

Innovation through collaboration: Our strategic partnership with Strathclyde.
At Babcock, successful collaboration underpins much of what we do.
That's why working in partnership with academic partners such as the University of Strathclyde means we can deliver real innovation to address some of the most important engineering challenges facing us today.

With our recently launched strategic partnership, our longstanding relationship will allow us to focus on activities which will drive innovation and enable technology integration in the critical work we do. Knowledge transfer is also fundamental so we'll have the right platforms in place to ensure we're learning from this at every step.

We'll focus on technology areas such as autonomy and trusted systems, data analytics, and advanced manufacturing and inspection. Our people will also benefit through our planned Babcock Digital Academy, in which Strathclyde will have a role, to support all these projects.

We'll build on existing successes such as our Prosperity Partnership; a five-year collaborative research project, co-funded by the UK EPSRC, involving Babcock, Strathclyde and other academic partners, focused on delivering new technology solutions to prolong the life of the nuclear assets we manage.

Again, our focus will be on driving down costs and improving availability. Over the next two years we will deploy this research into industrial application and generate real world impact. There will be a particular focus on deploying informatics solutions, in-process and autonomous inspection capabilities and field trials of infrastructure remediation techniques. All of this helps us to provide deeper engineering support and increased efficiencies for new and existing customers.

A more structured collaboration means we can bring all of that innovation together and plan greater continuity of engagement and insight.

Professor Sir Jim McDonald, Principal Vice-Chancellor of the University of Strathclyde said: "Our innovative collaborations, such as the Prosperity Partnership, are already generating impact across industry and academia. Our partnership means we can now look forward to exploring new areas of research and translating the outcomes to both support innovation and develop solutions for industry challenges.

"It also means we can offer students and staff valuable industry experience through internships, placements and secondments, as well as providing Babcock with a critical source of future talent."

Airbus H145 helicopter operated by Babcock in Italy.

Cranfield / Odin Case study

Innovation unlocking AI potential

At Babcock we manage complex and critical assets, and to get the best out of these assets and deliver increased efficiency for our customers we need to understand the data we're working with.

In our Aviation business the Innovation and Technology team have been working to develop a cutting-edge data and analytics capability to allow us to make better-informed decisions to prolong asset life, increase availability and reduce cost.

The first phase of Project Odin has just been delivered, with our UK Onshore Team supported by research with our partners at Cranfield University.

Odin uses advanced data analytics and artificial intelligence garnered from the aircraft we manage. Using the most advanced data analytic techniques we can bring data from different sources together which provides valuable insight into system availability, usage, spares management and maintenance scheduling.

Hayley Belmore, Director UK Onshore, explains: "The Onshore business benefits from a number of great systems collecting a plethora of useful data. Extracting, validating, improving the quality of the data and bringing the information together in an intelligent way to help us better understand the business had previously been a challenge. We now have a fantastic platform giving us accessible, quality data to facilitate decision-making."

Odin is one of the most exciting programmes Babcock will be offering. As well as developing its reach across existing aviation fleets, we'll also look to incorporate it into new areas such as smart buildings and hangars. This in turn will support our customers' need for sustainability and give us both opportunities for growth. We'll work alongside them so they will be able to make data-driven decisions and incorporate new technologies such as unmanned air systems.

Partnerships

As well as our people, it's the strength of the organisations we partner with that really makes a difference to the work Babcock does, whether in defence, emergency services, or our civil nuclear business.

That's why we're collaborating with some of the most respected academic institutions and industrial partners in the UK and internationally. Our partnerships enable us to stay abreast of developments, and to share the innovation that research brings with our customers, our people, and our business.

Our assets are complex and critical with long lifespans, so these programmes allow us to better understand their lifecycle, prolong their use and deliver increased operational efficiencies and enhanced output.

Innovation is good ideas put into practice, and our partnerships are a critical part of how we do that.

Over the coming year we will expand the number of research projects with our academic partners. These include Strathclyde, Cranfield, Edinburgh and Exeter universities where we are working on areas such as the application of digital twins, condition monitoring and predictive modelling to prolong the life of nuclear assets.


Royal Navy's 4.5" Mk8 Medium Calibre Gun © Crown Copyright 2021 Image: UK MOD.

Digital & data technology Case study

Continued investment in digital and data technology
We continue to invest and innovate across our technology programmes, including our iSupport360 approach where we have a strong focus on using data to enable better asset availability management, in projects such as Odin. This includes a recent application with the Royal Navy's 4.5" Mk8 Medium Calibre Gun. Here we've created a digital twin to better predict performance and define maintenance requirements – demonstrating innovation and value in the real world use of digital twin technology in legacy assets. Expanding our data exploitation in contracts like these not only increases availability to benefit our customer, it benefits Babcock through KPI incentives and by driving down our costs and inventory.

Working in partnership with our customers and original equipment manufacturers we are implementing similar programmes across a number of existing assets that Babcock supports or operates, including the UK Royal Navy's Type 23 frigates, UK Army platforms such as Bulldog, military aviation platforms and infrastructure, civil aircraft and civil nuclear power plants.

We are also putting this digital approach at the core of new platform development such as the Type 31 class frigates and the Dreadnought nuclear submarine programme, where we are working with our supply chain and wider enterprise to establish a digital thread at the design stage which can live with the platform throughout its lifecycle – data that can be shared across all stakeholders operating and managing the asset and will reduce costs both now and throughout the life of the assets.

These partnerships also support the work we do with the Advanced Nuclear Research Centre and the Advanced Manufacturing Research Centre and this investment is being realised in the Arrol-Gibb Innovation Campus at our Rosyth site. We will trial advanced technology applications that will support our major manufacturing programmes, including the Type 31, ensuring we meet the programme's challenging targets.

Our integration of advanced manufacturing and MRO technology will directly support cost advantage across our current programmes. Equally, our access to international markets for Type 31 'export' and other future programmes will be enhanced by the ability to transfer these new solutions, for in-country build.

We have a busy and exciting year ahead of us. I am inspired by our people every day, knowing what we can achieve and deliver, as a team and as a company.

That is why for us, innovation isn't just in that cutting-edge piece of technology, it's in our people, it's in our partnerships – it's in what we deliver and it defines not just who we are but what we can be.

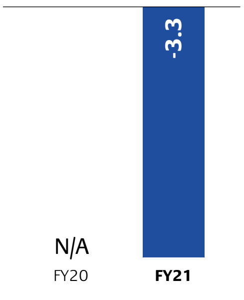
How we will measure our progress

We have nine key performance indicators (KPI) that we monitor to measure the progress against our strategy. These include six financial metrics and three non-financial measures, including a new KPI this year for gender diversity across our senior management.

FY21 results

Organic revenue growth (%)

-3.3%



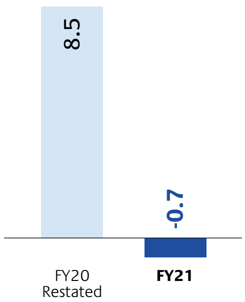
Definition
The movement in revenue compared to that of the previous year excluding the impact of FX, acquisitions and disposals. See note 1 of the accounts for details of our revenue recognition policy. Previously we reported underlying revenue, which included our share of revenue from joint ventures. We now report only one revenue number, which excludes joint ventures, in line with IFRS 15.

Commentary
Organic revenue was down 3.3% in the year, reflecting the impacts of COVID-19 on trading as well as the de-recognition of revenue from our Phoenix contract in Land.

Link to strategy
5. Explore growth opportunities

Underlying operating margin (%)

-0.7%



Definition
Underlying operating profit expressed as a percentage of revenue. We have updated our definition of underlying operating profit this year to exclude our share of joint ventures, see page 31 for more details. See page 31 for a reconciliation of statutory to underlying operating profit.

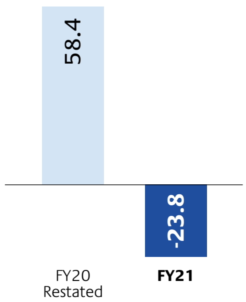
Commentary
Our underlying operating margin was negative this year as a result of the impacts of the CPBS. Excluding the one-off impacts of the CPBS, our underlying operating margin would have been 5.3%. This significant decline on last year mainly reflects the impact of COVID-19 and significant credits that benefited FY20, especially tax credit phasing in Nuclear and FY20 credits in civil aviation. Our target is to gradually expand our underlying margin over time.

Link to strategy
2. Implent our operating model

5. Explore growth opportunities

Underlying EPS (p)

-23.8p



Definition
Underlying earnings after tax divided by the weighted average number of ordinary shares.

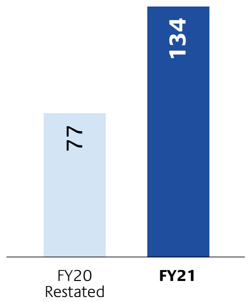
Commentary
Underlying earnings per share was a loss of 23.8p per share this year, reflecting the underlying operating loss following the negative impacts of our CPBS. Excluding the one-off impacts of the CPBS, underlying EPS would have been 28.9p. Our target is to grow EPS over the long-term.

Link to strategy
2. Implement our operating model

5. Explore growth opportunities

Underlying operating cash conversion (%)

134%



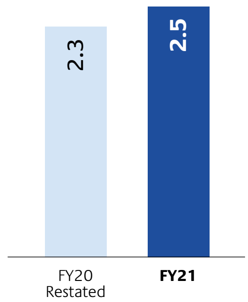
Definition
Underlying operating cash conversion is defined as underlying operating cash flow after capital expenditure as a percentage of underlying operating profit. For this year, we have excluded the one-off impacts of the CPBS on underlying operating profit as this gives the most useful comparator.

Commentary
Underlying operating cash conversion was 134% and mainly reflects the significant working capital inflow of £128 million in the year, of which £56 million related to the delay in payments of VAT. In a normal year, we would expect underlying cash conversion to be around 80-90%.

Link to strategy
2. Implement our operating model

Net debt / EBITDA (covenant basis)

2.5x



Definition
Net debt / EBTIDA as measured in our banking covenants. This uses net debt (excluding operating leases) divided by underlying earnings before interest, tax, depreciation and amortisation plus JV dividends received. The calculation this year excluded the one-off impacts of the CPBS. This definition makes a series of adjustments to both Group net debt and Group EBITDA, see page 43 for a reconciliation.

Commentary
Our net debt to EBITDA increased to 2.5 times this year as the reduction in net debt, reflecting free cash flow generation and disposal proceeds, was more than offset by the decline in EBITDA. We are targeting to move the Group to a level below 2 times.

Link to strategy
1. Align the portfolio

2. Implement our operating model

5. Explore growth opportunities

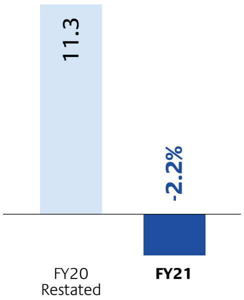
A new approach

As discussed on page 8 we are creating a new approach to running the Group, including creating the right baseline for future performance. With this process, we have changed how we calculate various metrics. Given this, we show our KPI performances for this year compared to last year but do not look further back as we feel this would not be helpful for understanding our performance or direction. Going forward, we will report on these metrics each year.

Non-Financial

Underlying return on invested capital, pre-tax (ROIC) (%)

-2.2%



Definition
Underlying return on invested capital is defined as underlying operating profit, before tax, divided by net debt (including leases) and shareholder funds (balance sheet), excluding retirement benefit deficits or surpluses.

Commentary
Our underlying ROIC was negative this year reflecting the impacts of the CPBS. Excluding the one-off profit impacts of the CPBS, underlying ROIC increased to 12.7%, as the impact of lower profit was more than offset by the impact of a smaller balance sheet post CPBS. We aim to improve ROIC over the long term.

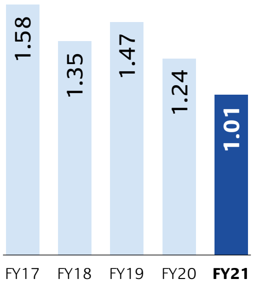
Link to strategy
1. Align the portfolio

2. Implement our operating model

5. Explore growth opportunities

Total injuries rate

1.01



Definition
Reported injuries across the entire Group for every 100,000 hours worked by Babcock employees.

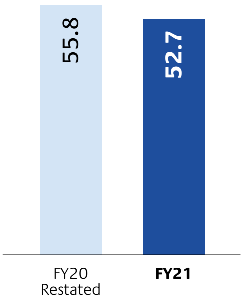
Commentary
While our total injuries rate was lower this year, we saw an increase of 36% in the more serious 'Babcock RIDDOR' injury rate (see page 74 in our ESG report for more details). Tragically, in August, during a firefighting mission, an aircraft crash-landed in Spain near the Portuguese border causing two fatalities. This incident and the increase in serious injuries underlines how crucial it is we continue to focus on improving our health and safety performance, and we target a reduction in the injury rate each year.

Link to strategy
3. Roll out a new people strategy

4. Develop our ESG strategy

CO_2e emissions (tCO_2e/£m)

52.7



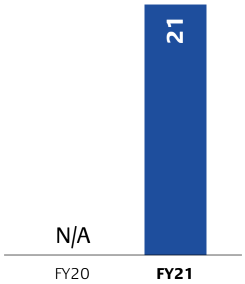
Definition
Estimated tonnes of CO_2e emitted as a direct result of revenue-generating operations.

Commentary
We have continued to reduce our emissions year on year, both the intensity ratio and in absolute terms. We aim to continue to reduce the emissions of our operations and we are committed to achieving net zero emissions by 2040. See page 69 for more details.

Link to strategy
4. Develop our ESG strategy

Senior management gender diversity (%)

21%



Definition
Senior managers are defined as employees (excluding Executive Directors) who have responsibility for planning, directing or controlling the activities of the Group (Exco) or a strategically significant part of the Group (sector/functional leadership teams) and/or who are directors of subsidiary business units (Business Unit leadership).

Commentary
This is a new KPI for this year, reflecting our increased focus on diversity as part of our new people strategy. As such we do not have a comparator figure however do have a target to increase the percentage to 30% by 2025. Further gender diversity statistics for the Group and targets can be found in the ESG review on page 72.

Link to strategy
3. Roll out a new people strategy

4. Develop our ESG strategy

Link to management remuneration

Our Remuneration policy, as detailed on pages 136 to 138, includes reference to underlying EPS, underlying operating cash flow and underlying ROCE, a measure similar to ROIC.

Operational performance measures

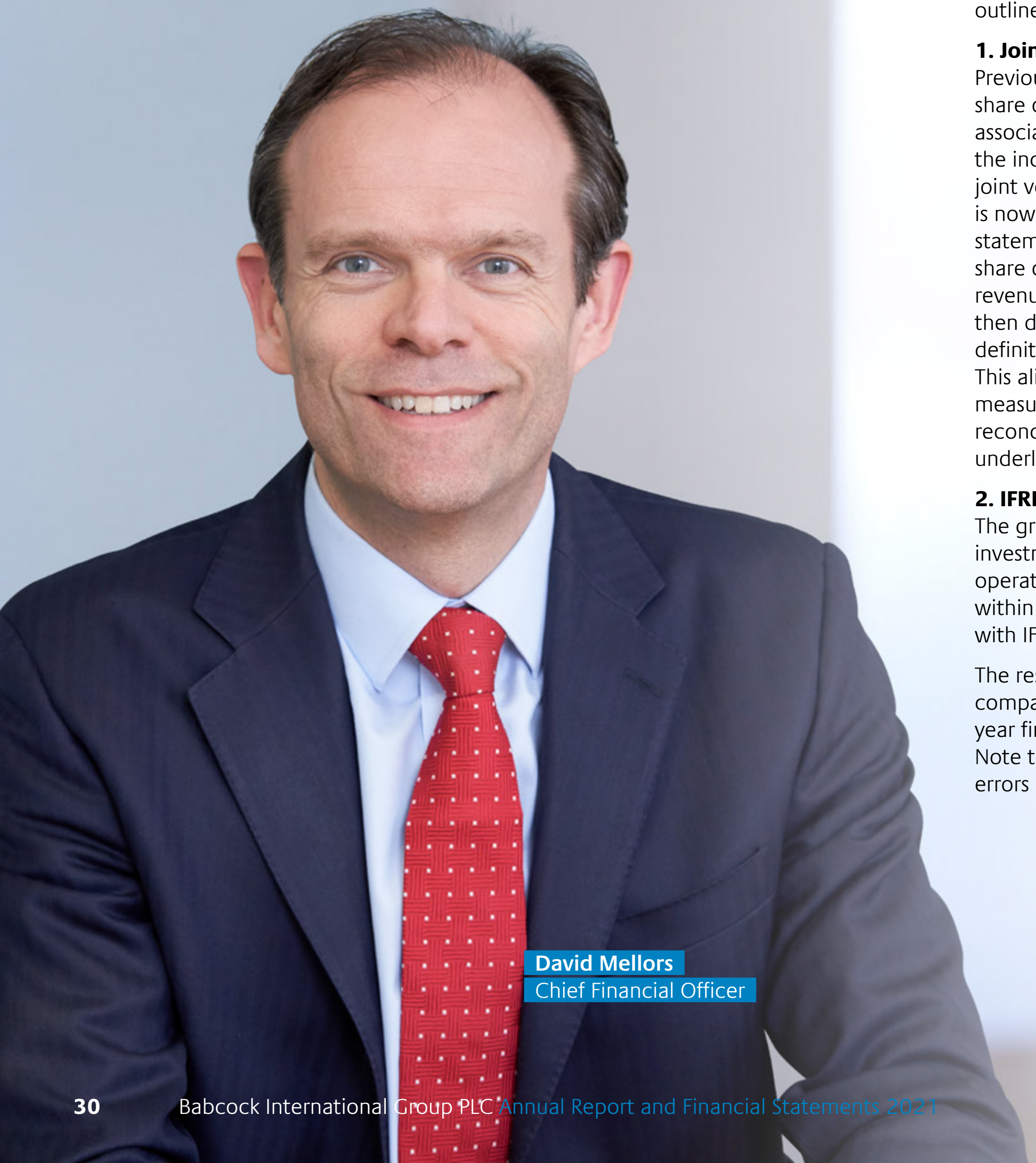
In the operational reviews on pages 50 to 57, we use our first two KPIs (revenue growth and underlying operating margin) to measure sector performance.

Financial review

Introduction

This Financial review covers:

- The changes we have made to the presentation of underlying reporting this year, with restatements to FY20
- A summary of the contract profitability and balance sheet review ('CPBS')
- Our financial performance in FY21, both statutory and underlying, including a reconciliation between the two
- Improvements we intend to make to risk management and internal controls



David Mellors
Chief Financial Officer

Changes to the presentation of underlying reporting

The Group provides alternative performance measures, including underlying measures, to enable users to better understand the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. They are used by management to assess operating performance and as a basis for forecasting and decision making and the Group believes are helpful for investors to analyse business performance. We have made a series of changes to our underlying measures this year to improve transparency and provide a simpler set of accounts and financial commentary for the future.

There are four main changes to the presentation of our underlying results as outlined below.

1. Joint ventures and associates

Previously the Group incorporated its share of the results of joint ventures and associates into each of the main captions of the income statement. Babcock's share of joint ventures and associates profit after tax is now included as one line in the income statement. The Group used to include a share of joint ventures and associates revenue within its revenue line – which was then defined as underlying revenue. This definition is therefore no longer needed. This aligns revenue with the statutory IFRS measure and reduces the number of reconciling items between statutory and underlying income statement captions.

2. IFRIC12 Investment Income

The group previously included IFRIC 12 investment income within underlying operating profit. This is now included within investment income to align with IFRS.

The restated underlying income statement compared to that presented in the prior year financial statements is shown below. Note that the correction of prior year errors is covered on page 33.

Restatement of FY20 underlying income statement

	Underlying FY20 previously reported £m	Change to JV and Associates presentation £m	Change to IFRIC 12 presentation and tax* £m	Prior year restatements £m	Underlying FY20 restated £m
Underlying revenue	**4,871.7**	(422.2)	–	(21.0)	**4,428.5**
Underlying operating profit	**524.2**	(105.7)	(1.1)	(39.8)	**377.6**
Share of results from joint ventures and associates	**–**	58.6	–	–	**58.6**
Investment income	**–**	–	1.1	–	**1.1**
Finance costs	**(95.8)**	22.8	–	–	**(73.0)**
Underlying profit before tax	**428.4**	(24.3)	–	(39.8)	**364.3**
Tax	**(77.1)**	17.9	1.2	(9.4)	**(67.4)**
Underlying profit after tax	**351.3**	(6.4)	1.2	(49.2)	**296.9**
Underlying basic EPS	**69.1p**				**58.4p**

* includes £1.2 million

3. A clearer definition of underlying operating profit and Specific Adjusting Items

Underlying operating profit is now defined as IFRS statutory operating profit adjusted for Specific Adjusting Items. Items such as these may occur regularly, may be lumpy and may be profits or losses. As such they distort the reporting of underlying business performance measures if not adjusted for. The Specific Adjusting Items are:

- Amortisation of acquired intangibles
- Business acquisition, merger and divestment related items (being acquisitions and gains or losses on disposal of assets or businesses)
- Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography, including closure costs, severance costs, the sale of assets and termination of leases
- The costs of large restructuring programmes which significantly exceed the minor restructuring which occurs every year as part of the normal day to day business. Where restructuring costs are incurred as a result of the on-going execution of day to day business, they are included in operating costs and are not excluded from underlying operating profit
- Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes
- Exceptional items that are significant, non-recurring and outside of the normal operating practice. These items are described as exceptional in order to appropriately represent the Group's underlying business performance

The income statement can now be shown in a 'three column' format with Underlying results, Specific Adjusting Items and Statutory results in separate columns as shown below:

	2021			2020 (restated)		
	Underlying £m	**Specific Adjusting Items £m**	**Statutory £m**	Underlying £m	Specific Adjusting Items £m	Statutory £m
Revenue	**4,182.7**	–	**4,182.7**	4,428.5	–	4,428.5
Operating (loss)/profit	**(27.6)**	**(1,615.4)**	**(1,643.0)**	377.6	(453.2)	(75.6)
Share of results of joint ventures and associates	**(13.1)**	–	**(13.1)**	58.6	–	58.6
Investment income	**0.9**	–	**0.9**	1.1	–	1.1
Finance costs	**(62.1)**	–	**(62.1)**	(73.0)	–	(73.0)
(Loss)/profit before tax	**(101.9)**	**(1,615.4)**	**(1,717.3)**	364.3	(453.2)	(88.9)
Income tax benefit/(expense)	**(18.4)**	**33.7**	**15.3**	(67.4)	40.5	(26.9)
(Loss)/profit after tax for the year	**(120.3)**	**(1,581.7)**	**(1,702.0)**	296.9	(412.7)	(115.8)
Basic EPS	**(23.8)p**		**(337.0)p**	58.4p		(23.3)p
Diluted EPS	**(23.8)p**		**(337.0)p**	58.3p		(23.3)p

Note: the performance review on page 36 considers these results in more detail, they are shown here for presentational purposes.

4. Presentational changes to the underlying cash flow statement

The Group has historically presented an underlying cash flow statement with free cash flow as an important measure. Previously cash flows relating to exceptional items were excluded from free cash flow. This has now been changed to more clearly present the cash generated from the Group's operations.

Also, following the introduction of IFRS16 (Leases), the Group previously deducted new lease commitments in entirety from operating cash flow. We have now amended this to show the capital element of leases as an operating cash flow (akin to capital expenditure) and the interest element of leases within the interest line. The lease commitment is now shown as a change in net debt when signed, not an operating cash flow. The restated FY20 underlying cash flow is shown below.

Restatement of FY20 underlying cash flow

	Underlying FY20 previously reported £m	Prior year restatements £m	Changes to cash flow presentation £m	Underlying FY20 restated £m
Operating profit	**417.4**	(39.8)	–	**377.6**
Depreciation & amortisation	**95.7**	(4.7)	–	**91.0**
ROU asset depreciation	**129.4**	(6.1)	–	**123.3**
Non-cash items	**5.4**	(2.9)	(1.1)	**1.4**
Working capital	**(26.8)**	16.0	–	**(10.8)**
Provisions	**(19.4)**	9.4	–	**(10.0)**
Net capital expenditure	**(147.5)**	39.0	–	**(108.5)**
IFRS 16 new lease commitments	**(109.8)**	–	109.8	**–**
Capital element of lease payments	**–**	–	(175.0)	**(175.0)**
Operating cash flow	**344.4**	10.9	(66.3)	**289.0**
Cash conversion %	**83%**	–	–	**77%**
Pension contributions in excess of income statement	**(70.2)**	–	–	**(70.2)**
Interest paid	**(71.4)**	–	1.1	**(70.3)**
Tax paid	**(62.6)**	–	–	**(62.6)**
Dividends from joint ventures	**52.0**	–	–	**52.0**
Exceptional items	**–**	–	(82.4)	**(82.4)**
Free cash flow	**192.2**	10.9	(147.6)	**55.5**
Acquisitions and disposals net of cash acquired	**(0.8)**	–	105.5	**104.7**
Exceptional cash flow	**23.1**	–	(23.1)	**–**
Capital element of lease payments	**–**	–	175.0	**175.0**
IFRS 16 additions	**–**	(7.3)	(109.8)	**(117.1)**
Investments in joint ventures	**(0.3)**	–	–	**(0.3)**
Own shares	**(2.9)**	–	–	**(2.9)**
Dividends paid	**(153.9)**	–	–	**(153.9)**
Net cash outflow	**57.4**	3.6	–	**61.0**
Opening net debt (previously reported)	**(957.7)**	–	–	**(957.7)**
Supply chain financing – opening adjustment	**–**	(113.5)	–	**(113.5)**
Opening net debt (restated)	**(957.7)**	(113.5)	–	**(1,071.2)**
IFRS 16 transition	**(640.8)**	–	–	**(640.8)**
Exchange movements	**(53.8)**	–	–	**(53.8)**
Movement in net debt	**57.4**	3.6	–	**61.0**
Closing net debt	**(1,594.9)**	(109.9)	–	**(1,704.8)**

Note: the two main items in the correction of prior year errors impacting net debt are the movement of supply chain finance balances from trade creditors to debt (£113.5 million 1 April 2019, £93.2 million at 31 March 2020) and the inclusion of certain lease liabilities (31 march 2020: £16.7 million).

Contract profitability and balance sheet review

As announced in January 2021, the Group performed a review of the profitability of its contract portfolio, and the carrying values of assets and liabilities on the balance sheet. The review was carried out by management using the expertise and resource of an independent accounting firm. The initial year end financial close occurred in early April before completion of the CPBS. On 13 April 2021, the Group announced the initial headline unaudited results for FY21 before the impact of CPBS, along with an early estimate of the CPBS findings. The annual goodwill impairment test, required by IAS 36, was included within the scope of the CPBS review.

The CPBS scope covered over 100 contracts, representing c.£2.7 billion of annual revenues. The selected contracts received differing levels of review depending upon their perceived risk. Those contracts deemed high risk had a full review of their status, underpinning assumptions and risks and dependencies. Those deemed medium risk had a specific scope review with work targeted at any specific areas of concern, and those deemed low risk had a review with the project manager to gain an understanding of the contract and assess whether any specific scope work should be performed. The balance sheet reviews covered all main balance sheet captions for all sectors, again prioritising balances on a risk basis. As the reviews progressed, more work was performed on contracts where findings raised issues that had not been considered in the initial scoping reviews.

More than 140 accounting adjustments totalling £2.0 billion (post-tax effect on retained earnings) resulted from the CPBS consisting of:

- **Cumulative restatement at 1 April 2019 of £308.1 million –** being £45.3 million relating to a change in accounting policy and correction of prior year errors of £262.8 million)
- **Cumulative restatement at 1 April 2020 of £230.7 million –** being £59.8 million relating to a change in accounting policy and correction of prior year errors of £170.9 million)
- **Changes recorded within the current financial year of £1,813.7 million –** the vast majority of which are change in estimates, including the impairment of goodwill

Of the adjustments recorded in the current year income statement (see table below), £274.7 million were charged within underlying operating profit and the vast majority of these amounts related to changes in estimates. Their inclusion within underlying operating profit reflects the fact that the occurrence of such transactions, when taken individually, are part of the ordinary course of business. However, the number and magnitude of the adjustments as a result of the CPBS far exceed what would normally be expected in the Group in any one period, hence the additional disclosure.

In order to assist the users of the financial statements to better understand the effect of the transactions resulting from the CPBS on FY21 underlying operating profit performance, we have analysed them into **'one-off CPBS adjustments'** and **'recurring CPBS adjustments'**. It is accepted that these terms are not defined in IFRS and are simplistic. For this purpose, we consider 'one-off CPBS adjustments' to be those that adjust the level of profit recognised either as a result of a one-off event or in previous periods, while 'recurring CPBS adjustments' are those that impact the amount of current period (and potentially future) profit before completion of the CPBS review. A single adjustment arising from the CPBS review might have both 'one-off' and 'recurring' elements.

By way of illustration, the write-off of a long overdue debtor can be thought of as a 'one off CPBS adjustment' as – with today's facts and circumstances – it would be a single transaction that would not otherwise impact the current or future year's profitability. However, a long term contract that has had its profit margin reduced creates an adjustment that has the effect of reducing the cumulative profit recognised over the life of the contract from the old profit margin estimate to the new. An element of this adjustment can be seen to in effect reverse the profit on these contracts that had been recognised in FY21 (before completion of CPBS review). This element is included within 'recurring CPBS adjustments' whereas the remainder of the adjustment, simplistically relating to the profit previously recognised before FY21, is included within 'one-off CPBS adjustments'.

The total of the 'recurring CPBS adjustments' within FY21 underlying operating profit is £24.7 million, and £250.0 million 'one-off CPBS adjustments' make up the total of £274.7 million included within underlying operating profit.

Prior year restatements

There are a number of prior year errors that have been recognised which are detailed in note 5 in the financial statements. Adjustments are denoted as errors, rather than changes in estimates, when it has been identified that assumptions or methodologies were used which the Group should have known at the time were incorrect. One accounting policy has also been changed to better represent certain maintenance arrangements in the Aviation sector, and the errors and the policy change result in prior year restatements – see note 5 in the financial statements for details. Prior year restatements were recorded in the 1 April 2019 opening balance sheet in these financial statements, unless they resulted from an error during FY20 in which case they were recorded in the FY20 income statement. The accounting policy change and some of the prior year errors have a consequential impact on financial results for future periods (e.g. the decision to expense certain aircraft maintenance charges rather than capitalise them will have a recurring impact). Where this is the case, those recurring impacts are included in the relevant years in the table on the following page for completeness –and are also included in the 'recurring CPBS adjustments' figure above.

The impacts of the CPBS adjustments on the income statement, including the results of the annual goodwill impairment test, are summarised as follows:

	2021			2020		
	Underlying £m	Specific Adjusting Items £m	Statutory £m	Underlying £m	Specific Adjusting Items £m	Statutory £m
Revenue impacts	**(207.4)**	**–**	**(207.4)**	(21.0)	–	(21.0)
Operating profit/(loss) impacts						
Impairment/disposal of goodwill and acquired intangible assets	**–**	**(1,349.4)**	**(1,349.4)**	–	130.5	130.5
Impairment of non-current assets	**(5.8)**	**(32.7)**	**(38.5)**	0.7	–	0.7
Impairment/reversal of property, plant and equipment and right of use assets	**–**	**(156.9)**	**(156.9)**	(21.6)	(1.4)	(23.0)
Impairment/write down of current assets	**(142.6)**	**(0.8)**	**(143.4)**	(19.5)	–	(19.5)
Introduction of/increase to liabilities	**(126.3)**	**(1.0)**	**(127.3)**	0.6	–	0.6
Operating profit/(loss)	**(274.7)**	**(1,540.8)**	**(1,815.5)**	(39.8)	129.1	89.3
Share of income from JVs and associates	**(37.1)**	**–**	**(37.1)**	–	–	–
Profit/(loss) before tax impacts	**(311.8)**	**(1,540.8)**	**(1,852.6)**	(39.8)	129.1	89.3
Tax adjustments	**(7.5)**	**–**	**(7.5)**	(12.4)	–	(12.4)
Tax effect	**29.3**	**17.1**	**46.4**	3.0	(2.5)	0.5
Loss after tax impacts	**(290.0)**	**(1,523.7)**	**(1,813.7)**	(49.2)	126.6	77.4

Summarised cumulative adjustments to retained earnings, including the results of the annual goodwill impairment test, are as set out below:

	£m
Restatement as at 1 April 2019	(308.1)
Adjustments recognised in the year ended 31 March 2020	77.4
Total restatement at 31 March 2020	(230.7)
Adjustments recognised in the year ended 31 March 2021	(1,813.7)
Total adjustments recognised at 31 March 2021	**(2,044.4)**

The summary of the adjustments in the table above is set out below:

Revenue:

These adjustments have two components within them. Firstly is a correction of an error where revenue had been recognised on the Phoenix contract after the terms had been varied in February 2020. The effect of the contract change is that Babcock is deemed an agent of the customer, not a principal, and therefore the revenue should not be recognised. As a result of identifying this error, £71.8 million of revenue initially recognised in FY21 was reversed together with £11.6 million of revenue in relation to FY20. The second component of revenue adjustments reflects reassessments of the progress and profitability of a number of contracts across the Group.

Impairment of goodwill and acquired intangible assets:

In the current year, goodwill was impaired by £1,243.2 million and acquired intangible assets were impaired by £56.4 million. As detailed in note 13 of the financial statements, the impairments of the Land and Aviation sectors' goodwill of £425.8 million and £817.4 million respectively were largely as a result of reduced forecasts of future cash flows and an increase in the discount rate used to discount them. CPBS adjustments of £64.8 million were also recorded to allocate the goodwill that should have been allocated to the Holdfast disposal (June 2020) and to correct the allocation of goodwill to the Conbras disposal (October 2020 and provided in the first half of the financial year). As detailed in note 13 of the financial statements, £56.4 million was impaired in relation to the DSG contract acquired intangible as its carrying value could no longer be justified following the reassessment of the contract profitability.

Partially offsetting this is the reversal of amortisation of £15.0 million in relation to the Oil and Gas business acquired intangible reflecting management's judgement to derecognise this intangible at 1 April 2019 as a prior period error, as a result of a reassessment of its useful economic life.

Previously a goodwill impairment of £395.0 million was recorded in FY20 against the Aviation sector goodwill. The credit of £130.5 million within FY20 shown above is a reduction to that impairment and is the result of three prior year errors. Firstly, credits of £239.2 million and £5.1 million reflect the cumulative amount of prior year errors to the capital employed in the Aviation and Land operating segments respectively – and therefore reduce the amount that should have been impaired in FY20. Secondly, a calculation error in the FY20 impairment test of Land goodwill creates a charge of £127.7 million and, thirdly, the reduced intangible amortisation in relation to the Oil and Gas business was a credit of £13.9 million.

The FY21 adjustment within underlying operating profit largely relates to the write off of a loan to one of our joint ventures which is no longer deemed recoverable. The £32.7 million within FY21 Specific Adjusting Items is largely due to the impairment of internally generated intangibles, mainly computer software.

Impairment of property, plant and equipment and right of use assets:

As detailed in notes 15 and 16 of our financial statements, impairments of £156.9 million largely relate to fleet values in the Aviation sector where aircraft carrying values are no longer expected to be recovered through use or sale. Also included are impairments of leasehold property (£12 million) and plant and equipment of £11 million. The prior year error of £21.6 million within underlying profit is all from the Aviation sector and relates to the expensing of previously capitalised maintenance and the reversal of aircraft vendor credit notes previously recognised within profit. See note 5 of our financial statements for details on prior year errors.

Impairment / write down of current assets:

This covers the reassessment of several contract profitability margins and the recoverability of many trade and other receivables (including contract assets and accrued income) as well as an increase in obsolescence provisions for inventory. This is the summation of many contract reassessments across the Group with £62.0 million in Aviation, £36.6 million in Land, £21.8 million in Marine and £20.6 million in Nuclear. The prior year error of £19.5 million relates to Aviation and corrects the capitalisation of mobilisation and other costs as well as revenue milestones incorrectly recognised for aircraft deliveries.

Introduction of / increase to liabilities:

These increases reflect reassessment of several contract profitability margins, onerous contract provisions, aircraft maintenance accruals, and other provisions. £72.6 million are in the Aviation sector, £35.5 million in Land and £11.4 million in Marine. Around £60 million of the liabilities are expected to outflow beyond one year.

Share of income from joint ventures and associates:

Historically the Group adjusted the results of the joint ventures and associates before equity accounting the relevant share in the income statement. The Group has now decided such results should be incorporated without adjustment by the Group – unless required to align with IFRS. In the prior periods the Group's share of joint venture and associates results have been adjusted by £23.1 million cumulatively, and a charge of this amount is booked as a change in estimate in FY21 to reverse these amounts. In addition, following the termination of the Group's Dounreay decommissioning contract on 31 March 2021, as a consequence of the NDA's decision to take contract delivery in-house, the Group booked an adjustment of £10.9 million to reflect the estimated contract settlement with the NDA. Contract settlements remain outstanding in relation to works carried out some years ago by the Land sector's ABC joint venture and, following developments during the year, a further adjustment of £3.1million was recorded and represents an updated assessment of the contract outcomes.

Tax adjustments:

The underlying FY21 impact of £7.5 million consists of the write off of deferred tax assets in Spain now considered not recoverable within the Group's forecasting horizon, together with a £21.6 million credit, being the recognition of tax deductibility on the DSG contract intangible amortisation now confirmed with HMRC. The prior year error of £12.4 million is the write off of a deferred tax asset incorrectly calculated in the prior year.

Change in accounting policy

During the year management amended the Group's accounting policy regarding Power By the Hour agreements. At 31 March 2021 this change in policy reduces property, plant and equipment by £65.6 million and trade and other receivables by £3.1 million and increases trade and other payables by £8.1 million.

Material balance sheet reclassifications

All balance sheet reclassifications are shown in note 5 of the financial statements. The materials ones are covered below.

Supply chain financing:

The Group entered into certain Supply Chain Financing Facilities ('SCF arrangements') in the Aviation operating segment. Outstanding balances financed through those arrangements were previously classified within trade payables. The Group has reassessed this classification and has determined that these liabilities should be reclassified as bank and other borrowings. This has also resulted in an increase to property, plant and equipment, trade and other receivables and other borrowings as part of the Supply Chain Financing Facilities has been used for deposits on aircraft.

At 1 April 2019, correction of this error results in an increase in property, plant and equipment of £54.7 million, an increase in trade and other receivables of £21.6 million, an increase in bank and other borrowings of £113.5 million and a reduction in trade and other payables of £37.2 million. At 31 March 2020, correction of this error results in an increase in bank and other borrowings of £93.3 million, an increase in property plant and equipment of £32.9 million and a reduction in trade and other payables of £60.4 million. This adjustment also impacts on the cash flow statement, resulting in an increase in cash flows from financing activities and reduction in cash flows from operating activities.

Cash pool arrangement:

An error has been identified in relation to the accounting for the Group's notional cash pool arrangement. Cash and cash equivalents and bank and other borrowings should have been presented on a gross rather than net basis, in line with the requirements of IAS 32 Financial Instruments: Presentation ('IAS 32'). The correction of this error results in increases in cash and cash equivalents and bank other borrowings of £569.5 million at 1 April 2019 and £494.5 million at 31 March 2020. There is no impact on the income statement.

FY21 performance

In order to simplify the presentation of underlying and statutory financial performance, the Group has adopted a three-column approach to the income statement. The first column below shows the underlying results, with the second column showing the Specific Adjusting Items. The third column shows the statutory results.

Details of the Specific Adjusting Items are included in note 3 of the financial statements.

	2021			2020 (restated)		
	Underlying £m	Specific Adjusting Items £m	Statutory £m	Underlying £m	Specific Adjusting Items £m	Statutory £m
Revenue	**4,182.7**	**–**	**4,182.7**	4,428.5	–	4,428.5
Operating (loss)/profit	**(27.6)**	**(1,615.4)**	**(1,643.0)**	377.6	(453.2)	(75.6)
Share of results of joint ventures and associates	**(13.1)**	**–**	**(13.1)**	58.6	–	58.6
Investment income	**0.9**	**–**	**0.9**	1.1	–	1.1
Net finance costs	**(62.1)**	**–**	**(62.1)**	(73.0)	–	(73.0)
(Loss)/profit before tax	**(101.9)**	**(1,615.4)**	**(1,717.3)**	364.3	(453.2)	(88.9)
Income tax benefit/(expense)	**(18.4)**	**33.7**	**15.3**	(67.4)	40.5	(26.9)
(Loss)/profit after tax for the year	**(120.3)**	**(1,581.7)**	**(1,702.0)**	296.9	(412.7)	(115.8)
Basic EPS	**(23.8)p**		**(337.0)p**	58.4p		(23.3)p
Diluted EPS	**(23.8)p**		**(337.0)p**	58.3p		(23.3)p

Statutory performance

Revenue is now the same on a statutory and underlying basis as set out on page 31. Revenue of £4,182.7 million was 6% lower than last year including foreign exchange movements and disposals. Excluding these, revenue was down 3% organically with reductions due to COVID-19 and the CPBS adjustments only partly offset by other trading growth.

The statutory operating loss was £1,643.0 million in the year (2020: £75.6 million loss), mainly as a result of charges taken in our CPBS and our annual review of goodwill impairment as discussed in detail on page 33. Compared to the prior year, this was exacerbated by the impact of COVID-19 and significant credits that benefited the results in FY20. These items are discussed in more detail on page 37 to 38.

The share of results of joint ventures and associates was much lower than the prior year due to the termination and disposal of certain investments and the CPBS impact outlined on page 34.

Net finance costs reduced from the prior year due to the lower level of debt. Our statutory loss before tax was £1,717.3 million (2020: £88.9 million loss), again reflecting the CPBS charges. Basic earnings per share, as defined by IAS 33, was (337.0) pence (2020: (23.3) pence) per share.

Exceptional items

Details of exceptional items recognised in FY21 within the Specific Adjusting Items column in the year are show in note 3 of the financial statements. For the 2022 financial year we expect exceptional charges of around £50 million relating to the operating model restructuring charge (c.£40 million) and previously announced restructuring programmes (c.£10 million).

We intend to restrict the use of exceptional items in future periods following a tightening of definition this year.

Underlying results

For the most useful comparison to last year, and as a better measure for future periods, we focus on the Group's underlying operating profit excluding the one-off CPBS adjustments. This is believed to the most helpful measure for stakeholders to judge our performance this year.

		31 March 2021 £m		31 March 2020 Restated £m
Revenue		**4,182.7**		4,428.5
Underlying operating (loss) / profit		**(27.6)**		377.6
of which one-off CPBS adjustments	***(250.0)***		*–*	
Underlying operating profit excluding one-off CPBS adjustments	***222.4***		*377.6*	
Underlying margin excluding one-off CPBS adjustments	***5.3%***		*8.5%*	
Share of results of joint ventures and associates		**(13.1)**		58.6
of which CPBS one-off impacts	***(31.5)***		*–*	
Share of results of JVs and associates excluding one-off CPBS adjustments	***18.4***		*58.6*	
Net finance costs		**(61.2)**		(71.9)
Underlying (loss) / profit before tax		**(101.9)**		364.3
Tax		**(18.4)**		(67.4)
Underlying (loss) / profit after tax		**(120.3)**		296.9
Non-controlling interests		**–**		(2.0)
Underlying profit attributable to shareholders		**(120.3)**		294.9
Underlying basic EPS		**(23.8)p**		58.4p
*Underlying basis EPS excluding one-off CPBS adjustments**	***28.9p***			

* estimated based on an underlying effective tax rate of 21%.

Revenue bridge

	31 March 2020 Restated £m	FX Impact £m	Disposals of businesses £m	Impact of COVID-19 £m	FY21 CPBS impacts £m	Other trading £m	**31 March 2021 £m**
Marine	**1,163.6**	(2.9)	(25.4)	8.5	(25.7)	124.2	**1,242.3**
Nuclear	**896.9**	–	(3.5)	9.3	(21.8)	95.0	**975.9**
Land	**1,522.5**	(50.8)	(30.5)	(118.5)	(140.9)	(71.7)	**1.110.1**
Aviation	**845.5**	11.8	–	(44.6)	(19.0)	60.7	**854.4**
Total	**4,428.5**	(41.9)	(59.4)	(145.3)	(207.4)	208.2	**4,182.7**

Revenue for the year was £4,182.7 million, down 6% compared to last year but down 3% organically (i.e. excluding FX and disposals). The table above shows the main comparison variances of revenue performance against last year.

Specifically on each main variance:

- **FX impact** – this primarily relates to FX translation on the results of the South African business.
- **Disposals of businesses** – this is the lower revenue from Context (sold in March 2020), Conbras (sold in October 2020) and the civil nuclear manufacturing business (sold in September 2020).
- **Impact of COVID-19** – this reflects the impact of the COVID-19 pandemic across the Group, with the most significant impact being in many of our Land businesses including South Africa, airports and civil training. Lower flying hours in the early stages of the pandemic also impacted the Aviation sector. Conversely, COVID-19 led to slightly more revenue in Marine and Nuclear as activity levels were increased, for example for the design and manufacture of ventilators. This COVID-19 impact has been estimated across our sectors and based on an analysis of direct and indirect impacts, which include a significant degree of judgement.
- **FY21 CPBS impacts** – the most significant item is the de-recognition of revenue from the Phoenix contract in Land following a contract change in February 2020 which resulted in our contract relationship changing from principal to agent. The remaining revenue decreases are a result of the reassessment of progress and profitability on many of the Group's contracts.
- **Other trading** – this relates to revenue movements excluding all the items above. Revenue grew across three of the sectors, with the strongest growth coming in Marine which was driven by increased activity on our Type 31 frigate programme. Growth in Nuclear was due to higher activity, especially in infrastructure projects, while growth in Aviation came from new contracts. The decline in revenue in Land includes the impact of the loss of our Heathrow airport baggage handling contract, which ended half way through the year.

Revenue of £4,183 million differs from the unaudited draft figure of £4,690 million given in our April 2021 business update as this figure included £290 million share of revenue from joint ventures and associates and excluded the £207 million adjustment to revenue from our CPBS as shown in the table above. Further analysis of our revenue performance is included in each sector's operating review on pages 50 to 57.

Underlying operating profit performance

The underlying operating loss in the year was £27.6 million. This differs from the unaudited draft figure of £307 million given in our April 2021 update as this figure included £62 million from joint ventures and associates and IFRIC 12 income and did not include the impacts of the CPBS.

This performance compares to £377.6 million underlying operating profit last year, as restated on page 31 for the change in presentation of joint ventures and associates and the correction of prior year errors and a change in accounting policy.

Excluding the one-off CPBS adjustments, FY21 underlying operating profit was £222.4 million. This measure is deemed to be the most useful measure to compare to last year, and a better measure to compare with future periods.

Underlying operating profit bridge from FY20 to FY21 (before one-off CPBS adjustments):

	31 March 2020 Restated £m	FX Impact £m	Disposals of businesses £m	Significant credits in FY20 £m	Impact of COVID-19 £m	FY21 recurring CPBS adjustment £m	Other trading £m	**31 March 2021 £m**
Marine	**134.4**	(0.3)	(2.5)	(5.7)	(17.3)	(8.4)	(15.0)	**85.2**
Nuclear	**113.3**	–	0.5	(20.9)	(2.1)	(0.2)	(3.3)	**87.3**
Land	**98.1**	(4.8)	(1.7)	(3.1)	(15.1)	(9.8)	(11.7)	**51.9**
Aviation	**31.8**	(0.3)	–	(17.0)	(11.1)	(6.3)	0.9	**(2.0)**
Corporate	**–**	–	–	–	–	–	–	**–**
Total	**377.6**	(5.4)	(3.7)	(46.7)	(45.6)	(24.7)	(29.1)	**222.4**

The main variances year-on-year are:

- **FX impact** – this primarily relates to FX translation on the results of our South African business.
- **Disposals of businesses** – this is the lower profit contribution from Context (sold in March 2020) and Conbras (sold in October 2020) partly offset by the lack of an operating loss in the civil nuclear manufacturing business disposed of in the year.
- **Significant credits in FY20** – these relate to significant credits that benefited underlying operating profit in FY20. These credits included a higher level of R&D tax credits due to a catch up on previous years' claims. The majority of other FY20 credits were in the civil aviation business, and include multi-year indexation claims on contracts and accrual and provision releases. The FY20 credits in Marine and Land were mostly accrual releases.
- **Impact of COVID-19** – this reflects a range of direct and indirect costs from working through the COVID-19 pandemic. Direct costs included the purchase of personal protective equipment (PPE) and testing equipment. Indirect costs include site closures, lower activity and reduced efficiency due to social distancing. This COVID-19 impact has been estimated across our sectors and at Group based on an analysis of direct and indirect impacts, which include a significant degree of judgement. The estimated lower expenses, e.g. travel, have also been considered in this analysis.
- **FY21 recurring CPBS adjustment** – these relate to the recurring impacts of the CPBS on underlying operating profit. The largest two items included within this are a more cautious view on the recognition of profit on the Type 31 frigate programme in Marine and a lower margin recognised on the DSG contract in Land.
- **Other trading** – this relates to the movement in underlying operating profit after all of the above. Included within this movement was an increase in overheads and corporate costs in the year of around £10 million, with a less favourable allocation to Marine than in the previous year, partly explaining the sector's decline in trading. Marine's weaker trading also reflects lower profitability than last year on certain contracts and a charge from the loss of a legal case. The lower profit in Nuclear partly reflects the lower margin in the transition year of MSDF while the lower profit in Land reflects the loss of the Heathrow contract and operating gearing impact of the lower revenue. Aviation saw a small increase in underlying operating profit, after adjusting for the items above, as the benefits of the cost saving programme initiated last year were mostly offset by weaker trading.

Further analysis of our underlying operating profit performance is included in each sector's operating review on pages 50 to 57.

Share of results of joint ventures and associates

The Group's share of results in joint ventures (JVs) and associates was a loss of £13.1 million in the year, or a profit of £18.4 million excluding one-off CPBS adjustments. The reduction on last year of £40.2 million reflects the absence of Magnox (£2.2 million impact), a JV that ended in the 2020 financial year, a loss on the Dounreay JV (£9.5 million impact), the disposal of the Holdfast JV (£14.8 million impact) and lower recognised profit in our Aviation JVs and associates.

The Group's main joint ventures and associates at 31 March 2021 were:

- Naval Ship Management (NSM) in our Marine sector, which maintains part of Australia's naval fleet
- ALC in our Land sector, which manages the UK Army's construction vehicle fleet. This contract ended in May 2021
- Ascent in our Aviation sector, which trains RAF pilots in the UK under the UK Military Flying Training System (UKMFTS) air training contract
- AirTanker in our Aviation sector, which is responsible for the UK's air-to-air refuelling capability and air transport operations. We increased our stake in this associate to around 15% in November 2020

Work in the Dounreay JV in our Nuclear sector ended on 31 March 2021 after the Nuclear Decommissioning Authority (NDA) announced the contract's early termination in line with their "One NDA" strategy to move work in-house. The Group recognised a loss on the Dounreay contract in the year of £15.9 million (£5 million loss excluding one-off CPBS adjustments) reflecting the updated assumptions around contract milestone profit achievability in the reduced timeframe.

Finance costs

Total net finance costs decreased to £61.2 million (2020: £71.9 million).

Tax charge

The tax charge on underlying profits / losses was £18.4 million (2020: £67.4 million), representing a notional rate of -20.7% (2020: 22.0%). The Group's underlying effective rate of tax is calculated on underlying profit before tax excluding the share of income from joint ventures and associates (which is a post-tax number). Before the one off CPBS adjustments, the underlying effective rate of tax for the year was 21%.

The Group's effective rate of tax for FY22, as calculated on this basis, will be dependent on country profit mix and is currently expected to be around 23%. In the medium term, we expect our effective tax rate to increase in conjunction with UK corporation tax rate increases.

Exchange rates

The translation impact of foreign currency movements resulted in a decrease in underlying revenue of £42 million and a £5.4 million decrease in underlying operating profit excluding one-off CPBS adjustments. 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 £40 million and underlying operating profit by around £2 million per annum
- A 10% movement in the South African Rand against Sterling would affect underlying revenue by around £25 million and underlying operating profit by around £2.5 million per annum
- A 10% movement in the Canadian Dollar against Sterling would affect underlying revenue by around £15 million and underlying operating profit by around £1 million per annum

Earnings per share
Underlying earnings per share for the year was (23.8) pence (2020: 58.4 pence), reflecting the underlying operating loss.

Disposal programme
Our plan for disposals has been assessed and does not meet the criteria for any assets to be classed as held for sale under IFRS 5.

Cash flow and net debt
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.

	2021 Underlying £m	2020 Underlying restated* £m
Underlying operating profit	**(27.6)**	377.6
One-off CPBS adjustments	**250.0**	–
Underlying operating profit excl. one-off CPBS adjustments	**222.4**	377.6
Depreciation & amortisation	**107.7**	91.0
ROU asset depreciation	**140.2**	123.3
Non-cash items	**9.1**	1.4
Working capital	**128.0**	(10.8)
Provisions	**3.4**	(10.0)
Net capital expenditure	**(171.1)**	(108.5)
Capital element of lease payments	**(140.6)**	(175.0)
Underlying operating cash flow	**299.1**	289.0
Cash conversion % excl. one-off CPBS adjustment	***134%***	*77%*
Pension contributions in excess of income statement	**(73.5)**	(70.2)
Interest paid	**(66.6)**	(70.3)
Tax received/paid	**18.4**	(62.6)
Dividends from joint ventures and associates	**36.8**	52.0
Cash flows related to exceptional items	**(44.7)**	(82.4)
Underlying free cash flow	**169.5**	55.5
Net acquisitions and disposals	**90.6**	104.7
Acquisitions/investments in joint ventures and associates	**(8.8)**	(0.3)
Dividends paid (including non-controlling interests)	**(0.8)**	(153.9)
Purchase of own shares	**(2.2)**	(2.9)
Capital element of lease payments	**140.6**	175.0
Net new lease arrangements	**(82.3)**	(117.1)
Exchange movements	**44.6**	(53.8)
IFRS 16 transition	**–**	(640.8)
Movement in net debt	**351.2**	(633.6)
Opening net debt	**(1,704.8)**	(1,071.2)
Closing net debt	**(1,353.6)**	(1,704.8)
Operating leases	**(582.1)**	(649.4)
Closing net debt excluding operating leases	**(771.5)**	(1,055.4)

* see restatements summary on page 31.

Cash performance

Changes in reporting

As set out on page 31, we have updated our cash flow reporting to better reflect cash movements, with the cash payments relating to the capital element of leases included in underlying operating cash flow rather than net new lease commitments, which is reflected as a debt movement. We have also changed our definition of underlying free cash flow to include cash flows related to exceptional items.

Underlying operating cash flow

Underlying operating cash flow in the period after capital expenditure was £299.1 million compared to £289.0 million last year. This represented operating cash conversion of 134% on the underlying operating profit excluding one-off CPBS adjustments. The increase in cash generation year-on-year despite the significant fall in operating profit came from a large working capital inflow.

Movements in working capital

The movement in working capital for the period was a £128.0 million inflow compared to a £10.8 million outflow last year. FY21 benefited from the deferral of £56 million of VAT payments that will unwind in the next financial year. Cash flow in FY21 improved through advanced customer receipts across some of the Group's businesses.

As in previous years, working capital benefited from creditor payment phasing around period end, which we will now move away from over time.

Working capital also continued to benefit from period end receivables factoring in Southern Europe, which was £102 million at 31 March 2021 (31 March 2020: £98 million).

Capital expenditure

Net capital expenditure of £171.1 million in the year was significantly higher than last year (2020: £108.5 million), reflecting the start of our investment in a new facility to build Type 31 frigates in Rosyth and increased net capital expenditure in Aviation, partly reflecting lower disposal proceeds given fewer aircraft disposals.

It is expected that net capital expenditure will continue to be high in FY22 as we continue the Type 31 investment and increase investment in other areas of the business, including upgrading facilities and IT equipment.

Cash interest paid

Net Group cash interest paid, excluding that paid by joint ventures and associates, was £66.6 million (2020: £70.3 million).

Taxation

Cash tax in the year was an inflow of £18.4 million, helped by a receipt of £67 million of corporation tax repayments in the final quarter. We currently expect a cash tax outflow of around £30 million in FY22.

Pensions

Pension cash outflow in excess of the income statement charge (excluding exceptional charges for curtailment losses) was £73.5 million (2020: £70.2 million).

For FY22, the cash outflow in excess of the income statement charge is expected to be around £130 million. This includes a £50 million additional payment into the Rosyth scheme made in April 2021 and an additional £10 million payment into the BIG scheme.

An additional £50 million additional payment into the Rosyth scheme, and a an additional £10 million contribution to the BIG scheme have been agreed to be made in April 2022.

Dividends from joint ventures and associates

During the period the Group received £36.8 million in dividends from its joint ventures and associates (2020: £52.0 million).

We expect dividends from joint ventures and associates to be around £30 million in the next financial year.

Exceptional cash flows

Cash outflows related to exceptional items were £44.7 million compared to £82.4 million last year. These costs included exits and restructuring costs. In FY22, we anticipate exceptional cash outflows of around £70 million, including around £50 million of reorganisation costs related to implementing our new operating model (c.£40 million) and completing the existing restructuring programme in Aviation (c.£10 million). In addition to this, there may be cash settlements for the Italy antitrust fine, see page 47.

Underlying free cash flow

Underlying free cash flow of £169.5 million was significantly higher than last year's £55.5 million and partly reflects the working capital timing benefits and corporation tax repayments.

Acquisitions and disposals

The net cash inflow from acquisitions and disposals was £90.6 million, including net disposal proceeds from the sale of Holdfast (£85.0 million) and Conbras (£6.6 million). In addition, the Group increased its stake in the AirTanker associate. We aim to generate at least £400 million of disposal proceeds in the next 12 months.

New lease arrangements

In addition to net capital expenditure, and not included in free cash flow, £82.3 million (FY20: £117.1 million) of additional leases were entered into in the period. These represent new lease obligations and so are included in our main net debt figure but do not involve any cash outflows at inception.

Net debt

The Group's net debt at 31 March 2021 was £1,353.6 million, or £771.5 million excluding operating leases (broadly in line with the early indication of £750 million reported in our April 2021 business update). Net debt excluding lease obligations was £283.9 million lower than last year and reflects the free cash flow and net divestments discussed above.

As in previous periods, average net debt during FY21 was higher than the closing balance at 31 March 2021, partly reflecting the phasing of creditor payments around period end. Average net debt over the 2021 financial year was around £1.3 billion, compared to around £1.6 billion last year, with this calculation being based on each month end balance.

Our net debt now includes balances related to the use of supply chain financing in the Group with extended credit terms. At 31 March 2021 the amount included was £25 million (31 March 2020: £93 million). We are phasing out the use of supply chain financing across the Group.

Funding and liquidity

As announced on 13 April 2021, the Group has been in discussions with its lending banks to prudently secure protection to the potential downside risks in our scenario planning. This includes ensuring sufficient headroom under severe but plausible scenarios.

In May 2021, the Group:

- Signed a new three-year revolving credit facility ('RCF') of £300 million that expires in May 2024. This is in addition to the £775 million RCF that expires in August 2025
- Clarified the definition of underlying results used in covenant calculations to ensure that any one-off impacts from the Group's contract profitability and balance sheet review ('CPBS') do not impact the calculation
- Agreed a temporary amendment to the net debt to EBITDA ratio covenant from 3.5 times to 4.5 times for the measurement periods ending 30 September 2021 and 31 March 2022

At 31 March 2021, the Group's net cash balance was £531 million. This combined with the undrawn element of our RCF gave us liquidity headroom of around £1.2 billion. We repaid the US Private Placement of $500 million, which was hedged at £307 million, in March 2021. This was funded from existing Group cash resources.

As of July 2021, the Group had access to a total of £2.4 billion of borrowings and facilities of mostly long-term maturities. These comprised:

- €550 million bond maturing 6 October 2022 (in April 2021 this was hedged at £482 million)
- New £300 million 3-year RCF maturing 20 May 2024 (signed on 20th May 2021)
- £775 million revolving credit facility (RCF) maturing 28 August 2025
- £300 million bond maturing 5 October 2026
- €550 million bond, hedged at £493 million, maturing 13 September 2027
- Committed overdraft facility of £50 million

Capital structure

An important part of the transformation of Babcock is the strengthening of the balance sheet. Whilst there are several facets to balance sheet strength, the primary measurement relevant to Babcock is the net debt / EBITDA gearing ratio within our debt covenants, which was 2.5x at 31 March 2021. The covenant level is 3.5 times, increased to 4.5 times until March 2022.

Our near-term priority is to reduce the gearing ratio to below 2x. There are some short-term headwinds to reducing the gearing. Free cash flow is expected to be negative in FY22 and HY23 as certain material cash outflows – particularly additional pension contributions and restructuring - have already been committed. Additionally, we intend to gradually unwind the gap between period end and average net debt.

The planned disposal proceeds of at least £400 million over the next twelve months will provide the funds to support strengthening the balance sheet. Despite the clear priority to delever the balance sheet, the Group will continue to invest organically in the business as this will be key to driving value in the medium term. As we announced in April 2021, we aim to return to strength without the need for an equity issue.

In the next 12-18 months, once the disposal programme is complete, we will reassess the appropriate capital structure for the future of the Group.

Net debt to EBITDA (covenant basis)

This is the measure used in the covenant in our revolving credit facilities (RCF) and makes a number of adjustments from reported net debt and EBITDA. The covenant level is 3.5 times - amended to 4.5 times until 31 March 2022. Our net debt to EBITDA increased to 2.5 times at 31 March 2021 as the reduction in net debt, reflecting free cash flow generation and disposal proceeds, was more than offset by the decrease in EBITDA.

	31 March 2021 £m	31 March 2020 Restated £m
Underlying operating profit excl. one-off CPBS adjustments	**222.4**	377.6
Depreciation and amortisation	**107.7**	91.0
Covenant adjustments*	**(11.5)**	(17.0)
EBITDA	**318.6**	451.6
JV and associate dividends	**36.8**	52.0
EBITDA + JV and associates dividends (covenant basis)	**355.4**	503.6
Net debt	**(771.5)**	(1,055.4)
Covenant adjustments**	**(103.6)**	(94.9)
Net debt (covenant basis)	**(875.1)**	(1,150.3)
Net debt/EBITDA	**2.5x**	2.3x

* various adjustments made to EBITDA to reflect accounting standards at the time of inception of the original RCF agreement. The main adjustments are to the treatment of leases within operating profit and pension costs.

** removing loans to JVs, finance lease receivables and adjusting for an average FX rate for the previous 12 months.

Interest cover (covenant basis)

This measure is also used in the covenant in our revolving credit facility (RCF), with a covenant level of 4.0 times.

	31 March 2021 £m	31 March 2020 Restated £m
EBITDA (covenant basis) + JV and associate dividends	**355.4**	503.6
Finance costs	**(55.6)**	(61.2)
Finance income	**11.7**	13.0
Covenant adjustments	**(0.2)**	0.2
Net Group finance costs	**(43.7)**	(48.0)
Interest cover	**8.1x**	10.5x

Return on invested capital, pre-tax (ROIC)

This measure is one of the Group's key performance indicators (KPIs).

	31 March 2021 £m	31 March 2020 Restated £m
Underlying operating profit	**(27.6)**	377.6
Share of JV PAT	**(13.1)**	58.6
Underlying operating profit plus share of JV PAT	**(40.7)**	436.2
Underlying operating profit excl. one off CPBS impacts	**222.4**	377.6
Share of JV PAT excl. one-off CPBS impacts	**18.4**	58.6
Underlying OP plus share of JV PAT excl. one off CPBS adjustments	**240.8**	436.2
Net debt excluding operating leases	**771.5**	1,055.4
Operating leases	**582.1**	649.4
Shareholder funds	**243.4**	2,314.8
Retirement deficit / (surplus)	**293.1**	(145.2)
Invested capital	**1,890.1**	3,874.4
ROIC underlying OP (pre-tax))	**(2.2)%**	11.3%
ROIC excl. one off CPBS adjustments (pre-tax)	**12.7%**	11.3%

Pensions

The Group has a number of defined benefit pension schemes. The principal defined benefit pension schemes in the UK are the Devonport Royal Dockyard Pension Scheme, the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme. 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 of each scheme who are advised by independent, qualified actuaries.

The Group's balance sheet includes the assets and liabilities of the pension schemes calculated on an IAS 19 basis. At 31 March 2021, the net position was a deficit of £293.1 million compared to a net surplus of £145.2 million at 31 March 2020. These valuations are based on discounting using corporate bond yields. Bond credit spreads were unusually high in March 2020 given the onset of the COVID-19 pandemic. They have now reverted to a more normal level causing a significant increase in benefit obligations.

The fair value of the assets and the present value of the liabilities of the Group pension schemes at 31 March were as follows:

	2021				2020			
	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	**55.1**	**12.5**	**23.0**	**90.6**	33.7	14.0	19.8	67.5
Property	**437.1**	**2.1**	**4.7**	**443.9**	426.0	4.6	4.4	435.0
High yield bonds/emerging market debt	**348.4**	**–**	**–**	**348.4**	75.3	–	–	75.3
Absolute return and multi-strategy funds	**428.5**	**194.5**	**25.4**	**648.4**	345.0	191.1	22.3	558.4
Low-risk assets								
Bonds	**1,422.9**	**54.8**	**83.2**	**1,560.9**	1,397.4	30.3	75.0	1,502.7
Matching assets*	**1,682.7**	**1.7**	**219.5**	**1,903.9**	1,918.7	1.4	59.2	1,979.3
Active position on longevity swaps	**(211.2)**	**–**	**–**	**(211.2)**	(206.9)	–	–	(206.9)
Fair value of assets	**4,163.5**	**265.6**	**355.8**	**4,784.9**	3,989.2	241.4	180.7	4,411.3
Percentage of assets quoted	**100%**	**100%**	**100%**	**100%**	100%	100%	100%	100%
Percentage of assets unquoted	**–**	**–**	**–**	**–**	–	–	–	–
Present value of defined benefit obligations								
Active members	**857.6**	**126.1**	**39.5**	**1,023.2**	892.0	93.1	91.8	1,076.9
Deferred pensioners	**1,227.3**	**107.4**	**273.9**	**1,608.6**	863.4	82.0	45.0	990.4
Pensioners	**2,259.1**	**136.1**	**51.0**	**2,446.2**	2,035.4	122.4	41.0	2,198.8
Total liabilities	**4,344.0**	**369.6**	**364.4**	**5,078.0**	3,790.8	297.5	177.8	4,266.1
Net assets/(liabilities) recognised in the statement of financial position	**(180.5)**	**(104.0)**	**(8.6)**	**(293.1)**	198.4	(56.1)	2.9	145.2

* The matching assets aim to hedge the liabilities and consist of gilts, repos, cash and swaps. They are shown net of repurchase obligations of £2,177 million (2020: £2,033 million).

Analysis of movement of pensions in the Group statement of financial position

The movement in net deficits for the year ending 31 March 2021 is as a result of the movement in assets and liabilities are shown below.

	2021				2020			
	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	**3,989.2**	**241.4**	**180.7**	**4,411.3**	4,104.7	246.6	230.9	4,582.2
Interest on assets	**91.7**	**5.7**	**3.0**	**100.4**	96.0	5.8	3.0	104.8
Actuarial gain/(loss) on assets	**224.3**	**26.3**	**174.0**	**424.6**	(64.0)	(2.4)	30.3	(36.1)
Employer contributions	**102.5**	**2.8**	**3.5**	**108.8**	105.1	3.0	2.8	110.9
Employee contributions	**0.2**	**–**	**–**	**0.2**	0.2	–	0.1	0.3
Benefits paid	**(244.4)**	**(10.6)**	**(5.4)**	**(260.4)**	(252.8)	(11.6)	(6.1)	(270.5)
Settlements	**–**	**–**	**–**	**–**	–	–	(80.3)	(80.3)
At 31 March	**4,163.5**	**265.6**	**355.8**	**4,784.9**	3,989.2	241.4	180.7	4,411.3
Present value of benefit obligations								
At 1 April	**3,790.8**	**297.5**	**177.8**	**4,266.1**	4,060.3	311.1	238.8	4,610.2
Service cost	**24.1**	**2.0**	**2.0**	**28.1**	29.5	2.5	1.7	33.7
Incurred expenses	**6.4**	**0.7**	**0.2**	**7.3**	3.4	0.2	0.1	3.7
Interest cost	**86.4**	**7.0**	**3.0**	**96.4**	94.4	7.4	3.1	104.9
Employee contributions	**0.2**	**–**	**–**	**0.2**	0.2	–	0.1	0.3
Experience loss/(gain)	**33.5**	**0.6**	**(1.4)**	**32.7**	27.8	–	1.4	29.2
Actuarial (gain)/loss – demographics	**8.4**	**(0.6)**	**(0.2)**	**7.6**	14.8	1.2	(1.2)	14.8
Actuarial loss/(gain)– financial	**629.7**	**73.0**	**188.4**	**891.1**	(186.8)	(13.3)	20.1	(180.0)
Benefits paid	**(244.4)**	**(10.6)**	**(5.4)**	**(260.4)**	(252.8)	(11.6)	(6.1)	(270.5)
Past service costs	**1.4**	**–**	**–**	**1.4**	–	–	–	–
Curtailment	**7.5**	**–**	**–**	**7.5**				
Settlements	**–**	**–**	**–**	**–**	–	–	(80.2)	(80.2)
At 31 March	**4,344.0**	**369.6**	**364.4**	**5,078.0**	3,790.8	297.5	177.8	4,266.1
Net surplus/(deficit) at 31 March	**(180.5)**	**(104.0)**	**(8.6)**	**(293.1)**	198.4	(56.1)	2.9	145.2

* Settlement effect in Other schemes is 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 it is neutral in terms of both the income statement and other comprehensive income,

An estimate of the technical provisions actuarial deficits as at 31 March 2021 for the principal schemes was around £270 million, predominantly reflecting discount rates based on UK gilts – which differs from the corporate bond approach of IAS 19. This technical provisions estimate is based on the assumptions used within the latest agreed valuation prior to 31 March 2021 for each of the three main schemes, and therefore does not fully allow for the impact of RPI reform which will be fully reflected in future technical provisions valuations.

Discount rate:	2.0% (31 March 2020: 2.4%)
Inflation rate (RPI):	3.2% (31 March 2020: 2.6%)

Pensions management

The Group continues to review its options to reduce the risks inherent in its schemes. In the last financial year, it closed the Rosyth Royal Dockyard Pension Scheme and the Babcock Naval Services Pension Scheme to future accruals.

It has employees earning benefits in the Babcock International Group Pension Scheme, the Devonport Royal Dockyard Pension Scheme, the Babcock Rail Ltd Shared Cost Section of the Railways Pension Scheme, the Cavendish Nuclear section of the Magnox Group section 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 also provides an occupational defined contribution pension scheme used to comply with the automatic enrolment legislation across the Group for all new employees and for those not in a defined benefit pension scheme. Over 75% of its UK employees are members of the defined contribution pension scheme. The Group pays contributions to this scheme 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 previously agreed long-term funding strategies with trustees across the three largest schemes designed that each scheme would be fully self-sufficient by April 2037, although the expectation is that this target will be met significantly earlier (albeit on a slightly weakened self-sufficiency target from that used previously). In recent years, the Group has agreed revised strategies with the trustees of the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme designed to target these schemes being self-sufficient by 2026. The schemes also operate within agreed risk budgets 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 and funding strategies. As at 31 March 2021 growth assets were 29% 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, such that as at 31 March 2021 approximately 80% of the schemes' liabilities (as measured on a guilts flat basis) across the three largest schemes are protected 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 Rosyth Royal Dockyard Pension Scheme as at 31 March 2018 was completed in the last financial year, the valuation of the Devonport Royal Dockyard Pension Scheme as at 31 March 2020 has been completed since the end of the 2021 financial year, and work has commenced on the valuation of the Rosyth Royal Dockyard Pension Scheme as at 31 March 2021. The next valuation of the Babcock International Group Pension Scheme will have an effective date of 31 March 2022.

Cash contributions

	FY22e £m	2021 £m	2020 £m
Future service contributions	**23.2**	**24.2**	26.0
Deficit recovery	**111.9**	**51.6**	47.3
Longevity swap	**16.8**	**16.3**	15.3
Total cash contributions — employer	**151.9**	**92.1**	88.6

Cash contributions made by the Group into the defined benefit pension schemes, excluding expenses and salary sacrifice contributions, during the last financial year are set out in the table above. In FY22, the total cash contributions expected to be paid by the Group into the defined benefit pension schemes are £160.7 million including £8.8 million for salary sacrifice contributions, £23.2 million is in respect of the cost of future service accrual, £111.9 million is to recover deficits over periods of time agreed with the Trustee and an additional £16.8 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.

Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,784.9 million, net of longevity swaps, in comparison to a valuation of the liabilities based on AA corporate bond yields of £5,078.0 million. The total net accounting deficit, before allowing for deferred tax, at 31 March 2021, was £293.1 million (2020: surplus of £145.2 million), representing a 94.2% 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.

Income statement charge

The charge included within underlying operating profit in FY21 was £35 million, of which £28 million related to service costs and £7 million related to expenses. We expect charges of around £40 million in FY22, split between £33 million of service costs and £7 million of expenses. In addition to this, there was an interest credit of £4 million in FY21 and, for FY22, we expect an interest charge of £5 million on the deficit.

Governance

The Group believes that the complexity of defined benefit schemes requires effective governance and supports an increasingly professional approach. Each of the largest schemes have independent trustees and professional trustees with specialist investment expertise.

Accounting valuations

	Devonport		Babcock		Rosyth	
	2021	2020	**2021**	2020	**2021**	2020
Discount rate %	**2.0**	2.4	**2.0**	2.4	**2.0**	2.4
Inflation rate (RPI)	**3.2**	2.6	**3.2**	2.6	**3.2**	2.6
Inflation rate (CPI)	**2.7**	1.8	**2.7**	1.8	**2.7**	1.8
Rate of increase in pensions in payment %	**2.7**	2.0	**3.1**	2.6	**3.2**	2.8
Life expectancy of male currently aged 65 years	**20.7**	20.7	**22.1**	22.1	**19.8**	19.8

Subsequent events

In April 2021, the Group announced a new operating model. The related restructuring will result in an exceptional charge of around £40 million being recognised in the 2022 financial year.

In FY20, the Lazio Regional Administrative Court confirmed a €51 million fine issued by the Italian Competition Authority to our subsidiary, Babcock Mission Critical Services Italia SpA (BMCS Italia), for certain anti-trust violations. As a result, we recognised a provision for £46 million. During the year, BMCS Italia appealed the decision of the Court to the Italian Council of State. In July 2021, the Council, whilst upholding the decision of the Court on the facts, annulled the fine, though allowing the Authority leave to re-calculate it. We expect the Authority to decide on the recalculation of the fine over the next few months. Taking into account the guidance given by the Council to the Authority on the recalculation, we further expect the Authority to reduce the fine. As a result, we have reduced our best estimate of the provision from £46 million to £20 million, although we have not received any indication from the Authority as to how it will choose to interpret the Council's guidance.

Improvements in risk management and internal control

During the second half of the year, the new Executive Directors made several changes to the risk management and internal control environment. These were initially designed to simplify and improve the oversight and governance of the Group. As the CPBS review progressed it became apparent that business processes and internal controls needed a more thorough revision. A programme of change has commenced which targets certain priority areas – a summary is set out below. The findings of the CPBS have been mapped against these areas to ensure that risks and issues that resulted in financial adjustments in the CPBS are in future either prevented, or at least detected at an early stage.

The priority areas of improvement and key actions are as follows:

Area	Improvements and actions
Governance	• Clear 'tone from the top' on Babcock values • Board and Exco documentation streamlined and focused • Formation of Disclosure Committee / Disclosure Panel to consider market communications • New Risk Management process with Exco ownership • Enhanced Delegations of Authority document across the Group • Formal Letter of Representation covering policy compliance sign off from management each six months
Financial control	• Simplification of income statement and cash flow management reporting • Standardised management reporting across the Group • Development of detailed minimum standards of financial control • Updated and standardised Group accounting policies • Updated Treasury controls and policies • Monthly business reviews with sectors • Regular balance sheet reviews with sector sign off
Bids	• Improved, standardised bid review process and documentation
Project management	• New Group-wide approach to project management and project reviews • Enhanced change control process
Safety	• Revamped scrutiny of safety performance • Nominated Exco Safety sponsor

Some of the above changes have been implemented already. Some require a more detailed approach and will take more time to embed. They will be implemented in the current fiscal year. In the meantime where this is the case, management reviews of projects and financial results will help mitigate against the risk of reoccurrence.

Additionally, the new operating model has organised the functions of finance, HR, IT, and procurement and supply chain as 'centre-led'. This will ensure higher common standards across the Group and increase transparency and oversight of the business, as well as promote more collaboration.

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 treasury team is only permitted to enter into financial instruments where it has a high level of confidence in the hedged item occurring. Both the treasury department and the sectors 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, particularly given the ongoing 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.

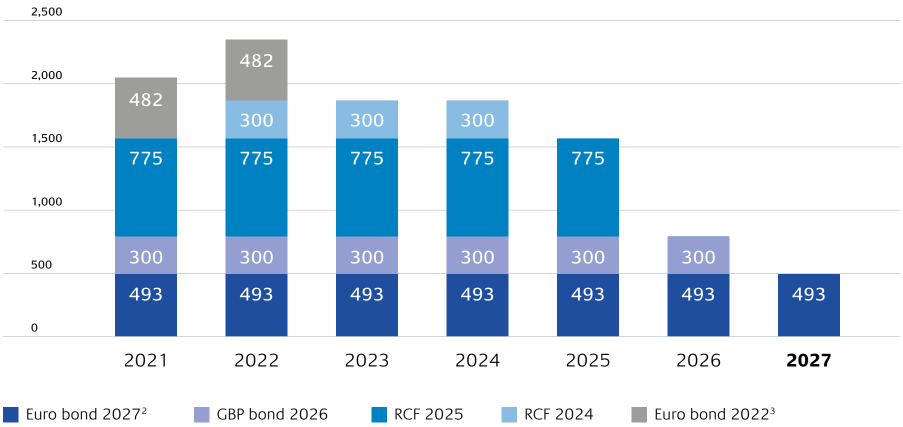
Updates

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 repaid the US$500 million private placement notes maturing March 2021 using cash and drawings under its Revolving Credit Facility (RCF). The Group also extended the maturity of its £775 million RCF by one year to mature in August 2025.

In May 2021, the Group signed a new three-year RCF of £300 million that expires in May 2024. This is in addition to the Group's existing £775 million RCF. At the same time, the Group clarified the definition of underlying results used in the RCF covenant calculations to ensure that any one-off impacts from the Group's contract profitability and balance sheet review ('CPBS') do not impact the calculation and agreed with lenders a temporary amendment to the net debt to EBITDA ratio covenant permitted level from 3.5 times to 4.5 times for the measurement periods ending 30 September 2021 and 31 March 2022.

The Group's other main corporate facilities comprise of the following: a £300 million Sterling bond, maturing October 2026, a €550 million bond, maturing October 2022, and a €550 million bond, maturing September 2027. Taken together, these debt facilities provide the Group with a total of around £2.4 billion of available committed facilities and bonds as of July 2021.

Debt maturity profile (£)[1]



1. Chart shows notional value of the debt
2. Euro bond 2027 €550m hedged at £493m
3. Euro bond 2022 €550m hedged at £482m

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 rate 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 2021, the Group had 70% fixed rate debt (31 March 2020 restated: 53%) and 30% floating rate debt (31 March 2020 restated: 47%) based on gross debt of £2,340.0 million (31 March 2020: £3,621.3 million). The figures at 31 March 2020 included the drawn down RCF in response to the uncertainties of COVID-19 at the time.

Liquidity

Objective

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

Policy

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

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. As noted above, the Group repaid the US$500 million private placement notes maturing March 2021 using cash and drawings under its Revolving Credit Facility (RCF) during the year. The Group also extended the maturity of its £775 million RCF by one year to mature in August 2025. Any surplus cash during the year was invested in short term deposits diversified across several well rated financial institutions in accordance with policy.

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 £7.8 million in the income statement for the year ending 31 March 2021 (2020: £12.7 million loss).

Marine

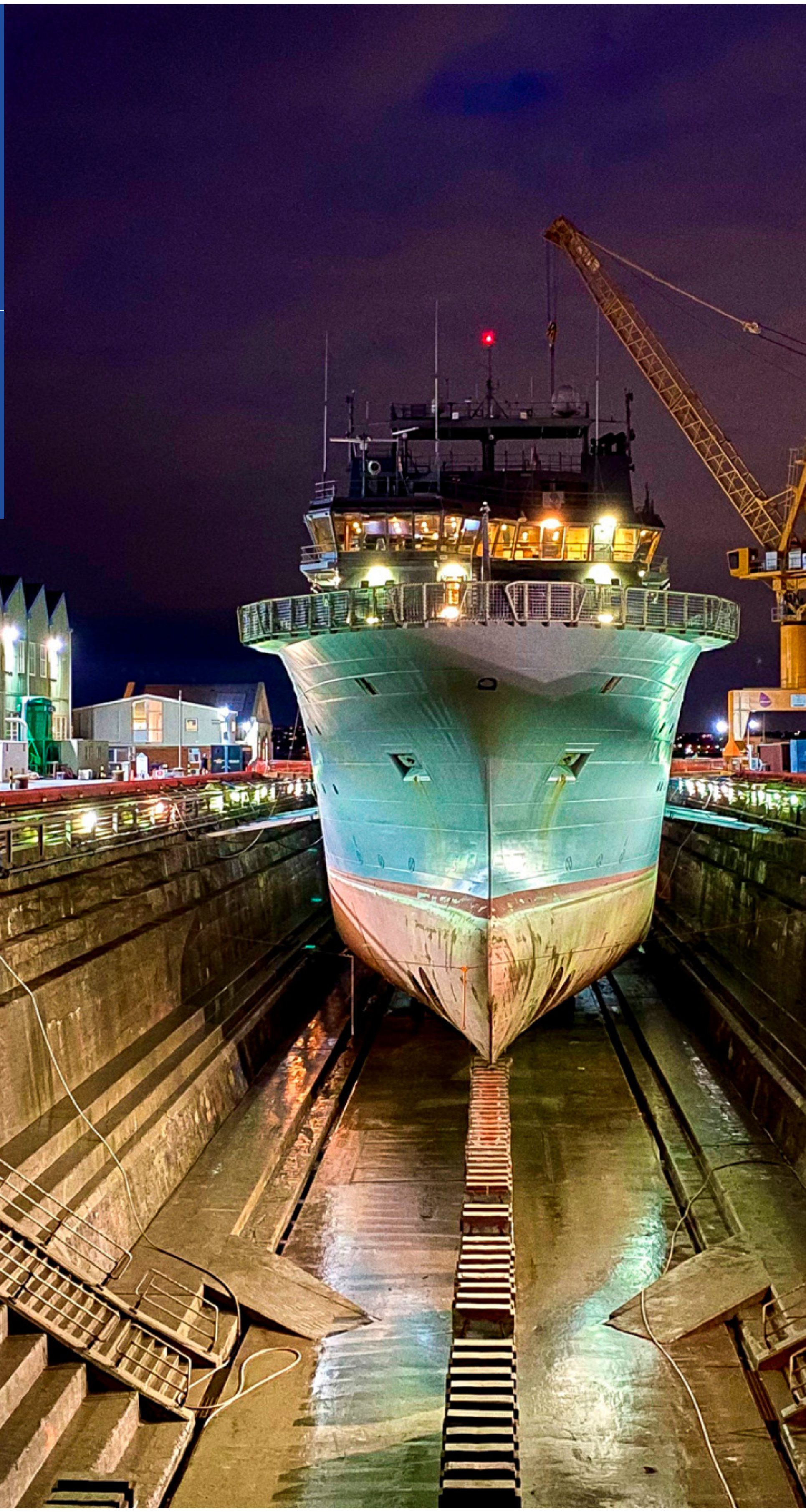
We ensure the UK Royal Navy goes to sea safely by supporting their ships and crews around the world

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

Revenue as % of Group

30%



HMNZS Manawanui in dry dock at Devonport, New Zealand.

	31 March 2021	31 March 2020 Restated
Contract backlog	**£2.5bn**	£2.6bn
Revenue	**£1,242.3m**	£1,163.6m
Underlying operating profit	**£56.3m**	£134.4m
of which CPBS one-off impacts	***£(28.9)m***	
Underlying operating profit excluding CPBS one-off impacts	***£85.2m***	
Underlying margin excluding CPBS one-off impacts	***6.9%***	*11.6%*

Revenue and underlying operating profit (excl. one-off CPBS impacts) bridge:

	31 March 2020 Restated £m	FX Impact £m	Disposals of businesses £m	Non-recurring items in FY20 £m	Impact of COVID-19 £m	FY21 CPBS recurring impacts £m	Other trading £m	31 March 2021 £m
Revenue	**1,163.6**	(2.9)	(25.4)	–	8.5	(25.7)	124.2	**1,242.3**
Underlying operating profit	**134.4**	(0.3)	(2.5)	(5.7)	(17.3)	(8.4)	(15.0)	**85.2**

Financial review

Organic revenue grew by 9% in the year led by the ramp up of work on the Type 31 frigate programme and continued strength in our LGE business. Growth in these areas more than offset the impact of the disposal of Context and the £44 million year-on-year revenue impact from the end of the QEC programme last year. Increased work related to COVID-19 had a small positive impact on revenue with lower activity in warship support and in Oman offset by COVID-related orders for the ventilators in the UK.

Underlying operating profit of £56.3 million includes a £28.9 million one-off adjustment from our CPBS (see page 33). Excluding this, underlying operating profit was £85.2 million. The table above shows the main variances year-on-year:

- The estimated impacts of COVID-19 which included lower activity in high margin consultancy work and the shutdown of our Oman training site for most of the period with limited opportunities to mitigate costs
- A recurring impact from the CPBS primarily related to a more cautious view on the recognition of profit on the Type 31 frigate programme, amongst other projects
- Weaker trading which reflects lower profitability on certain programmes, a charge from the loss of a legal case relating to a previously exited business, and a less favourable allocation of corporate costs to Marine than in the previous year

The sector's contract backlog was broadly flat year-on-year.

Operational review

UK defence

Performance across UK defence was mixed throughout the year with lower volumes across some key programmes, partly reflecting the pressures of COVID-19, being offset by increased activity on the Type 31 frigate programme. The Type 31 frigate programme has now completed both its preliminary and whole ship design reviews. This is a key indicator of the compliance, maturity and engineering risk in proceeding into production as we mature the design models of specific individual systems and equipment. The development and construction of a new state-of-the-art assembly hall at our Rosyth dockyard to support the build is due for completion towards the end of this summer with the steel on the first ship, HMS Venturer, to be cut in September 2021.

The Type 23 frigate life-extension programme at our Devonport dockyard saw a temporary halt to work in the early stages of the COVID-19 pandemic but was soon back to a full work schedule, with four ships undergoing life extension in parallel. HMS Portland was returned to the Royal Navy in the year after receiving its life extension including a first-in-class engine removal and repair. HMS St Albans is currently undergoing the largest Type 23 support period yet. We also provided a large support package for HMS Richmond ahead of her joining the UK's Carrier Strike Group.

We continue to support the development of the next generation of UK submarines. We secured both weapons handling and launch system (WHLS) and defensive aids suite (DAS) contracts in the period in support of the UK Dreadnought programme. The US/UK Common Missile Compartment programme output increased significantly during the period and will continue to do so throughout the next year as the programme ramps up.

In March 2021 we secured a five-year, £150 million logistic support contract with the MOD as part of the £3.2 billion Land Environment Tactical Communications and Information Systems (LE TacCIS) programme of opportunities to deliver the next-generation tactical communications and information systems. We have been down-selected for the next phase of the Skynet 6 Service Delivery Wrap contract supporting the next generation of UK military satellite communications, with a final submission expected in October 2021. We also await the outcome of the Maritime Electronic Warfare Systems Integrated Capability (MEWSIC) bid, which is expected in the coming months.

We were disappointed to be unsuccessful in our Project Selborne bid during the period. The delivery of FOAP training, which was included within the larger Project Selborne scope, finished on 31 March 2021. We continue to deliver training under the Astute Class Training contract at HMNB Clyde.

International defence

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

In Canada, our customer exercised two one-year contract extension options to the Victoria In-Service Support Contract (VISSC) to take the contract out to June 2023. VISSC is one of the largest naval in-service support contracts in Canada and includes refits and deep maintenance periods for Canada's fleet of four submarines.

In Australia, we secured a contract with Naval Group to commence the second stage design and build of the Weapon Discharge System (WDS) for the Australian Future Submarine Programme (AFSP). AFSP is Australia's largest defence acquisition programme and will see 12 Attack Class submarines designed and built for the Royal Australian Navy, expected to enter service in the early 2030s.

In Korea, we secured a WHLS order for the fourth boat of the Jangbogo-III Submarine programme. We continue to develop our Busan facility to expand our presence in Korea to provide the programme with through-life support, as well as future Republic of Korea Navy development programmes.

Looking ahead we see several opportunities for export orders for our Arrowhead 140 frigate design chosen for the UK Type 31 programme and we are expanding our high frequency communications capability and capacity in Australasia, building on our work in the UK and New Zealand.

Energy and Marine

Our Energy and Marine business saw good revenue growth during the year, driven by increased commercial vessel work and continued strong demand for multiple liquefied gas handling and re-liquefaction system orders across the LPG, LNG and ethane markets.

In the period we signed frame agreements with Hyundai Heavy Industries, Hyundai Samho Heavy Industries and Hyundai Mipo Dockyard confirming Babcock LGE as preferred supplier for the design and supply of LPG cargo handling systems for very large gas carriers and midsize gas carriers.

Nuclear

We have supported the Continuous At Sea Deterrent for over 50 years

We sustain the entirety of the UK's submarine fleet

We have role across all civil nuclear: from new build, to operational support, to decommissioning

Revenue as % of Group

23%

HMS Vanguard approaches home port at Her Majesty's Naval Base Clyde © Crown Copyright 2021 Image: UK MOD

	31 March 2021	31 March 2020 Restated
Contract backlog	**£0.4bn**	£0.6bn
Revenue	**£975.9m**	£896.9m
Underlying operating profit	**£63.9m**	£113.3m
of which CPBS one-off impacts	***£(23.4)m***	
Underlying operating profit excluding CPBS one-off impacts	***£87.3m***	
Underlying margin excluding CPBS one-off impacts	***8.9%***	*12.6%*

Revenue and underlying operating profit (excl. one-off CPBS impacts) bridge:

	31 March 2020 Restated £m	FX Impact £m	Disposals of businesses £m	Non-recurring items in FY20 £m	Impact of COVID-19 £m	FY21 CPBS recurring impacts £m	Other trading £m	31 March 2021 £m
Revenue	**896.9**	–	(3.5)	–	9.3	(21.8)	95.0	**975.9**
Underlying operating profit	**113.3**	–	0.5	(20.9)	(2.1)	(0.2)	(3.1)	**87.3**

Financial review

Organic revenue was 9% higher this year led by strong growth in defence. This growth came from increased work on submarine support and a further ramp up of infrastructure work. This revenue growth however was at a lower margin. The increase in revenue associated with COVID-19 relates to COVID related costs recovered from the customer.

The underlying operating profit of £63.9 million includes a £23.4 million one-off adjustment from our CPBS (see page 33). Excluding this, underlying operating profit was £87.3 million. The table above shows the main variances year-on-year, the largest of which is the impact of a higher R&D tax credits in the last financial year due to a catch up on previous years' claims. The small decline in profit reflected in the other trading movements reflect the lower margin earned this year across programmes.

The sector's contract backlog reduced slightly year on year, reflecting the lower time period of committed revenue from MSDF, and is expected to increase significantly once the FMSP contract is agreed, as discussed below.

Operational review

Defence

The defence business saw increased activity in the year despite COVID-19 working pressures as critical work continued. We continued to support the Continuous At Sea Deterrent and the high availability of Attack Submarines from our operations at HMNB Clyde despite the challenges of the pandemic. Work on large submarine infrastructure programmes ramped up in the year, including planning for the first deep maintenance period of the Astute Class at Devonport in the next few years. In Devonport, we continue to work on the Revalidation Assisted Maintenance Period (RAMP) programme for the Trafalgar Class and work has continued on the first life extension of the Vanguard Class.

Our largest individual contract across the Group, the Maritime Support Delivery Framework (MSDF), operates across our Maritime and Nuclear sectors. The previous five year MSDF contract was due to expire on the 31 March 2020, however, MOD and Babcock agreed to exercise an option in the MSDF contract to extend the commercial arrangement by a year to 31 March 2021. This additional year included some scope increases but at a lower margin compared to the previous MSDF contract. This has been replaced by an Intention To Proceed (ITP) agreement which includes an output based requirement, covering the period 1 April 2021 to 31 July 2021. This transition period will allow MOD and Babcock to conclude negotiations on the four Future Maritime Support Programme (FMSP) single source contracts at HMNB Devonport and Clyde, replacing the current MSDF arrangements.

We are working with our customer to finalise the four replacement contracts. All are identified as being 'Qualifying Defence Contracts (QDC)' and fall under Single Source Contract Regulations (SSCR). Negotiations have not yet concluded, but we expect to finalise all elements of the four FMSP contracts over this summer.

Civil

Revenue across civil was lower in the year reflecting major long-term projects with the NDA and AWE coming to a close and lower volumes on work with EDF partly as a result of challenges with the Advance Gas Reactor station fleet.

New build construction continues to be delayed at Hinkley Point C (HPC) resulting in a knock-on impact to the MEH Alliance. The alliance, launched in August 2019 with three other operators, aims to deliver all of the main Mechanical, Electrical and Heating (venting and air conditioning) (MEH) activity at HPC.

The civil nuclear decommissioning and new build market remains challenging in the short term and we made good progress in the year in reducing our overheads and simplifying our structure to adapt to these challenges. There are, however, significant opportunities in the medium term across the UK and potential opportunities in Canada and Japan, two markets where we already have a small presence.

Land

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

Revenue as % of Group

27%

British Army Challenger 2 tank at Bovington © Crown Copyright 2021 Image: UK MOD

	31 March 2021	31 March 2020 Restated
Contract backlog	**£3.0bn**	£3.5bn
Revenue	**£1,110.1m**	£1,522.5m
Underlying operating profit	**£(17.4)m**	£98.1m
of which CPBS one-off impacts	***£(69.3)m***	
Underlying operating profit excluding CPBS one-off impacts	***£51.9m***	
Underlying margin excluding CPBS one-off impacts	***4.7%***	*6.4%*

Revenue and underlying operating profit (excl. one-off CPBS impacts) bridge:

	31 March 2020 Restated £m	FX Impact £m	Disposals of businesses £m	Non-recurring items in FY20 £m	Impact of COVID-19 £m	FY21 CPBS recurring impacts £m	Other trading £m	31 March 2021 £m
Revenue	**1,522.5**	(50.8)	(30.5)	–	(118.5)	(140.9)	(71.7)	**1,110.1**
Underlying operating profit	**98.1**	(4.8)	(1.7)	(3.1)	(15.1)	(9.8)	(11.7)	**51.9**

Financial review

On an organic basis, revenue was 22% lower in the year. This includes a significant impact from the CPBS, with an in-year reduction relating to lower revenue on our DSG contract and the de-recognition of revenue on our Phoenix contract as, from February 2020, the contractual terms changed from Babcock acting as principal to acting as agent. Revenue was also impacted by a significant COVID-19 impact of around £120 million across many parts of the sector as well as the lost contract for Heathrow in our Airports business and lower defence volumes.

The underlying operating loss of £17.4 million includes a £69.3 million one-off adjustment from our CPBS (see page 33). Excluding this, underlying operating profit was £51.9 million. The table above shows the main variances year-on-year:

- Estimated impacts from COVID-19 as a result of lower activity and site closures in civil training, education, airports and in South Africa
- Recurring impacts from the CPBS primarily relating to a significantly lower margin recognised on our DSG contract
- Other trading reflects the loss of the Heathrow contract, increased operating costs and lower profitability on some contracts

The sector's contract backlog decreased by £0.5 billion in the year, reflecting the utilisation of multi-year backlog on long-term contracts, predominantly DSG, and also the reduction of backlog in Airports.

Operational review

Defence

Trading across our most of our defence businesses held up well during the year despite COVID-19. Activity slowed in some areas however, including training and short-cycle inventory work at DSG while our work supporting the British Army in Germany reduced in scope.

We continue to engage with the customer as they develop their Collective Training Transformation Programme and won the opportunity to participate in the British Army's 2021 Army Warfighting Experiment where we will be demonstrating a range of capabilities. During the year we secured an extension to our Training Maintenance and Support Services (TMASS) contract out to 2023 and we are in negotiations to extend the Defence College of Technical Training for the provision of training design and delivery (EMTC II) for a further three years, plus one option year.

Activity levels remained high across our Defence Support Group (DSG) business though reduced efficiency reduced the pace of progress. Following a review of the DSG contract as part of the CPBS, and taking into account the changes announced by the MOD in the Integrated Review in the year, we now recognise a significantly lower margin on the DSG contract.

Emergency services

Trading across our emergency services businesses was relatively flat in the year with lower volumes in firefighting training offset by the start of our new police training contract. Our fleet support contract for the Met Police performed well and we were awarded a two year contract extension worth around £60 million in the year. In January 2021, we launched the £300 million contract for the Met Police Education and Qualification Framework (PEQF). Our fleet support and training contracts for the London Fire Brigade continue to perform well.

Other civil markets

The impact of COVID-19 was most severe across many of our other markets in the Land sector, both in terms of revenue and operating profit. In our civil training business, the start of the COVID-19 pandemic saw customer facilities closed and no face-to-face training. The majority of our civil training workforce were initially placed on the UK Government's furlough scheme. Our airports businesses saw a dramatic reduction in volumes given the global decline in passenger numbers and our Heathrow airport baggage contract came to an end in October 2020. Work across our rail and power businesses held up well throughout the year.

Our South Africa business had a very tough first half of the year, hit by national lockdowns, but saw a stronger second half as activity increased.

In October 2020, we completed the sale of the Conbras business in Brazil for a net consideration of £7 million.

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

Revenue as % of Group

20%

Airbus H160 helicopter

	31 March 2021	31 March 2020 Restated
Contract backlog	**£2.9bn**	£2.8bn
Revenue	**£854.4m**	£845.5m
Underlying operating profit	**£(130.4)m**	£31.8m
of which CPBS one-off impacts	***£(128.4)m***	
Underlying operating profit excluding CPBS one-off impacts	***£(2.0)m***	
Underlying margin excluding CPBS one-off impacts	***(0.2)%***	*3.8%*

Revenue and underlying operating profit (excl. one-off CPBS impacts) bridge:

	31 March 2020 Restated £m	FX Impact £m	Disposals of businesses £m	Non-recurring items in FY20 £m	Impact of COVID-19 £m	FY21 CPBS recurring impacts £m	Other trading £m	31 March 2021 £m
Revenue	**845.5**	11.8	–	–	(44.6)	(19.0)	60.7	**854.4**
Underlying operating profit	**31.8**	(0.3)	–	(17.0)	(11.1)	(6.3)	0.9	**(2.0)**

Financial review

Organic revenue was flat this year as business growth and new contracts offset a COVID-19 impact of around £45 million from lower flying hours in the earlier stages of the pandemic.

The underlying operating loss of £130.4 million includes a £128.4 million one-off adjustment from our CPBS (see page 33). Excluding this, underlying operating loss was £2.0 million. The table above shows the main variances year-on-year, being the estimated costs of COVID-19 and significant credits that benefited FY20.

The estimated COVID-19 impact includes the direct impact from lower flying hours in the early stages of the pandemic and the additional costs across the business. These costs included PPE, the refitting and segregation modification of aircraft and the inefficiencies of flying in a COVID-secure way, for example flying at lower capacity. In many cases these additional costs were not recovered in our contract pricing.

The recurring impacts to underlying operating profit from the CPBS of £6.3 million relate to the ongoing impact of various adjustments made.

As set out before, our civil aviation business has a cost structure too high for the revenue we generate under existing contracts. Our cost reduction programme started in the last financial year has begun to address this. In the prior year, reported performance benefited from various transactions that are not expected to repeat. These include multi-year indexation claims on contracts and accrual and provisions releases.

The positive impact of these in FY20 was around £17 million compared to nil in FY21. The small improvement in other trading reflects the benefits from the cost restructuring programme mostly offset by weaker trading.

The sector's contract backlog was broadly stable year-on-year with new work replacing contracts that ended.

Operational review

Defence

Activity across defence was broadly flat in the year with work continuing despite COVID-19. In the UK, support continued across both RAF station support and flying training. Additionally both our Hawk and Adour contracts, which underpin the delivery of critical UK fast-jet training to the RAF, were extended in year. Discussions continue on a longer-term Hawk support contract for the next decade.

In France, we continued to deliver on our Fomedec pilot training contract and we started our H160 contract to provide search and rescue aircraft and services for the French Navy. In June 2021, we were awarded a contract by the French MOD for an expansion of our existing defence aviation training activities. This five-year contract is worth around €500 million and started in June 2021.

In Canada, we have signed a letter of intent with Leonardo to bid together for the Future Aircrew Training programme (FACT).

Aerial emergency services

Revenue across our aerial emergency services businesses was slightly higher this year, helped by the start of new contracts and higher firefighting hours. Profitability was severely impacted by COVID-19 with the pressures of lower flying hours in much of the business and higher costs of delivery.

Performance in aerial emergency medical services was the most severely hit by COVID-19 in the earlier parts of the financial year. We were successful in securing contract renewals in Italy, Spain and France in the year.

Our firefighting operations across Europe and Canada saw higher activity levels compared to last year, particularly in Spain and Italy. We have increased our footprint in firefighting in Europe with new contract wins in Spain and we deployed aircraft in Chile with a small counter-season contract.

Oil and gas

Market conditions for our oil and gas business remained tough throughout the year. Flying hours were heavily reduced in the early part of the year in response to the COVID-19 pandemic but recovered as the year continued.

Building relationships

Customers

Why they matter to us
Enabling our customers to succeed is fundamental to our success. We work in partnership with public and private customers to enable them to deliver critical programmes and services where failure is not an option. We seek to solve their challenges through excellent operational performance and the introduction of innovations to support their longer-term needs. We build and maintain long-term relationships with our customers in order to promote the long-term success of the Group.

What matters to them
- Safety
- Operational excellence
- Reliability
- Value for money
- Deep understanding of their needs, both now and in the future
- Sustainability performance

How Babcock engages
- Regular ongoing relationship engagement at all levels
- Contract negotiation, execution
- Strategic Partnership Programme
- Work on joint initiatives
- Provision of information on sustainability goals

Investors

Why they matter to us
The support of our equity and debt investors and continued access to capital is vital to the long-term success of the Company. We work to ensure that we provide clear and transparent information to the market which allows investors and potential investors to make informed decisions, via market updates, information published on our website, appropriate access to management and an active IR and Treasury team.

What matters to them
- Creation of shareholder value
- Financial and operational performance of the Company
- Strategy and business development
- Capital structure
- Dividend policy
- Transparency and simplification of communication
- Governance and management
- Sustainability strategy and progress

How Babcock engages
- Annual Report and financial statements and annual general meeting
- Results materials and presentations
- Investor relations team
- Treasury team with banks and noteholders and credit rating agencies
- Babcock website, including dedicated Investor section
- Investor roadshows with management and the IR team
- Chair engagement with top shareholders
- Consultation with large shareholders on Remuneration policy
- Investor site visits
- Stock exchange announcements and press releases

Employees

Why they matter to us
We recognise that our employees are key to our success, and strive to engage with them through a variety of channels, so that they are aware of the Group's aims and priorities. We work to create a diverse and inclusive workplace where employees can reach their full potential and we engage with them to understand their expectations and meet their needs to ensure we retain and develop the best talent.

What matters to them
- Remuneration and reward
- Professional development
- The Group's aims, goals, priorities and reputation
- Employee engagement
- Health and Safety
- An empowering employment culture
- Diversity and Inclusion
- Sustainability

How Babcock engages
- Employee forums and meetings with representative groups
- Regular employee surveys
- CEO and senior management vlogs
- Access to the CEO via a dedicated email
- Regular updates on the intranet and App
- Cascade briefings
- Inductions, including using a dedicated App
- Apprentice and Graduate programmes
- Regular training, including on Code of Conduct
- Access to independent whistleblowing process
- Senior management and Board visits
- Director designated for employees meetings

Regulators

Why they matter to us

We manage complex assets in highly regulated sectors: nuclear, defence and aviation. We are committed to providing safe and effective operations. We have to maintain positive and constructive relationships with regulators in order to be able to operate, to help shape policy in our markets and to position for future opportunities.

What matters to them

- Regulations, policies and standards
- Governance and transparency
- Trust and ethics
- Compliance
- Sustainability
- Site-specific issues

How Babcock engages

- Regular engagement (national, local and official level)
- Briefing on key issues
- Dedicated compliance teams
- Response to direct queries

Suppliers

Why they matter to us

To support our business operations and strategy we require an efficient and highly effective supply chain. This means we need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice. Our external supply chains are an important part of our performance and by working collaboratively with suppliers we can ensure continuity of supply, minimise risk and bring innovative solutions to our customers.

What matters to them

- Good working relationships
- Access to opportunities
- Prompt payment and predictable supplier cash flows

How Babcock engages

- Regular open and honest two-way communications
- Supplier Code of Conduct
- Supplier conferences, workshops and 'lunch and learns'
- Supplier due diligence
- Involvement in Security supply chain development programme SC21

Communities

Why they matter to us

Our partnership with the communities in which we operate is at the core of our business. We have a responsibility to ensure that we support the communities in which we operate both economically and socially; community engagement and social value creation is a key aspect of our ESG strategy. Where we have major sites of operation, such as at Plymouth in the UK, we are often one of the largest employers in the local area. We are aware of the impact that we have on those communities.

What matters to them

- Employment
- Health and Safety
- Engagement in local education and STEM activities
- Sustainability and the local environment
- Support for indigenous people
- Armed Forces Reservists Support
- Improved community infrastructure and resilience

How Babcock engages

- Sponsorship
- Employee volunteering
- University partnerships
- STEM Ambassadors
- Engagement with local community programmes

For further information on how the Board engaged with the Company's stakeholders and took their interests into account in key decisions during the year under review, please see pages 114 to 116 which forms part of the s172(1) Statement on page 79.

Jasvinder Bancroft
Civil Engineer
UK

Creating a safe and secure world, together

In FY21 we made progress in the development of our environmental, social and governance (ESG) strategy despite managing financial issues. We recognise it is increasingly important to all our stakeholders, not least our people and our customers. Our activities have a significant impact on society and the environment, and sustainability is now an integral part of our corporate strategy and how we do business, but we need to focus more in this area. You can see more about how our new approach to sustainability, driven by our corporate purpose, is central to our business model and wider strategy on page 16.

Key focus areas for FY22

- Materiality assessment see page 64
- Progress the pathway to net zero, set science-based targets and reduce emissions
- Conduct Chapter Zero Board readiness assessment
- Focus on climate action: TCFD risk management and scenario planning
- Establish a baseline and investigate reduction invitiatives for water and waste
- Progress sustainable transport solutions for Babcock and our customers
- Progress inclusion and diversity initiatives
- Upweight corporate citizenship
- Increase Group-wide engagement with stakeholders
- Increase ESG transparency and disclosure

We recognise we are at the start of our sustainability journey but are committed to acting now to reduce emissions, achieve our net zero goals and meet the expectations of all our stakeholders and society as a whole. In particular, we aspire to make a positive difference for the communities in which we operate and actively contribute towards the UN Sustainable Development Goals (SDGs).

We are focused on minimising the impact of our operations on the environment, on ensuring the safety of our people and ensuring that we have a positive impact on the communities in which we operate. We are working collaboratively with our customers and our supply chain to address the common challenges we all share, such as climate change.

Our sustainability strategy underpins our corporate purpose: to create a safe and secure world, together. We do this by supporting the defence of nations, protecting communities and saving lives.

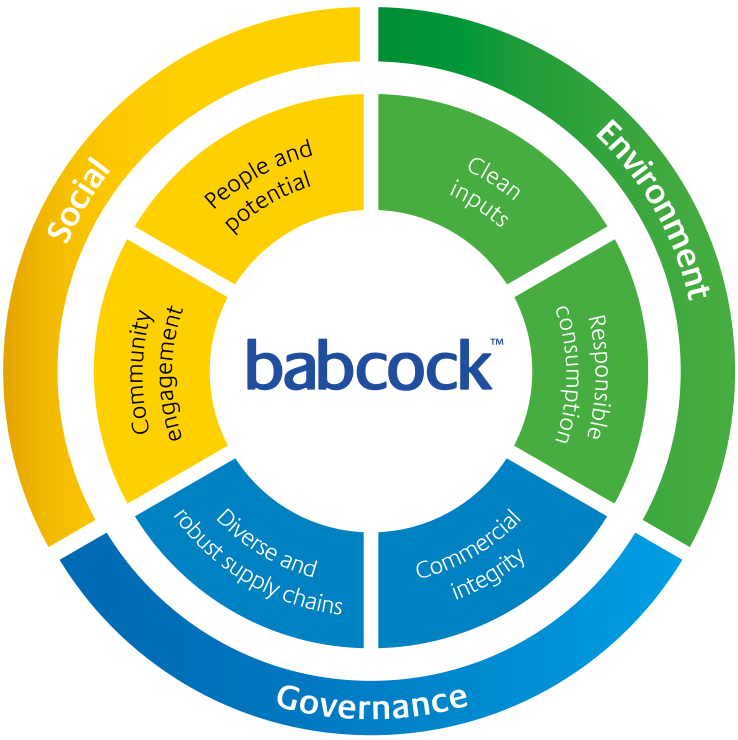
- By reducing our carbon emissions and focusing on cleaner energy, minimising waste and increasing recycling we will protect the environment
- Through an active corporate citizenship programme and sustainable procurement initiatives we will protect our communities and suppliers
- By providing a safe and inclusive workplace where each person feels valued we will protect our employees
- By delivering robust free cash flows and creating sustainable value we will protect the future of the organisation

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 fulfil 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 solutions 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.

Our ESG strategy focuses on the operations and strategy of the Group and is owned at Executive Committee level by John Howie, Chief Corporate Affairs Officer. Our approach to Board governance is owned by our Chair, Ruth Cairnie, and is discussed on page 100.

ESG and our shareholders

We recognise that there are parts of our business model of particular relevance to investors when looking at ESG matters, most notably that we operate in the defence and nuclear markets.

This year our ESG report features additional disclosure and transparency on key sustainability interests that may help investors looking at Babcock with an ESG lens. To address this, we met with some of our top shareholders in the year to identify and discuss what the most material areas of focus should be and what disclosures would be useful.

Below we highlight the key points relating to issues commonly identified among our shareholders:

Environmental: We have set a net zero emissions target for 2040. Not only do we explain our target, we set out a roadmap with milestones to achieve our new goals, linked to our KPI on CO_2e emissions for measuring our progress, see page 68.

Social: The health, safety and wellbeing of our employees, customers and the community comes first at all times. We have evolved the way we conduct community outreach activities in the year to foster take-up in STEM subjects for younger audiences and to help address diversity disparity, including encouraging women in engineering. Improved employee diversity is a key pillar of our new people strategy and this year we have set an ambitious new target – to increase the proportion of women in our senior leadership team from 21% to 30% by March 2025.

Governance: Governance starts at the top. We have made significant changes to the governance of the Group at Board level, which is covered in detail in our Chair's Governance Statement (page 100) and our Audit Committee Chair's Report (page 119). We have reworked our approach to risk management in the year, see page 84, and changed our governance of contract bids, as covered in our business model on page 21.

Investor FAQ:

Are you involved in nuclear weapons?

- We do not make, deal in or maintain nuclear weapons
- We do, however, own and operate critical infrastructure and have technical knowledge of the defence nuclear market. We provide maintenance and through-life support for the UK's fleet of nuclear powered submarines
- Our product offering includes the build and assembly of the missile launch tubes for the common missile compartment on the US and UK nuclear deterrent submarine replacement programme
- Work related to these areas represented approximately 20% of FY21 Group revenue

Are you involved in other weapons?

- We do not make or deal in other weapons
- We do, however, design and manufacture weapons handling and launch systems for international naval platforms used by the UK, Spain, Korea and Australia
- We also have a contract to maintain the UK Royal Navy's naval weaponry
- Work related to these areas represented approximately 2% of FY21 Group revenue

Are you involved in nuclear power?

- Yes, nuclear power provides a reliable source of low-carbon electricity and is a critical component of countries' energy strategies as they move towards net zero carbon
- Our civil nuclear business is involved in new build, power generation support, fuel route management and decommissioning in the UK nuclear market
- We also use technical knowledge and reference cases to undertake consultancy work in Canada and Japan, albeit at a small volume currently
- Work related to these areas represented approximately 4% of FY21 Group revenue

Do you have a dedicated ESG team with ESG targets?

- Yes. Following our review of the Company's strategy and operating model, we have confirmed that ESG remains a vital part of our business model. Not only do we report on TCFD, but our new Net Zero 2040 target is published alongside a route map to achieving our goals

What ESG indices are you actively involved in?

- While we can be rated by many ESG indices, we actively cooperate and submit information and disclosures for rating by MSI, with a year-on-year improvement under the DJSI scoring system.

This year we have continued to develop our approach to ESG reporting. Building on last year, we have enhanced the level of transparency and provided further insight into a range of economic, social and environmental impacts in association with global standards and industry-specific disclosures.

- We achieved a demonstrable improvement in the Dow Jones Sustainability Index score across all three reporting areas (overall increase of 17 points versus last year)
- We have shared examples of how we are contributing towards the global UN SDGs (see over)
- We have assessed against global standards and increased our level of disclosure (see GRI/SASB tables)
- Our 2020 Modern Slavery statement was recognised in the TISC compliance report as amongst the top 6% of companies in scope for Section 54 for meeting the minimum criteria this year and published in a list of links to exemplar statements
- We are now reporting in line with TCFD limited disclosure recommendations

Materiality assessment

We are focusing on issues that we believe matter most to our stakeholders and to Babcock and this will help influence our sustainability agenda and our priorities.

This year we have set out our material issues and explained why they matter. We did this by reviewing the list of topics from our 2019 stakeholder engagement, assessing our impact across the value chain and versus global standards.

We have categorised these topics and they will be further explored in the relevant pages of the Environment, Social and Governance sections of the ESG report.

ESG	Material issue	Why this matters to us
E	Biodiversity and Ecological Impact	Biodiverse ecosystems are fundamental to healthy and quality lives. Maintaining and enhancing the environment in which we operate is at the core of Babcock's principles.
E	Climate Change	We are facing a global climate crisis which has the potential to cause catastrophic impacts. We understand the risks posed by climate change and are committed to play our part in addressing the global crisis.
E	Waste	Global production and consumption patterns generate unconscionable amounts of waste, depleting finite resources and causing irreparable damage to the global biosphere. We are committed to driving material and resource efficiency, adopting circular economy principles and reducing our impacts.
E	Water Consumption	The global hydrosphere supports all life on earth and current consumption and production patterns place significant pressure on our finite water resources. We understand the importance of this precious resource and commit to managing our consumption responsibly.
S	Community Engagement	Our community engagement approach aims to ensure we are good neighbours by supporting the communities who live alongside and work with us whilst positively contributing to society's progress overall.
S	Health, Safety and Wellbeing	High health and safety standards are a fundamental condition and responsibility we must meet to protect the wellbeing of all who interact with Babcock and ensure everyone gets home safely every day.
S	Talent and Development	Recruiting, maintaining and developing the best talent through a robust talent pipeline is key to ensuring that we maintain a competent workforce with the capacity to meet current and future needs.
S	Local Economic Contribution	We recognise the jobs we provide have a large socio-economic impact, especially at major sites where we are often a leading employer in that area.
S	Employee Diversity and Inclusion	Diversity and inclusion in recruitment and in all our people processes is critical to ensuring we create a workplace culture where individuals can flourish and contribute to the shared success of the business.
G	Business Ethics and Integrity	Reputation is a key business asset – in order to thrive, we as an organisation have to be trusted by all our stakeholders.
G	Data and Cyber Security	We recognise the very real risk of malicious cyber breach and work hard to ensure both our customers' and our information assets remain protected. (See risk section on page 84.)
G	Governance, Accountability and Culture	Babcock's culture is the glue that binds strategy and operating model. Governance is the way in which we make sure that Babcock is true to its purpose, culture and strategy.
G	Sustainable Supply Chains	We manage our local and global impact through considerate purchasing, taking into account products' entire lifecycles, whilst safeguarding our supply chains from the taint of unacceptable labour practice issues.
G	Innovation and Technology	Innovation, including the application of novel or transferable technologies, is important in creating efficient and sustainable outcomes. (See Innovation and technology section on page 24.)
G	Collaboration	Collaboration unifies and empowers others to achieve a shared goal, fosters innovation and creates lasting relationships for sustainable long-term business success. (See people strategy on page 22.)

We recognise the importance of the materiality assessment and there is further progress to be made. It will be reviewed on an annual basis to capture the dynamic and ever-changing sustainability landscape and ensure that our strategy evolves with the interests and needs of our stakeholders, as well as those of Babcock.

Progress against UN Sustainable Development Goals

The UN SDGs provide a common language for our employees, our customers, our investors and regulators. By aligning the Company strategy and material issues to the SDGs, we can transparently disclose our contribution, assess annual progress that has been made towards the 2030 targets and unlock opportunities that benefit people, the planet and the economy.

Our aim is to make a positive impact on the communities in which we operate and make a better and more sustainable future for all.

Our sustainability agenda has a number of programmes which support and make a valuable contribution to the following SDGs and we have listed a few examples of the activities taking place across the business. SDG 13 Climate Action has been added this year as it is a key focus.

	Sustainability at Babcock	SDGs	Some examples which demonstrate our progress and impact during FY21
Environmental	Affordable and Green Energy	Our intention is to ensure access to and use of affordable, reliable, sustainable and modern energy for Babcock.	• Rosyth naval base is developing plans to install a solar farm and energy storage system at the site with a view to incorporating other energy solutions.
	Clean Water and Sanitation	Our intention is to sustainably manage our water consumption to ensure it remains available and safe to all at our sites.	• Cavendish Nuclear focuses on water-saving devices and technologies, such as sensor taps and eco flush toilets, on all sites when performing refurbishments.
	Responsible Consumption and Production	Our intention is to sustainably manage our consumption of our planet's finite resources and ensure sustainable production patterns.	• In August 2020, Devonport joined forces with WH Knight & Sons, to ensure that 3,000 pairs of decommissioned overalls could be reused instead of being sent to landfill. • Twenty-three ISO 14001 accredited environmental management systems.
	Climate Action	Our intention is to work collaboratively with our customers and suppliers to take immediate action to combat climate change and its catastrophic impacts by decarbonising our business and our value chain.	• Carbon strategy and TCFD reporting, see pages 67 and 70 respectively. • Since our datacentre move in June 2020 we have saved 1,500 MWh of electricity, which is equivalent to the average annual electricity consumption of 400 UK homes and has resulted in a reduction of 350 tonnes of CO_2e. • Babcock, alongside three partners, has secured funding to undertake an R&D project seeking to understand the performance of hydrogen fuel cells and batteries as a possible zero emission power and propulsion technology.
	Life Below Water	Our intention is to protect the ocean, seas and marine resources for sustainable development.	• Delivery of aerial firefighting services reduces damage from fires and run-off into water bodies.
	Life on Land	Our intention is to protect and conserve the biosphere around the communities in which we operate.	• Use of UAVs to detect fires and assist direction of firefighting actions. • Land Defence partnered with the Marine Conservation Society to undertake volunteer beach cleans. Plans were arranged for another volunteer clean project in March 2020, but this was cancelled due to COVID-19. • Piloted food waste collections at Dalton Avenue site, Rivergate and Babcock Technology Centre, which will be rolled out across further sites. One wormery and one beehive in place at Chatham base in October 2020.

	Sustainability at Babcock	SDGs	Some examples which demonstrate our progress and impact during FY21
Social	Good Health and Wellbeing	Our intention is to promote good health and wellbeing through policy and our corporate culture.	• We have a Group-wide approach to corporate health and wellbeing and increased communications to staff during COVID-19, see social section on page 71.
Social	Quality Education	Our intention is to ensure inclusive and equitable quality work-related education and promote lifelong learning opportunities for our employees and support education in the wider community in which we operate.	• Through the COVID-19 Recovery Commission we are working to reverse the impact that the pandemic has had on the UK's levelling-up agenda. • Across the Group, we have employed over 250 graduates and over 300 apprentices. • We continue to support STEM activities, see page 75
Social	Gender Equality	Our intention is achieve gender equality and empower all females through our partnerships and networks.	• Through our partnership with Women in Science and Engineering and our active involvement in Women in Defence and Women in Nuclear, we are working to address the gender imbalance across the sectors in which we operate. Examples include Aviation's Fly High women's network, Women in Defence 2020 Awards, supporting the '1 of the Million' campaign by Women in Science and Engineering (WISE) and supporting International Women in Engineering Day 2020. • During the year, the Executive Committee has reviewed the Group's gender pay report. In the 2020/21 Gender Pay report (reflecting data relating to April 2020), our mean gender pay gap was 12.5% and our median gender pay gap was 12.3%, representing a further year-on-year narrowing of the gap, as has consistently been the case since reporting commenced in 2017.
Social	Decent Work and Economic Growth	Our intention is to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work.	• We have exceeded our 5% Club commitment to employ 5% of the workforce on an Early Careers programme – in 2021 we employed 7.26%. • We publicise our apprenticeship opportunities through the Government's Redundancy Support Service for Apprentices. • We pay all staff (excluding apprentices) in line with the Living Wage Foundation's living wage.
Social	Reduced Inequalities	Our intention is to reduce inequalities throughout our business and value chain.	• In 2017, Babcock established a five-year partnership with Vine Trust for employees to volunteer on 14-day home-building expeditions. To date, 65 Babcock employees from across the UK and Canada have volunteered on home-building projects in Tanzania. • In 2021 we signed the UK social mobility pledge which means we are committed to reducing inequalities and will review our recruitment practices and how we support progression once in employment.
Governance	Responsible Consumption and Production	Our intention is to ensure sustainable consumption and production patterns by aligning our processes to international standards and through corporate policy.	• We are aligning our processes and standards to ISO 20400 (Sustainable Procurement). • We are currently looking to develop a Group-wide approach to our support for communities and sponsorship initiatives, to be implemented in FY22.
Governance	Peace, Justice and Strong Institutions	Our intention is to ensure we and our value chain are effective, accountable and inclusive institutions.	• Group Procurement developed four additional modules to raise awareness of elements specific to the function. As of mid-December 2020, 438 users had registered, with 307 actually marked as having completed and passed them all. • Prompt payment, see Governance section. • We recognise the value of SMEs and encourage them to engage with us.

Environmental – Clean inputs

At Babcock, our Group-wide Energy and Environmental policies and strategies set out the direction and ambition of the organisation for environmental matters. Our sectors and business units have policies, strategies and implementation plans which are specific to their operations and impacts. Our approach ensures that sustainable considerations and practices are embedded throughout the organisation.

Across our operations we are providing products and services to support the renewable energy and low-carbon economy, from our services within Cavendish Nuclear on critical nuclear power plants, to Liquid Gas Equipment's low-carbon shipping solutions and Fastblade turbine R&D.

Low carbon energy

We purchase electricity for our UK operations from renewable energy sources aligned with our flexible purchasing strategy; this ensures cost effectiveness, reduces our carbon emissions and supports the shift to a low carbon economy. We are also investigating renewable energy opportunities across our global operations and plan a transition to renewable energy sources where feasible.

Across our estate and operations we are working to investigate opportunities for alternative energy sources, low-carbon technology and renewable energy installations. Babcock Power has trialled solar pods to power its temporary accommodation at remote sites.

This sustainable solution leverages solar hybrid technology with an automatic backup generator to power sites and is a low-carbon alternative to diesel generators. The solution has resulted in a 43% reduction in fossil fuel consumption and a reduction in carbon emissions.

Developments across our estate continue to be designed and delivered to high environmental standards and aim to achieve BREEAM Excellent ratings as a minimum.

We are committed to improving the environmental performance of our estate and are actively investigating SMART Building Solutions in line with our Agile Working policy.

At our new Bristol Technology Centre campus, we are assessing the feasibility of sustainable and low-carbon technologies, along with incorporating biophilic design aspects. We are working to complete Investment Grade Energy Audits to identify energy saving and carbon reduction opportunities. We have also completed renewable energy feasibility studies across a number of our key sites.

At Rosyth Dockyard, in line with investigations into the digital dockyard, we are working to complete Investment Grade Energy Audits for an Integrated Energy System which includes the integration of solar, wind, battery storage and water source heat pump technologies.

Data is the cornerstone to understanding and managing our environmental impacts. We are working to develop our environmental data management systems and to improve the accuracy and completeness of our data sets.

In line with our net zero carbon strategy, Plan Zero 40, we are investigating the transition to an ultra-low emission fleet in addition to reviewing a range of additional sustainable transport opportunities. Across the organisation we are also supporting our customers with their transition to ultra-low emission vehicles.

We are working to engage with our supply chain to understand, manage and reduce our wider environmental impacts. Our Group-wide Procurement Environmental policy ensures that environmental aspects are taken into account as part of supplier procurement and purchasing activities.

We do recognise that the change in working brought about by COVID-19 has resulted in increased energy consumption within our employees' homes. We are working to assess this increase and to identify opportunities to reduce the impact.

Environmental – Responsible consumption

In FY21 we reset and reassessed our environmental performance. We have worked hard to develop and enhance our previous environmental, energy and carbon strategies and we are working to establish more ambitious targets, with detailed roadmaps, implementation plans and initiatives.

Our sectors and business units are supported by specialist teams of environmental experts who work to ensure the impacts of our operations are minimised. We continue to manage our environmental impacts through ISO14001 accredited Environmental Management Systems (EMS) which cover over 75% of our global operations.

Waste

Waste is a significant global issue and we understand we have a responsibility to minimise the impacts of our operations. We also have the opportunity to influence a large value chain and accordingly we regularly engage with our suppliers and customers to ensure sustainable practices are adopted. Material and resource efficiency is a core principle which we seek to embed across our operations.

Babcock Group Energy Consumption and Emissions

		Mar-18	Mar-19	Mar-20	Mar-21
UK / UK offshore					
Scope 1: Direct emissions from owned/controlled operations	tCO_2e	76,688.9	74,167.5	66,349.4	60,848.3
Scope 2: Indirect emissions from the use of electricity and steam	tCO_2e	96,233.6	73,416.0	61,595.3	51,058.1
Scope 3: Emissions – business travel, electric transmission and distribution	tCO_2e	20,747.1	17,701.8	13,722.7	6,920.9
Total Emissions	**tCO_2e**	**193,669.6**	**165,285.3**	**141,667.4**	**118,827.3**
Underlying energy consumption used to calculate emissions	**kWh**	**645,286,882.4**	**610,390,853.8**	**553,861,833.7**	**513,073,873.2**
Global (excluding UK / UK offshore)					
Scope 1: Direct emissions from owned/controlled operations	tCO_2e	105,010.5	93,619.5	100,424.7	97,205.5
Scope 2: Indirect emissions from the use of electricity and steam	tCO_2e	8,144.8	7,314.3	4,571.0	4,268.6
Scope 3: Emissions – business travel, electric transmission and distribution	tCO_2e	851.4	323.1	364.4	86.8
Total Emissions	**tCO_2e**	**114,006.8**	**101,256.9**	**105,360.1**	**101,560.8**
Underlying energy consumption used to calculate emissions	**kWh**	**446,044,504.7**	**397,521,762.0**	**417,636,004.0**	**403,486,309.6**
Babcock Group Total (UK / UK offshore and Global)					
Scope 1: Direct emissions from owned/controlled operations	tCO_2e	181,699.4	167,786.9	166,774.1	158,053.7
Scope 2: Indirect emissions from the use of electricity and steam	tCO_2e	104,378.4	80,730.3	66,166.3	55,326.7
Scope 3: Emissions – business travel, electric transmission and distribution	tCO_2e	21,598.6	18,025.0	14,087.0	7,007.6
Total Emissions	**tCO_2e**	**307,676.4**	**266,542.3**	**247,027.5**	**220,388.0**
Underlying energy consumption used to calculate emissions	**kWh**	**1,091,331,387.1**	**1,007,912,615.8**	**971,497,837.7**	**916,560,182.8**
Underlying energy consumption	**GJ**	**3,928,793.0**	**3,628,485.4**	**3,497,392.2**	**3,299,616.7**
Revenue	**£M**	**4,659.6**	**4,474.8**	**4,428.5**	**4,182.7**
Intensity Ratio	**tCO_2e/£1M Revenue**	**66.0**	**59.6**	**55.8**	**52.7**

Our emissions data is reported in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard under the 'Operational Control' approach. Figures for UK operations follow conversion factors published by BEIS. Non-UK operations utilise 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 (tCO2e 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 (including operations in Oman, South Korea, Canada and Australia). Metering and monitoring improvements are being implemented to capture these data streams. During the reporting period our approach to energy and carbon management included a holistic review and the re-establishment of our baseline. We have developed our new net zero carbon strategy, Plan Zero 40, which details our journey to net zero.

Where feasible we adopt circular economy principles throughout planning, design and delivery phases to maximise opportunities for end of life reuse.

Across our operations we are investigating a range of waste management initiatives with key aims of minimising waste to landfill and limiting the use of 'single use plastics'. We do, however, acknowledge that more needs to be done and we are committed to continually improving our approach to waste management and reducing our impacts.

Water consumption

We have commenced investigations to re-establish our baseline and are working to ensure we have an accurate and complete understanding of our water consumption across our global operations. Our local environmental teams are working to identify opportunities to reduce our water consumption and we are assessing opportunities to incorporate water reduction technologies within our new developments, such as rainwater harvesting, leak detection and flow restriction.

Biodiversity and ecological impact

Throughout our global operations we interact with a range of complex ecosystems. Maintaining and enhancing the natural capital and ecosystems within which we operate is a priority and we strive to adopt a net gain approach where possible. Our commitment to the environment is delivered by our network of experienced environmental professionals and dedicated local sustainability groups in collaboration with our customers, value chain and wider stakeholders.

Devonport Dockyard's Environmental Working Group takes part in a range of local initiatives throughout the year, collaborating with the local communities and environment groups to address local issues such as litter on beaches. At Rosyth Dockyard our local environmental improvement team are investigating tree planting within the dockyard, with the aim of reintroducing indigenous flora and fauna, reducing carbon emissions and improving local air quality.

Climate change

Babcock is committed to addressing the global climate crisis. Plan Zero 40 is our strategy to lead the low-carbon transition with extensive decarbonisation programmes planned across our estate, assets and operations. We have committed to setting ambitious science-based targets in line with a 1.5°C limit to global warming and commit to delivering net zero carbon emissions by 2040. We are aware of the challenges and risks on our journey to net zero, but also the opportunities the low-carbon transition presents. We will require strategic investment in our people, technology and innovation. However, achieving net zero is not something we can achieve on our own and we will be taking a leading role in collaborations and partnerships. We commit to driving innovation throughout our value chain and aim to be a leader in low-carbon enablement. Planning our approach for full scope 3 mapping is a priority for FY22 and we have committed to developing our scope 3 footprint with associated decarbonisation strategy by 2025.

We have gained reaccreditation to the Carbon Trust Standard for Babcock's UK-based operations which supports our journey to net zero.

Environmental – Task Force for Climate-related Financial Disclosure

This year we have started to report in line with the TCFD requirements and have agreed our journey towards full disclosure.

In FY22 we will be incorporating TCFD risk management and scenario planning into our strategic planning cycle and working towards full TCFD disclosure requirements.

	FY21 Progress	FY22 Priorities
Governance	• Defined Executive Committee's role in climate-related disclosure • The CEO is the Executive accountable for climate change, and he determined that the Chief Corporate Affairs Officer is the Executive sponsor for climate change • Established new management ESG Committee which is responsible for management of climate-related issues and driving the performance of wider sustainability agenda	• Executive Committee completed Chapter Zero Board Readiness assessment • Training to ensure the competence of the Board and Executive Committee to respond to climate-related risks and opportunities effectively • Climate-related risks and opportunities are integrated into standard Board agendas • Full and clear consideration of the physical, transition and liability risks over the short, medium and longterm • Agree financial incentives for Executives on progress towards ESG goals
Strategy	• We recognise the impact that greenhouse gas emissions have on our environment and we are committed to reducing our impact	• Ensure climate-related risks and opportunities are integrated into sector and geographic strategies • Develop approach to scenario analysis and assess organisational resilience
Risk Management	• Reviewed current approach to identify and capture climate-related risks	• Identify and disclose physical and transitional risks and opportunities in the short, medium and long term • Integrate climate-related risk into Babcock's overall risk management process
Metrics and Targets	• Disclose Scope 1, Scope 2 and limited Scope 3 emissions • Agreed Babcock's commitment to our net zero carbon target, Plan Zero 40, and to developing science-based targets	• Baseline Scope 1 and 2 emissions and plan approach for Scope 3 mapping • Set emissions reduction targets in line with strategy and risk management process

Social – People and potential

People are critical to our ability to deliver our strategic goals. In order to serve our customers effectively, we need to attract, recruit and retain the best people and provide a workplace which is inclusive where each individual feels supported and respected.

New People strategy

If we are to deliver our business strategy and priorities we need to develop a people strategy that underpins this. Our people strategy is evolving under the new leadership of Nikki Fox, Chief Human Resources Officer (see People section on page 22 and Business model on page 20).

As we move forward, we will create an organisation that is more integrated and collaborative, putting our people at the centre of what we do. We will bring our HR teams into a more integrated function that supports the business in its mission, supporting and navigating the cultural challenges we will inevitably face.

We will design simple and consistent people processes, and scale up the approaches that are working well already, to deliver a new HR function. These new ways of working and the overarching people strategy will seek to develop and motivate a workforce that is built on trust and empowerment. Our new people strategy will offer a consistent and common solution for Babcock, providing the foundation to evolve the Babcock we want for the future.

The agile framework and culture

We are committed to creating an inclusive working environment with a trust-based culture, focused on providing our customers with the delivery they expect, to the quality they desire, in the timeframe that is agreed.

The COVID-19 pandemic and our operational response has highlighted opportunities to work effectively but differently – one of these new ways is agile working. We have launched an agile framework which builds on the positive and alternative working arrangements, setting out a consistent, single framework to maintain these across Babcock.

Agile is an all encompassing term to describe not just where our people work but how they work; providing our people with the flexibility to make local decisions on when, where and how they deliver their commitments, and the infrastructure, policies and procedures that support them, within an agreed and acceptable framework.

Agile working will support our new business model and culture, providing an environment where employees are trusted to make decisions about how they work, balancing personal preferences with Company and customer needs:

- A way of working that enables work-life balance, supports family commitments and promotes inclusivity;
- Where employees are empowered to use personal judgement and make individual choices; and
- A business that focuses on output and deliverables, not presence or location.

Each business within the Group will implement the principles of the agile framework, working closely with local trade unions and HR teams, so that we have synergy and a common improved working environment for all. There are already activities underway in different areas of the business to review revised working methods and it is the intention that the Group framework will complement the local progress.

Employee engagement

During the COVID-19 pandemic we significantly increased and improved employee communications to enhance and improve employee engagement. These include a weekly CEO vlog and the 'Ask David' initiative, where employees can email the CEO and get a direct response from him, as well as the launch of a Babcock app allowing more employees to access communication content.

The CEO has been open in his communication with employees; for example explaining that as the COVID-19 situation worsened in most of our markets the Executive Committee made the decision to defer the Annual Pay Review, which usually takes place in April, until September. The deferral will allow the Group to make a decision as to whether the pay review can then proceed or whether it will need to consider alternative options.

Based on the outcomes of our employee engagement focus groups, employee surveys and listening forums, we have been focusing on the topics that employees have highlighted as a priority, those being: communication, pay and reward, leadership and career development. Examples of our work to improve across these areas are the introduction of our BIG Benefits platform and the development of the Babcock Academy.

During FY22 we will be moving to a consistent approach to measuring employee engagement across the Group.

Capability and skills

Maintaining and developing the capability and skills of our workforce is important to Babcock to ensure we deliver on our contractual and operational commitments.

To ensure we have a sound baseline of current and future requirements we have implemented a robust Strategic Workforce Planning Process (SWFP). To satisfy the requirements identified through our SWFP we source and develop talent through a number of routes. We bring experienced talent into the business through our experienced hire and contingent labour programmes, we bring new talent in through our early careers programmes and we develop our existing workforce through our learning and development offerings.

To develop our leadership capability we re-launched the Babcock Academy this year. The academy provides development from team leader to senior leader within the business. To date we have had around 50 employees start the team and operational leadership programmes and around 60 employees start the senior leader programmes leading to an MSc or MBA qualification.

Early careers

For our early careers we run extensive apprenticeship and graduate development programmes across the business.

We recruited over 300 apprentices onto our apprenticeship programmes during the year. The majority of these were new starters on level two and three programmes, which create entry level opportunities to join the workforce.

We recruited over 250 graduates onto our graduate development programme this year, our largest intake to date. We have implemented a new behavioural programme for all graduates across the Group which has been developed following extensive research involving our current graduates, their managers and mentors and a range of senior leaders.

Inclusion and diversity

We have seen improvements over the year in our efforts to build an inclusive and diverse organisation that more accurately represents the communities and countries in which we operate. This has included the addition of new networks including BAME and Multifaith, along with the growth of existing networks that have collaborated and worked together to lead a number of initiatives across the business. Our vision for Babcock is that we are a company where people can bring their whole selves to work and feel proud to be part of an organisation where everyone feels respected, included and supported.

At Babcock we recognise the value for our people of working in an inclusive environment where differences are valued, where everyone can thrive, give their best and fulfil their potential. We are committed to being a workforce that reflects the rich diversity of wider society and to be a business that inspires and shapes the communities in which we operate. We also recognise the importance of diverse thinking in the development of solutions for customers and our ambition is to become an employer of choice for diverse candidates, attracting and nurturing the best talent, that will enable us to deliver exceptional business outcomes.

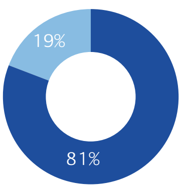
Our Diversity and Inclusion focus areas for the year ahead are: harnessing our data to drive insight and measure results; strengthening and broadening our employee networks; transforming our key people processes; creating a culture of wellbeing; and celebrating inclusion and diversity as our key differentiating strength.

To monitor progress in these areas we will focus on enhanced data collection and measure ourselves against three targets:

1. 80% disclosure of diversity data within 18 months.
2. 30% women within senior leadership teams by 2025. Senior managers are defined as employees (excluding Executive Directors) who have responsibility for planning, directing or controlling the activities of the Group (Executive Committee) or a strategically significant part of the Group (sector/functional leadership teams) and/or who are directors of subsidiary business units (BU leadership.)
3. 30% gender representation at all levels by 2030.

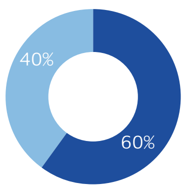
Gender Diversity

Total workforce
%



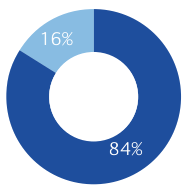
Male: 23,624
Female: 5,513

Board
%



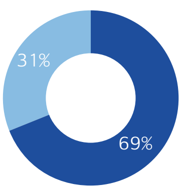
Male: 6
Female: 4

Executive Committee and Direct Reports in management roles %



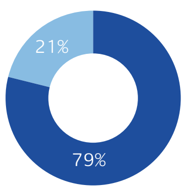
Male: 62
Female: 12

Graduate intake
%



Male: 179
Female: 79

Senior Management*
%



Male: 161
Female: 42

* See KPI on page 29.

Along with these commitments, we are also actively working on meeting the recommendations of the Parker Review as we support increasing the representation of ethnicity on UK boards.

Gender diversity and gender pay gap

In relation to female representation across our Company, we have made in-roads over the past year with 19% of our total workforce female (2020: 18.8%). At the end of the financial year, our Senior Management population (over 200 people in senior leadership positions throughout the business against which we will measure our progress (see opposite and page 29)) was 21% women and 9% of our Executive Committee were women. This alongside our 31% female graduate intake supports that we are making progress and gender diversity will be a key focus over the coming year as we deliver on the commitments we have set ourselves for the future.

Our gender pay gap results support that we have made progress in rebalancing the representation of our female staff across our business. In spite of this, the engineering sector, as well as other STEM disciplines in which we operate, continues to be male dominated and we therefore remain committed to driving down this gap.

We are pleased to see our gender pay gap has reduced year on year since first reporting in 2017. The mean gender pay gap has narrowed year on year from 16.2% in 2017 to 12.5% in 2020. Similarly, the median gender pay gap has narrowed year on year from 16.5% in 2017 to 12.3% in 2020. We recognise that closing this gap will take time and whilst these results do reflect the positive outcome of our efforts, we remain focused on cutting the time it will take us to get there.

For further information please see our Gender Pay Gap Report.

Focus for FY22

We will seek to address the challenges identified in the Chief HR Officer's opening statement through the implementation of a new people strategy in support of the new Babcock operating model. We are reviewing our Diversity and Inclusion strategy and metrics and by the next Annual Report will have a more comprehensive set of Diversity and Inclusion metrics.

Health and safety

Governance

The Group's Board and Executive Committees review safety commentary and performance reports on a monthly basis.

The mission of the Group is that everyone goes "Home Safe Every Day". Our vision is that Health and Safety is at the heart of all that we do.

We have a high-performing, open and just safety culture, with strong leadership at all levels, where our people are empowered to speak up, intervene, and are heard, invested in and trusted.

The Corporate Safety Leadership Team (CSLT) leads the development and implementation of all policies, standards and expectations for Health, Safety and Environmental (HSE) issues within Babcock.

The role of the CSLT is to:

- Recommend and set the Group policy and standards for health, safety and environment relating to 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 the Group's undertakings.
- Assure the Group Executive Committee of the delivery of these policies and standards.
- Facilitate and enable corporate learning around the Group, raising awareness of health, safety and environmental topics throughout the business.
- Own and deliver Group-wide health, safety and environmental culture initiatives and projects.

The CSLT is responsible for driving the generation of the safety strategy and standards for the Group and adherence of businesses to these. Additionally, there are sector-specific industry standards and regulations that must also be adhered to, for example Nuclear, Aviation and Product Safety. The expectation is that subject matter experts are retained within the sectors and consequently the CSLT's remit/scope does not seek to replicate specialist sector-specific roles.

Achievements and improvements

Our annual Group Safety Conference promotes the Group safety vision and the sharing of health and safety initiatives and activities. It also recognises the hard work and tireless efforts made every day by Babcock personnel, our customers and our suppliers. Our 14th annual event was held virtually in February 2021 with 250 attendees and a theme of 'Share, Learn and Improve'. 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.

Throughout the period we have reviewed and refreshed our Group safety strategy, our Safety policy and the Terms of Reference of the Corporate Safety Leadership Team. Of particular note, we launched our new safety commitments (see left).

Additionally, during January 2021 all of our sectors, direct reporting countries and business units undertook safety stand downs. Dedicated sessions were held to hear about the new safety commitments, based around the themes of Care and Learn and to discuss how we can improve safety. A short survey was launched to all employees and the feedback will prove important and extremely valuable in informing our future direction towards achieving our safety vision and mission.

A replacement incident reporting system was launched in May 2020 predominantly for our UK operations. All other areas are due to be included early in the next financial year; this will then provide a truly global reporting and analysis system.

Performance

Tragically, in August, during a firefighting mission an aircraft crash-landed in Spain near the Portuguese border causing the immediate fatality of the co-pilot. The pilot, who had suffered major injuries, subsequently passed away. The incident is currently under investigation by the appropriate authorities.

The number of injuries In the period has reduced by 32%; however, the more serious 'Babcock riddor' injuries Increased by 11% compared to the previous year. Similarly, our total injury rate (injuries per 100,000 hours worked) has reduced by 19% and the Babcock riddor injury rate increased by 36%.

Incident numbers

	2016/17	2017/18	2018/19	2019/20	2020/21
Total number of injuries	1,720	1,389	1,452	1,141	780
Fatalities	7	2	4	1	2
Major injuries	27	12	24	20	12
Over three day injuries	107	101	144	111	133
Babcock riddor[1] totals	141	115	173	132	147

Incident rates

	2016/17	2017/18	2018/19	2019/20	2020/21
Total injury rates per 100,000 hrs worked	1.58	1.35	1.47	1.24	1.01
Babcock riddor[1] rates per 100,000 hrs worked	0.13	0.11	0.18	0.14	0.19

1. In 2012, the UK Health and Safety Executive changed formal 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 these as a 'Babcock riddor'.

Focus for FY22

Our focus for FY22 will be on building on the strategy and creating a second wave of Group-wide Health, Safety and Environment standards, engagement with our people and the second part of the safety commitments survey, together with a Group-wide communications campaign on our new safety commitments. We will also be moving to Occupational Safety and Health Administration reporting requirements in order to be able to benchmark our HSE performance against our peers.

Social – Community engagement

We are the major employer in many of our communities so our engagement approach aims to ensure we support the communities in which we work, we are a good neighbour and we contribute positively to society's progress.

We focus on the wider impact we have on society, including environmental, social and cultural factors.

We are committed to being proactive in ensuring we build a positive relationship and engagement with the local communities in which we operate; in some places we are one of the most significant employers in the area. In some communities inequality and high unemployment are a specific concern, so we try to recruit locally and train where the required skills are available.

Historically we have focused our sponsorship and volunteering activities on locally-led causes that are important to us and close to our business but we plan to introduce a Group-wide approach in FY22.

Volunteering

Volunteering is a rewarding and meaningful experience that supports employee development and their wellbeing. Whilst we do some volunteering activities around the Group, our ambition is to develop a centrally-led framework which can be applied locally across our business.

We are proud that two of our employees have been awarded the prestigious British Empire Medal (BEM) for the important role that they played during the COVID-19 pandemic.

In Australia many of our employees acted as volunteers in the bush fire rescue services. In Canada employees volunteered to support local homeless shelters and in South Africa we supported "adopt a school", donated computers and provided maintenance.

We actively support our reservist employees and we now have circa 160 volunteer reserves and 50 sponsored reserves. We also have around ten uniformed cadet instructors. We provide 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.

Community Impact

During the year we supported a broad range of activities for local communities and the armed forces community. This includes Science, Technology, Engineering and Maths (STEM) programmes, strengthening our relationship with indigenous peoples, support for armed forces and reserves, partnering with a broad range of academic establishments to support funded research and local sponsorship.

In FY21, COVID-19 had a significant impact on our operations, our employees and our supply chain. As the main employer in many of the communities we supported a range of different initiatives such as the Mayflower 400 celebrations in Plymouth, military open days (eg *HMS Raleigh* and *HMS Collingwood*) and The Trussell Trust (a foodbank charity). Our Chair was a founder member of the Covid Recovery Commission and we recognise the critical role that businesses have to play in supporting the needs of individual communities.

STEM

Babcock encourages its employees to become STEM Ambassadors so they can support our schools engagement programme. In the UK this year we have trained over 200 STEM Ambassadors, bringing our total across the business to over 700 active Ambassadors. The focus this year has been to move our extensive programme of events in schools to virtual offerings. This has included: two activity books targeted at primary age children that could be used at home, and virtual careers events for students, parents and teachers/careers leaders. In Australia we are focused on female STEM programmes and Submarine in school programme. This year we sponsored the "xhibition" team of 20/21 from Brighton Secondary School in Adelaide and supported with engineering technical capability.

Indigenous peoples

In Canada we are in year two of the Progressive Aboriginal Relations Certification through the Canadian Council for Aboriginal Business. We are focused on expanding the supply chain and have recently invested C$1 million in an indigenous owned business based in Victoria, British Columbia. We have a further range of activities in place to help drive social inclusivity, eg an initiative over the next two years with the Camosun College Coastal Training Centre which is an indigenous post-secondary institution in British Columbia. In Australia, we are engaging with organisations targeted towards indigenous peoples and we are focusing on expanding our indigenous supply chain.

Support for Armed Forces, veterans and reserves

We are proud to be a major employer of service leavers, veterans and reserves and have in excess of 5,000 veterans in the UK workforce. 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. In 2020 we enhanced our focus on Service Leaver and Veteran hires and recruited 164 declared service leavers and 380 veterans (total 544) representing circa 20% of our total UK hire for 2020.

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.

Partnerships with academia

We are collaborating with and have built outstanding relationships with a broad range of academic establishments both local to our facilities and where subject matter expertise exists that complements our business. We support learning development opportunities by mentoring and helping to refine the teaching of courses as well as providing industrially related projects for students. In addition we fund and collaborate on a number of excellent research programmes developing impactful, sustainable solutions for implementation across all our sectors.

Sponsorship

During FY21, we supported communities by sponsoring local events or providing donations to local causes. Babcock policy is not to make political donations either in cash or kind; this includes not only financial donations but indirect support.

Sponsorship activity has been locally led and not coordinated centrally. In FY22 we will be developing a Group-wide sponsorship and donations policy which will be aligned to our corporate purpose and this will be supported by locally led programmes. There will be a clear guidelines for managing community and sponsorship activities to ensure that our sites follow the overall Group approach.

Bokantsho Primary School in Viljoensdrift, South Africa.

Supporting local communities

It is important that Babcock supports the communities around the world in which it operates.

In South Africa, we championed the renovations for the Bokantsho Primary School in Viljoensdrift. Located approximately 5km from the Lethabo Power Station, the school provides an essential service to the community and caters for Grade R to 7 learners from different townships. The majority of the school's198 pupils come from nearby farms and impoverished families who cannot afford to pay school fees. The school also participates in the National School Nutrition Programme (NSNP) which provides food for pupils on a daily basis.

Our team of Babcock volunteers engaged several contractors to upgrade the school buildings including the classrooms, kitchen, hall, administration building and toilets. The scope of work was extensive, including painting of walls; repairing and replacing ceilings, doors, windows and roofing; installing new flooring; repairing and upgrading of the electrics and plumbing; and removing the old fence and installing a new one.

T A Lengana, the school's principal, said: "Babcock's contribution and assistance is highly appreciated and valued, and ensures that learners are taught in an environment that is conducive to teaching and learning. The support also contributes to learners' holistic development by providing adequate resources for all learners, and will contribute to improving the learners' confidence and their self-worth."

Babcock is proud to support all of our communities.

Governance – Commercial integrity

We are committed to conducting business honestly, transparently and with integrity. As well as being the right and proper way to behave, this will ensure we uphold high ethical standards across the Group and support our long-term success.

We understand our reputation and good name are amongst our greatest assets, which could easily be lost by actual or suspected unprincipled 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. These are reviewed periodically to ensure that they meet current best practice principles and legislative needs. By establishing transparent policies and procedures we can reduce risk to our business and to our customers. An outline of our risk management and assurance processes can be found on pages 85 to 86.

Ethics policy and Code of Business Conduct

To protect the Company and reduce 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 Ethics policy comprises a detailed manual, available on the Group's intranet, containing guidelines, authorisation and other procedures aimed at identifying and reducing ethical risks. These include extensive policies around anti-bribery and competition law prohibitions that clearly show our zero tolerance for any form of bribery or anti-competitive behaviour.

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 as referenced in our Diverse and robust supply chains section mean for them in practice.

We treat breaches of our Codes or associated guidance seriously. Employees can raise any concerns they have that our Code or its associated guidance is not being followed without fear of unfavourable consequences for themselves. We provide a range of channels for employees to do so, including a new initiative "Ask David" which allows employees to raise questions directly to our new CEO, David Lockwood. We also have independent whistleblowing hotlines in each country where we operate so that employees can raise issues confidentially if they wish, with assurance that we will not take action against anyone who makes a report. All reports to the whistleblowing line are sent directly to the Company Secretary who decides the appropriate course of investigation.

More details of our risk management procedures can be found on pages 85-86 whilst our Ethics policy, Code of Business Conduct and Suppliers' Code of Conduct can be found on our website.

Human rights

As an international business, we recognise our responsibility for upholding and protecting the human rights of our employees, our suppliers and business partners 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 to contribute positively to global efforts to ensure that human rights are understood and observed.

We believe that a culture of respect for, and protection of, human rights is embedded throughout our business and can be demonstrated by our commitment to principled conduct in everything we do.

Our Modern Slavery Transparency Statement, which is referenced again in our Diverse and robust supply chain section, 78, is reviewed and approved annually by the Board. Our statement during the year was assessed by the TISC report AI system and Babcock was placed in the top 6% of companies meeting the minimum criteria. Additionally Babcock was included in its published list of links to exemplar statements. Our statement remains available on our website.

Cyber security

We recognise the very real risk of malicious cyber breach and work hard to ensure both our customers' and our own information assets remain protected. 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 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). In addition, following a recent external assessment, we retained our Cyber Essentials Plus certification which is mandatory for all suppliers of Government contracts that involve handling personal information and providing certain IT products and services.

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 for our customers and shareholders.

External expenditure via third-party suppliers, including Original Equipment Manufacturers (OEMs), accounts for a significant part 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 supply chain solutions which enable us to return value to our customers, shareholders and communities.

We buy a wide range of goods and services from over 14,000 suppliers. These range from large multinational OEMs to Small and Mid-size Enterprises (SMEs). Of these suppliers, 300 are key partners in our ability to deliver continuous improvement and innovative quality outputs.

Sustainable sourcing

The development and execution of our supply strategy is aligned with the overall business strategy.

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. We review our business-critical suppliers on an annual basis to address any risks or concerns.

We are aligning our processes and standards to ISO 20400 (Sustainable Procurement) and this includes ensuring that we consider circular economy principles including recycling and disposal options.

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 combine technology, market intelligence and business process to engage with our supply base to form long-term sustainable relationships.

Working with 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 with SMEs ensures that we have access to innovative new solutions and provides enhanced flexibility and agility.

Fair operating practices

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 supports Babcock's high standards and contributes to the reputation of Babcock and our customers.

The Code reflects the same standards to which 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.

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.

Our businesses use appropriate processes to qualify, on-board and periodically revalidate sub-contractors 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.

Payment to suppliers

Historically we have not been good customers around period ends; however we will be improving our practices. We understand the importance of predictable payments when running a business and will ensure good practice across the Group.

Twenty-one legal entities submit returns to Companies House according to the Payment Practices and Performance Regulations. Fourteen of our legal entities are signed up to the Prompt Payment Code and are compliant as of 31 March 2021.

Average payment across the Group over the past six months to March is 29.6 days, an improvement versus 34.5 as reported last year.

We actively 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. We have put in place measures to ensure that we continue to comply with the UK Government's January reforms of the code.

Focus for FY22

- Work towards aligning procurement processes and standards with ISO 20400
- Actively encourage supplier diversity and social inclusivity by engaging with SMEs and minority owned businesses
- Support Scope 3 carbon emissions mapping

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 ESG strategy report and throughout the Strategic report.

We are committed to providing greater transparency into our policies, standards and governance approach through the global reporting frameworks and insight in the ESG strategy report.

Reporting requirement	Policies and standards	Additional information	Page
Environmental matters	Health, Safety and Environmental policy* Energy policy* Procurement Environmental policy*	Clean inputs Responsible consumption Health, safety and environmental risk	67 68 91
Employees	Code of Conduct ** Health, Safety and Environment policy* Joint Ways of Working Charter Agile working framework*	People and potential Gender diversity and gender pay gap Commercial Integrity People risk Building relationships Stakeholder engagement Remuneration Note 28 – share-based payments	71 72 77 93 58 114 134 254
Human rights	Code of Conduct** Supplier Code of Conduct** Modern Slavery Statement**	Corporate Integrity Diverse and robust supply chains	77 78
Social matters	Anti-bribery and Corruption/Ethical policy** Code of Conduct** Diversity and Inclusion Charter* Canada Indigenous Peoples policy*	People and potential Commercial integrity Community engagement Building relationships Stakeholder engagement Remuneration Note 28 – share-based payments	71 77 75 58 114 134 254
Anti-bribery and corruption	Anti-Bribery and Corruption/Ethical policy** Whistleblowing structure Supplier Code of Conduct**	Diverse and robust supply chains Commercial integrity Principal risks and management controls Governance statement	78 77 84 100
Description of principal risks and impact on business activity		Principal risks and management controls	84
Business model		Our business model	20
Non-financial KPIs		Delivering on our strategy	29

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

s172(1) Statement

This statement explains how the Directors, both individually and collectively, 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. Section 172(1) requires a director to have regard, among other matters to the

- likely consequences of any decision in the long term;
- interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers and others;
- impact of the Company's operations on the community and environment;
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the Company.

Depending on the matter under consideration the relevance of the different factors set out in s172(1) will vary. The Board does seek to balance the interests of its different stakeholders, but, where there are competing interests, not every decision the Board has made will result in a positive outcome for all our stakeholders. However, by considering key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term. Further information on how the Board addresses these different factors can be found throughout the Strategic report. For further information on how the Board keeps s172(1) on its agenda, its key activities and how the Board engaged with the Company's stakeholders and took their interests into account, please see pages 114 to 116 which form part of this Statement. Additional information on the Company's engagement with key stakeholders can be found on pages 58 and 59.

Compliance with Global Reporting Initiative (GRI)

We intend to report in accordance with GRI Standards Core option. We have indicated the disclosure topics that are relevant to Babcock and the level of disclosure.

Standards	Disclosures		Status
Universal Standards	GRI 101: Foundation 2016	GRI 101-01 to 101-10	●
	GRI 102: General Disclosures 2016	GRI 102-01 to 102-56	●
	GRI 103: Management Approach 2016	GRI 103-01 to 103-03	●
Economic Topics	GRI 201: Economic Performance 2016	GRI 201-01 to 201-04	◐
	GRI 202: Market Presence 2016	GRI 202-01 to 202-02	◔
	GRI 203: Indirect Economic Impacts 2016	GRI 203-01 to 203-02	◕
	GRI 204: Procurement Practices 2016	GRI 204-01	●
	GRI 205: Anti-corruption 2016	GRI 205-01 to 205-03	◐
	GRI 206: Anti-competitive Behaviour 2016	GRI 206-01	◐
	GRI 207: Tax 2019	GRI 207-01 to 207-04	◐
Environmental Topics	GRI 301: Materials 2016	GRI 301-01 to 301-03	○
	GRI 302: Energy 2016	GRI 302-01 to 302-05	◕
	GRI 303: Water and Effluents 2018	GRI 303-01 to 303-05	◔
	GRI 304: Biodiversity 2016	GRI 304-01 to 304-04	○
	GRI 305: Emissions 2016	GRI 305-01 to 305-07	◕
	GRI 306: Waste 2020	GRI 306-01 to 306-05	◔
	GRI 307: Environmental Compliance 2016	GRI 307-01	◕
	GRI 308: Supplier Environmental Assessment 2016	GRI 308-01 to 308-02	◐
Social Topics	GRI 401: Employment 2016	GRI 401-01 to 401-03	●
	GRI 402: Labour/Management Relations 2016	GRI 402-01	●
	GRI 403: Occupational Health and Safety 2018	GRI 403-01 to 403-10	◕
	GRI 404: Training and Education 2016	GRI 404-01 to 404-03	◐
	GRI 405: Diversity and Equal Opportunity 2016	GRI 405-01 to 405-02	◐
	GRI 406: Non-discrimination 2016	GRI 406-01	◐
	GRI 407: Freedom of Association and Collective Bargaining 2016	GRI 407-01	●
	GRI 408: Child Labour 2016	GRI 408-01	●
	GRI 409: Forced or Compulsory Labour 2016	GRI 409-01	●
	GRI 410: Security Practices 2016	GRI 410-01	⊗
	GRI 411: Rights of Indigenous Peoples 2016	GRI 411-01	●
	GRI 412: Human Rights Assessment 2016	GRI 412-01 to 412-03	◔
	GRI 413: Local Communities 2016	GRI 413-01 to 413-02	◐
	GRI 414: Supplier Social Assessment 2016	GRI 414-01 to 414-02	○
	GRI 415: Public policy 2016	GRI 415-01	●
	GRI 416: Customer Health and Safety 2016	GRI 416-01 to 416-02	⊗
	GRI 417: Marketing and Labelling 2016	GRI 417-01 to 417-03	⊗
	GRI 418: Customer Privacy 2016	GRI 418-01	○
	GRI 419: Socioeconomic Compliance 2016	GRI 419-01	●

Response to Sustainable Accounting Standards Board (SASB)

Dimension	General Issue Category	Disclosure Topic	Accounting Metric(s)	Status
Environment	Energy Management	Energy Management	• RT-AE-130a.1: (1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable	◕
	Hazardous Waste Management	Waste & Hazardous Materials Management	• RTA-AE-150a.1: Amount of hazardous waste generated, percentage recycled • RTA-AE-150a.2: Number and aggregate quantity of reportable spills, quantity recovered	◑
Social Capital	Data Security	Data Security	• RT-AE-230a.1: (1) Number of data breaches, (2) percentage involving confidential information • RT-AE-230a.2: Description of approach to identifying and addressing data security risks in (1) company operations and (2) products	◕
	Product Quality & Safety	Product Safety	• RT-AE-250a.1: Number of recalls issues, total units recalled • RT-AE-250a.2: Number of counterfeit parts detected, percentage avoided • RT-AE-250a.3: Number of Airworthiness Directives received, total units affected • RT-AE-250a.4: Total amount of monetary losses as a result of legal proceedings associated with product safety	⊗
Business Model & Innovation	Product Design & Lifecycle Management	Fuel Economy & Emission in Use phase	• RT-AE-410a.1: Revenue from alternative energy-related products • RT-AE-410a.2: Description of approach and discussion of strategy to address fuel economy and greenhouse gas (GHG) emissions of products	◔
	Materials Sourcing & Efficiency	Materials Sourcing	• RT-AE-440a.1: Description of the management of risks associated with the use of critical materials	◔
Leadership & Governance	Business Ethics	Business Ethics	• RT-AE-p510a.1: Total amount of monetary losses as a result of legal proceedings associated with incidents of corruption, bribery, and/or illicit international trade • RT-AE-p510a.2: Revenue from countries ranked in the "E" or "F" Band of Transparency International's Government Defence Anti-Corruption Index • RT-AE-p510a.3: Discussion of processes to manage business ethics risks throughout the value chain	◕

Status Key

		Indicative disclosure
●	Full Disclosure	100%
◕	Partial Disclosure	75%
◑	Partial Disclosure	50%
◔	Partial Disclosure	25%
○	No Disclosure	0%
⊗	Not Relevant	N/A

Andrew Taylor
Multi-Engine Pilot
Australia


SWITLIK
babcock

Our principal risks and how we manage them

David Mellors
Chief Financial Officer

The Board is accountable for effective risk management across the Group. The Board, along with the Audit 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's risk management approach includes:

- The review and approval of the Group's overall strategy
- The review and control of the Group's risk appetite through its delegated authorities
- The review of business performance
- The review of the Group's risk register
- The review of management's approach to identifying and managing risk
- The evaluation of the effectiveness of internal controls
- The evaluation of the effectiveness of internal and external audit.

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. 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 87 to 95 are not and cannot be an exhaustive list of all the principal risks that could affect the Group.

Principal and emerging risks, risk mitigation and controls

The Board confirms that it has carried out a robust assessment of the principal and emerging risks facing the Group and has identified the risks and uncertainties that it currently considers to be of greatest significance to Babcock which are described overleaf from pages 87 to 95. These risks have the potential to materially and adversely affect Babcock's business, the delivery of its strategy and/or its financial results, condition or prospects.

The risk process was enhanced during the period with

- a new Group Risk Management Framework, which provides guidance to the sectors to assist them with identifying key external and internal drivers and risk influencers;
- the assigning of a Group Executive Committee member as a sponsor for each principal risk;
- the introduction of a new expanded risk register for each business unit, sector and Group function to improve the granularity and detail on each risk; and
- the introduction of a dedicated quarterly review of the principal and emerging risks by the Group Executive Committee.

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 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 emerging risks, which are "new" risks that may challenge the Group in the future. They may begin to evolve rapidly or simply not materialise.

Group Risk Management

Board
The Board is ultimately responsible for the Company's risk management and internal control system. The Board reviews the Group's principal and emerging risks at least on an annual basis. The Board delegates oversight of certain risk management activities to the Audit Committee.

The Board ensures that it controls the risk appetite of the Group through its delegated authorities, which impose strict controls on the Group — for example, 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 CEO and the CFO) and all financing arrangements (unless delegated to the Board's Finance Committee). The Board performs 'deep dives' on principal risks on an ongoing basis.

Audit Committee
The Audit Committee reviews aspects of the risk management and control system at its meetings. At least once a year, the Committee formally reviews the system's effectiveness as a whole on behalf of the Board.

Group Executive Committee
The Group Executive Committee reviews quarterly a consolidated report prepared by the Group Risk and Insurance Manager. The report summarises the principal risks facing the Group. Executive Committee members now sponsor and own each principal risk and associated actions. Emerging risks and their causes, and potential mitigations will also be identified and where appropriate incorporated into the principal risks.

Sectors
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.

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

Risk Assurance

Lines of Defence

The primary risk management mechanism is the Group's risk management process which is designed to identify, control, mitigate and report risks as part of the Group's internal control model.

Through the risk register this process provides a clear line of sight to the Company's principal risks.

The Company uses the "three lines of defence" model to assure itself about the management of the risks that it faces.

This model defines the first line of defence as management controls, policies and procedures together with management oversight. The second and third lines of defence are considered as assurance related – with the second line of defence being internal assurance activities, such as the review of Sector risk assessments by Group senior management; and the third being assurance obtained from external sources, such as internal audit.

1 First line of defence

Risk owners: Managers identify, mitigate, control and monitor the risks.

The Company has written policies, covering a range of matters intended to mitigate risk, such as health and safety, information security, contracting requirements and accounting policies. The Board annually approves a schedule of delegated authorities setting out specific levels of decision-making authority delegated by it to the business.

Managers report on a monthly basis up through their business units and sectors to the Group Executive Committee. The CEO and CFO report to each Board meeting on operating performance and other matters of significance to the Group. Managers prepare annual budgets and medium-term financial plans for review by sector and then by Group. The Board reviews and approves the Group annual budget and medium-term financial plans. Managers prepare updated forecasts for the year on a quarterly basis. The Board receives details of monthly actual financial performance compared to budget, forecasts and the prior year.

2 Second line of defence

Internal assurance: Internal functions (such as HR, legal, tax and treasury) provide internal review and control of risks within their areas.

Certain risks are monitored by specific committees. The Corporate Safety Leadership Team leads the development and implementation of policies, standards and expectations for health, safety and environmental issues. The Group Security Committee oversees the Group's security and information assurance management infrastructure.

A whistleblowing hotline is available to all employees to allow them to report any concerns that they may have without fear of any action being taken against them.

The Group maintains an insurance programme, preferring to transfer risk to the insurance market, where available on acceptable terms. The Group Risk and Insurance Manager reports annually to the Board on the strategic approach to insurance and on the placing of the programme.

3 Third line of defence

External assurance: Internal audit provides assurance of the effectiveness of the Group's control environment. Internal audit reports directly to the Audit Committee.

The Group is audited or inspected by a number of external regulators and other bodies, including national civil aviation authorities, the Office of Nuclear Regulation, the Office for Rail and Road and the International Office for Standardisation.

Principal risks, risk mitigation and controls

Existing markets

Probability: High **Impact:** High

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 whom are (directly or indirectly) owned or controlled by government (national or local) and/or are (wholly or partly) publicly funded.

Potential impact

Major customers, such as our single biggest customer, the UK Ministry of Defence (MOD), have significant bargaining power and can exert pressure to change, amend or even cancel programmes and contracts. As many of our major customers are government owned or publicly funded, they are affected by political and public spending decisions. For example, the MOD has published its Integrated Strategic Review, which sets the UK Government's national security and international policy objectives to 2025. Another example may be the UK's exit from the EU, the consequences of which remain difficult to predict, as UK companies may not be able to bid on EU programmes or have to trade on different terms as a non-EU member or experience difficulties holding operating licences.

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.

A significant number of our contracts with the MOD are subject to the Single Source Contract Regulations (SSCR), which are administered by the Single Source Regulations Office (SSRO). The SSRO sets the baseline profit rate for single source contracts let by the MOD on an annual basis. These regulations and their implementation are subject to review by the UK Government, which could lead to lower returns for industry.

Mitigation

Our focus on the aerospace, defence and security markets, together with our geographical spread, provides a degree of portfolio diversification. We are in ongoing dialogue with our key customers in order to understand their requirements, objectives and constraints, so that we can remain as aligned with them as possible. We continue to monitor expenditure changes in our markets in order to allow us to make the appropriate adjustments. We maintain a public listing as we believe it is an important factor in winning and retaining our business position, particularly with government customers.

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 an alignment with the Group strategy and where we believe we stand a realistic chance of success due to, for example, customer understanding, domain knowledge or technical expertise, both in the UK and overseas. We maintain a dialogue with our customers to understand their intentions regarding their pipeline.

Following the COVID-19 outbreak, we have continued to work closely with our customers in order to understand their priorities in response to the pandemic. All our businesses have implemented the necessary plans in consultation with our key customers to continue to deliver on our contracts where possible. 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 Group remains in dialogue with the SSRO and MOD regarding future planned changes to the SSCR.

Contract and project performance

Probability: High **Impact:** High

We operate large contracts, which often require us to price for the long term and for risk transfer. Our contracts can include fixed prices.

Potential impact

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.

There are usually only a relatively limited number of customers in each of our market sectors and our market sectors can be highly competitive. Because of their strong market power, our customers can require bidders to accept a substantial transfer of risk from the customer to the supplier. For example, it is not unusual in defence and aerospace markets that the contracts that we tender for may impose strict conditions and clauses, including unlimited liabilities, termination without cause and strict performance conditions, which, if not complied with, may trigger compensation for the customer.

If we (or our supply chain) underestimate or under-price actual risk exposure or the cost of performance, or if, during the contract, cost inflation diverges from revenue inflation, or if unforeseen additional costs are incurred, for example, due to the UK's exit from the EU or COVID-19, this could adversely affect our future profitability, cash generation and growth. For example, mobilisation of the contract may be difficult, or the transitioning from mobilisation to business as usual may not be effective. We may not deliver the contractual requirements due to ineffective contract management, cost or quality control or the failure to manage our supply chain. These may lead to contract overruns or unfulfilled contractual obligations, especially if the contract is fixed price. COVID-19 may increase the likelihood of each of these key risks arising as it makes our operations less efficient or effective. Failure to deliver contractual requirements may result in the imposition of penalties, the need to devote additional resource to deliver the contract, the early termination of the contract with the imposition of damages, or reputational damage, which may cause strain on the customer relationship, undermining not only the current contract, but also future contracts.

Long-term contracts often have changes, or updates, to scope. If we do not properly manage contract changes, we may incur additional costs or failure to deliver our contractual requirements, which may reduce overall profitability or lead to penalties or contract termination.

Mitigation

We have 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. Where we identify poor performance, the business will implement a remediation plan. These reviews also consider the performance of our supply chain. In the current circumstances, the reviews consider the impact of COVID-19. We also regularly review project costs to complete to ensure accuracy of the financial profile of the contract.

New markets

Probability: Medium **Impact:** High

We seek new markets and contracts for our services both with existing and new customers, whether in territories where we are already established or in territories where we are not.

Potential impact

We may not be successful in securing those new opportunities for a number of reasons, including: customer funding constraints; our services not being relevant due to the non-acceptance of our business model by customers; our failure to anticipate future market requirements or future changes in technology; our failure to find the appropriate quantity and quality of resource; our bid strategy failing to align with the customer's strategy; or increased competition in our markets. In addition, COVID-19 or the UK's departure from the EU or other geopolitical development may give rise to economic nationalism and a reluctance from international customers to award contracts to a non-domestic company. A lack of success in exporting the Group's business model outside the UK and our current core markets could adversely affect the growth prospects and strategic development of the Group. Failure to convert our bidding pipeline into contracts may put pricing pressure on the remaining pipeline.

Mitigation

We aim to target our resources in those new markets where we believe our services are relevant and we believe we have a good chance of being awarded the opportunity. As appropriate, we aim to invest in innovation and people to prepare for new ways of working or delivering our services. We maintain ongoing dialogue with our customers in order to understand their requirements and their budgets.

Financial resilience

Probability: High **Impact:** High

The Group is exposed to a number of financial risks, some of which are of a macroeconomic nature (for example, foreign currency, interest rates) and some of which are more specific to the Group (for example, liquidity and credit risks).

Potential impact

A lack of financial resilience may hinder us in being able to raise debt funding to invest in the securing of existing or future business. The weakness also may cause our existing banks to increase the cost of our funding. If our debt is denominated in a currency other than Sterling, movements in exchange rates may make that debt more costly when we repay it. Customers and/or suppliers may question our long-term sustainability if we have a weak balance sheet. This may tighten the terms of business that they are prepared to contract with us on. Credit rating agencies may downgrade our rating, which would increase our cost of borrowing. Certain pension scheme financial thresholds may be triggered, requiring further resource to be allocated to the schemes. We could face capital allocation constraints and be left with reduced capital to invest in the business to meet all our obligations or to pay a dividend.

Mitigation

The alignment of the Group portfolio has triggered a programme of potential disposals. We expect to raise £400 million in the next 12 months which will contribute towards the strengthening of the balance sheet. We have already secured an additional debt facility of £300 million to provide additional liquidity and a temporary relaxing of financial covenants. We are proactive in our dealings with credit rating agencies and lenders. The Board reviews the financial position of the Group on a monthly basis against the Board approved three- year plan.

Business interruption

Probability: Medium **Impact:** High

Failure to withstand the impact of an event or a combination of events may signicantly disrupt all or a substantial part of the Group's business.

Potential impact

A range of events, for example, extreme weather, natural hazards (such as floods or earthquakes), political events, financial insolvency of a critical supplier, scarcity of materials, loss of data, fire or infectious disease could cause business interruption. The consequences of these events could have an adverse impact on our people, our facilities, our supply chains, or our ability to meet our contractual obligations. The COVID-19 pandemic is an example of such an event. The pandemic has had a significant impact on our business and the markets that we serve over the financial year 2021. For our customers, the pandemic may reduce their current or future budgets or cause them to deploy their budgets in different ways, changing our markets. For our employees, the pandemic has changed the ways that we work. These measures may create inefficiencies in some of our businesses. The pandemic may also affect our suppliers and lead to failures in the supply chain, which may adversely affect our ability to deliver our programmes. An outbreak of another contagious disease or a new variant of the COVID-19 may still have an adverse effect on the Company's business, financial condition and prospects.

Mitigation

Throughout the pandemic, we have looked to prioritise the key programmes of our customers to demonstrate the mission critical nature of our services. For employees, our priority has been their wellbeing and safety. We have adapted working practices and facilities, including social distancing, PPE requirements, improved cleaning regimes and increased remote working, to seek to keep our people safe and well throughout this crisis. We continue to manage the situation closely and follow Government and health authority advice to help prevent the spread of the virus. For general business continuity, we have in place IT disaster recovery and business continuity processes. We also maintain relevant and appropriate insurance.

Operational resilience

Probability: High **Impact:** High

We are undertaking multiple change programmes with the introduction of a new strategy, a new operating model to restructure the shape of the Group, and a new people strategy, as well as undertaking the alignment of both the business portfolio and our property portfolio.

Potential impact

All these programmes are underway concurrently, in addition to the delivery of the Group's services to its customers. This may put pressure on management bandwidth to oversee all the change programmes, as well as the regular running of the business. This could lead to an elevated risk of mistakes or missed opportunities.

If we fail to deliver the change programmes, we will not be able to achieve our strategic goals as set out on page 16. Failure to deliver the change programmes would undermine the confidence of key stakeholders in our future growth and plans.

Mitigation

Management is experienced in delivering programmes of this nature. There is regular monitoring of progress across all the programmes to ensure that they remain on track, along with regular dialogue with customers at senior level to ensure that delivery of our contracts is in no way compromised. The Board receives a monthly report with a status update of the key change programmes.

Health, safety and environmental

Probability: Medium **Impact:** High

Our operations entail the potential risk of significant harm to people, property or the environment, wherever we operate across the world.

Potential impact

Parts of our business (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. Others, 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) or the environments in which they operate (low-altitude flying in adverse weather, terrain or operational conditions).

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. These accidents may arise from inadequate hazard control or training or management supervision; the failure to implement changes or learning from previous accidents; poor safety leadership and culture; equipment failure; or human or organisation factors.

If we cause or contribute to an incident because of failings on our part, or because as a matter of law we are strictly liable without fault, we may be liable for substantial damages claims, not all of which may be insured, as well as potentially to criminal proceedings, which could result in substantial penalties. We could also suffer contract penalties due to an inability to deliver the contract or a loss of productivity.

Such incidents (which may have a high public profile given the nature of our operations) may also seriously damage our reputation or our brand (whether justified or not), which could lead to a significant loss of business or future business opportunities.

An incident may also disrupt our business if it prevents our employees from working.

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 as well as education and training programmes for staff. Sector safety leadership teams and the Corporate Safety Leadership Team (CSTL) oversee the implementation of policy, strategy and initiatives across all our businesses.

The Board receives reviews of health and safety performance.

Nuclear risks: We hold indemnities given to us by the UK Nuclear Decommissioning Authority and the UK MOD, to protect 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 pandemic, 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.

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

Regulatory and compliance burden

Probability: Low **Impact:** High

Our businesses are subject to the laws, regulations and restrictions of the many jurisdictions in which they operate.

Potential impact

The laws and regulations that we are subject to include anti-bribery laws, import and export controls, tax, procurement rules, human rights and data protection regulations.

Failure to maintain compliance with applicable requirements could result in: fines and criminal prosecution; the removal of a licence to operate; reputational damage; cost of rectification; debarment from bidding; loss of access to markets; and, the loss of substantial business streams (and possible damages claims) and opportunities for future business.

If an applicable law or regulation changes, it may cause us substantial expenditure in order to comply, which may not be recoverable (either fully or at all) under customer contracts.

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, as well as regulations relating to ownership and control requirements. Regulation (EC) No.1008/2008 (the Regulation) requires all air operators in the EU to be majority-owned and controlled by European Economic Area nationals.

Given the nature of our customers and the markets in which we operate, as well as the services that we provide, we believe that our reputation, not only in terms of delivery but also in terms of behaviour, is a fundamental business asset. 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.

Mitigation

We maintain internal policies and procedures in order to ensure that the Group complies with all applicable laws and regulations. We also 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.

In order to address the requirements of the Regulation, we have restructured the operations of the relevant operations so that a new sub-group, which is majority owned and controlled by an EU-based holding company holds those parts of the business that fall under the Regulation . 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 EU aviation authorities, there can be no guarantee that this continues to be the case.

Senior management at Group and sector level are keenly aware of reputational risks, which can come from many sources. Our Code of Conduct, together with our Ethics policy, sets out the clear expectations that we have of our employees. We seek to reinforce these values with all employees through a number of different processes, for example, our training. 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.

People

Probability: Medium **Impact:** Medium

We operate in many specialised engineering and technical domains, which require appropriate skills and experience.

Potential impact

Our business delivery and future growth depend on our ability to recruit, develop and retain experienced highly skilled employees (such as suitably qualified and experienced engineers, technicians, pilots and other specialist skills groups).

Competition for the personnel we need is intense and is likely to remain so for the future. This may be exacerbated by nationality restrictions, which may prevent us from accessing talent from the EU or worldwide. This poses risks in both recruiting and retaining such staff.

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 affect our contract profitability.

Mitigation

We undertake workforce and succession planning to identify skill gaps and to form plans to address them. We have programmes to develop our employees so that they have the right skills and experience.

We are developing a new people strategy, led by the Group's first Chief Human Resources Officer. This strategy will establish a common approach across the Group. The new approach includes a new 'agile' way of working, a review of the rewards and remuneration structure and improved people management.

Pensions

Probability: High **Impact:** High

The Group has significant defined benefit pension schemes in the UK, which provide for a specified level of pension benefits to scheme members.

Potential impact

Member and employer contributions paid into pension scheme funds and the investment returns made in those funds over time have to meet the cost of the defined benefit obligations.

The level of our contributions is based on various assumptions, which are subject to change, such as life expectancy of members, gilt yields, investment returns, inflation, and regulatory changes. 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. For example, pension liabilities can increase due to rising life expectancy, higher than expected inflation rates in the future and lower interest rates.

If the assets in the pension schemes are judged insufficient to meet pension liabilities or if our balance sheet strength does not meet the pension trustee expectations, we may be required to make increased contributions and/or lump sum cash payments into the schemes or provide additional security from the Group. Trustee's perspectives may be influenced by toughening stances taken by the UK Pension Regulator. 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.

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.

Accounting standard rules governing the measurement of pension liabilities can lead to significant accounting volatility from year to year due to the need to take account of macroeconomic circumstances beyond the control of the Company. Actuarial valuations used for funding are not calculated on the same basis as IFRS accounting standards. This means the future cash contributions are difficult to derive from the Group's IFRS balance sheet.

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

Group senior management undertakes continuous strategic monitoring and evaluation of the assets and liabilities of the pension scheme. Management aims to increase its engagement with the scheme trustee chairs and with the pension regulator.

Pension liability increases are mitigated by the pension scheme having investment strategies that hedge against interest rate and inflation risk and using longevity swaps to limit exposure to increasing life expectancy. Trustees use professional advisors to assist in the hedging of risks.

IT and security

Probability: Medium **Impact:** High

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.

Potential impact

We hold data that is confidential and needs to be secure against a background of increasing cyber threat. Despite controls designed to protect such information, there can be no guarantee that security measures will be sufficient to prevent security breaches or cyber attacks being successful in their attempts to penetrate our network security and misappropriate confidential information or otherwise cause harm to the Group, for example through denial of service. In addition, failure to invest in our IT infrastructure, for example, in legacy systems, may also create a weakness that may lead to a breach. The risk of loss of information or data by other means is also a risk that cannot be eliminated.

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, significant data breaches or losses could also lead to litigation and fines for breach of applicable regulations such as data protection laws. This could have an adverse effect on the Group's operations and its ability to win future contracts, which may affect our overall financial condition.

Mitigation

We have made and will continue to make significant investment in enhancing IT security and security awareness generally. We seek to assure our data security through a multi-layered approach that provides a hardened environment, including robust physical security arrangements and data resilience strategies. We have formal security and information-assurance governance structures in place to oversee and manage cyber-security and similar risks. We conduct comprehensive internal and external testing of potential vulnerabilities.

The Group maintains business continuity plans that cover a range of scenarios (including loss of access to IT). We regularly test the plans that relate to IT.

Acquisitions and disposals

Probability: Medium **Impact:** High

We have built our core strengths organically and through acquisition. Decisions to acquire companies, as well as the process of their acquisition and integration, are complex, time consuming and expensive. If we believe that a business is not 'core', we may decide to sell that business.

Potential impact

As we are not currently seeking acquisition opportunities, we may not identify potentially value- or skill-enhancing transactions and miss an opportunity to grow shareholder value.

Where we have acquired companies, we may not realise the financial benefits of the acquisition as expected, due to poor integration or to acquisition business cases relying on market conditions or other business assumptions that subsequently do not materialise, challenging the logic of the acquisition decision. Before making any future acquisition, we will learn the lessons from the Avincis acquisition.

Those companies that we consider as non-core and therefore disposal candidates, may become distracted or demotivated or lose key employees, which may lead to poor performance whilst also undermining their value to their customers and a potential buyer.

A key assumption in the strengthening of our balance sheet is the planned disposals which should raise a minimum of £400 million. Disposal timing and price are not within the full control of the Group. There could be a lack of market interest or a delay in the planned processes, which may make disposals harder to complete. Some countries are increasing government oversight of disposals in sectors deemed of national importance (for example, the UK National Security and Investment Bill). Such oversight could add delay or even block a planned disposal.

Mitigation

Our focus is currently on operational execution, rather than acquisitions, with the possible exceptions of 'bolt-on' acquisitions.

We will work to enhance our acquisition and integration capability so that we are ready at the appropriate time in the future.

We will clearly communicate our disposal strategy and put in place the appropriate transaction resource to prioritise the disposals.

Going concern and viability statement

Overview

The Directors have undertaken reviews of the business financial forecasts, in order to assess whether the Group has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the going concern basis of accounting. The Directors have also looked further out to consider the viability of the business to test whether they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due.

For assessing going concern, the Board considered the 12 month period from the date of signing the Group's financial statements for the year ended 31 March 2021. For viability, the Board looked at a three year view as this is the period over which the Group prepares its strategic plan forecasts.

The annual budgets are compiled using a bottom-up process, aggregating the budgets for the individual business units into Sector budgets. The Sector budgets and the consolidated Group budget is then reviewed by the Board and used to monitor business performance.

The impacts of the recent contract profitability and balance sheet review ('CPBS') and the planned restructuring as a result of the change in operating model have been incorporated into the budgets.

The Board considered the budgets alongside the Group's available finances, strategy, business model, market outlook and principal risks. The process for identifying and managing the principal risks of the Group is set out in our Annual report. The Board also considered the mitigation measures being put in place and potential for further mitigation.

Available financing

As at 31 March 2021, net debt excluding operating leases was £771.5 million and the Group therefore had liquidity headroom of £1.2 billion, including net cash and cash equivalents of £0.5 billion and undrawn facilities of £0.8 billion.

As of July 2021, the Group's committed facilities and bonds totalling £2.4 billion were as follows:

- €550 million bond, hedged at £482 million, maturing 6 October 2022
- New £300 million 3-year RCF maturing 20 May 2024 (signed on 20th May 2021)
- £775 million revolving credit facility (RCF) maturing 28 August 2025
- £300 million bond maturing 5 October 2026
- €550 million bond, hedged at £493 million, maturing 13 September 2027
- A committed overdraft facility of £50 million

The RCFs are the only facilities with covenants attached. The key covenant ratios are (i) net debt to EBITDA (gearing ratio) (ii) and EBITDA to net interest (interest cover).

These are measured twice per year – on 30 September and 31 March. The lending banks have agreed to raise the covenant limit for the gearing ratio from 3.5x to 4.5x for the measurement periods ending 30 September 2021 and 31 March 2022 in order to provide sufficient downside protection for the Group as the turnaround in performance takes place – and particularly as a key assumption in strengthening the Group's balance sheet is the planned divestment programme which aims to generate a minimum of £400 million of proceeds within the next twelve months. For all subsequent periods, the gearing ratio covenant returns to 3.5x. The definition was clarified to specifically exclude the one-off impacts of the CPBS review from the covenant calculations.

The RCF lenders are fully committed to advance funds under the RCF to the Group, provided that the Group has satisfied the usual ongoing undertakings, and the credit worthiness of the Group's relationship banks is closely monitored. Based on their credit ratings we have no credit concerns with our relationship banks.

Given the importance of the RCFs to the Group's liquidity position, our assessments of going concern and viability have tested the Group's gearing ratio, interest cover and liquidity headroom throughout the period under review.

COVID-19 impact

The COVID-19 pandemic created increased uncertainty across our business during the financial year, particularly in the UK and European operations. The impacts were most severe for our non-defence businesses (e.g. civil aviation and civil training) where operations in some cases were stopped. The defence businesses incurred some interruption and increased cost initially with the heightened uncertainty. Subsequently most defence programmes and sites were re-opened, albeit with social distancing restrictions and higher levels of employees working from home where possible. In response to this, the Group took steps to mitigate the financial impact and improve the Group's liquidity including:

- Deferring non-essential operating and capital expenditure
- Furloughing staff in a number of areas such as our airports and civil training businesses
- Senior executive management taking a temporary 20% reduction in basic salary with their annual bonus and pay rise deferred
- Non-Executive Board members taking a temporary 20% reduction in fees with no annual increase
- Taking the decision not to pay an interim dividend for the 2020 financial year

Subsequently the Group has been in discussion with certain customers regarding cost recovery and contract performance relief where appropriate.

As the year progressed, it became clear that there was a significant impact from COVID-19 and that the Group's financial performance was tracking behind original expectations. Overall, the net financial impact of COVID-19 on the Group in the year was a reduction of operating profit of approximately £45 million as explained on page 38.

As there are now vaccination programmes in most of the geographies in which the Group operates, it has been assumed that there will be a gradual removal of pandemic measures such as social distancing and that all our operations will eventually be able to work on sites as before. However, there remains the risks of new variants, potential future lockdowns and business interruptions, so the Board has taken a cautious view as to how quickly the return to pre-pandemic ways of working will happen over the forecast period.

Base case scenario

In addition to the trading assumptions outlined above, key assumptions in our base case budget include:

- £400 million of cash proceeds from disposals during FY22
- c.£50 million of restructuring costs in FY22 being c.£40 million relating to the operating model change and c.£10 million of previously announced restructuring (e.g. in Aviation)
- £56 million of VAT deferred from FY21 to be paid in FY22

- Additional pension deficit contributions previously agreed with trustees (over and above the normal levels) of £60 million in FY22 and £52 million in FY23
- A gradual unwind of the historical year end working capital 'push' over the period, to close the gap between average monthly net debt and the much lower period end net debt
- A continuation of debt factoring for certain Southern European contracts within Aviation at similar levels to FY21
- Dividends not paid for FY21 or FY22

The base case budget shows significant levels of headroom against both financial covenants and liquidity headroom based on the current committed facilities outlined above (without assuming any refinancing of the €550 million bond in October 2022).

Reverse stress testing of the base case

To assess the level of headroom within the available facilities, a reverse stress test was performed to see what level of performance deterioration against the base case budget (in both EBITDA and net debt) was required to challenge covenant levels. Of the remaining measurement points within the three year period, the lowest required reduction in forecast EBITDA to hit the covenant level was 36% and the lowest net debt increase was 56%. Given the mitigating actions that are available and within management's control, such movements are not considered plausible.

Severe but plausible downside scenarios

The Directors also considered a series of severe but plausible downside scenarios which are sensitivities run against the base case budget for the duration of the assessment period. These sensitivities include – separately - a reduction in bid pipeline closure (business winning), a reduction in the assumed restructuring savings, a deterioration in large programme performance across the Group, a deterioration in the Group's working capital position and a regulator imposed cessation in flying two of the largest aircraft fleets in the Group. Furthermore a sensitivity was run which modelled the removal of all uncommitted working capital facilities available to the Group. As stated above, a key contributor to the strengthening of the balance sheet is the divestment programme which is expected to generate a minimum of £400 million of proceeds in FY22. For this reason a further sensitivity was run removing all planned divestments entirely and keeping the Group portfolio as it currently is throughout the forecast period. Unsurprisingly, removing the divestments entirely – however unlikely it may be to happen – left the gearing ratio with too little headroom against the financial covenants. Whilst all of these separate scenarios showed compliance with the financial covenants throughout the period, the measurement periods ending 30 September 2021 and 31 March 2022 had the highest covenant gearing ratios. This is a reflection of the significant cash out flows in this period (e.g. programme capital expenditure, restructuring costs and the extra pension deficit contributions) occurring before the proceeds from the planned divestments are received. It is for this reason that the Board approached and has agreed with our lending banks to increase the covenant level gearing ratio from the usual 3.5x to 4.5x for those two measurement periods.

As with any company or group, it would be possible, however unlikely, to model individual risks or combinations of risks that would threaten the financial viability of the Group. The Board has not sought to model events where it considers the likelihood of such events not to be plausible. In preparing a combined severe but plausible (SBP) downside case, the Board considered the feed of individual risks from the sectors covering the above sensitivities. Overall there were c.80 profit and cash flow risks identified. A simple aggregation of all of these risks is not considered plausible as the Group operates businesses and contracts which run largely independently of each other, albeit with a relatively small number of customers within each geography. The majority of these identified risks were seen as 'sector independent' (i.e. there is no direct read across from one sector to another). A small number are deemed 'non independent' e.g. COVID-19, inflation, FX etc. The Board decided to include in its combined SBP downside all the 'non independent' risks without reduction, but reduced the aggregation of the 'sector independent' risks by 25% to reflect the implausibility of all such risks fully crystallising within the same period. The SBP scenario also deferred all disposal proceeds by 12 months, significantly reduced the financial benefits of the operating model restructuring and assumed a much reduced level of receivable factoring in the Aviation business.

If such a severe downturn were to occur in the Group's performance, the Board would take mitigation measures to protect the group in the short term. Such profit and cash mitigation measures that are deemed entirely within the control of the Group and identified as part of the sector budgeting exercise have been included in the SBP scenario (e.g. cancelling pay rises and bonus awards, curtailing uncommitted capital expenditure and operational spend including R&D and other investment).

Despite the severity of the above combined SBP scenario, the Group maintained a sufficient amount of headroom against the financial covenants within its borrowing facilities, albeit that this is less after the gearing covenant level reverts to 3.5x in September 2022, and sufficient liquidity when compared against existing facilities.

Additional mitigation options

While the new bank liquidity facility and the temporary relaxation of the covenant levels are deemed appropriate to cover the potential impacts of plausible risks, the Group has considered additional mitigation measures that could be undertaken should the need arise. These may include measures under the control of the Board as outlined above. Further measures which are not wholly under the control of the Board might include additional divestment plans; and in extremis seeking a further covenant amendment from our RCF lenders and/or utilising alternative financing sources, such as a hybrid bond or equity.

Going concern assessment and viability conclusion

Based on our review, the Directors have a reasonable expectation that the Group has adequate resources to continue as a going concern for at least 12 months from the date of these financial statements. As such, these financial statements have been prepared on the going concern basis. 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.

In concluding on the financial viability of the group, having considered the scenarios outlined above, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all its liabilities as they fall due up to March 2024.

Kerrie Greenall
Procurement & Supply Chain Graduate
UK

Chair's introduction

Dear Shareholder

On my appointment as Chair of Babcock in 2019, I was aware that stakeholders had become frustrated by the pattern of underperformance compared with the expectations set by the Board. As I set about to understand the causes, I anticipated that these might reflect, at least in part, deficiencies in Board governance. I therefore took early steps to refresh the Board's working, mindful of the fact that strong governance requires an effective combination of a number of key ingredients:

- strong structure and processes;
- a diverse and capable membership working in a climate of open and frank debate;
- a team of senior executives who recognise both the Board's importance and their critical role in providing the information and insight the Board needs.

Following their appointments, David Lockwood and David Mellors instigated a number of reviews, including the contract profitability and balance sheet review. The findings from this review are deeply disappointing, with many adjustments being made including the correction of prior year errors. Clearly our governance had not been performing as required and this is referenced in the Statement of Compliance on page 107. In this introduction, I give an overview of the multi-faceted changes and improvements we have made to Board governance, operating model and financial control. Together, the reforms make us confident that the weaknesses have been addressed.

Board changes

Board structure

In my report last year I covered the initial steps I had taken on Board structure and processes. Change has accelerated further this year. The changes are set out opposite but they include: adjusting the Board agenda to give a greater focus on strategy; the appointment of a Non-Executive director as designated for employee engagement; refreshing the role of the Board's Disclosure Committee; reducing membership of the Committees to enhance accountability; and streamlining attendance at Board meetings to support effective debate and constructive challenge. In addition, a UK Security

Committee has been formed to enable closer scrutiny of those programmes where information can only be shared with security-cleared UK citizens.

Board membership

The work to ensure a strong and diverse Board membership has also continued with the appointment of new Non-Executive directors to replace those due to leave the Board. Lord Parker brings an outstanding track record of leadership and public service while Carl-Peter Forster, who took over the role of Senior Independent Director following last year's AGM, brings a wealth of senior board experience. Russ Houlden, in the Audit Committee Chair role since last year's AGM, has made significant improvements to the operation of the Audit Committee as set out in the Audit Committee report. I am most grateful to Russ for the rigour he has brought to the Committee's discussions. I am also grateful to Sir David Omand, Myles Lee and Victoire de Margerie for their service on the Board. Sir David retired at the end of the financial year 2021, while Myles and Victoire will both retire after this year's AGM.

New leadership team

We have been very focused this year on finding successors to Archie Bethel as CEO and Franco Martinelli as CFO. David Lockwood took over the CEO role in September last year and was joined by David Mellors as CFO in November.

I was pleased that the thorough and thoughtful process to select our new CEO and CFO progressed at pace despite the COVID-19 challenges, and that the whole transition was achieved without uncertainty or disruption within the organisation: an important consideration given the critical nature of our operations.

Board process and climate

These appointments have enabled us to drive progress on the third critical ingredient of effective Board governance – the interaction between the Executive directors and the Board. David, David and I have strongly aligned views on the importance of open, regular and comprehensive communication. There has been a significant shift in the design and content of Board papers and we have paid careful attention to improving the dynamic of Board discussions. I was pleased to see that the creation of an inclusive climate, with constructive yet robust debate incorporating the views of both Non-Executive Directors and Executive Directors, was recognised in our recent independent Board review.

New operating model

On joining the Group, David Lockwood and David Mellors undertook an in-depth review of our business model and operational design. As a result of the review, the Board recognised that Babcock's previous strongly federated and fragmented organisational design did not support Babcock's scale, breadth and complexity. As a consequence, David Lockwood has created a new operating model better able to underpin Babcock's more focused and purpose-driven future.

The Board believes that the simplified structure will improve leadership line of sight, while the new operating model will create a more efficient and effective business, built on empowerment and collaboration, as well as enhancing internal and financial controls. This model allows Babcock to take a consistent approach across the Group; this can be seen already from the changes made to the Group's purpose, people strategy, health and safety programmes and ESG. A Group-wide approach to strengthening the culture of the organisation is planned. David Lockwood describes his approach in more detail in his CEO Review on pages 12 to 15.

David Mellors has led the contract profitability and balance sheet review. The Board believes that the outcome of this Review will be improved financial transparency and control, a baseline for a return to growth, and ultimately a stronger balance sheet. David has also reviewed the Group's policies, processes and controls with a focus on consistency and simplicity, which will support better flows of information and strengthened management of operational, business and financial performance. These changes are described in David's Financial review on page 47.

Key changes since 2019 to address issues identified by the contract profitability and balance sheet review

As described in my opening paragraph, the Board has made or is making a number of enhancements to its corporate governance structure to address the issues identified by the contract profitability and balance sheet review, as summarised below:

Board governance

- Refreshed Board to drive tone from the top
  - New Executive Directors
  - New Senior Independent Director
  - New Audit Committee Chair
  - New Remuneration Committee Chair
- Enhanced focus and accountability of Board Committees by reducing membership
- Refreshed the role of the Disclosure Committee and established the UK Security Committee
- Streamlined Board agendas and focused Board papers
- Approved the new risk management process
- Approved enhanced delegation of authority
- Reviewed letter of representation covering policy compliance from management every six months

Please see above and the following pages.

Financial control

- Simplification of income statement and cash flow management reporting
- Standardised management reporting across the Group
- Developed standards of financial control
- Revised Group accounting policies
- Revised Treasury controls and policies
- Revised sector business and balance sheet reviews

Please see page 47.

Operating model

- Launched new operating model
- Standardised bid review process
- Group-wide common approach to project management, project reviews and change control
- Refreshed Corporate Safety Leadership Team

Please see pages 13 and 47.

COVID-19 response

Inevitably, the pandemic has continued to affect the way we have gone about our business throughout the year. The Board has regularly reviewed the measures taken by the business in response to the pandemic: those to protect our staff, to ensure we have remained aligned with the priorities of our customers, and to ensure continuity of operations. The restrictions on travel and social interaction have affected all aspects of the working of the Board, including notably the recruitment process for new executives and the induction process for all our new joiners (as detailed on page 110).

Throughout the year we have needed to conduct all our regular Board and Committee meetings by video conference; we quickly adjusted to this new way of working and have successfully covered all the required aspects of Board oversight, leadership and governance. Whilst pleased with the effective way the Board has adjusted, a return to some face-to-face meetings and visits to different parts of the business will be given high priority as soon as this is possible.

Strategy

The Board has spent significant time reviewing and refreshing the strategy for the Group, having given David Lockwood licence to consider all aspects of the strategy on his appointment as CEO. This work has been conducted in parallel with the contract profitability and balance sheet review, and has informed the operating model review, so that the strategy, financial underpinning and operating model to deliver it are all coherent. We held multiple Board sessions to work through different aspects of the strategy and choices, with plenty of opportunities to capture the diverse perspectives and insights of Board members. The refreshed Group strategy is set out on page 16.

One conclusion of the strategy is that steps will be taken to align the portfolio, a difficult decision as it will mean exiting some good-quality businesses. The Board carefully considered the implications of these decisions both for the overall strategy and for affected stakeholder groups.

Purpose and culture

The Board believes Babcock needs a clear purpose that sets out how it will contribute to society, and that the purpose should set the context for the strategy and drive key decisions and actions. We recognise the importance of a clear purpose in attracting talented people to work for us and in enabling them to feel attuned to the objectives and values of the Company and were pleased to approve the new Group purpose, *creating a safe and secure world, together.*

To deliver the purpose through the new Group strategy, further development of the culture across the organisation will be essential. A key enabling step is the development of Babcock's first Group-wide people strategy, a critical element of our new operating model. The people strategy has been discussed and supported by the Board and its development is described on pages 22 and 23. Whilst not yet finalised, our people strategy will set out for all our employees what the Company stands for, what is valued and rewarded and the output and behaviour the Company expects. Future work to strengthen and embed the culture will include a renewed focus on employee engagement and on developing the skills of leaders at all levels. The Board will keep itself informed through a variety of mechanisms and we have enhanced our oversight of employees' interests and views with the appointment of Lord Parker as Director designated for employee engagement. This is a significant step up from our previous approach.

ESG

The Board's oversight of the Group's ESG approach and performance has been strengthened in a number of areas across the three ESG pillars. On the environmental pillar, the Board has agreed a net zero target for emissions by 2040, which is supported by a roadmap with milestones. On the social pillar, the Board has overseen the reinvigoration of the Group's safety leadership with the establishment of the Corporate Safety Leadership Team, supplemented by the appointment of a Group Health, Safety & Environment Director and the development of a new balanced safety scorecard. In addition, the Board has reviewed the Group's Inclusion and Diversity policy and welcomed the clear positioning of Inclusion and Diversity as a strategic imperative by the new management with the adoption of targets to drive and measure progress. On the governance pillar, I have described the actions taken during the year above.

Independent board evaluation

As a Board we are committed to effective corporate governance and believe that fresh perspectives from independent reviewers add significant value by identifying opportunities for improvement. Having deferred the FY20 external review of the Board as I was newly appointed into the Chair role and had a number of changes underway, this year as planned we commissioned an external review of the Board, its Committees and the Group Executive Committee. This was conducted by an independent reviewer (Belinda Hudson Limited) and was completed recently so it reflects the full suite of changes that have been described.
The findings have reinforced the sense of substantial change and improvement.

Whilst her report confirmed our compliance with the Code, the review identified some helpful points for further improvement and these will be my focus for the year ahead. These include spending time together as a Board, especially considering that due to COVID-19 we have not yet had the opportunity for a face-to-face meeting all together; completing the induction process with site visits for new members as COVID-19 restrictions are lifted; increasing Board engagement with all stakeholders especially key talent; embedding the Board role in overseeing the implementation of the new people strategy, culture and succession planning; and driving even more focus on ESG issues across the business.

2022

An extensive set of changes and improvements have been described in this report that will ensure full compliance with governance and control expectations in the future. We plan to engage with our larger shareholders at a governance event later in the year, to provide more insights into our new approach. The Board has reviewed carefully the totality of the measures taken and will oversee the planning and delivery of implementation, the intended assurance and the effectiveness of operation.

This provides the firm foundation on which we will deliver benefits for all our stakeholders – for our shareholders, a sustainable return; for our customers, excellent and innovative services; and for our employees, interesting and rewarding careers.

Ruth Cairnie
Chair

Babcock Festival of Engineering for local Rosyth school children.

Board of Directors

Ruth Cairnie
Chair

Appointed: April 2019

Skills and 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. 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. Ruth 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. She is a fellow of the Energy Institute.

Current 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, a trustee of Windsor Leadership and a trustee of the White Ensign Association.

David Lockwood OBE
Chief Executive Officer

Appointed: September 2020

Skills and experience: David brings wide-ranging knowledge of the defence and aviation markets, as well as a wealth of experience in both technology and innovation. David was CEO of Cobham plc (from 2016 to March 2020) and prior to that he was CEO of Laird PLC (from 2012 to September 2016). His career includes senior management roles at BT Global Services, BAE Systems and Thales Corporation. David has a Degree in Mathematics from the University of York and is a chartered accountant. He is a Fellow of the Royal Aeronautical Society and the Royal Society of Arts and Commerce. He received an OBE for services to industry in Scotland in 2011.

Current external appointments: None

David Mellors
Chief Financial Officer

Appointed: November 2020

Skills and experience: David brings extensive CFO experience in defence, aerospace and commercial markets. David was previously CFO of Cobham plc and prior to that he was CFO of QinetiQ Group plc from 2008 to 2016 and also served as interim Chief Executive for a period. His career includes several roles at Logica PLC, CMG plc and Rio Tinto PLC. David has a Degree in Physics from Oxford University and is a member of the Institute of Chartered Accountants in England and Wales.

Current external appointments: None

Carl-Peter Forster
Senior Independent Director

Appointed: June 2020

Skills and experience: Carl-Peter, a German national, brings extensive manufacturing and international experience. 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. Carl-Peter holds a Diploma in Economics from Bonn University and a Diploma in Aeronautical Engineering from the Technical University in Munich.

Current external appointments: Carl-Peter is currently the Chairman of Chemring Group PLC and Senior Independent Director of IMI plc.

Kjersti Wiklund
Independent Non-Executive Director

Appointed: April 2018

Skills and experience: Kjersti, a Norwegian national, brings broad technology and business experience gained across Europe, Eastern Europe/Russia and Asia. She has held senior roles, including Director, Group Technology Operations of Vodafone, and Chief Operating Officer of VimpelCom Russia, Deputy Chief Executive Officer and Chief Technology Officer of Kyivstar in Ukraine, Executive Vice President and Chief Technology Officer of Digi Telecommunications in Malaysia, and Executive Vice President and Chief Information Officer at Telenor in Norway. Kjersti was also a Non-Executive Director of Cxense ASA and Fast Search & Transfer ASA in Norway, Telescience Inc in the US and Laird PLC in the UK. Kjersti holds a Master of Business Management from BI Norwegian Business School and an MSc in Electronical Engineering from Chalmers University of Technology, Sweden.

Current external appointments: Kjersti is a Non-Executive Director of Trainline plc, Spectris PLC and was appointed as a Non-Executive Director of Zegona Communications PLC in February 2020.

Russ Houlden
Independent Non-Executive Director

Appointed: April 2020

Skills and experience: Russ brings accounting and treasury management experience along with his extensive knowledge of driving performance improvement. He was Chairman of the Financial Reporting Committee of the 100 Group (from 2013 to March 2020), Chief Financial Officer of United Utilities Group PLC (from 2010 to July 2020), Chief Financial Officer of Telecom New Zealand (from 2008 to 2010) and Finance Director of Lovells (from 2002 to 2008). Until 2002 he held a variety of divisional Finance Director positions in ICI and BT. Russ holds a 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.

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

Prof. Victoire de Margerie*
Independent Non-Executive Director

Appointed: February 2016

Skills and experience: Victoire, a French national, brings strong international strategic and commercial experience. 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. Victoire holds a PhD in Strategic Management from Université Panthéon-Assas and a Master in Business Administration from HEC Paris.

Current 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) and, since December 2020, Chair of the Supervisory Board of Ixellion AS.

Myles Lee*
Independent Non-Executive Director

Appointed: April 2015

Skills and experience: Myles, an Irish national, brings extensive global experience in management, M&A and finance. He was Chief Executive Officer (from 2009 to 2013) and Finance Director (from 2003 to 2008) of CRH PLC. Myles holds a degree in Civil Engineering and is a Fellow of the Institute of Chartered Accountants in Ireland.

Current 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.

Lucy Dimes
Independent Non-Executive Director

Appointed: April 2018

Skills and experience: Lucy brings experience in industries at the forefront of growth and technology-based innovation and an understanding of complex outsourcing and global strategic partnerships. She was a Non-Executive Director of Berendsen PLC and a member of its Audit, Remuneration and Nominations Committees. In her executive career, Lucy was Chief Executive Officer of UBM EMEA until September 2018 and was previously Chief Executive Officer, UK & Ireland, of Fujitsu, the Chief Operating Officer and Executive Director of Equiniti Group, Chief Executive Officer UK & Ireland of Alcatel Lucent (now Nokia) and had a 19-year career at BT, where she held various senior roles, including Managing Director of Group and Openreach Service Operations. Lucy holds an MBA from London Business School and a degree in Business Studies from Manchester Metropolitan University.

Current external appointments: Lucy is currently the Chief Strategy and Transformation Officer of Virgin Money UK Plc.

The Right Honourable, The Lord Parker of Minsmere, GCVO, KCB
Independent Non-Executive Director

Appointed: November 2020

Skills and experience: Lord Parker brings extensive experience of working at the highest level of public service including a focus on new technology-centred change and championing inclusion. Lord Parker has had a long career in a wide range of national security and intelligence roles in the UK, which culminated in him becoming the Director General of MI5, the UK Government's national security agency, in 2013. He retired from this role in 2020. Lord Parker is a graduate of Natural Sciences from Cambridge University.

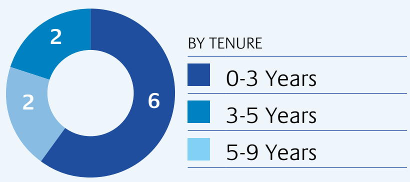
Current external appointments: Lord Chamberlain (head of the Royal Household), member of the House of Lords, Board Adviser to Telicent Ltd, Distinguished Fellow at the Royal United Services Institute and Visiting Professor at Northumbria University.

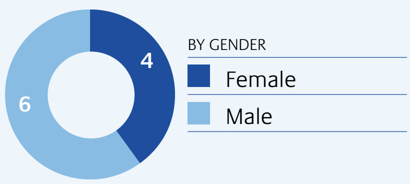
Appointment key

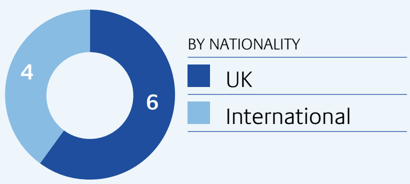
- E Executive Committee
- A Audit Committee
- R Remuneration Committee
- N Nominations Committee
- D Disclosure Committee
- Board Committee Chair

Membership of the UK Security Committee is variable depending on the security level required for the business under discussion.

Board Diversity*







* July 2021.

* Victoire de Margerie and Myles Lee will retire from the Board after the 2021 AGM.

Executive Committee

Biographies for CEO David Lockwood and CFO David Mellors are on page 104.

Will Erith
Chief Executive, Marine

Appointed: December 2020

Skills and experience: Will joined Babcock in 2017 and in 2018 became MD Surface Ships, responsible for the entirety of our Warship support business (including the successful Type 23 LIFEX programme). In addition he was responsible for the critical phases of our overall bid activity for FMSP (Future Maritime Support Programme), representing the next five years of our Surface Ship and Submarine support for the Royal Navy. Prior to this he had a successful 20-year career with Rolls-Royce, where he held senior leadership positions in Engineering, Programme Management, Business Development and General Management. This included three years based in Tokyo, significantly growing the Asia Pacific Naval business. Will has a First Class Honours Degree in Mechanical Engineering from the University of London. He is a Chartered Engineer and a Fellow of the Institute of Mechanical Engineers.

Simon Bowen
Chief Executive, Nuclear

Appointed: April 2017

Skills and 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.

Tom Newman
Chief Executive, Land

Appointed: December 2020

Skills and experience: Tom was appointed as Chief Executive, Land in June 2021, following the retirement of John Davies. Tom joined Babcock through the VT acquisition in 2010 and brings a broad range of experience from senior management positions held in industrial sectors including shipbuilding, broadcast and communications, aviation, defence and emergency services. Most recently Tom has been responsible for our relationship with the UK Cabinet Office through the Strategic Partnering Programme and as Chief of Staff the design and implementation of our new Operating Model. He has a degree in Naval Architecture from UCL and an MBA from Warwick Business School.

Neal Misell
Chief Executive, Aviation

Appointed: April 2020

Skills and 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.

Nikki Fox
Chief Human Resources Officer

Appointed: January 2021

Skills and experience: Nikki was previously Organisation & Development Director, Nuclear, responsible for delivery of HR across the sector and a member of the Group's O&D Leadership team. Nikki led the development of the Cavendish Nuclear people strategy and the subsequent review of the Cavendish Nuclear operating model. She joined Babcock in 2017 following a successful 20-year career within the oil and gas industry, which included BG Group/Shell where she held various senior leadership positions in HR and General Management, based in the UK and overseas including Houston and Moscow.

John Howie MBE
Chief Corporate Affairs Officer

Appointed: April 2016

Skills and experience: John was appointed as Chief Corporate Affairs Officer in October 2020 with a remit to further develop Babcock's relationships with its key governmental customers in the UK and internationally, as well as leading Group Strategy, Corporate Communications, Sustainability and International Development. Prior to that, John was CEO Marine with 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. John joined Babcock in April 2001.

Jon Hall
Chief Innovation & Technology Officer

Appointed: April 2017

Skills and experience: Jon joined Babcock in 2008 as Managing Director, Technology and in November 2020 was appointed Chief Innovation & Technology Officer. Prior to that, Jon held senior roles within the Weir Group, covering defence, nuclear and commercial sectors and, before that, worked in the power and process sectors with Balfour Beatty International and Monenco Inc. Jon is a Chartered Engineer and Fellow of the Institution of Mechanical Engineers, and holds a PhD from Bath University for research work in technology.

Jack Borrett
Group Company Secretary and General Counsel

Appointed: July 2016

Skills and 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, Nominations and Disclosure Committees. Prior to joining Babcock, Jack was a solicitor at law firm, Clifford Chance.

Collette McMullen
Chief of Staff

Appointed: June 2021

Skills and experience: Collette was appointed as Chief of Staff in June 2021 to support the CEO on a day-to-day basis. Collette has a broad understanding of the business and deep experience of the Chief of Staff role, having previously held this position for a number of years in the Nuclear and Aviation sectors. She joined Babcock in 2009 following a commercial career in the nuclear industry with the UKAEA.

Statement of compliance

The principal governance framework applying to the Company is the UK Corporate Governance Code published in 2018 (the Code). The Board acknowledges that the contract profitability and balance sheet review has demonstrated that, in an evolving and increasingly competitive environment, our governance framework, business management, and internal and financial controls were not fully effective in all parts of the business in prior years as well as in 2021, notably in Aviation. Corrective actions have been set in place during the year (see page 101). In respect of the Code, the Nominations Committee did not use an external search consultant for the appointment of Lord Parker (**provision 20,** see page 118), this year's external Board evaluation was delayed into the fourth year after the previous one (**provision 21,** see page 111) and the transition arrangements for alignment of pension contribution rates for our former Executive Directors were not in line with **provision 38** (see page 144). With these exceptions, the Company throughout the year to 31 March 2021 complied with all the provisions of the Code. Information on how the Company has applied the principles and complied with the supporting provisions during the year can be found throughout the Annual Report. Details of where key information can be found is provided below.

1. Board leadership and company purpose	The Directors of the Company are set out on pages 104 and 105. **Long-term value** Our business model is set out on pages 20 and 21 and our strategy can be found on pages 16 and 17. Principal risks are on pages 87 to 95. **Purpose and culture** Our purpose is set out in the Strategic report on page 7. The Board's consideration of our purpose and culture is described on pages 102 and 111. **Stakeholders** Our key stakeholders are set out in the Strategic report on pages 58 and 59, with the section 172(1) statement on page 79 with details of how the Board has engaged directly with stakeholders and how the Directors have had regard to stakeholders when undertaking their duties can be found on pages 114 to 116. **Workforce policies and practices** Our people strategy, described on pages 22 and 23, has been designed to support our values and long-term sustainable success.
2. Division of responsibilities	**Role and independence of Directors** We are satisfied as a Board that all our Non-Executive Directors are independent and we have the right balance of executive and non-executives on the Board see page 109. We are also satisfied that the Non-Executive Directors have sufficient time to meet their Board responsibilities. **Board and Committee meetings** Information on the operations of the Board and its Committees can be found throughout this section, with a table detailing the number of meetings and Director attendance for the Board and the key Board Committees on page 109. **Directors' external commitments** Details of the Board's current external commitments are provided in their biographies on pages 104 and 105.
3. Composition, succession and evaluation	The Nominations Committee Report can be found on pages 117 and 118. **Director appointment and succession planning** The Nominations Committee has responsibility for ensuring that the Board has the correct balance of skills, experience and knowledge, and oversees succession planning. See page 118. **Diversity and inclusion** The Board's oversight of diversity is described on page 118 and details of the Group's diversity policy and objectives, together with the gender balance of senior management and other groups, is provided on pages 72 and 73. **Board evaluation** An evaluation of the Board, Board Committees and individual Directors is undertaken annually. A description of the externally led process undertaken this year is provided on page 111.
4. Audit, risk and internal control	The Audit Committee Report can be found on pages 119 to 131. **Internal controls** The result of the Board's review of the effectiveness of the Company's internal control systems is on page 158. The Board concluded that the control environment was not operating effectively in certain parts of the Group, particularly in Aviation, Land and Group Head Office. For more information, see page 131. **Audit and integrity of financial reporting** For information on our external audit tender and for review of our financial information reporting processes see page 119 and pages 129 to 130. **Risk reporting** Our approach to risk management along with the Group's principal risks is set out on pages 84 to 95. **Other reporting requirements** The Board's approach to ensure a fair, balanced and understandable report is provided on page 124. The Going concern and viability statement can be found on pages 96 and 97. The Directors' responsibility statement is on page 158.
5. Remuneration	The Remuneration Committee Report can be found on pages 132 to 153. **Remuneration policies and practices** For an explanation of how our remuneration policies and practices support our strategy for long-term sustainable success, see pages 136 to 142. **Remuneration policy and its implementation** Our approach to developing Remuneration policy is described on pages 132 and 133 and a report of how it was implemented during the year on pages 143 to 153.

Our governance framework

The Board

The Board's role is to lead the Group with a view to the creation of strong, sustainable financial performance and long-term shareholder value, to review and approve the Group's strategic plan and to supervise the conduct of the Group's activities within a framework of prudent and effective internal controls.

The Board has adopted a schedule of matters reserved for its, or its Committees', specific approval (see page 110. For other matters, authority is delegated to management by way of a delegation matrix.

Principal Board Committees

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

See pages 119 to 131.

Remuneration Committee
Determines the Remuneration policy for the Executive Directors and is responsible for oversight of the remuneration policies and practices of the wider workforce.

See pages 132 to 153.

Nominations Committee
Reviews the composition of the Board, considers succession planning at both Board and senior management level and leads the process of appointments to the Board.

See pages 117 and 118.

Disclosure Committee
Ensures that policies, systems and controls exist so that potential price-sensitive information is escalated, considered, verified and promptly released to the market, where required.

UK Security Committee
Receives reports on those UK programmes on which the Group is engaged and access to which either requires a certain security clearance or UK nationality.

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 106.

Principal Management Committees

Corporate ESG Committee
Responsible for Group-wide ESG initiatives, the management of climate-related issues and driving the performance of the wider sustainability agenda. The Committee is chaired by the Chief Corporate Affairs Officer. Reporting to the Committee are the Inclusion and Diversity Steering Group and the Carbon, TCFD and Communities and sponsorship working groups.

See page 70.

Corporate Safety Leadership Team
Leads the development and implementation of policies, standards and expectations for health, safety and environmental issues with a mission that everyone goes "Home Safe Every Day".

See page 73.

Disclosure Panel
Oversees potential price-sensitive information and evaluation to ensure prompt disclosure, reporting up to the Disclosure Committee as appropriate.

See page 113.

The membership and attendance at scheduled Board and Committee meetings are shown below. In addition a number of unscheduled meetings were held.

	Board	Nominations Committee	Audit Committee	Remuneration Committee
Number of scheduled meetings held	10	4	4	6
Current Directors				
Ruth Cairnie	10 of 10	4 of 4	–	–
Carl-Peter Forster[1]	8 of 9	4 of 4	–	6 of 6
Kjersti Wiklund	10 of 10	4 of 4	4 of 4	6 of 6
Russ Houlden[2]	10 of 10	4 of 4	4 of 4	6 of 6
Victoire de Margerie[3]	9 of 10	3 of 4	–	6 of 6
Myles Lee	10 of 10	4 of 4	4 of 4	–
Lucy Dimes	10 of 10	4 of 4	4 of 4	–
Lord Parker[4]	5 of 5	1 of 1	–	–
David Lockwood[5]	7 of 7	–	–	–
David Mellors[6]	4 of 4	–	–	–
Former Directors				
Archie Bethel[7]	3 of 3	–	–	–
Franco Martinelli[8]	6 of 6	–	–	–
Ian Duncan[9]	3 of 3	2 of 2	3 of 3	–
Jeff Randall[10]	3 of 3	2 of 2	–	3 of 3
Sir David Omand[11]	10 of 10	4 of 4	–	–

1. Carl-Peter Forster was appointed to the Board in June 2020 and was absent from one meeting due to a prior engagement.
2. Russ Houlden was appointed to the Board in April 2020.
3. Victoire de Margerie was absent from certain meetings due to prior engagements.
4. Lord Parker was appointed to the Board in November 2020.
5. David Lockwood was appointed to the Board in September 2020.
6. David Mellors was appointed to the Board in November 2020.
7. Archie Bethel retired from the Board in September 2020.
8. Franco Martinelli retired from the Board in November 2020.
9. Ian Duncan retired from the Board after the AGM in August 2020.
10. Jeff Randall retired from the Board after the AGM in August 2020.
11. Sir David Omand retired from the Board on 31 March 2021.

Roles and responsibilities

The roles of the Chair and Chief Executive are clearly defined, with the Chair responsible for the leadership and effectiveness of the Board and the Chief Executive for the running of the Group's business. Non-Executive Directors support the Chair and provide objective and constructive challenge to management. The Senior Independent Director (SID) provides a sounding board for the Chair and serves as an intermediary for the Chief Executive, other Directors and shareholders when required. The Company Secretary makes sure that appropriate and timely information is provided to the Board and its Committees and is responsible for advising and supporting the Chair and Board on all governance matters. All Directors have access to the Company Secretary and may take independent professional advice at the Company's expense in conducting their duties. A more detailed description of these roles is available online at www.babcockinternational.com.

Review of independence of Non-Executive Directors

The Board is satisfied that throughout the year all Non-Executive Directors remained independent and accordingly the Company is compliant with Provision 10 of the Governance Code. Although Ian Duncan and Sir David Omand had served for over nine years at the time of their resignations, the Board did not consider that this impaired their independence and they both played a role in the managed succession. Ian stepped down as Audit Committee Chair and Director after the AGM in 2020. Sir David passed on his responsibilities as SID to Carl-Peter Forster after the 2020 AGM and retired from the Board at the end of the financial year.

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. This was evidenced by the Directors attendance at additional meetings as required during the year.

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.

The Board has established a formal schedule of matters specifically reserved for its approval. It has delegated other specific responsibilities to its Committees and these are clearly defined in their terms of reference (available online at www.babcockinternational.com) and other responsibilities are delegated to management under a delegated authorities matrix.

Conflict of interests

Babcock has adopted a formal procedure for the disclosure, review, authorisation and management of Directors' actual and potential conflicts of interest in accordance with 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 new actual or potential conflict of interest or when there is a material change in any of the conflicts of interest they have already disclosed.

A register is maintained of all the disclosures made and the terms of any authorisations granted. Authorisations can be revoked, or the terms on which they were given varied, at any time if judged appropriate.

Possible conflicts of interest authorised by the Board are reviewed annually. In the event of any actual conflict arising in respect of a particular matter, mitigating action would be taken (for example, non-attendance of the Director concerned at all or part of Board meetings and non-circulation to him/her of relevant papers).

Summary of key matters reserved for the Board

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

Meetings and attendance

The Board has 10 scheduled full Board meetings each financial year, with typically two other meetings devoted solely to strategy. As the strategy was being refreshed this year there were also a number of additional updates at Board meetings. The Chair also meets separately with Non-Executive Directors without Executive Directors or other managers present.

Board induction and development

Board induction continued to be a challenge during the year with face-to-face meetings and first-hand experience of our operations not possible due to restrictions on access to our sites. However, new ways of working have been adopted in our induction process using virtual sessions, with adjustments to our programmes made accordingly.

Our new Directors receive comprehensive and tailored induction programmes. The programmes for Non-Executive Directors typically 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 normally 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. Normally, Non-Executive Directors are encouraged to make visits at any time to any Group business although this continued not to be possible during the year.

David Lockwood joined the Company in August after the end of the first COVID-19 lockdown. As such he was able to visit the Group's principal UK sites. He was also able to visit certain key sites in Europe. During these visits, he had the opportunity to meet and talk with a broad range of employees from sector management, local management and front-line employees. During his induction, he also met with the Group's auditors and external advisors. These meetings covered the full range of topics relating to the Company's business. As well as hearing from different levels of the Company, David Lockwood was keen to understand the views and priorities of the Company's external stakeholders. To this end, he met with the Company's principal shareholders as well as with the Company's key contacts in the UK Government, the Group's most significant customer, again to get a better understanding of their views.

As David Mellors joined the Group as the COVID-19 restrictions were starting to be re-imposed before the end of 2020, he was not able to travel around the Group as many of our sites were closed to visits. However he did manage to visit Devonport Royal Dockyard. Although David was not able to visit sites physically, he was able to continue his induction virtually. This included in-depth briefings from all parts of senior management, the external auditors and other advisors. These briefings covered all the topics relevant to his responsibilities as CFO, including the Group's financial reporting structure, key accounting issues, the external and internal audit plans, the Group's business portfolio and strategy.

Lord Parker joined the Board in November 2020. His induction included a series of virtual meetings with senior management on the Group's businesses, its strategy, its corporate governance and Directors' duties. As with David Mellors, and with Russ Houlden and Carl-Peter Forster before him, Lord Parker has had limited opportunity to visit the Group's principal sites due to the restrictions caused by COVID-19. However, once the restrictions have eased, a series of visits will be scheduled.

Board performance review

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. In the second half of this year, an external evaluation was undertaken for the first time in four years. The Board considers that this departure from the recommendation of provision 21 of the Code to hold an external valuation every three years was the right choice since holding the external review this year rather than last has added more value having given the membership changes and a number of procedural changes, introduced by the then new Chair, time to bed down.

Progress against last year

The key outcome of the Board evaluation reported last year was the need to further align the Board's agenda to the strategic priorities of the Group, shifting the balance of the Board's time further towards strategic rather than operational matters. During the year the papers moved to be more thematic and strategic and the Board approved the new strategy for ESG, including the carbon strategy, and approved the development of the people strategy.

External Board evaluation 2021

This year Belinda Hudson carried out the formal independent effectiveness review of the Board and its Committees. Ms Hudson has no other connection with the Company or individual Directors and had not previously been engaged by the Company. Ms Hudson was selected after a tender process. Ms Hudson reviewed relevant Board and Committee papers and then interviewed all the members of the Board and the Group Executive Committee, as well as certain key external advisors to the Board. The Board discussed the resulting report at its March meeting and agreed that over the current financial year the Board would:

Meetings – return to face-to-face meetings as soon as COVID-19 restrictions allow to enhance Board integration.

Inductions – complete the induction process with site visits for those Board members who have been prevented from doing so by the COVID-19 restrictions.

Board engagement – enhance the Board's engagement with stakeholders.

Board oversight – continue the Board's oversight of the development of the Company's people strategy, culture and succession planning as well as the focus on ESG.

How the Board monitors culture

Leading by example

Our Directors and senior managers act with integrity and lead by example, promoting our culture to our employees through living our values.

Listening to our people

Questions and feedback from employees to the CEO's dedicated email 'Ask David' along with employee forums and surverys. This will be enhanced by the appointment of Lord Parker as designated Non-Executive director for employee engagement.

Cultural indicators

The Board regularly receives health and safety metrics and receives thematic reviews such as, this year, on inclusion and diversity. The Board looks forward to the development of the people strategy which will enhance the ability to monitor cultural themes.

Ethics and whistleblowing

Whistleblowing lines are available throughout our business for reporting of any departure from our values. The Board reviews all whistleblowing reports, together with their outcomes, on a quarterly basis.

Key areas of Board focus

Matters considered	Discussion and outcome	Find out more
Purpose		
Corporate narrative	The Board considered and approved the new purpose: to create a safe and secure world, together.	See pages 7 and 115
Strategy		
Re-assessment of strategy	A full day's meeting debated the Group's strategic direction from the ground up based on our common purpose and there were regular reports at monthly Board meetings on progress of the development of the strategy.	See pages 13, 16 and 115
ESG	The Group Head of Sustainability reported on progress with the introduction of the new Group-wide ESG strategy at the beginning of the year and environmental, social and governance matters are now an integral part of Board strategic discussions.	See pages 62 to 78 and 115
Stakeholders	The Board reviewed its key stakeholders and its methods of engagement, and appointed a Non-Executive Director designated for employee engagement.	See page 114
Disposals	The Board kept strategic disposals under review, approving the sale of Conbras, the facilities management business in Brazil, and the oil and gas business.	See pages 55 and 57
Culture		
People strategy	The Chief Human Resources Officer presented, and the Board approved the development of the new people strategy around the new purpose.	See pages 22, 71 and 116
Health and safety	The Board received a presentation on the reinvention of safety leadership and endorsed the reinvigoration of the Group safety strategy.	See pages 73 and 116
Inclusion and diversity	The Board heard from the Group champion for inclusion and diversity, endorsing the ongoing work in this area of people strategy.	See pages 72 and 73 and 116
Ethics review	The Board undertook the annual ethics review, seeking assurance that the Group's anti-bribery and corruption policy is understood and complied with across the Group.	See pages 77 and 116
Whistleblowing	Contact details of the Group's whistleblowing line are readily available and are in local languages. All reports to the whistleblowing line are sent directly to the Company Secretary who decides the appropriate course of investigation. The Board reviewed all reports to the Group's whistleblowing line, together with their outcomes, quarterly.	See pages 77 and 86
Risk		
Risk review	The Board reviewed the major risks that the Group faces in its business model and its appetite for those risks.	See pages 84 to 95

Matters considered	Discussion and outcome	Find out more
Operational performance		
Operational reports	The Board considered at its monthly meetings operational reports from the Executive Directors which included updates on the Group's COVID-19 response.	**See page 102**
Project reviews	The Board considered the Design Review on the T31 project.	**See page 51**
Bids	The Board reviewed reports on key bids such as FMSP.	**See page 53**
Financial performance		
Financial reports	At its monthly meetings, the Board considered finance reports from the Executive Directors. Throughout the year the financial impact of COVID-19 was considered and the Board decided to withdraw guidance and not pay a final dividend in FY20 or an interim dividend in FY21. The Board considered the Group's treasury, tax and pensions strategies.	**See page 115**
Contract profitability and balance sheet review	In January 2021 the Board approved the release of the Company's Q3 trading update which announced the contract profitability and balance sheet review. At its monthly meetings the Board received updates as to progress. For more information on the conclusions see page 119.	**See pages 33 and 126 and 127**
Governance and compliance		
Auditor	The Board approved the appointment of Deloitte as Group auditor.	**See pages 119 and 130**
Disclosure Committee	The Board revised processes for the overseeing of potential price-sensitive information and evaluation to ensure prompt disclosure with the creation of a Disclosure Committee reported to by an executive Disclosure Panel.	**See page 108**
Delegated authorities	The Board reviewed its Delegated authorities. These were revised in December 2020.	**See pages 85, 86, 109 and 131**
Committee terms of reference	The Board reviewed and approved any changes to the terms of reference for the Audit and Remuneration Committees.	**See page 109**
Succession and leadership		
Executive appointments	The Board approved the appointments of a new CEO and CFO, David Lockwood and David Mellors.	**See pages 6 and 117**
Non-Executive appointments	The Board approved the appointments of two new independent Non-Executive Directors, Carl-Peter Forster and Lord Parker.	**See page 117**

Stakeholder engagement

During the year the Board undertook a review of the Group's key stakeholders and levels of engagement with them to make sure that this remained appropriate. Details of how the Directors receive information on our key stakeholders and how they engage with them directly are set out below, together with some insight into how the Board took stakeholders' interests into account in certain key decisions.

This section, through to page 116, forms part of the section 172(1) statement which can be found in the Strategic report on page 79. Further information on how the Company engages with its stakeholders can be found on pages 58 and 59.

	Information flow to the Board	Direct Board engagement
Customers	• Monthly written reports from Executive Directors include material customer matters • Sector CEOs and the Executive Directors give briefings at Board meetings • Strategic Supplier Partnership briefings	During the year the Chair and the Executive Directors had regular meetings with the Group's key customers.
Investors	• Reports from Investor Relations • Treasury reports • Investor meetings/roadshow • In normal circumstances, availability at AGM	The Board engaged directly with its investors. David Lockwood and David Mellors have met institutional shareholders extensively since joining the Company during the year. In addition, the Chair regularly meets with shareholders. The Chair of the Audit Committee also met with shareholders during the year (see page 121) and, in the early part of the year, the Chair of the Remuneration Committee engaged with the Company's top shareholders in connection with the Company's new Remuneration policy. Directors usually meet shareholders at the AGM, which provides an opportunity for private investors to ask questions direct to the Board. It was not possible this year due to COVID-19 restrictions, although shareholders were encouraged to submit questions via email. Subject to prevailing Government restrictions, the Board intends to return to a physical AGM in September 2021, when shareholders will again have the opportunity to meet and ask questions of Directors.
Employees	• Report on the new people strategy by Chief Human Resources Officer underpinned by feedback from focus groups, employee forum and surveys • Chair of the Diversity and Inclusion Steering Committee attended and reported to a Board meeting • Whistleblowing reports	The CEO engages with employees Group-wide via vlogs and employees can contact him directly via a dedicated email. The Chair introduced the ESG programme to all employees via a vlog. Members of the Board meet employees during site visits, although during the year these were severely restricted. The intention is to resume such visits as soon as circumstances allow and additionally this will be enhanced following the recent appointment of Lord Parker as director responsible for workforce engagement. Members of the senior leadership team regularly present to the Board.
Regulators	• Monthly reports as applicable	The Board relies on dedicated functions, at a Group, sector or business unit level and does not have direct contact with Regulators unless appropriate.
Suppliers	• Briefings from Group Head of Procurement • Audit Committee supplier risk review • Supply chain risk considered in reports on major tenders • Approval of the Modern Slavery Statement	Principal engagement is undertaken by operational management and the Group procurement function.
Communities	• Health, safety and environment updates • Monthly sector reports where applicable • Annual Report review	In the main, the sectors hold these relationships at a local level where the most relevant knowledge is, with no direct engagement by the Board of Directors. The Board's engagement levels were considered as part of the stakeholder mapping exercise undertaken and found to be appropriate.

How the Board took stakeholders' interests into account in key decisions

Matters considered	Stakeholders most affected	Discussion and outcome	Find out more
COVID-19			
Pandemic response	Customers Shareholders Employees	COVID-19 had a material impact on the principal decisions of the Board and influenced its engagement with stakeholders. In its discussions over the last financial year, the Board sought to have in mind the impact of the pandemic on its decisions. In particular, the Board considered the impact on shareholders in deciding whether to pay a final dividend in respect of the financial year ending 31 March 2020 and an interim dividend in respect of the financial year ending 31 March 2021. The Board decided that, especially taking into account the impact of COVID-19 on the economy in general as well as the Company, its shareholders, its customers and its employees, it was in the best interests of the Company not to pay either dividend in order to conserve the Group's financial position.	
Purpose			
Corporate narrative	Customers Employees	With the background of the Board's engagement with customers and employees, the Board considered and approved the new purpose. The Board believes that the new purpose will clarify the Group's long-term business strategy for customers and employees and create a differentiation for the Group to inspire innovation, trust and loyalty from both customers and employees.	See page 102
Strategy			
Re-assessment of strategy	Shareholders	From its engagement with shareholders, the Board understood that they wanted to understand the direction of the Company in light of the appointment of the new management team. A full meeting debated the Group's strategic direction from the ground up based on a common purpose and there were regular reports at monthly Board meetings on progress of the development of the strategy. In approving the refreshed strategy, the Board took into account the views of shareholders that it had received during its direct engagement.	See pages 13 and 16
Portfolio	Shareholders Employees	In response to shareholders, the Board has continued to streamline its portfolio, for example approving the sale of Conbras, the facilities management business in Brazil. In its discussions of the disposal, the Board took into account the impact of the sale on employees.	See page 55
ESG	Customers Shareholders Employees Communities Suppliers	Our stakeholders have told us that they expect us to increase the integration of environmental, social and governance matters in everything we do. During the year, the Group Head of Sustainability reported on progress with the new Group-wide ESG programme. The Board, in order to progress the ESG programme and to meet the expectations of our stakeholders, approved Babcock's carbon initiative which sets new targets and established a new governance structure to deliver them.	See pages 62 to 78

Matters considered	Stakeholders most affected	Discussion and outcome	Find out more
Culture			
People strategy	Employees Customers Shareholders	The Board's approval of the development of a new people strategy to drive business performance and deliver for our stakeholders followed feedback from the workforce delivered by the new Chief Human Resources Officer. The Board listened to how it feels to be part of the organisation and suggestions for what we need to create a more efficient, agile, sustainable and people-focused business.	See page 22
Inclusion and diversity	Customers Shareholders Employees	The Board heard that customers and employees want diverse and inclusive environments. The Board agreed to build on the work already being done in the sectors and to support a revised vision for Babcock. In order to make sure that it hears better the voice of the employees around issues such as inclusion and diversity, the Board designated Lord Parker as Non-Executive Director responsible for its workforce engagement.	See pages 71 to 73 and 118
Health and safety	Employees Regulators Customers	The Board wants all our employees to go "Home Safe Every Day", a key message from and for employees and the Company. The Board wanted to further improve the Group's health and safety performance and during the year it approved the refreshment of the safety programme and endorsed the reinvigoration of the strategy and governance to better improve safety leadership within the Group.	See page 73
Ethics	Customers Shareholders Employees	The Board is committed to conducting business transparently and with integrity. When reviewing the Group's opportunities for the Group's services and products, for example, the opportunities to export the Type 31 platform, the Board considers the business ethical risks to the Group's reputation and the consequences of any decision in the long term.	See page 77
Succession and leadership			
Executive appointments	Customers Shareholders Employees	The Board approved the appointments of a new CEO and CFO. The appointment of a new leadership is one of the core roles of any board. In both cases, the Nominations Committee led the process. A key step was to decide the necessary skills and experience required by any candidate for the relevant role. In developing the required skills and experience criteria, the Committee considered the requirements of the Company's stakeholders, including customer, business sector and leadership experience.	See pages 117 and 118

How the Board keeps s172 on its agenda

The Board meets the requirements of s172 of the Companies Act 2006 as follows:

- The Board sets the Company's purpose and strategy. It carries out an annual strategy review, which assesses the long-term sustainable future of the Group and its impact on key stakeholders.
- The Board's risk management procedures identify the principal risks facing the Group and the mitigations in place to manage the impact of these risks. Many of these risks relate to our stakeholder groups.
- Standing agenda items and papers are presented at each Board meeting: for example, operational reports, financial reports, health and safety reports and litigation reports.
- There are regular reports from the Audit Committee chair and the Remuneration Committee chair on items within their remit.
- When making judgement decisions which require balance across different stakeholder interests, the Board is careful to consider the interests of each different stakeholder in the context of the long-term consequences: for example, employee and executive pay; dividends; portfolio alignment.

Nominations Committee Report

Ruth Cairnie
Chair of the Nominations Committee

Dear Shareholder

There have been significant changes to the Board during the last financial year for which the Nominations Committee has taken a central role, on behalf of the Board, in the appointment processes.

Executive director changes

Arguably, the most important role of the Committee is to support the appointment of Executive Directors when required to do so. Following Archie Bethel's decision to retire from the Company, the Committee led the process to appoint his successor. Our approach placed a clear focus on the future needs of the Company, considering its strategic direction, as well as the key skills, qualities and experience that the post would require. The Committee appointed Savannah as lead search consultant due to its expertise and knowledge of the Group's sector; Savannah has no other connections with the Company or any Director. The Committee asked Savannah to prepare a long list that contained as diverse a range of individuals as possible, including international candidates. The Committee also reviewed the existing succession pipeline to identify potential internal candidates.

The Committee established a sub-group, led by the Chair, to manage the detailed review and selection process. The members of the sub-group met the shortlisted candidates in what had to be a mostly virtual process due to the COVID-19 restrictions. The sub-group used a structured assessment approach to frame its discussions of the candidates, which identified two preferred candidates for further consideration. The sub-group kept the full Committee updated on progress and consulted its members throughout the process.

Before making a final decision, the Committee reviewed extensive references from previous employers and peers as an important supplement to the selection process, given the limited in-person meetings that had taken place. The Committee also reviewed the quality of its selection process to confirm that it was thorough and structured, as well as broad and diverse.

In conclusion, the Committee was pleased unanimously to recommend to the Board the appointment of David Lockwood as CEO. David has extensive prior experience as a CEO in both the defence and technology sectors and is held in high regard by investors for his strategic insight and record of delivering value.

Following Franco Martinelli's decision to retire, the Committee followed a similar approach to finding his successor as CFO, working in conjunction with David Lockwood in identifying the key requirements and in assessing various candidates. Once again, the Committee made a unanimous recommendation to the Board to appoint David Mellors, who brings extensive experience in the defence sector, having previously been CFO of both QinetiQ and Cobham. I am particularly pleased with the way in which these recruitment processes were conducted and concluded at pace, despite the impacts of COVID-19.

Non-Executive director changes

As I discussed in last year's Nominations Committee Report, following search processes already completed, Russ Houlden and Carl-Peter Forster both joined the Board during this financial year, in April 2020 and June 2020 respectively. Russ took over as Chair of the Audit Committee after last year's AGM. At the same time, Carl-Peter became our Senior Independent Director, succeeding Sir David Omand, who

Quick facts

The Committee

- Ruth Cairnie chairs the Committee.
- The other members throughout the year were all the prevailing Non-Executive Directors. Please see pages 104 and 105 for biographies and page 109 for attendance.

Highlights

- Appointment of new CEO
- Appointment of new CFO
- Appointment of new SID
- Appointment of new Audit Committee Chair
- Appointment of new Non-Executive Director
- Managing the transition to new CEO and CFO

Key responsibilities

- Board and Committee composition
- Succession planning
- Talent and diversity pipeline
- Board appointment process

Activities undertaken by the Committee during the year

In the last financial year, the Committee considered the following key areas:

Matters considered	Discussion and outcome	More information
Board succession	The Committee conducted a search for a new CEO, a new CFO and a new Non-Executive Director.	See pages 104-105 for Board composition
Senior management succession	The Committee considered senior management succession and received a briefing from the Group's Organisation and Development Officer on talent and succession planning.	See below for more information
Terms of reference	The Committee reviewed its terms of reference.	Terms available on the Babcock website
Committee effectiveness	The Committee underwent an external review of its effectiveness.	See page 111 for more information

stepped down from the role. Sir David retired from the Board at the end of the financial year and I would like to thank him, not only for his long service to the Company, but also for his support and advice since my appointment as Chair.

With Sir David's planned retirement from the Board, the Committee considered how best to replace his extensive knowledge of the Group's principal customer, the UK Government. As this was a very specific requirement, the Committee decided not to use an external search consultant, but to rely on its own knowledge and networks. The Committee considered a range of potential candidates. In November 2020, the Committee was pleased to recommend the appointment of Sir Andrew Parker, now Lord Parker, the former Director General of MI5. Lord Parker brings outstanding experience of leading organisations through complex challenges, alongside his extensive experience of working at the highest level of public service.

Future Board composition

Myles Lee and Victoire de Margerie have announced their intention to retire from the Board at the end of this year's AGM. I would like to thank both Myles and Victoire for their contributions to the Company and the Board. The Committee has developed a Board skills matrix, which it will use to set the criteria for identifying their successors, including a strong focus on diversity.

Diversity and inclusion

The Committee shares the Board's belief in the importance of increasing diversity across the organisation. In its own selection and appointment work, the Committee asks its search consultants to prepare diverse long lists. The Committee also focuses on diversity when it reviews the Group's talent pipeline and supports and encourages the plans and initiatives being adopted to drive progress across the organisation. These include the work that the Company undertakes to support improvement in the under-representation of women in the engineering sector (please see pages 72 and 73). The Committee recognises that there is still much work to do but is encouraged that the new people strategy, currently under development as described on page 22, and the new integrated HR function and Group-wide approach will help to accelerate progress. In particular, the Committee welcomed the adoption of Group-wide diversity targets as set out on page 72, together with our gender balance statistics.

In the past, the focus on diversity has been mostly directed towards gender diversity. However, the Committee shares the view of the Board and management that diversity should encompass a wide range of factors, including gender, ethnicity, experience, background, perspective, skills and thinking styles, which, when combined, can contribute to a high-performing and effective organisation. The Committee has set itself the target of meeting the Parker Review recommendation to have one Director from an ethnic minority background by 2024.

For more information on the vision for diversity and inclusion see page 72.

Succession planning

As referred to above, the Committee oversees the Company's talent pipeline, as well as the Company's processes for developing talent.

In the year, the Committee met with the Group's Organisation and Development Director to review the Company's succession plans and its talent strategy. This review considered both the current succession pipeline to the Group's Executive Committee, as well as a review of more junior talent, in order to get a full picture of the depth of the pipeline. Subsequent to this review however, the Company's approach to talent management is being refreshed as part of the new people strategy. The Committee welcomes the fresh energy and focus being brought to talent management and to succession planning and looks forward to receiving presentations on the new approach.

Ruth Cairnie
Committee Chair

Audit Committee Report

Russ Houlden
Chair of the Audit Committee

Dear Shareholder

This is my first report as Chair of the Audit Committee. My main objective has been to review and improve the quality of financial reporting, audit and the oversight provided by the Audit Committee. We have made substantial progress but there is still more to do.

Audit committees have an important role in protecting the interests of shareholders and other stakeholders in relation to financial reporting and internal control arrangements, in ensuring effective internal and statutory audits and in constructively challenging the proposals of the management team relating to the content and disclosures within the financial reports.

Prior to my appointment as Audit Committee Chair in August 2020, I requested a review of difficulties encountered in the financial reporting and audit process for the year ended 31 March 2020. The outcome of this review was reported to the Audit Committee in July 2020 and progress on the recommendations was reported at the Audit Committee's meetings in September 2020 and March 2021. The actions taken have led to substantial improvements in the scope, quality and timeliness of management papers presented to the Audit Committee for review.

In September 2020, the Audit Committee concluded the process, referred to in last year's Annual Report, for the appointment of a new statutory auditor for the year ending 31 March 2022. As part of this process, we decided to require the new auditor to provide a review report on the half year results, which had not been part of the engagement with PwC . This should give greater confidence in the quality of half year reporting starting in the 2021/22 financial year. After a rigorous selection process outlined on pages 129 and 130 the Audit Committee recommended to the Board that, subject to shareholder approval, Deloitte should succeed PwC as the Company's statutory auditor. From the proposals received, the Committee is confident that it has selected the highest-quality audit proposal.

In November 2020, I agreed with PwC that we would be an early adopter of emerging best practice engagement level Audit Quality Indicators to monitor the quality of the 2020/21 audit. These were approved at the March 2021 Audit Committee meeting and used from March to July to improve the real-time monitoring of the quality and effectiveness of the audit.

Also in November 2020, the Audit Committee agreed that the new management team would consider best practice approaches in relation to the presentation of our financial results. Management presented its proposals for changes to the presentation of specific adjusting items including exceptionals, free cash flow and joint ventures in March and April 2021. The Committee approved these changes which we believe will make it easier for investors, analysts and other stakeholders to understand our business.

We announced in January 2021 that our new management team, with the support of an independent accounting firm, was conducting a contract profitability and balance sheet review. This wide-ranging review resulted in around 130 matters for consideration by PwC through the audit and by the Audit Committee. These were reviewed as they emerged during March, April, May, June and July, supplemented and challenged by PwC, reviewed by the Audit Committee, and amended as required. By the end of the audit in July, management, PwC and the Audit Committee had agreed 147 accounting adjustments relating to 128 matters. The total post tax profit impact of these accounting adjustments was around £2.0 billion, comprising changes in 2020/21 (£1,814 million post tax), the vast majority of which are changes in estimates, and prior year restatements resulting from the correction of 42 prior period errors (£171 million post tax) and one change in accounting policy (£60 million post tax).

As a result of the contract profitability and balance sheet review, the Group has been in correspondence with the FRC and FCA, details of which are set out on page 127.

In addition, partly through PwC's normal year end audit work and partly through the contract profitability and balance sheet review, we identified errors in the first half unaudited results. This reinforces the importance of the decision taken in August 2020 as part of the audit tender process to require our new auditor to give a review report on the half year results starting in 2021/22.

The substantial extra workload for management, PwC and the Audit Committee as a result of the contract profitability and balance sheet review, together with the impact of COVID-19 on the audit, caused us to defer the publication of our preliminary full year results from 26 May to 30 July 2021. We took a conscious decision to prioritise quality over speed.

Auditor independence is a key principle, and the Audit Committee was satisfied that PwC was independent for the purposes of their audit of the 2020/21 financial statements (see page 128) and that Deloitte will be independent for the purposes of their audit of the 2021/22 financial statements (see page 130). The Committee also ensured that the relationship between the Committee, the auditor and management is appropriate with no undue influence by any of the parties on any other, thereby ensuring the integrity of the audit process.

Whilst we have made substantial improvements in 2020/21, we are committed to continuous improvement and aim to take further steps to improve our financial reporting and the quality of the Audit Committee's oversight for the benefit of shareholders and other stakeholders:

- We will continue to focus on improving the quality of management papers reviewed by the Audit Committee.
- We will continue our emphasis on improving the quality of the statutory audit.
- We will monitor the implementation of the programme of improvement of internal and financial controls with a particular focus on Group Head Office, Aviation and Land.
- We will review the scope of internal audit and we will assess whether there is a better alternative to our current outsourced model.
- We will, as part of the wider Corporate Governance event highlighted in the Chair's introduction to the Governance section (see page 103), engage proactively with our larger shareholders regarding the Audit Committee's work in 2020/21 and plans for 2021/22.
- We will oversee the quality of implementation of digital financial reporting using the European Single Electronic Format.
- We will consider preparatory steps for the main, longer lead-time changes likely to result from the UK Government's proposals on "Restoring trust in audit and corporate governance".

I would like to thank my colleagues on the Committee for their support during this year of substantial change. We will continue our improvement journey in the year ahead.

Russ Houlden
Committee Chair

Quick facts

The Committee

- Russ Houlden has chaired the Committee since August 2020. He is a qualified accountant and a qualified corporate treasurer. He has served as CFO of a FTSE 100 company and an NZX50 company and as Audit Committee Chair of a WIG20 company. The Nominations Committee considers that Russ Houlden has recent and relevant financial experience and that the Committee as a whole has competence relevant to the sectors in which the Company operates.
- The other Committee members are Myles Lee (who is also a qualified accountant with experience as Finance Director of a FTSE 100 company and as Audit Committee Chair of a FTSE 350 company), Kjersti Wiklund and Lucy Dimes, all of whom are independent Non-Executive Directors. Ian Duncan chaired the Committee until he retired from the Board at the AGM in August 2020.
- Attendance at Committee meetings is set out on page 109, and the relevant Directors' biographies are on pages 104 and 105.
- The Committee regularly invites the CEO, the CFO, the Company Secretary and the Group Financial Controller, as well as representatives from the statutory auditor, PwC, and the internal auditor, BDO, to attend its meetings. None of these attendees are members of the Committee.
- PwC and BDO each have time with the Committee to share any concerns they or the Audit Committee may have without management being present.

Highlights

- Substantial improvements in papers presented to the Audit Committee.
- On-boarding of new internal auditor in 2020/21 and improvement in the process for setting the internal audit plan for 2021/22.
- Review of statutory auditor performance in 2019/20 and early adoption of best practice engagement-level Audit Quality Indicators for 2020/21.
- Selection of statutory auditor for 2021/22 and extension of scope to include a half year review report.
- Contract profitability and balance sheet review resulting in 147 accounting adjustments, some of which would probably have been discovered through normal year end processes.
- Improvements in presentation of adjusting items, joint ventures and free cash flow.

Key responsibilities

- Leading tenders for internal and statutory auditors, agreeing their fees and making recommendations to the Board for the appointments.
- Establishing policies for the provision of any non-audit services by the statutory auditor.
- Reviewing the scope and the results of the statutory audit and reporting to the Board on the effectiveness of the audit process and how the independence and objectivity of the auditor has been safeguarded.
- Reviewing the half year and annual financial statements and any announcements relating to financial performance, including reporting to the Board on the significant issues considered by the Committee.
- Reviewing the scope, remit and effectiveness of the internal audit function.
- Reviewing the effectiveness of the Group's internal control and risk management systems.
- Reviewing the Group's procedures for reporting fraud, bribery and corruption.

Shareholder engagement

Our Audit Committee Chair, Russ Houlden, is available to engage one-on-one with large shareholders on request through Babcock's Investor Relations team. Two large shareholders requested meetings with him in July and September 2020, prior to the first Audit Committee meeting that he chaired in September 2020. Topics discussed included: shareholders' observations about the Avincis acquisition in 2014, the management team in 2019/20 and financial reporting (including the goodwill impairment) in 2019/20; and Russ's observations on the Audit Committee and the plan to tender for a new statutory auditor for 2021/22, one year ahead of the legal requirement to change.

In 2021/22, Russ will engage proactively with large shareholders as part of the wider Corporate Governance event (see page 103) and will continue to be available on request for one-on-one discussions.

Reporting timetable

The timetable published at the beginning of the year envisaged the publication of the preliminary full year results on 26 May 2021.

As a result of the additional workload for management, auditors and the Audit Committee involved in addressing the unprecedented number of accounting adjustments (147) from the contract profitability and balance sheet review, compounded by the COVID-19 restrictions on face-to-face meetings on sites around the world, it was necessary to take more time to ensure that the results we published would be of the quality needed to restore trust and confidence in our corporate reporting. The need for careful consideration of the (128) matters by management, our auditor and the Audit Committee resulted in six extra meetings of the Audit Committee in April-July and the publication of our preliminary full year results on 30 July 2021.

Activities of the Committee for the 2020/21 financial year

The Committee has an extensive agenda of items of business focusing on the financial reporting, audit, assurance and risk management processes within the business, which it deals with in conjunction with senior management, the external auditor, the internal audit function and the financial reporting team. In doing so, it aims to deliver high standards of financial governance, in line with the regulatory framework as well as market practice for audit committees. Items of business considered by the Committee during the year are set out in the table below.

Matters considered	Discussion and outcome	Find out more
Financial reporting		
Year end financial reporting review	The Committee reviewed a paper on difficulties experienced in the financial reporting process for the year ended 31 March 2020 and approved the recommendations, all except one of which were implemented by 31 March 2021.	**See the Audit Committee Chair's letter on pages 119 and 120**
Fair, balanced and understandable	The Committee reviewed the 2021 Annual Report and the Group's interim and annual financial statements and received reports from the Company Secretary and the Group Financial Controller. After due challenge and careful consideration, the Committee recommended the approval of the fair, balanced and understandable statement by the Board.	**See page 124**
Key accounting matters	The Committee reviewed management papers on the key accounting matters in the Group's financial statements, challenging management's assumptions, interpretations and judgements where appropriate. After the reviews, the Committee supported the approval of the half year and full year financial statements.	**See pages 125 and126**
Free cash flow	The Committee reviewed a management paper on the definition and presentation of free cash flow in Group's Annual Report and Financial Statements for the year ending 31 March 2021 and approved the changes proposed.	**See pages 31 and 126**
Specific adjusting items including exceptional items	The Committee reviewed a management paper on the definition and presentation of specific adjusting items including exceptional items in the Group's Annual Report and Financial Statements for the year ending 31 March 2021 and approved the changes proposed.	**See pages 31, 125 and 127**
Joint ventures	The Committee reviewed a management paper on the presentation of joint ventures in the Group's Annual Report and Financial Statements for the year ending 31 March 2021 and approved the changes proposed.	**See pages 30 and126**

Activities of the Committee in the 2020/21 financial year continued

Matters considered	Discussion and outcome	Find out more
Financial reporting continued		
COVID-19	The Committee considered the updated forecasts reviewed by the Board and ensured that they were appropriately reflected in accounting estimates used, for example, in the assessment of goodwill impairment, fixed asset impairment and deferred tax recoverability. The Committee also reviewed the estimate of the operating profit impact in 2020/21 of COVID-19 and approved the disclosure which aims to help shareholders and other stakeholders to gain a better understanding of business performance.	
Contract profitability and balance sheet review	The Committee reviewed the findings and recommendations from management's contract profitability and balance sheet review. This included the correction of prior year errors, one change in accounting policy and revisions to estimates resulting in impairment of goodwill and acquired intangibles, impairment of property, plant and equipment and right of use assets, and adjustments to current and non-current assets and current liabilities. After appropriate challenge by PwC and the Audit Committee, the amended recommendations were approved. The Committee also reviewed the judgements taken in analysing contract profitability and balance sheet adjustments in 2020/21 between "one off" and "recurring". Whilst recognising the subjectivity of these judgements, the Committee was satisfied that, overall, this disclosure should help shareholders and other stakeholders to gain a better understanding of business performance comparisons with prior and subsequent years.	**See pages 33, 126 and 127**
Going concern and viability	The Committee reviewed at its meetings in March, May, June and July 2021, the analysis supporting the Company's going concern statement and viability statement in the 2021 Annual Report for recommendation to the Board. The Committee raised questions and requested changes until it was satisfied with the analysis and conclusion, with areas of particular focus including the treatment of uncommitted facilities, the identification of severe but plausible scenarios and the linkage between the risk assessment presented to the Board and the analysis supporting the going concern and viability assessments.	**See pages 96 and 97 and127 and 128**
External audit		
Audit Quality Review Inspection	The Committee considered the AQR scores of PwC published in July 2020.	**See page 128**
Independence	The Committee considered PwC's independence and how it continued to meet the appropriate professional standards of independence as the Company's statutory auditor.	**See page 128**
2020/21 financial statements	The Committee received a series of reports from PwC on the results of the audit of the financial statements for the year ended 31 March 2021. The Committee considered each of the key judgements and risks in turn and questioned PwC in detail as to the level of challenge and investigation PwC had employed in respect of those judgements.	
Representation letter	The Committee requested a paper from management to enable proper consideration of the basis supporting the representations to PwC required for the statutory audit for 2020/21. After careful consideration of the evidence presented, the Committee supported management's recommendation that the representation letter be signed on behalf of the Board.	
Statutory audit evaluation	The Committee reviewed the results of an internal survey of opinions on the performance of PwC in the audit for the year ended 31 March 2020. Any significant issues raised were discussed with PwC to inform their approach to the audit for the year ended 31 March 2021.	**See page 128**

Matters considered	Discussion and outcome	Find out more

External audit continued

Matters considered	Discussion and outcome	Find out more
Audit plan	The Committee considered PwC's audit plan for the year ended 31 March 2021, including the key areas of focus, materiality levels, scope and coverage. The Committee monitored PwC's progress against its plan and supported changes in the plan as a result of the contract profitability and balance sheet review, including the addition of appropriate PwC resources to enable them to deliver a high quality audit in the new environment in which additional work was required, particularly in Aviation and in relation to the going concern statement.	**See page 128**
Non-audit fees	The Committee approved the policy on non-audit services provided by the auditor for 2020/21and approved the non-audit services and related fees provided by PwC for 2020/21.	**See page 129**
Audit Quality Indicators	In line with best practice in Canada and emerging best practice in the UK, the Committee agreed engagement-level Audit Quality Indicators with PwC and management in order to monitor the quality of the audit as it progressed.	**See "Audit Committee Guide to AQIs" (2018) published by CPA Canada, CPAB and ICD**
Statutory auditor selection for 2021/22	The Committee led a tender process at the end of which it recommended the appointment of Deloitte as the Group's statutory auditor with effect from the 2021 AGM. The Committee monitored the transition process for Deloitte to ensure that it would be ready to take on the role if shareholders approve Deloitte's appointment.	**See pages 129 and 130**

Internal controls and risk management

Matters considered	Discussion and outcome	Find out more
Internal and financial controls	The Committee reviewed the effectiveness of the Group's internal and financial controls by reference to a management paper on the subject, the reports of our new internal auditor (BDO) and our statutory auditor (PwC) and the findings of the contract profitability and balance sheet review. The Committee concluded that internal and financial controls had not been fully effective in certain parts of the Group, in particular, in Aviation, Land and Group Head Office. It therefore agreed with Group and sector management a programme of improvements in internal and financial controls. Group Head Office will implement a new operating model which will bring control benefits across the Group whilst in Aviation and Land the plans will address the specific issues in those sectors.	**See page 131**
Group risk management process	The Committee reviewed the Group risk management process and approved the proposed improvements in the process to raise the quality of risk management information presented to the Board. After implementation of the new approach the Committee was satisfied with the effectiveness of the Group's risk management process and made recommendations for further improvement in 2021/22. The Committee Chair reported its findings to the Board.	**See pages 85 and 131**
Specific risk review	During each year, the Committee receives a "deep dive" on a specific risk. This year, the Committee reviewed the bid and contract review processes of Marine and Land.	
Internal audit reports	The Committee received reports from BDO, the Company's internal auditor, in accordance with the agreed internal audit plan for 2020/21, as well as updates on the status of the resolution of any issues raised. It also reviewed the effectiveness of internal audit and reviewed a report by the Institute of Internal Auditors on the effectiveness of BDO's internal audit work for a range of clients.	**See pages 130 and 131**
Internal audit policy, scope and plan	The Committee approved the internal audit policy, the scope of internal audit and the plan for 2021/22, noting that refinements may be required in year for disposals and any new issues which may be identified. The Committee also requested a more fundamental review during 2021/22 to inform the scope and method of delivery for 2022/23 and beyond.	**See pages 130 and 131**

Matters considered	Discussion & outcome	Find out more
Governance and compliance		
Terms of reference	The Committee undertook its annual review of its terms of reference and recommended them to the Board for approval.	See page 113
Code of conduct	The Committee reviewed and approved the Company's procedures for compliance with the Company's Code of Conduct, fraud, bribery and anti-corruption policies.	See page 77
Performance review	The Committee reviewed the conclusions of the externally facilitated Board's annual evaluation as they related to the workings of the Committee.	See pages 102 and 111
Climate change	The Committee considered a management paper assessing the impact of climate change on the Company's financial statements in preparation for the drafting of the Company's Annual Report and Financial Statements for the year ending 31 March 2021. The Committee considered a management proposal for a journey of improvement in TCFD disclosures. The Committee supported the plan and encouraged management to consider assurance for the TCFD disclosures for 2021/22.	See page 62

Fair, balanced and understandable

Provision 27 of the UK Corporate Governance Code (2018) requires the Board to satisfy itself that the Annual Report provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy and is fair, balanced and understandable. The Board delegates to the Committee the review of the Annual Report and Financial Statements so that the Committee may advise whether they comply with the provision.

To make this assessment the Committee received copies of the Annual Report and Financial Statements for review during the drafting process to ensure that the key messages in the Annual Report aligned with the Company's position, performance and strategy and that the narrative sections of the Annual Report were consistent with the Financial Statements. The Committee considered the significant issues and judgements applied in the 2021 Annual Report and Financial Statements. In addition, the Committee considered reports from the Company Secretary and from the Group Financial Controller on the procedures they used to ensure compliance with provision 27. The Committee discussed whether all the key events and issues reported to the Board in management's monthly Board reports during the year, both good and bad, were adequately referenced or reflected within the 2021 Annual Report and Financial Statements. Whilst recognising the inherent complexities resulting from the contract profitability and balance sheet review, the Committee was satisfied that the 2021 Annual Report and Financial Statements did provide a fair, balanced and understandable assessment of the Company's position and performance and reported this conclusion to the Board. The Board's statement on provision 27 for 2020/21 (which also covers business model and strategy) is on pages 158 and 159.

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

Significant issue	Action taken
Accounting policies, definitions, interpretations and presentation	Reviewed changes in accounting policies, definitions, interpretations and presentation for specific adjusting items including exceptional items, free cash flow, joint ventures, maintenance and capitalised contract costs. After appropriate challenge and refinement of management's recommendations, the Committee approved the changes.
Contract accounting	Reviewed as part of the contract profitability and balance sheet review. After appropriate challenge and refinement of management's recommendations, approved the changes in judgements and estimates, the correction of prior year errors and associated disclosures.
Goodwill impairment	Reviewed as part of the contract profitability and balance sheet review. After appropriate challenge and refinement of management's recommendations, approved the changes in judgements and estimates, the correction of prior year errors and associated disclosures.
Property, plant and equipment impairment	Reviewed as part of the contract profitability and balance sheet review. After appropriate challenge and refinement of management's recommendations, approved the changes in judgements and estimates, the correction of errors and associated disclosures.
Leases	Reviewed management's progress in addressing systems issues which had hindered the 2019/20 reporting process and obtained confirmation that the material issues had been satisfactorily resolved.
Specific adjusting items including exceptional items	Reviewed as part of the contract profitability and balance sheet review. After appropriate challenge and refinement, approved the items to be classified as specific adjusting items including exceptional Items and the associated disclosures. In addition, for 2020/21 only, it was agreed that the Strategic report should also present certain figures excluding the one-off impacts from the contract profitability and balance sheet review to enable a clearer understanding of business performance compared with prior and subsequent years.
Pensions accounting	Reviewed as part of the normal accounting issues and judgements papers. Assessed the inflation rate, discount rate and mortality assumptions used by management in the context of assumptions used in respect of the same factors by other companies. The Committee was satisfied that the assumptions fell within acceptable ranges.
Taxation	Reviewed as part of the contract profitability and balance sheet review. After appropriate challenge and refinement of management's proposals, approved the changes in estimates and the correction of a prior year error in the calculation of deferred tax.
Impact of COVID-19	Ensured appropriate disclosure of the operating profit impact of COVID-19 in 2020/21 and that the updated forecasts reviewed periodically by the Board were appropriately reflected in accounting estimates.
Going concern and viability	Reviewed papers from management ensuring that they had considered appropriately the impacts of the contract profitability and balance sheet review, the budget and plan reviewed by the Board in March and May 2021, the risk assessments and mitigations reviewed by the Board in March 2021, clarification of the appropriate interpretation of certain covenants as at 31 March 2021, increases in covenant limits for 30 September 2021 and 31 March 2022 and the additional Revolving Credit Facility signed in May 2021.

Accounting policies, definitions, interpretations and presentation

The new management team reviewed its accounting policies and definitions for specfic adjusting items including exceptional items in order to help shareholders and other stakeholders to gain a clearer understanding of the underlying performance of the business; this addressed issues which the Committee had identified for improvement earlier in the year. Following discussion and refinement, management's proposal was supported (see page 31). In summary, it was agreed that exceptional items would need to meet a "size and nature" test (whereas previously "size or nature" had been sufficient) and adjusting items would be clearly specified and adjusted consistently from year to year, whether positive or negative.

The Committee also supported management's proposal to change the presentation of the underlying cash flow statement, including the definition of underlying free cash flow, as set out on pages 31-32. We believe this better aligns with normal market practice.

Finally, the Committee supported management's proposals to base the presentation of the results of joint ventures and associates and the presentation of IFRIC12 investment income on IFRS, as set out on page 30. We believe that shareholders and other stakeholders should welcome these simplifications.

In response to the discovery of inconsistencies in accounting between various sectors and legal entities in maintenance costs and capitalised contract costs, the Committee supported management's proposal to introduce a consistent set of policies, definitions and interpretations across the Group in these areas including one change in accounting policy to better represent Power By the Hour (PBH) maintenance arrangements in the Aviation sector.

Contract profitability and balance sheet review

The Company announced in January 2021 that the new management team was conducting a contract profitability and balance sheet review. This was a major undertaking, reviewing around 100 contracts representing around £2.6 billion of revenue each year (with differing levels of review applied to contracts based on their perceived risk). It involved substantial management time and effort supported by over 13,000 hours of work by an accounting firm independent from our statutory auditor. PwC also strengthened their team with experienced senior staff.

The Audit Committee held six extra unscheduled meetings (more than doubling its standard workload) to review all of the resulting materials. After review by PwC and the Audit Committee and refinement of proposals by management, this resulted in 147 accounting adjustments which required over 1,000 accounting entries to be made across various legal entities, covering all business sectors and Group. Some of these accounting entries may have been identified through normal year end processes but others would not.

In view of the unprecedented volume of issues to consider in parallel with a normal year end process, and the importance of many of those issues, the Committee adopted a systematic and rigorous approach to reviewing, refining and approving the recommendations for inclusion in the statutory financial statements and notes. The Committee reviewed several hundreds of pages of management papers and PwC papers and therefore we do not consider it helpful to discuss each item in detail but the outline below should give a good overview of the approach we took, the extent of challenge, the changes made and the implications from the perspective of internal and financial controls.

For all items, management first documented its analysis and recommendation clearly; then PwC reviewed the analysis and recommendations based on the audit evidence they had obtained and their interpretation of the relevant parts of IFRS.

As a result of the scale and timing of the review and the technical complexity of some of the adjustments, a healthy number of the classifications and/or quantifications were changed folllowing the PwC review performed as part of the audit. For example, changes in the method of calculating income from two joint ventures which management had originally judged to be prior year errors were, following PwC challenge, agreed to be changes in estimates on the basis that PwC remained satisfied with the justification of the estimates given as part of the audit process in 2019/20. On the other hand, a significant adjustment in the capitalisation of contract costs in Aviation, which management initially judged to be a change in accounting policy was later agreed to be a prior year error when PwC presented evidence that the previous treatment had not been consistent with IFRS 15.

For each of the 58 matters with a potential impact over £5 million (total impact on profit after tax of c£1.8 billion), the Audit Committee reviewed papers from management in a consistent format which included a balanced description of the facts, the proposed accounting classification based on IAS 8, the trigger event or control failure giving rise to the recommendation, the proposed accounting and consideration of accounting alternatives (if any). This enabled the Audit Committee to provide effective oversight of the larger items and to challenge both management and PwC where appropriate. The Audit Committee challenge was after PwC's initial opinions had been taken into account and so there were only a few items where the Audit Committee's challenges resulted in further changes, for example the treatment of the deferred tax adjustment in Spain.

For the 70 matters with a potential impact less than £5 million (total impact on profit after tax of c£0.2 billion), the Audit Committee required a paper only on those which were prior period errors, on the basis that items below that level would be dealt with in the normal course of the year end audit and only raised at the Audit Committee if there were irresolvable differences of opinion between management and PwC, of which there were none.

On contract accounting, there were prior year errors and adjustments in profit estimates on many contracts. Whilst the Committee supported the accounting changes, the findings raised concerns about the robustness of the management of contracts. The Committee noted that the Board would be considering management's plans to improve the contract management process across all segments for the future; whilst the accounting for contracts was now receiving more effective review at the Audit Committee supported by significantly better management papers, there would always be a significant reliance on management's judgement in estimating the cost to complete a long-term contract.

On the impairment of goodwill and acquired asset intangibles, the 2020/21 impairment of £1.3 billion related mostly to goodwill impairments in Aviation (£0.8 billion) and Land (£0.4 billion) and reflected reductions in forecasts of business performance in the light of experience in 2020/21 and an increase in the discount rate. In addition, there were prior year errors, the net effect of which was to reduce the 2019/20 impairment charge by £0.1 billion (see page 34).

On the impairment of property, plant and equipment and right of use assets, the 2020/21 impairment of £0.2 billion was mainly in Aviation, for example due to reduced estimates of the residual values of aircraft.

There were also smaller impairments of other non-current assets and current assets, the introduction of (and increases in) liabilities, changes in estimates relating to income from joint ventures and associates and two material balance sheet reclassifications, as set out in the Financial Review on page 35.

On taxation, the main change related to deferred tax in Spain where, after Audit Committee challenge, it was agreed that this should be shown partly as a prior year error (as a result of the failure to correctly apply the relevant Spanish tax rules) and partly as a change in estimate (reflecting the changes in business forecasts, largely relating to long term contracts).

On specific adjusting items including exceptional items, the Committee reviewed the work of management (and PwC's audit conclusions) to ensure that the disclosures were appropriate. The Committee also considered the analysis of the impact of the CPBS adjustments on the 2020/21 underlying operating profit and supported the disclosure in the Strategic Report of "one-off CPBS adjustments" of £250 million and "recurring CPBS adjustments" of £25 million in the way described on page 33, notwithstanding the definitional difficulties, because we felt that this would help users of our financial statements to gain a better understanding of business performance in 2020/21 compared with prior and subsequent years than they would have had without these additional disclosures.

Of the 147 adjustments, 67 related to Aviation, 17 related to Land and 16 related to Group. In response to these findings, together with the results of the internal and external audits, the Audit Committee agreed with management internal and financial control improvement plans for Group and for Aviation and will agree a plan for Land shortly following the input of the new sector CEO and FD. In addition, as normal, management will be expected to respond to all of the control recommendations made by our internal auditor (BDO) and external auditor (PwC). Progress in all five areas will be monitored by the Committee at its meetings every six months starting in September 2021 until all material control issues have been satisfactorily addressed.

FRC review of financial statements for the year ended 31 March 2020

The FRC wrote to the Company in January 2021 following its review of our financial statements for the year ended 31 March 2020. The main areas of enquiry related to contract modifications, estimation uncertainty and recoverability of investment in subsidiary and intercompany receivables. The Company responded in February 2021 and the FRC was broadly satisfied by the Company's responses, subject to consideration of the results of the contract profitability and balance sheet review and a request for further disclosures on the estimation uncertainty relating to revenue and profit recognition on contracts. Since the audit of the Group financial statements (incorporating the appropriate accounting changes resulting from the contract profitability and balance sheet review) had not been completed until 30 July 2021 the FRC's final conclusions from its review of the Group's 2019/20 financial statements were not available on the date the 2020/21 financial statements were approved by the Board.

FCA enquiries regarding the contract profitability and balance sheet review

The FCA wrote to the Company in January 2021 requesting information on the contract profitability and balance sheet review and has since written asking for updates on its progress, The Company has kept the FCA updated and will supply further information on request.

Going concern and viability statements

The Code requires the Board to state whether it considers it appropriate to adopt the going concern basis of accounting in preparing its financial statements and to identify any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

In making its assessment, the Committee considers the Group's ability to continue as a going concern, taking into account the budget and forecasts, borrowing facilities, cash flows and risks before making a recommendation to the Board. For the 2020/21 Annual Report and Financial Statements, this involved careful consideration of the impacts of the contract profitability and balance sheet review, discussions with banks regarding covenant definitions and a new Revolving Credit Facility (which was entered into in May) and changes in the Group's risk assessment. After ensuring that these matters had been properly reflected in the going concern analysis, the Committee recommended that it adopt the going concern basis of preparation for the 2020/21 Annual Report and Financial Statements. The going concern statement for 2020/21 is on pages 96 and 97.

The Code also requires the Board to make a viability statement to indicate whether it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary. The Company's period for the viability assessment is three years, being the period over which relevant financial forecasts are available.

The Committee advises the Board in respect of this statement. In order to do so, it considers the longer-term viability of the Company, reviewing and challenging management analysis to support the viability statements in the Company's Annual Report and Financial Statements. This analysis includes stress tests based on the Company's most recent risk assessment. It also involves reverse stress testing to understand whether this revealed sufficiently plausible scenarios which would require qualifications to the viability statement. After careful consideration, the Committee made its recommendation to the Board which resulted in the viability statement on pages 96 and 97.

Effectiveness of the statutory audit process

The Code requires the Committee, on behalf of the Board, to review and monitor the effectiveness of the audit process. The Committee regards audit quality as the principal requirement of the annual audit process.

On completion of the 2019/20 annual audit process, all members of the Committee, as well as key members of the senior management team and those who have regular contact with the auditor, completed a feedback questionnaire seeking their views on PwC's performance. The questionnaire covered the audit team's qualification, expertise, resources, effectiveness, independence and leadership. The Committee considered and discussed the feedback from the questionnaire, noting that the disruption caused by COVID-19 had impacted the timescale of the completion of the audit. Overall, the feedback did not raise any major concerns about PwC's performance. The Committee noted the individual comments and would use them to improve the Group's and the auditor's processes.

In addition, the Committee considers the assessment by the Financial Reporting Council ("FRC") through its Audit Quality Review ("AQR") process of a selection of the audits performed by the leading firms of auditors in the UK. Whilst the sample sizes are small and not necessarily representative, this provides valuable information to the Committee in assessing the firms over time and compared with their competitors. The Committee noted that PwC had launched a Programme to Enhance Audit Quality in June 2019 and that PwC had committed to investing more into audit quality, including an additional £30m per year for training, people and technology initiatives.

In September 2020 PwC presented to the Committee its audit plan and scope for the financial year 2020/21, highlighting any areas which would be given special consideration. PwC reported against this audit scope at subsequent Committee meetings, providing an opportunity for the Committee to monitor progress and raise any questions. Private meetings are also held at each Committee meeting between the Committee and representatives of the auditor without management being present in order to encourage open and transparent feedback by both parties. In addition, during the annual audit process PwC meets with management at regular intervals. In March/April 2021, in the light of reduced forecasts and the emerging findings from the contract profitability and balance sheet review, the Committee agreed an increase in the scope (to include two more legal entities) and a reduction in the audit materiality (from £21.4 million in 2019/20 to £15.9 million in 2020/21) to enable an effective audit for 2020/21.

In line with emerging best practice being promoted in the UK by the FRC, the Committee agreed engagement-level Audit Quality Indicators ("AQIs") with PwC for the first time ever. These were used in real-time during the year end audit process from March to July 2021 to give a greater insight into the expected level of audit quality on the 2020/21 audit. This was considered a valuable addition to the quality control process. The AQIs will be further refined with our proposed new statutory auditor, Deloitte, for use in the 2021/22 audit process.

Independence of the statutory auditor

As required by the Code the Committee reviews the independence of the external auditor. The Committee considers the information and assurances provided by the auditor which confirm that all its partners and staff involved with the audit are independent of any links to the Company. In the year PwC confirmed that this was the case. PwC also reconfirmed its independence at the planning stage of the audit and at regular intervals as the audit progressed.

The Committee also maintains a policy on the non-audit services and associated fees that its auditor may provide. In accordance with the FRC's Revised Ethical Standard (2019), an auditor is only permitted to provide certain non-audit services to public interest entities (such as the Company) that are closely linked to the audit itself or that are required by law or regulation. The Committee Chair must approve any non-audit work subject to the CFO being able to approve any single engagement of £10,000 or less, provided that in aggregate during any one financial year he does not approve more than £50,000.

Our auditor is never offered work 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.

Taking into account its findings in relation to the independence of PwC and the strict limitation of non-audit services (see below), the Committee concluded that it was satisfied that PwC was independent and free from any conflict of interest with the Company.

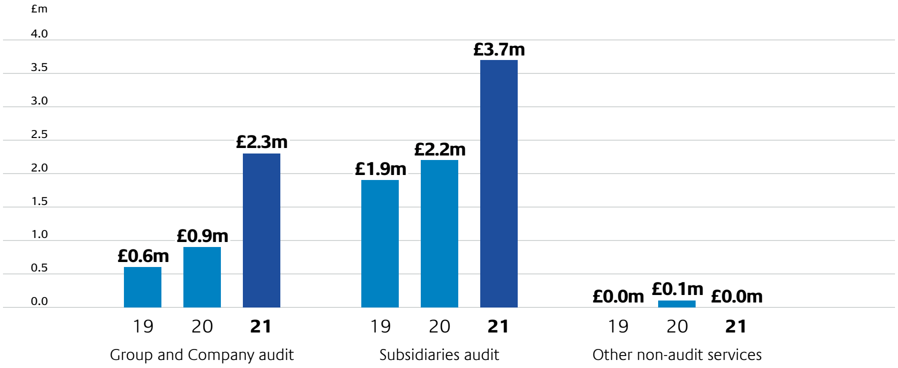
Audit fees and non-audit fees

The audit fees payable to PwC for 2020/21 were £6.0 million, a significant increase compared with £3.1 million in 2019/20, largely because of the extra work required to assess the issues highlighted by the contract profitability and balance sheet review and the extra work required to assess the going concern and viability statements.

The non-audit services fees payable to PwC for 2020/21 were £41,000, similar to £0.1 million in 2019/20, in line with the Group's policy of limiting such services to those where there is no actual or perceived conflict of interest.

An analysis of the 2020/21 fees is shown in the notes to the financial statements on page 223 and the history for the last three years is shown in the chart below.

Audit fees and Non-audit service fees



Statutory audit tender process and transition management

PwC has audited the Group for 19 consecutive years from 2002/03 to 2020/21. The current lead Engagement Partner, John Waters, joined at short notice in February 2019 and led the audit for 2018/19 , 2019/20 and 2020/21. The audit was retendered in 2020, as had been planned for some time.

The Committee led the tender process during the year. PwC did not participate in the process. The Committee's primary objective throughout the tender process, was to select the firm expected to deliver the highest quality audit (for an acceptable level of fees).

In conducting the tender, the Committee was mindful that the new auditor should have sufficient time to cease to provide non-audit services, as set out in the FRC's Revised Ethical Standard (2019), prior to commencing their tenure and to observe the performance of management and PwC during the 2020/21 audit.

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.

The Chair of the Committee established a selection panel to ensure that a wide range of views was taken into account and that appropriate financial expertise supported the Committee in the decision-making process. The Committee Chair led the process and kept the Committee as a whole appraised of the progress of the tender. The criteria for evaluation of the proposals were set out in advance as follows:

	Maximum marks available
Lead partner and key delivery teams	**12**
Capabilities, skills and experience, industries and geographies	
Global account management	**12**
Ability to deliver consistent and efficient experience globally	
Ability of lead partner to influence overseas partners to achieve this	
Audit approach	**24**
Overall level of resources, including proportion of senior staff	
Audit methodology including planned use of technology	
Overall audit quality and audit quality record of lead partner, team and firm	
Review of accounting policies and key accounting judgements	
Audit coverage	**8**
Consistent with current coverage, treatment of JVs	
Transition	
Structured approach, prior experience, references	**10**
RFP response / presentation	
Standard of proposal document	**12**
Standard of presentation	**12**
Independence	**5**
Fees	**5**
Total	**100**

The participating firms provided a written tender document and face-to-face presentations. The quality of the proposals submitted by the participating firms impressed the panel. After the presentations, the Committee met privately to discuss the bidders' proposals and to make its assessment against the criteria above. The Committee agreed unanimously that Deloitte provided the most convincing evidence that it would provide the best audit quality. The Committee put its recommendation to the Board which accepted the Committee's recommendation. The Board will recommend that shareholders approve the appointment of Deloitte at the 2021 AGM.

Timeframe	Tender activity
January – July 2020	Pre-audit qualification and independence enquiries to six firms
August 2020	Request for proposals from firms which met the independence requirement and which indicated that they were willing and able to bid
August – September 2020	Initial meetings with lead partners of tendering firms Data room open Fact finding process for tendering firms
September 2020	Tender process presentations by tendering firms Assessment and recommendation of Deloitte to the Board
October 2020	Board endorsed the recommendation of the Audit Committee
January – June 2021	Audit transition activities
September 2021	Appointment of Deloitte as the new auditor, subject to shareholder approval

The main steps taken to ensure an effective transition from PwC to Deloitte were:

- Review of non-audit services provided to the Group by Deloitte and steps to achieve audit independence from 31 March 2021
- Agreed interaction between Deloitte and PwC during the 2020/21 audit cycle, including attendance at key audit meetings and observing the year end audit
- Deloitte held meetings and interaction with the Audit Committee Chair, Group CEO, Group CFO, Group and sector management to facilitate knowledge building, audit scoping and planning
- Deloitte worked with BDO as internal auditor to understand their work programmes to inform the 2021/22 statutory audit plan
- Deloitte attended Audit Committee meetings in November 2020, March 2021, April 2021, May 2021, June 2021 and July 2021 and reported on independence and audit transition plan status.

Internal audit function

The Group's internal audit is entirely outsourced to BDO. Each year BDO, after discussions with management, propose a strategy and plan for the internal audit to the Committee for approval. The plan covers business units and countries, financial risk and other risk themes. Once approved the internal auditor implements the plan and reports back to the Committee at each of its meetings. The internal audit function is a key element of the Group's corporate governance framework. It provides independent and objective assurance, advice and insight on governance, risk management and internal control to senior management, the Committee and the Board. It supports the organisation's vision and objectives by evaluating and assessing the effectiveness of business policies and processes, systems and key internal controls. In addition to reviewing the effectiveness of these areas and reporting on aspects of the Group's compliance with them, internal audit makes recommendations to address any key issues and improve processes and, as such, provides an indication of the behaviours being exhibited by employees and reports to the Committee on progress made at every meeting.

The Committee keeps the relationship with BDO under review to ensure the independence and effectiveness of the internal audit function is maintained and meets the internal auditor without management being present. The Committee reviewed an assessment by the Institute of Internal Auditors of the effectiveness of the quality of the internal audit services provided more broadly by BDO as a firm, which was satisfactory.

In reviewing the effectiveness of BDO in its first year as our internal auditor, the Committee noted that 7 out of 17 internal audits had a "limited assurance" rating in either design or operational effectiveness or both and that, within these figures 4 out of 5 internal audits in Aviation had a "limited assurance" rating and 3 out of 6 audits in Land had a 'limited assurance' rating. This reinforced messages also apparent from the contract profitability and balance sheet review. Having reviewed BDO's effectiveness, the Audit Committee was satisfied with the work performed by BDO in 2020/21 and encouraged BDO to review the plan for 2021/22 in the light of the risk assessment presented to the Board in March, the contract profitability and balance sheet review and the new operating model.

The audit plan for 2021/22 was approved in May 2021 after consideration of the impacts of the revised risk assessment and the lessons learned from the contract profitability and balance sheet review. It was also agreed that during 2021/22 management should perform a more fundamental review and make proposals for the internal audit scope and method of delivery for 2022/23 and beyond for review by the Audit Committee in the second half of 2021.

Risk management and internal control

The Board has delegated to the Committee responsibility for reviewing the effectiveness of the Company's risk management and internal control systems. The Company's management of risk is described on pages 84 to 86 and its principal risks on pages 87 to 95.

In reviewing the effectiveness of the risk management system, the Committee noted that management had improved the approach to risk management in 2020/21 and that the first output using the new approach was presented to the Board in March 2021. The Committee was satisfied that the improved process was working effectively, whilst recommending some further enhancements. The Committee also asked management to ensure that the risk map presented to the Board was appropriately reflected in the going concern and viability assessments and in the description of principal risks on pages 87 to 95.

In reviewing the effectiveness of the Group's internal control system, the Committee reviewed a management paper on the subject and considered the Group's risk management system and reports, its delegated authorities, its management and financial reporting and forecasting, its internal and statutory audit programmes and reports, its business continuity plans, its whistleblowing processes and reports, its ethical compliance programme and the management papers relating to the contract profitability and balance sheet review. In view of the findings of the new internal auditor (BDO), the contract profitability and balance sheet review and the reports of the new management team, the Committee concluded that the control environment was not operating effectively in certain parts of the Group, particularly in Aviation, Land and Group Head Office.

Since January 2021, the Company has implemented a number of improvements including a review of the Group's delegated authorities, a requirement for the sectors to provide a formal letter of representation covering policy compliance, standardisation of management reporting across the Group and the simplification of the income statement and cash flow management reporting. In addition, the Committee has agreed with management improvement plans for Aviation, Land and Group Head Office. Provided that these plans are effectively implemented, the Committee believes that internal and financial controls should become fully effective. The Committee will monitor the implementation of these plans in 2021/22.The resulting statement regarding the effectiveness of the Group's internal controls is on page 158.

Review of the effectiveness of the Audit Committee

We conclude each Audit Committee with a private session without management, external audit or internal audit to review our effectiveness. The feedback from these sessions has been very encouraging about the progress made and supportive of further developments.

We also benefitted this year from the independent, external review of the effectiveness of the Board and its Committees (see page 111). This concluded that the effectiveness of the Committee had been improved through well-structured and comprehensive agendas, better documentation, more time for discussion on all key items and clarity on the division of responsibility for different aspects of risk governance.

Next steps

Whilst we have made substantial improvements in 2020/21, we are committed to continuous improvement and aim to take further steps to improve our financial reporting and the quality of the Audit Committee's oversight for the benefit of shareholders and other stakeholders:

- We will continue to focus on improving the quality of management papers reviewed by the Audit Committee.
- We will continue our emphasis on improving the quality of the statutory audit.
- We will monitor the implementation of the programme of improvement of internal and financial controls with a particular focus on Group Head Office, Aviation and Land.
- We will review the scope of internal audit and we will assess whether there is a better alternative to our current outsourced model.
- We will, as part of the wider Corporate Governance event highlighted in the Chair's introduction to the Governance section (see page 103), engage proactively with our larger shareholders regarding the Audit Committee's work in 2020/21 and plans for 2021/22.
- We will oversee the quality of implementation of digital financial reporting using the European Single Electronic Format.
- We will consider preparatory steps for the main, longer lead-time changes likely to result from the UK Government's proposals on "Restoring trust in audit and corporate governance".

Remuneration Committee Report

Kjersti Wiklund
Chair of the Remuneration Committee

Dear Shareholder

On behalf of the Board, I present the Directors' Remuneration Report ("DRR") for the year ended 31 March 2021. This was my first full year as Chair of the Remuneration Committee, with the year being dominated by the COVID-19 pandemic and the contract profitablity and balance sheet review. As a Committee we share the disappointment expressed by Ruth in her Chair's introduction with the results of the contract profitability and balance sheet review. We have paid careful attention to how these outcomes should be factored into our decisions for remuneration in 2020/21. These decisions are set out in this report.

Remuneration across Babcock

At last year's AGM, we proposed our new Remuneration policy for shareholders' approval. I was pleased that the policy was supported by a 99.5% vote, which the Committee has since worked hard to apply. When applying our Remuneration policy, the Committee receives input and advice from internal and external sources so that the Committee can take into account the priorities of the Company's stakeholders. For example, the Committee always considers wider employee remuneration when determining pay arrangements for the Executive Directors. Previously, the Committee received periodic reports from senior management who attended the Babcock Employee Forum, to help the Committee in understanding the views of employees. We will look to enhance our engagement by asking Lord Parker to report to the Committee in his role as Non-Executive Director designated for employee engagement.

The Committee supports the Board's ambition of improving the representation of diverse candidates at senior levels. In the 2020/21 Gender Pay Gap Report (reflecting data relating to April 2020), our mean gender pay gap was 12.5% and our median gender pay gap was 12.3%, representing a further year-on-year narrowing of the gap, as has consistently been the case since reporting commenced in 2017.

Leadership changes

We were pleased to welcome David Lockwood, who joined the Company in August 2020, before becoming CEO in September, and David Mellors who joined the Group as its new CFO in November 2020. These appointments followed the retirements of Archie Bethel and Franco Martinelli. The remuneration of both appointments is consistent with our Remuneration policy, with salaries set at £800,000 and £560,000 for the CEO and CFO respectively, and annual bonus and PSP award opportunities of 150% and 200% of salary respectively. The pension opportunity for both executives is set at 10% of salary, consistent with that of our workforce more broadly. For more detail, please see the single total figure table on page 144.

When setting the salary levels for the new Executive Directors we took into account the salaries of the previous incumbents in the roles as well as market levels based on companies of similar size, complexity and sector to the Company. We also needed to consider the significant prior executive director experience of both appointees, the substantial level of challenge anticipated in driving the reset of the business, and also the competitive recruitment environment with a number of comparable searches underway at the time of appointment.

Remuneration in 2020/21

The results of the contract profitability and balance sheet review were a key consideration in the Committee's discussion of remuneration in 2020/21. The Committee believes that the remuneration outcomes, which are summarised below

Quick facts

The Committee

- Kjersti Wiklund has chaired the Committee since April 2020. She is also chair of the Remuneration Committee of Trainline plc.
- The other Committee members are Carl-Peter Forster, Russ Houlden and Victoire de Margerie. Jeff Randall also sat on the Committee until his retirement from the Board in August 2020. Please see pages 104-105 for biographies and page 109 for attendance.

Highlights

- Approval of the Company's new Remuneration policy
- Appointment of new CEO and CFO
- Introduction of a post-cessation shareholding policy

Key responsibilities

- Oversight of reward matters across the Group
- Maintenance of a strong link between stakeholder experience and Executive Director reward
- Approval of reward outcomes for the Executive Directors

and in this report, reflect the Company's performance and the broader context, including shareholders' experience and interests. After due consideration, the Committee approved the following outcomes:

Salary: Although the Group made only limited use of the UK furlough scheme, the Committee accepted the proposal by the then Executive Directors to reduce their salaries by 20% for as long as the Group participated in the scheme. In line with the Executive Directors, the Non-Executive Directors also agreed to reduce their fees by 20% on the same basis. In addition, the Non-Executive Directors did not receive an increase in their fees in the year. From September 2020, the time that the Group ceased to participate in the scheme, the salaries and the fees of the Directors were restored.

2020/21 annual bonus: The 2020/21 annual bonus for Executive Directors was based 80% on underlying financial performance measures. As the Committee wanted to incentivise the focus on cash generation, the weighting on OCF was increased to 40%, with the remaining 40% based on PBT. In line with past practice, the percentage allocated to non-financial measures was maintained at 20%. With guidance withdrawn, the Committee met the challenge of setting targets by widening the range for the performance measures and retaining discretion to ensure that the outcome aligned to the Group's stakeholder experience. As the Company's performance did not meet the threshold levels set for the financial performance measures, there was no payout under those measures. The Committee did assess the performance of the Executive Directors against their non-financial measures. In respect of David Lockwood and David Mellors, the Committee concluded that they had made very positive steps towards the Group's recovery, which would have warranted a payout in respect of the non-financial measures. However, both of them had confirmed that they wished to waive any award. In respect of the other plan participants, including the former Executive Directors, the Committee believed that the financial performance of the Company did not merit a payout under the non-financial measures. Please see page 145 for more detail.

2018 PSP awards: The vesting of PSP awards granted in 2018 was based on performance measured over 1 April 2018 to 31 March 2021, 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 the 2018 PSP awards lapsing in full. In assessing the outcome of the PSP awards, no discretion was applied by the Committee. Please see page 146 for more detail.

2020 PSP awards: The Committee delayed the 2020 PSP award due to the impact of COVID-19 pandemic on the business and uncertainty about how it might develop. The grant was made in December 2020, despite continued uncertainty and ongoing withdrawal of guidance, due to the need to establish some incentives for the new Executive Directors. In light of the prevailing circumstances, the Committee believed that the most appropriate measures for the grant were relative TSR and cumulative free cash flow, both equally weighted. As the Committee considers the range for cumulative free cash flow to be commercially sensitive, the range has not been disclosed, but the Committee intends to disclose it as soon as the range is no longer commercially sensitive which is expected to be on the return to giving guidance. The performance period for free cash flow is the three financial years starting with 2020/21. As David Lockwood and David Mellors, both external hires, had only recently joined the Group, the Committee determined the start date of the TSR performance period would run for the three years commencing on the PSP grant date. Our analysis indicated that there was no material advantage or disadvantage to participants by using this start date, and this neutrality was important to ensure the awards are motivational for our new leaders.

However, the Committee felt that it was appropriate due to the performance of the share price since the last grant to reduce the size of award by 10% to 180% of salary. The Committee further noted that it may need to use its discretion to review the outcome of the awards in 2023 to take into account the level of uncertainty at the time of award. As always, final decisions would include a check to ensure alignment with the shareholder experience. For further detail, please see pages 146 and 147.

Implementation of remuneration for 2021/22

When considering the implementation of our Remuneration policy for 2021/22, the Committee has taken into account the impact of the contract profitability and balance sheet review to reach decisions that incentivise the new Executive Directors and align with shareholder interests.

Salary: The Committee has delayed its review of the Executive Director salaries until September 2021, consistent with the approach for other employees.

2021/22 annual bonus: The structure of the Executive Director annual bonus for 2021/22 is consistent with that for 2020/21, with measures based on OCF, PBT and non-financial objectives. However, in the event of a payout under the bonus for 2021/22, the 60% of the annual bonus usually paid in cash will be deferred into awards over Company shares for one year. This is to reflect the fact that in this reset year no dividend will be paid. The remaining 40% will be deferred into awards over Company shares for three years as usual. The measures and targets have been set and will be disclosed in full in next year's Annual Report on Remuneration. Please see page 148 for more detail.

2021 PSP awards: The Committee has granted awards under the PSP to the Executive Directors in 2021 covering the three-year period FY22-FY24. The Committee decided to use the same measures as used for the 2020 PSP award, being relative TSR and free cash flow, as they align with our focus on cash generation during the reset of the business, as well as shareholder interests. The Committee reviewed targets for both measures to ensure that they would be appropriately stretching. In respect of the free cash flow target, the Committee set a three-year cumulative range. The Committee considers this range commercially sensitive, but intends to disclose it as soon as it no longer is so which is expected to be on the return to giving guidance. In respect of relative TSR the Committee decided to retain the same performance range as for 2020 PSP awards.

I hope that you have found this letter clear and useful in summarising the workings of the Committee.

Ruth has mentioned in her introduction to the governance section that we plan to hold a governance event for our largest shareholders, and I look forward to that opportunity to share more about our approach to remuneration.

Kjersti Wiklund
Committee Chair

Remuneration at a glance

This section provides an overview of the Company's performance over the 2020/21 financial year and the remuneration received by our Executive Directors. Full details can be found in the Annual Report on Remuneration on pages 143 to 153.

2020/21 remuneration outcomes

Annual bonus

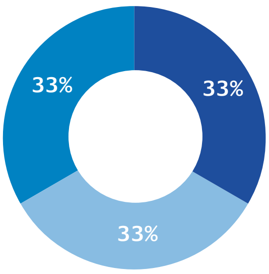
The annual bonus for the 2020/21 financial year was based on a mix of financial and non-financial measures, the performance targets for which (and actual performance against these) are set out below:

Measures	Warranted payout (% of max. bonus)				Performance targets
	D Lockwood		D Mellors		
Group Profit Before Tax (PBT)	40% Max	**0% Actual**	40% Max	**0% Actual**	Threshold £249.7m Target £277.4m Stretch £322.9m **Actual £209.9m**[2]
Group Operating Cash Flow (OCF)	40% Max	**0% Actual**	40% Max	**0% Actual**	Threshold £236.3m Target £262.5m Stretch £315.0m **Actual £230.1m**[2]
Non-financial[1]	20% Max	**0% Actual**	20% Max	**0% Actual**	The Committee would have awarded David Lockwood and David Mellors an award in respect of the non-financial measures, but both confirmed to the Committee that they waived any award.
Total	100% Max	**0% Actual**	100% Max	**0% Actual**	

1. Several measures have been merged into an overall assessment in this table for disclosure purposes.
2. Please see the Annual bonus table on page 145 for more detail.

2018 PSP

The 2018 PSP vests subject to three performance measures, the targets for which (and actual performance against these) are summarised below:



Measure and weighting	Performance range: Threshold (16.7% vesting)	Performance range: Stretch (100% vesting)	Outcome	Warranted vesting (% of total award)
EPS growth (3-year CAGR)	4% pa	11% pa	-25.9% pa	0%
Return on Capital Employed (ROCE) (3-year average)	12%	14%	4.8%	0%
Relative Total Shareholder Return (TSR) (vs FTSE 350)	Median	Median +9% pa	Below median	0%
TOTAL				**0%**

Based on the performance outcomes set out above, 2018 PSP awards shall lapse in full.

Implementation of the Remuneration policy in 2021/22

For the current 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.

Element of remuneration	Implementation for 2021/22
Base salary	David Lockwood: £800,000 David Mellors: £560,000 The Committee has delayed its review of the Executive Director salaries until September 2021, consistent with the approach for other employees.
Pension	10% of salary.
Benefits	Unchanged from 2020/21.
Annual bonus and DBP	The bonus structure is consistent with that used for 2020/21 with awards of up to 150% of salary, based on the achievement of financial targets, PBT and OCF, (each a 40% weighting) and non-financial measures (20% weighting). Normally, 40% of any bonus earned would be deferred in shares for three years. This year, in addition to the 40% of any bonus earned being deferred in shares for three years, the remaining 60% usually paid in cash will be deferred into shares for one year.
PSP	PSP awards of 200% of salary with vesting based on the financial measures the Committee believes most appropriate: free cash flow and relative TSR, equally weighted. As the free cash flow targets are commercially sensitive, the Committee intends to disclose them as soon as they are no longer so, which is expected to be on the return to giving guidance.

Alignment of the Remuneration policy

The Committee believes that the policy complies with the 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.

Compliance statement

This report has been prepared in compliance with all relevant remuneration reporting regulations in force at the time and in respect of the financial year under review.

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

Remuneration Policy Report

The Remuneration policy set out in this section was approved by a binding shareholder vote at the 4 August 2020 AGM, and can also be found at www.babcockinternational.com/who-we-are/leadership-and-governance. It is intended that this policy will apply for three years from that date.

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	Executive Directors 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.
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 (eg 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 (eg 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 financial measures, eg 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 financial targets such as EPS, cash flow, TSR and ROCE targets. 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 10 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 Chairship of the Audit 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 a combination of TSR, EPS, cash flow 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.

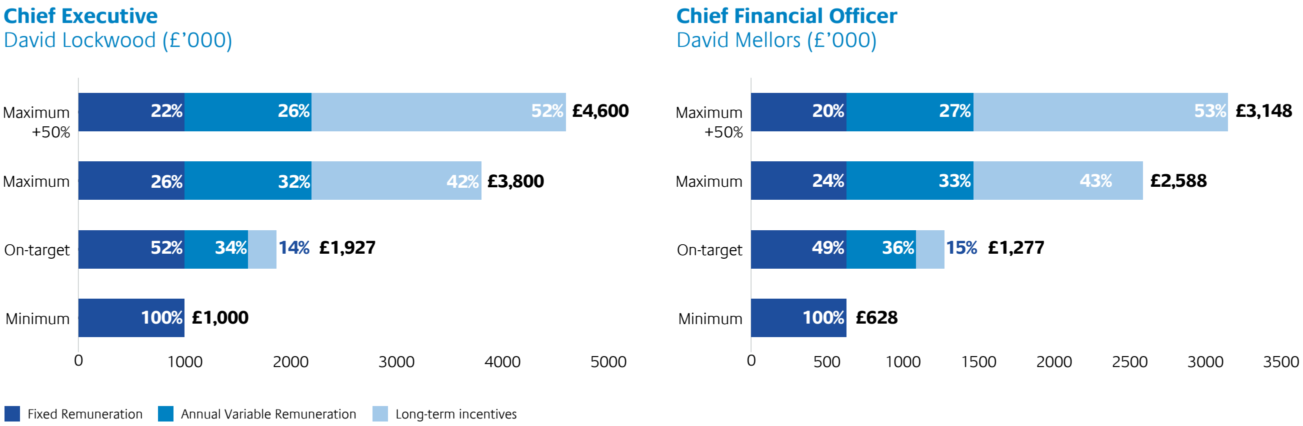
The Remuneration Committee has the discretion to make adjustments to the calculation of short- and long-term performance outcomes in circumstances where application of the formula would produce a result inconsistent with the Company's remuneration principles. Such circumstances may include: changes in 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 2021/22, as outlined in the Committee Chair's statement and later in the Annual Report on Remuneration, applied to base salaries as at 1 April 2021. 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 (ie 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.

The shareholding requirements include a post-cessation extension such that departing Executive Directors will be required to hold vested Company shares, received through the Company's PSP, 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
David Lockwood (Chief Executive)	29 July 2020	12 months from Company, 12 months from Director
David Mellors (Chief Financial Officer)	29 September 2020	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 Directors

The 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
Myles Lee	1 April 2015	17 May 2018	AGM 2021
Victoire de Margerie	1 February 2016	1 April 2019	AGM 2021
Lucy Dimes	1 April 2018	28 May 2021	AGM 2024
Kjersti Wiklund	1 April 2018	28 May 2021	AGM 2024
Russ Houlden	1 April 2020	4 February 2020	AGM 2023
Carl-Peter Forster	1 June 2020	6 April 2020	AGM 2023
Lord Parker	10 November 2020	9 November 2020	AGM 2024

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.

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.

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 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. When considering executive pay, the Committee takes into account the experience of employees and their pay. 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. 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 undertaking consultation with leading shareholders in advance of any significant changes to the Remuneration policy. In developing the 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.

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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 2021 (with each member serving throughout the year) as well as attendance at Committee meetings in the year is shown on page 109. In total there were eight meetings in the year to 31 March 2021. The Chair and the CEO normally attend meetings by invitation, as does the CFO on occasion, but they are not present when their own remuneration is being decided. The Chief HR Officer 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.

Advisors

Mercer Kepler (which is part of the MMC group of companies) advised the Committee during the year until 31 December 2020, when the Committee transferred the advisory role to Ellason following the departure of the lead advisors from Mercer Kepler, to Ellason. Ellason reports directly to the Committee Chair and provides 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. A representative from Ellason typically attends Committee meetings. Ellason also provides participant communications, performance reporting, and Non-Executive Directors' fee benchmarking services to the Company. Ellason and Mercer Kepler are members of the Remuneration Consultants Group and signatories to the Code of Conduct for consultants to remuneration committees of UK listed companies, details of which can be found at www.remunerationconsultantsgroup.com. Ellason and Mercer Kepler adhere to this Code of Conduct. The fees paid to Ellason and Mercer Kepler in respect of work for the Committee carried out in the year under review totalled £31,330 and £63,260 respectively on the basis of time and materials, excluding expenses and VAT.

The Committee will review Ellason's involvement each year and will consider any other relationships that it has with the Company that may limit its independence. The Committee is satisfied that the advice provided by Ellason is objective and independent.

Matters considered

The Committee considered a number of matters during the year to 31 March 2021, including:

- reviewing the Remuneration policy against market trends and corporate governance best practice
- reviewing the Committee's terms of reference
- considering trends in executive remuneration, remuneration governance and investor views
- reviewing share ownership guidelines for senior executives
- reviewing the Directors' Remuneration Report
- reviewing the continued appointment of the Committee's independent advisors
- making share awards under the Company's share plans
- reviewing the performance measures and targets to be applied under the Company's share plans
- agreeing Executive Director salaries for the next financial year
- finalising performance targets and non-financial objectives for the 2020/21 annual bonus plan
- agreeing the level of vesting of PSP awards granted in 2017
- considering performance against the measures applied to, and level of payout of, the 2019/20 annual bonus
- agreeing the level of, and targets for, 2020 PSP awards.

Summary of shareholder voting

The following table shows the results of the last binding shareholder vote on the Remuneration policy, and the advisory vote on the Annual Report on Remuneration, at the 2020 AGM:

	2020 Remuneration policy		2020 Annual Report on Remuneration	
Votes cast	Total number of votes	% of votes cast for and against	Total number of votes	% of votes cast for and against
For (including discretionary)	358,523,814	99.48%	374,839,939	99.47%
Against	1,866,823	0.52%	1,995,057	0.53%
Total votes cast (excluding withheld votes)	360,390,637	100%	376,834,996	100%
Votes withheld	16,471,678		27,320	
Total votes cast (including withheld votes)	376,862,315		376,862,316	

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

	David Lockwood[9] £'000		David Mellors[9] £'000		Archie Bethel[10] £'000		Franco Martinelli[10] £'000	
Fixed remuneration	**20/21**	19/20	**20/21**	19/20	**20/21**	19/20	**20/21**	19/20
Salary[1]	**438**	n/a	**188**	n/a	**321**	796	**276**	446
Benefits in kind and cash[2]	**65**	n/a	**6**	n/a	**102**	223	**1**	1
Pension[3]	**44**	n/a	**19**	n/a	**78**	199	**64**	112
Annual variable remuneration								
Annual bonus (cash)[4]	**–**	n/a	**–**	n/a	**–**	100	**–**	64
DBP (deferred annual bonus)[5]	**–**	n/a	**–**	n/a	**–**	67	**–**	43
Withholding of bonus[6]					**(167)**		**(107)**	
Long-term incentives								
PSP[7]	**n/a**	n/a	**n/a**	n/a	**–**	–	**–**	–
Dividends[8]	**n/a**	n/a	**n/a**	n/a	**–**	–	**–**	–
Total (of which)	**547**	n/a	**213**	n/a	**334**	1,385	**234**	666
Fixed remuneration[1,2,3]	**547**	n/a	**213**	n/a	**501**	1,218	**341**	559
Total variable remuneration[4,5,6,7,8]	**–**	n/a	**–**	n/a	**(167)**	167	**(107)**	107

The figures have been calculated as follows:

1. Salary: base salary amount paid in the year, after the waivers offered by the Executives due to the pandemic. Archie Bethel waived £39.8k and Franco Martinelli £22.3k. As both David Lockwood and David Mellors joined the Board after the Company ceased accessing the UK Furlough Scheme triggering the restoration of executive pay, the table above shows no waiver for them.
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. David Lockwood as an Executive Director in 20/21 received £64,632 in connection with his accommodation costs in London; Archie Bethel, whilst an Executive Director, received £100,616 (19/20: £221,210) in connection with his accommodation costs in London for the period he served as a Director. Both were, at the Company's request, to enable them to lead the business effectively.
3. Pension: the numbers above represent for each year the value of the cash supplement, which for Archie Bethel and Franco Martinelli was 21.5% of base salary (without deduction of the waivers offered by the Executives due to the pandemic) and for David Lockwood and David Mellors was 10% of base salary.
4. Annual bonus (cash): this is the part of total annual bonus earned for performance during the year (see page 145) that is not required to be mandatorily deferred into shares under the DBP (see page 135) and is paid in cash.
5. DBP deferred annual bonus: this is the mandatorily deferred element of the annual bonus earned for performance during the year, which will vest after three years.
6. The payment of the bonus declared for FY20 was delayed until the Board had made a decision around the FY20 dividend. In February 2021 the Committee determined the FY20 bonus previously determined for Archie Bethel and Franco Martinelli would be cancelled as no FY20 dividend had been declared.
7. PSP: for 20/21, represents the lapsing in full of the 2018 awards that were subject to performance to 31 March 2021 (see page 146).
8. 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 2021 (for 20/21) and 31 March 2020 (for 19/20), payable in cash on exercise of the award.
9. David Lockwood and David Mellors were not Directors of the Company in FY19/20. David Lockwood joined the Company on 17 August 2020 as CEO designate and joined the Board as CEO on 14 September 2020. David Mellors joined the Company as CFO designate on 1 November 2020 and joined the Board as CFO on 30 November 2020. Amounts for FY20/21 are based on their service as Directors.
10. Archie Bethel and Franco Martinelli stepped down from the Board on 14 September 2020 and 30 November 2020 respectively. Amounts for FY20/21 are based on their service as Directors. In FY21, Archie Bethel received a base salary of £765,487, benefits of £300,290 and a pension supplement of £173,137 and Franco Martinelli a base salary of £428,903 and a pension supplement of £97,008. Please see page 148 for more details.

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 2021. They instead received a cash supplement equal to 10% of salary for David Lockwood and David Mellors and 21.5% of salary for Archie Bethel and Franco Martinelli of their base salary in lieu of pension benefits. There are no additional early retirement benefits.

At the time of their respective retirements from the Board in September and November 2020 Archie Bethel's and Franco Martinelli's cash supplements in lieu of pension benefits were transitioning from the arrangements immediately prior to the new policy (25% of salary) to alignment with the workforce, as per the new policy, by 1 April 2023. Consequently until November 2020 the Company was not compliant with provision 38 of the Code, requiring the pension rates for Executive directors, or payments in lieu, to be aligned to those available to the workforce. However, our new policy, under which David Lockwood and David Mellors were appointed during the year, ensured that we were compliant for the remainder of the year and will be in the future.

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.

Pension entitlements under the Scheme (defined benefit) for the year to 31 March 2021 are set out in the following table:

Director[1]	Accrued pension at 31 March 2021 £'000 pa	Normal retirement age[2]
Franco Martinelli	**68**	65

1. No Executive Director was an active member of the scheme during the year.
2. Age from which payment can be drawn with no actuarial reduction.
3. There are no additional benefits in the event of early retirement under this scheme.

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	2020/21 £'000 pa	2019/20 £'000
David Lockwood	**4**	n/a
David Mellors	**3**	n/a
Archie Bethel	**4**	5
Franco Martinelli	**2**	3

Annual bonus

2020/21 Annual bonus (audited)

The 2020/21 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 OCF and PBT performance (based on budgeted FX rates). 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.

Due to the impact of the COVID-19 pandemic and the withdrawal of guidance, the Committee was obliged to set the 2020/21 annual bonus on the basis of the Company's Q1 forecast. Accordingly, for Archie Bethel and Franco Martinelli, the Committee reduced their maximum opportunity from 150% to 112.5% of salary to reflect the delay in setting targets. In respect of David Lockwood and David Mellors, their bonus opportunity for 2020/21 was based on their pro-rated salary, as they joined the Company part way through the financial year. Notwithstanding the strong performance delivered by the incumbent Executive Directors against their non-financial measures, in the context of the lapsing of the financial elements of the bonus and the wider stakeholder experience during FY21, Messrs Lockwood and Mellors requested the waiver of any bonus assessed payable for the non-financial measures. The table below summarises performance against each financial measure, and the bonus outcome. In respect of Archie Bethel and Franco Martinelli, along with other plan participants, the Committee believed the financial performance of the Company did not merit a payout under the non-financial measures.

Bonus element	Threshold[1]	Target	Maximum	Actual outturn		David Lockwood	David Mellors	Archie Bethel	Franco Martinelli
Achieving budgeted Group cash flow[2]	90% of Q1 forecast	Q1 forecast (£262.5m)	120% of Q1 forecast	£218.8m[3]	Maximum potential (% of salary)	**37.2%**	**25.2%**	**45%**	**45%**
					Outturn (% of salary)	0%	0%	0%	0%
Achieving budgeted Group PBT[4]	90% of Q1 forecast	Q1 forecast (£277.4m)	120% of Q1 forecast	£209.9m[5]	Maximum potential (% of salary)	**37.2%**	**25.2%**	**45%**	**45%**
					Outturn (% of salary)	0%	0%	0%	0%
Non-financial objectives[6]					Maximum potential (% of salary)	**18.6%**	**12.6%**	**22.5%**	**22.5%**
					Outturn (% of salary)	0%[7]	0%[7]	0%	0%
Total					Maximum potential (% of salary)	**93%**	**63%**	**112.5%**	**112.5%**
					Outturn (% of salary)	0%	0%	0%	0%

1. Threshold vesting is: 18.8% of maximum for the Group PBT and 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. Operating cash flow after capital expenditure before pension payments in excess of the income statement charge.
3. To calculate outturn, the Group's FY21 operating cash after capital expenditure has been adjusted (i) to exclude the deferral of VAT, which the Q1F had assumed would be paid in FY21, (ii) to take into account the reclassification of the Group's Supply Chain Financing Facilities as bank and other borrowings rather than trade payables, and (iii) to take into account the change in treatment of the capital elements of lease payment cash flows.
4. Before amortisation of acquired intangibles with the treatment of exceptional items at the discretion of the Committee.
5. To calculate outturn, the Group's FY21 profit before tax has been adjusted to add back specific adjusting items as well as the impacts of the contract profitability and balance sheet review.
6. Further details on the non-financial objectives set for 20/21 are set out below.
7. David Lockwood and David Mellors each waived any entitlement to bonus for performance against the non-financial measures set at the time they respectively joined Babcock and relating to their key priorities for 2020/21. Notwithstanding this waiver, the Remuneration Committee reviewed their performance against the objectives set, and determined that these had been met in full.

Non-financial measures

The Committee set non-financial objectives for Archie Bethel and Franco Martinelli at the start of the year around strategic and risk management 'Themes' of Growth, Technology/Processes, Resources and Reputation. At the end of the bonus year, the Committee reviewed their performance against those objectives. In respect of David Lockwood and David Mellors, who joined the Company during the course of 2020/21, the Committee set them targets that were aligned to the Company's turnaround. Achievement of the objectives are summarised below.

David Lockwood	David Mellors	Archie Bethel/Franco Martinelli
Strategy Developed a new strategy	Financial Created a more appropriate financial baseline for future financial performance Improved clarity of reporting	Growth Initial progress on divestments International growth limited
Business Model Introduced a new Operating Model	People Reset finance function as part of the new Operating Model	Technology/Processes Progress on technology capabilities in some areas
People Launched a new Company purpose and developing a new People Strategy	Customers Established positive relations with key external stakeholders	Resources Plans to meet growth targets not achieved, in part due to COVID-19
Customers Established positive relations with the Company's principal customer		Reputation Progress on MOD's strategic partner programme, but impacted by COVID-19 and FMSP renegotiation focus

The 2020/21 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
David Lockwood	0%	0%	0%	£0
David Mellors	0%	0%	0%	£0
Archie Bethel	0%	0%	0%	£0
Franco Martinelli	0%	0%	0%	£0

Long-term incentive schemes (PSP)

2018 PSP awards vesting for the period ending March 2021 (audited)

Archie Bethel and Franco Martinelli were granted PSP awards in 2018, which were subject to three-year TSR, EPS and ROCE targets for the period ending 31 March 2021. 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%
3-year adjusted basic underlying EPS growth to 31 March 2021	33%	4% p.a.	11% p.a.	(165.9)% p.a.	0%
3-year average ROCE	33%	12%	14%	5.4%	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' 2018 PSP awards will lapse in full.

PSP awards granted during 2020/21 (audited)*

The Executive Directors were granted PSP awards in 2020. Due to the fall in the share price since the previous PSP grant, the Committee decided that 2020/21 PSP awards should be scaled back by 10% in value to 180% of salary.

Director	Number of shares	Face value[1]	Face value (% of salary)[2]	% of award receivable for threshold performance
David Lockwood	408,545	£1,440,000	180%	16.7%
David Mellors	285,981	£1,008,000	180%	16.7%

1. Based on three-day average share price (of 352p) at time of grant.
2. Expressed as a percentage of salary at the date of the award (1 December 2020).
* In the form of nil-cost options.

In the Company's Annual Report and Accounts for the year ending 31 March 2020, the Company stated in its Remuneration Committee Report that it was delaying the grant of the PSP awards due to the impact of the COVID-19 pandemic. At that time, the intention was to base any award to Executive Directors on four measures. However, after further consideration and taking into account the recent appointments of David Lockwood and David Mellors, the Remuneration Committee decided that the best alignment with shareholders and the Company's strategy would be to base those awards on free cash flow and relative TSR, with each measure having equal weighting. The performance period for these awards is based on the three financial years through to 31 March 2023 for cumulative FCF, and the three years starting on the date of grant (1 December 2020) for relative TSR. The Committee defines FCF as all cash flows of the Company, including exceptional items (unless the Committee decides otherwise), but excluding disposals, on an IFRS 16 basis as stated in the Company's Annual Report and Financial Statements.

Given the reset of the Company and the absence of guidance, the Committee considers the performance range for the cumulative three-year FCF measure to be commercially sensitive, but intends to disclose it once it ceases to be so, which is expected to be on the return to giving guidance. The Committee may need to use its discretion to review the outcome of the awards in 2023 to take into account the level of uncertainty at the time of award. As always, final decisions would include a check to ensure alignment with the shareholder experience. The relative TSR performance range is described below:

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	50%	Median TSR	Median TSR + 9% p.a.

Deferred Bonus Plan awards made during 2020/21 (audited)

Neither Archie Bethel nor Franco Martinelli was granted DBP awards in 2020, as the Company did not pay their 2019/20 bonus due to the Company not paying a dividend in the year.

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		Total fixed remuneration		Total variable remuneration	
Fixed remuneration	**20/21**	19/20	**20/21**	19/20	**20/21**	19/20	**20/21**	19/20	**20/21**	19/20
Ruth Cairnie	**319**	253	**–**	n/a	**319**	253	**319**	253	**–**	–
Sir David Omand[2]	**61**	72	**–**	–	**61**	72	**61**	72	**–**	–
Myles Lee	**62**	65	**–**	–	**62**	65	**62**	65	**–**	–
Victoire de Margerie	**62**	65	**–**	–	**62**	65	**62**	65	**–**	–
Lucy Dimes	**58**	61	**–**	–	**58**	61	**58**	61	**–**	–
Kjersti Wiklund	**58**	61	**15**	–	**73**	61	**73**	61	**–**	–
Russ Houlden	**58**	n/a	**10**	n/a	**68**	n/a	**68**	n/a	**–**	–
Carl-Peter Forster[3]	**55**	n/a	**–**	n/a	**55**	n/a	**55**	n/a	**–**	–
Lord Parker[4]	**24**	n/a	**–**	n/a	**24**	n/a	**24**	n/a	**–**	–
Ian Duncan[5]	**18**	61	**5**	15	**23**	76	**23**	76	**–**	–
Jeff Randall[5]	**18**	61	**–**	15	**18**	76	**18**	76	**–**	–

1. Relating to role as Chair of the Audit Committee (Russ Houlden) with effect from August 2020 and Remuneration Committee (Kjersti Wiklund) with effect from April 2020.
2. Sir David Omand was Senior Independent Director until the 2020 AGM, when Carl-Peter Forster stepped up to the role.
3. Carl-Peter Forster joined the Board in June 2020 and stepped up to be Senior Independent Director at the 2020 AGM.
4. Lord Parker joined the Board in November 2020.
5. Ian Duncan and Jeff Randall retired from the Board after the AGM on 4 August 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 2021/22
The Committee has set the remuneration for Executive Directors for 2021/22 in line with the Company's approved Remuneration policy.

Fixed pay
Executive Directors' base salaries are normally reviewed each year with any changes usually taking effect from 1 April. However, given the continued uncertainty of the impact of the COVID-19 pandemic, the Committee has decided to delay its review of Executive Director salaries until September 2021, in line with the approach for other employees. The Executive Directors will participate in the same pension arrangements as in FY21 (ie at 10% of salary) and the same benefits as in FY21.

	2021/22*	2020/21
David Lockwood	**£800,000**	£800,000
David Mellors	**£560,000**	£560,000

* Subject to review in September 2021

2021/22 Annual bonus
The structure of the Executive Director annual bonus for 2021/22 is consistent with that for 2020/21, with measures based on OCF, PBT and non-financial objectives. The Committee have agreed the measures and targets but, due to their commercial sensitivity, will only disclose them in next year's Annual Report on Remuneration.

40% of any earned bonus will be deferred into shares for three years, with the remaining 60% deferred into shares for one year.

2021 PSP awards
The Committee has granted awards under the PSP to the Executive Directors in 2021 covering the three-year period FY22-FY24, with measures consistent with those used for the 2020 PSP award, being relative TSR and free cash flow, equally weighted. As in the 2021 PSP award, the relative TSR performance range is set on the basis of the Company's three-year TSR outperformance of the constituents of the FTSE 350 index (excluding investment trusts and financial services). Threshold vesting (of 16.7% of maximum) requires the Company's TSR to be median for the benchmark, with maximum vesting requiring an outperformance of median TSR by 9% pa. Given the reset of the Company and the absence of guidance, the Committee considers the FCF performance range to be commercially sensitive, but intends to disclose it once it ceases to be so which is expected to be on the return to giving guidance.

Payments for loss of office (audited)
Archie Bethel retired from the Company on 31 March 2021, having previously stepped down as an Executive Director on 14 September 2020. Archie received his base salary (£444,301), pension (£95,525) and benefits (£199,674 including accommodation and accrued holiday pay) through to his retirement, and was eligible to receive a bonus for FY20/21, but none was paid. He received no further payments for loss of office and no discretion was required in determining this outcome.

Franco Martinelli stepped down as an Executive Director on 30 November 2020 and is due to retire from the Company on 30 September 2021. Franco will continue to receive his base salary (£152,903 in FY20/21), pension (£32,875 in FY20/21) and benefits through to his retirement and was eligible to receive a bonus for FY20/21 but none was paid. He will receive no further payments for loss of office and no discretion was required in determining this outcome.

The Committee considered the consequences of the contract profitability and balance sheet review and, as a result, decided to reduce to zero the PSP awards granted to Archie Bethel and Franco Martinelli in June 2019 and December 2020.

Both Archie Bethel and Franco Martinelli have outstanding DBP awards. In accordance with DBP rules, the awards will vest on their normal vesting dates. They will receive a cash sum equivalent to the dividends that accrue on the shares that vest.

Payments to past Directors (audited)
John Davies stepped down as an Executive Director on 31 March 2020 and retired as CEO Land on 28 June 2021. His 2017 PSP award lapsed in full. His 2017 DBP award (the value of which was disclosed in the 2017 Directors' Remuneration Report) vested on 14 June 2020.

Bill Tame retired from the Company on 30 June 2018, having previously stepped down as an Executive Director on 31 March 2018. Bill's 2017 PSP award lapsed in full. His 2017 DBP award (the value of which was disclosed in the 2017 Directors' Remuneration Report) vested on 14 June 2020.

Peter Rogers retired from the Company on 31 August 2016. His 2017 DBP award (the value of which was disclosed in the 2017 Directors' Remuneration Report) vested on 14 June 2020.

Non-Executive Directors' fees (including the Chair)

There are no changes to the fees for the Chair and the Non-Executive Directors for the 2021/22 financial year.

Annual rate fee	Year to 31 March 2022 £	Year to 31 March 2021 £	% 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%
Chair of Audit Committee[2]	**15,000**	15,000	0%
Chair 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 2022.
2. Fees for chairing Board Committees 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 the remuneration of all Directors compared to the workforce

The table below shows the percentage change in remuneration from the prior year for each Director compared to the average UK employee, as required under The Companies (Directors' Remuneration policy and Directors' Remuneration Report) Regulations 2019. This analysis will be built up in subsequent years until it displays a five-year history.

The Regulations require this disclosure to provide a comparison of year-on-year changes in Director remuneration compared to all other employees of the parent company in the Group. However, Babcock International Group PLC does not have any employees, on which basis there would be no data to disclose for the broader employee population. The Committee has therefore elected to compare the change in Director remuneration against the change in remuneration for the average of the UK employee population, as a suitable comparator group for this purpose.

The Committee monitors carefully this information to ensure that the trend over time in fixed pay is appropriately aligned between Executive Directors, Non-Executive Directors and UK employees.

	% change 2019/20 to 2020/21		
	Base salary / fees	Taxable benefits	Single-year variable
Executive Directors			
David Lockwood[1]	n/a	n/a	n/a
David Mellors[1]	n/a	n/a	n/a
Non-Executive Directors[2]			
Ruth Cairnie[3]	26%	n/a	n/a
Sir David Omand	-15%	n/a	n/a
Myles Lee	-5%	n/a	n/a
Victoire de Margerie	-5%	n/a	n/a
Lucy Dimes	-5%	n/a	n/a
Kjersti Wiklund	18%	n/a	n/a
Russ Houlden[1]	n/a	n/a	n/a
Carl-Peter Forster[1]	n/a	n/a	n/a
Lord Parker[1]	n/a	n/a	n/a
Former Executive Directors[4]			
Archie Bethel[5]	-4%	35%	n/a
Franco Martinelli[5]	-4%	0%	n/a
Former Non-Executive Directors			
Ian Duncan	-5%	n/a	n/a
Jeff Randall	-24%	n/a	n/a
Average for all UK employees	2%	0%	-100%

1. Joined during 2020/21, and hence no year-on-year comparison is available.
2. Non-Executive Directors receive fees only. They do not receive taxable benefits and do not participate in incentive schemes.
3. Year-on-year change reflects appointment during 2019/20 as Chair of Babcock.
4. The percentage change in salary, benefits and single-year variable for former Directors reflects annualised values for 2020/21 remuneration, to facilitate a comparison with 2019/20 on a like-for-like basis.
5. Archie Bethel and Franco Martinelli did not receive an annual bonus in either 2019/20 or in 2020/21.

Relative importance of spend on pay

	2020/21	2019/20	% change
Distribution to shareholders[1]	**£0m**	£152m	-100%
Employee remuneration	**£1,611m**	£1,606m	-1.1%

1. Distributions to shareholders includes all amounts distributed to shareholders, being only dividends.

CEO pay ratio

The table below provides disclosure of the ratio between the CEO's total remuneration and that of the lower quartile, median and upper quartile UK-based employee.

Figures for the CEO are based on the data from the Executive Directors' single figure table on page 144 and is a combination of Archie Bethel's and David Lockwood's remuneration for the periods that each was CEO during the financial year. Total remuneration figures for the lower quartile (P25), median (P50) and upper quartile (P75) employees were determined on 31 March 2021 using the 'single figure' methodology as at 31 March 2021, providing a like-for-like comparison with CEO remuneration.

The reporting regulations offer three calculation approaches for determining the pay ratio – Options A, B and C. The most statistically accurate approach is Option A, which we were able to adopt this year, due to the centralisation of our payroll and HR systems, allowing sufficient time to collate the necessary information. Total full-time equivalent remuneration was calculated for all UK employees throughout the 20/21 financial year, which was then ranked, and 3 employees representing P25, P50 and P75 were identified.

As with last year, bonus payments were excluded from the calculations because it was not feasible to identify which payments were explicitly for services delivered within the financial year, and because not all bonus pay relating to financial year 20/21 are known at the time of publication. Analysis of past data indicates that the three employees would not typically be eligible for a bonus and the exclusion of this element is unlikely to have a significant impact on the ratios reported.

To validate that the figures presented are representative of the pay and benefits of the UK workforce, the pay and benefits of a number of employees centred on each of the three employees was also considered. Whilst there can be variation in the pay mix for individuals throughout the organisation, the Committee believes that the information presented fairly reflects pay at the relevant quartiles amongst our UK workforce. The three individuals identified were full-time employees during the year and 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.

The median CEO pay ratio in the last financial year was 22:1 compared to 37:1 in FY19/20. The decline in the ratio reflects a significant reduction in the CEO total remuneration, primarily due to the annual bonus not paying out in 20/21, but also a result of the 20% salary reduction for the CEO from June to September. At the same time, employee pay saw an increase from FY19/20.

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 and the Company's reward policies across the organisation, 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.

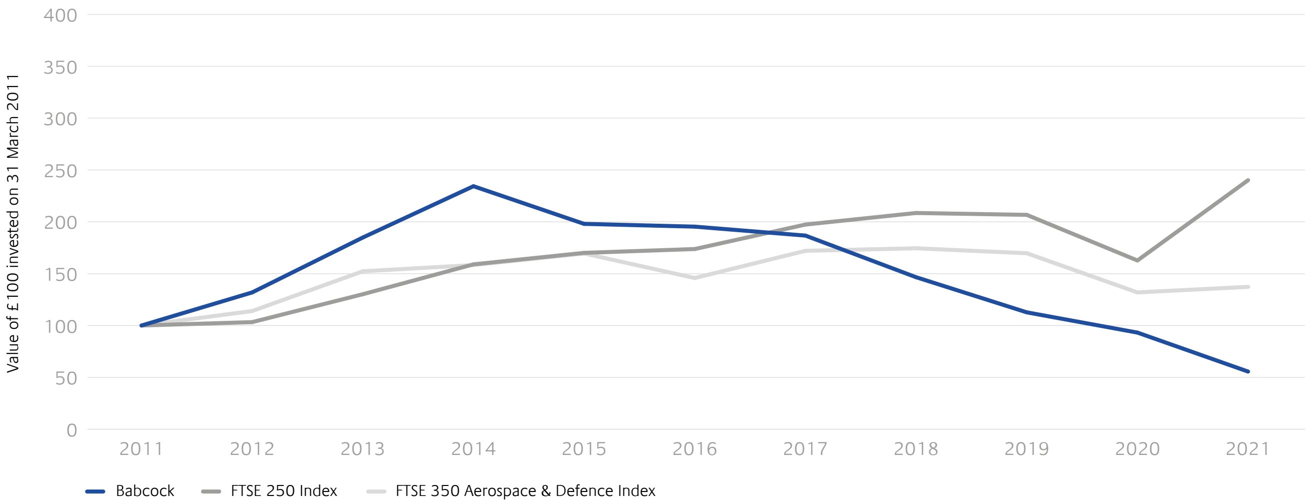
Financial year	Calculation methodology	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
FY20/21	Option A	30:1	22:1	17:1
FY19/20	Option C	47:1	37:1	27:1

Financial year		P25 (lower quartile)	P50 (median)	P75 (upper quartile)
FY20/21	**Total remuneration (£'000)**	**£29.7**	**£39.2**	**£52.0**
	Salary (£'000)	£28.0	£35.8	£49.0
FY19/20	**Total remuneration (£'000)**	**£29.2**	**£37.6**	**£50.6**
	Salary (£'000)	£25.1	£36.3	£43.6

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 2011. 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 10-year period.

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	**2020/21**
Peter Rogers[1]										
Single figure (£'000)	2,185	2,731	3,809	4,448	2,491	1,091				
Bonus vesting (% max)	99%	99%	93%	78%	60%	66%				
DBMP matching shares vesting (% max)	n/a	n/a	n/a	88.4%	57.8%	17.0%				
PSP/CSOP vesting (% max)	57.8%	58.8%	94.7%	83.5%	37.3%	26.5%				
Archie Bethel[2,3]										
Single figure (£'000)						1,012	2,079	1,969	1,385	**334**
Bonus vesting (% max)						66%	61%	58%	14%	**0%**
DBMP matching shares vesting (% max)						17.0%	20.0%	n/a	n/a	**n/a**
PSP vesting (% max)						26.5%	23.9%	15.1%	0%	**0%**
David Lockwood[4]										
Single figure (£'000)										**547**
Bonus vesting (% max)										**0%**
PSP vesting (% max)										**N/A**

1. Until retirement on 31 August 2016.
2. Excludes remuneration received whilst undertaking the role of Chief Operating Officer until August 2016.
3. Until he stepped down as CEO on 14 September 2020.
4. Excludes his salary from when he joined the Company in August before joining the Board as CEO on 14 September 2021.

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 2021 and Directors' interests in shares and options under the Company's long-term incentives are set out in the sections below:

	At 31 March 2020	At 31 March 2021[1]							
	Shares held	Shares held	Options held						
Director	Owned outright by Director or Spouse[2]	Owned outright by Director or Spouse[2]	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)[3]	Req. met?[3]
David Lockwood	n/a	**186,924**	–	–	**408,545**	–	**300%**	**57%**	**Building**
David Mellors	n/a	**71,268**	–	–	**285,981**	–	**200%**	**31%**	**Building**
Ruth Cairnie	50,000	**120,000**							
Sir David Omand	–	**–**							
Myles Lee	30,000	**40,000**							
Victoire de Margerie	7,061	**7,061**							
Lucy Dimes	5,000	**5,000**							
Kjersti Wiklund	2,100	**2,100**							
Russ Houlden	n/a	**–**							
Carl-Peter Forster	n/a	**10,000**							
Lord Parker	n/a	**–**							
Former Director									
Archie Bethel	460,416	**476,421**	–	–	**445,290**	**89,202**	**300%**	**157%**	**No**
Franco Martinelli	336,014	**336,014**	–	–	**249,466**	**51,570**	**200%**	**195%**	**No**
Ian Duncan	–	**–**							
Jeff Randall	6,097	**6,097**							

1. At the date of stepping down from the Board, in the case of former directors.
2. Beneficially held shares (of Director and/or spouse).
3. Current shareholdings for comparison with the shareholding requirements for Executive Directors are calculated based on salary as at 31 March 2021 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 2021 and a three-month average share price to 31 March 2021 of 243.58p, and calculated post-tax.

There have been no changes to the continuing Directors' (or their spouses') shareholdings between 31 March 2021 and 30 July 2021.

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 2021 was 228.6p. The highest and lowest mid-market share prices in the year ended 31 March 2021 were 448.7p and 199.0p, respectively.

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2020	Granted during the year	Exercised during the year	Lapsed during the year	**Number of shares subject to award at 31 March 2021**	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from	Expiry date[3]
David Lockwood	PSP 2020	–	408,545	–	–	**408,545**	–	352.47	Dec 2025	Dec 2026

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2020	Granted during the year	Exercised during the year	Lapsed during the year	**Number of shares subject to award at 31 March 2021**	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from	Expiry date[3]
David Mellors	PSP 2020		285,981	–	–	**285,981**	–	352.47	Dec 2025	Dec 2026

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2020	Granted during the year	Exercised during the year[a]	Lapsed during the year	**Number of shares subject to award at 31 March 2021**	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from	Expiry date[3]
Archie Bethel	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[4]**		483.00	Jun 2024	Jun 2025
	DBP 2019	56,453				**56,453**		483.00	Jun 2022	Jun 2023
	PSP 2020		414,632			**414,632[4]**		352.47	Dec 2025	Dec 2026

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2020	Granted during the year	Exercised during the year[b]	Lapsed during the year	**Number of shares subject to award at 31 March 2021**	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from	Expiry date[3]
Franco Martinelli	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[4]**		483.00	Jun 2024	Jun 2025
	DBP 2019	33,087				**33,087**		483.00	Jun 2022	Jun 2023
	PSP 2020		232,319			**232,319[4]**		352.47	Dec 2025	Dec 2026

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 137 to 138.
2. The PSP awards are structured as nil-priced options and are subject to the rules of the PSP, including as to meeting performance targets for PSP awards.
3. Where this date is less than 10 years from the date of award, the Committee may extend the expiry date on one or more occasions, but not beyond the tenth anniversary of the award.
4. These grants have since 31 March 2021 been reduced to zero.

(a) Market value on date of exercise (14 August 2020) was 276.20p.

(b) Market value on date of exercise (19 March 2021) was 254.05p.

General notes:
1. 'Dividend equivalent cash' (an amount representing dividends earned) of 88.35p per vested share had accrued on the DBP 2017 awards 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 368.90p (14 June 2020) for DBP 2017 awards.

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

During the year to 31 March 2021 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	DBP 2017	29,185	14 Jun 2020	£260,234	£107,663	
Franco Martinelli	DBP 2017	18,387	14 Jun 2020	£163,951	£67,830	

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 2020/21

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

This Remuneration Report was approved by the Board on 30 July 2021 and signed on its behalf by:

Kjersti Wiklund
Committee Chair

Additional statutory information

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 15 on pages 232 and 233
9.8.4 (2)	Publication of unaudited financial information	Financial review on page 38
9.8.4 (5)	Director waivers of emoluments	Remuneration report on page 144
9.8.4 (12-13)	Shareholder waivers of dividends and future dividends	Financial statements, note 27 on page 253

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, page 192
Greenhouse gas emissions	Page 68
Employee engagement	Pages 58, 71, 102, 114 and 142
Business relationships	Pages 58 to 59, page 78 and throughout the Strategic report
Subsequent events	Note 37 on page 263
Likely future developments in the business of the Group	Pages 12 to 15
Details of important events affecting the Group	Strategic and directors' reports in particular pages 12 to 15 and 30 to 49

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 financial statements incorporated by reference.

The Company

Babcock International Group PLC, registered and domiciled in England and Wales, with the registered number 02342138, is the holding company for the Babcock International Group of companies.

Dividends

The Company did not pay an interim dividend this year (2020: 7.2 pence per 60 pence ordinary share) and, as part of our focus on building a strong balance sheet, has not recommended a final dividend (2020: nil).

Major shareholdings

As at 31 March 2021, 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%
Polaris Capital Management, LLC	30,374,782	6.01%
Abrams Bison Investments, L.L.C.	29,311,332	5.80%
Cobas Asset Management, SGIIC, S.A.	15,547,899	3.08%
Tameside MBC re. Greater Manchester Pension Fund managed by UBS Asset Management	15,738,663	3.11%

Since 31 March 2021 the Company has been notified by Polaris Capital Management, LLC. that it reduced its interest to 29,089,500 shares representing 5.75% in the share capital of the Company. There have been no further notifications between then and the date of this report.

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 August 2020, members authorised the Company to make market purchases of up to 50,559,660 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 4 August 2020 (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 2021 by the Babcock Employee Share Trust in connection with the Company's executive share plans are to be found in note 27 on page 253.

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 very material. In addition the UK government is considering provding itself with new powers to scrutinise transactions on national security grounds with the introduction of the National Security and Investment Bill.

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 May 2021, the Group agreed a new revolving credit facility of up to £300 million. As with the Group's existing main £775 million revolving credit facility maturing in August 2025, the new facility provides funds for general corporate and working capital purposes. The new facility expires in May 2024. In the event of a change of control, both facilities provide that the lenders may, within a certain period, call for the payment of any outstanding loans and cancel the facilities.

£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 140 and 141.

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.

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 a relevant Marine sector operating company or any holding company including the Company in circumstances where, acting on the grounds of national security, the MOD considers that it is inappropriate for the new owners to become involved, or interested, in the Marine sector. 'Change in control' occurs where a person or group of persons that controls the relevant company ceases to do so or if another person or group of persons acquires control.

Future Maritime Support Programme Interim Agreement dated 31 March 2021 between (1) The Secretary of State for Defence (2) Devonport Royal Dockyard Limited (3) Babcock Marine (Clyde) Limited and (4) Rosyth Royal Dockyard Limited and (5) the Company

Babcock has been delivering services at HMNB Clyde and HMNB Devonport under the Maritime Support Delivery Framework (MSDF) contract for the MOD since 1 October 2014. MSDF had replaced Babcock's Warship Support Modernisation Initiative (WSMI) contracts. These contracts sit under and work alongside Babcock's ToBA, which runs through to 2025. The MOD is now contracting the replacement programme for Babcock's MSDF under the Future Maritime Support Programme (FMSP). Babcock is delivering its services under an Interim FMSP Agreement.

Surface Ship Support Alliance Agreement (SSSA) dated 28 April 2017 between (1) The Secretary of State for Defence, (2) Devonport Royal Dockyard Limited and (3) BAE Surface Ships Limited

Any change of control of Devonport Royal Dockyard Limited must be approved in advance by the Secretary of State for Defence. Consent may be withheld to prevent an unsuitable third party taking control. Breach may result in exclusion from the alliance.

Competitive Design Phase Contract for the Type 31 Programme dated 7 December 2018 (as amended and restated on 15 November 2019) between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited

The Secretary of State for Defence may terminate if, in its reasonable opinion, a change of control of Devonport Royal Dockyard or any holding company will be contrary to the defence, national security or national interest of the UK. In 2020 this contract was novated to Rosyth Royal Dockyard Limited.

Since the Marine sector is core to the strategy, profitability and cashflow of the Group, the exercise of the change of control clauses outlined above could be very damaging not only to the Marine sector but to the Group as a whole.

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 on the following 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 10 days of receiving such notice (or such longer period as the Directors may specify) such that the Affected Shares become owned by an EEA national, failing which the Directors may arrange for the sale of the relevant shares at the best price reasonably obtainable at the time. The net proceeds of any sale of Affected Shares would be held on trust and paid (together with such rate of interest as the Directors deem appropriate) to the former registered holder upon surrender of the relevant share certificate in respect of the shares.

Circumstances in which the Directors may determine that shares are Affected Shares

The Articles provide that where the Directors determine that it is necessary to take steps in order to protect an operating licence of the Group they may: (i) seek to identify those shares which have given rise to the determination and to deal with such shares as Affected Shares; and/or (ii) specify a maximum number of shares (which will be less than 50% of the Company's issued share capital) that may be owned by non-EEA nationals and then 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.

Internal controls and risk management

There has been a process for identifying, evaluating and managing principal risks throughout the year to 31 March 2021 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 reviews 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 Committee, reviews the effectiveness of the Company's internal control processes formally at least once a year. More information can be found in the Audit Committee report on page 131.

In line with the Audit Committee (please see page 131), the Board considers that the system of internal and financial controls was not operating effectively in certain parts of the Group, in particular, in Aviation, Land and Head Office. The Audit Committee is reviewing plans to address the key issues. Since January 2021, the Company has implemented a number of improvements. Provided that these plans are effectively implemented, the Audit Committee believes that the Company's internal and financial controls should become fully effective.

Further information on the principal internal controls and risk assurances in use in the Company can be found on pages 84 to 86.

Auditor

As described on page 119 the Board has, subject to shareholder approval, appointed a new statutory auditor for the year ending 31 March 2022. A resolution to appoint Deloitte as independent auditor of the Company 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 accounting standards in conformity with the requirements of the Companies Act 2006 and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union.

Under company law, 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 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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 keeping adequate accounting records that are sufficient to show and explain the Group's 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 financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

Each of the Directors, being each Director who is in office at the date of the Directors' report is approved and whose names and functions are listed below, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report and 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.
- so far as the Director is aware, there is no relevant audit information of which the Group's and the Company's auditors are unaware; and
- 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's and the Company's auditors are aware of that information.

In addition, each of the Directors listed below considers that the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position, performance, business model and strategy.

Ruth Cairnie	Chair
Carl-Peter Forster	Non-Executive Director
Kjersti Wiklund	Non-Executive Director
Russ Houlden	Non-Executive Director
Prof. Victoire de Margerie	Non-Executive Director
Myles Lee	Non-Executive Director
Lucy Dimes	Non-Executive Director
Lord Parker	Non-Executive Director
David Lockwood	Chief Executive Officer
David Mellors	Chief Financial Officer

Approval of the Strategic report and the Directors' report

The Strategic report and the Directors' report (pages 2 to 159) for the year ending 31 March 2021 have been approved by the Board and signed on its behalf by:

Ruth Cairnie
Chair

David Lockwood OBE
Chief Executive Officer

30 July 2021

Jamie Gibbons
Maintenance Supervisor
Australia


babcock
ENDURITE

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 2021 and of the Group's loss and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Group and Company statements of financial position as at 31 March 2021; 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 Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the Group financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group in the period under audit.

Our audit approach

Overview

Audit scope

- We conducted our audit work over the complete financial information for 31 of the largest and higher risk reporting components located in the UK, Europe, South Africa and Australia, including one financially significant component, Devonport. We increased the number of components in scope to include the Aviation businesses in Norway and Sweden after PwC Oslo reported issues to us in completing the 31 March 2020 local statutory audit in December 2020.
- In addition, we performed specified audit procedures at 17 further reporting components and for the Group's share of the results of six joint ventures, selected based on their relative contribution to the Group results. The number of components on which specified audit procedures were performed was expanded to cover a number of issues identified by the contract profitability and balance sheet (CPBS) review. A large proportion of these were Aviation entities in Europe where issues were identified but had not historically been in scope for Group reporting.
- 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 central and component locations at which work was performed by the group engagement team and component auditors accounted for 84% of Group revenue and 78% of Group loss before tax.

Key audit matters

- Contract accounting and revenue/profit recognition (Group)
- Contract profitability and balance sheet review (Group)
- Goodwill and other acquired intangibles impairment (Group)
- Valuation of defined benefit pension liabilities (Group)
- Presentation and classification of specific adjusting items, including exceptional items (Group)
- Completeness and accuracy of lease liabilities and right-of-use assets (Group)
- Impact of COVID-19 (Company and Group)
- Going concern (Company and Group)

Materiality

- Overall Group materiality: £15,900,000 (2020: £21,400,000) based on 75% of the 2020 materiality, given the impact to the 2021 income statement of the CPBS review, which distorts the ongoing performance of the Group. We have applied a 25% reduction to reflect an expected normalised performance of the Group, which considers and factors in an appropriate level of reduction in the Group's ongoing operations and performance arising from the impact of COVID-19 and the prospective impact of the CPBS review. The 2020 materiality was based on 5% of profit before tax, adjusted for amortisation of acquired intangible assets and exceptional items.
- Company financial statements: £61,391,000 (2020: £72,750,000), based on 1% of total assets. For the purposes of the Group audit, we applied a lower materiality of £12,375,000 (2020: £16,500,000) to Company balances and transactions, other than those which were eliminated on consolidation in the Group financial statements.
- Performance materiality: £11,925,000 (Group) and £9,280,000 (Company).

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.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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, tax regulations, anti-bribery and corruption legislation, health and safety regulation and equivalent local laws and regulations applicable to reporting components, 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 the posting of inappropriate journal entries and management bias in accounting estimates and judgments. This included the risk of manipulation of results to achieve performance targets through improper revenue/profit recognition, given the judgmental nature of contract accounting (see key audit matter); inappropriate capitalisation of costs or expenses; and assessing the adjustments arising from management's CPBS review. 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:

- Gaining an understanding of the legal and regulatory framework applicable to the Group and the industries in which its businesses operate, and considering the risk of any acts by the Group which may be contrary to applicable laws and regulations, including fraud.
- Discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluating the results of whistleblowing procedures and related investigations;
- Review of reporting component auditors' work, including any matters reported by component auditors relating to non-compliance with laws and regulations or fraud;
- Challenging assumptions and judgments made by management in their significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In particular in relation to contract accounting and revenue/profit recognition, management's CPBS review, and goodwill impairment (see related key audit matters below). This included meetings with, and reviewing working papers prepared by, component auditors to understand and assess the areas of estimation and judgement relevant to the component, and how component auditors challenged management to support their conclusions;
- As in all of our audits we also addressed the risk of management override of internal controls, including testing journals, and evaluated whether there was evidence of bias by management or the directors that represented a risk of material misstatement due to fraud. In particular, we considered the results of management's CPBS review and our procedures thereon (as detailed in the related key audit matter below), and we did not identify any specific material matters relating to fraud. As part of our work on the CPBS review we considered the risk that new management may take an overly prudent position, both at a group and a component level, on long term profitability.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

There are two new key audit matters this year. One in respect of the CPBS review which reflects the additional work involved in addressing the adjustments proposed by management and one in respect of Going Concern. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Contract accounting and revenue/profit recognition (Group) Refer to notes 6, 20 and 22 in the Group financial statements and the Audit Committee Report. 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, where applicable; • Recognise revenue arising from 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 • Provide appropriately against 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 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), acceptance certificates, milestone agreements, and/or discussions with external legal advisors; • Performed procedures over management's contract forecast models, testing the mathematical accuracy and agreeing amounts to underlying contracts; • Discussed and obtained supporting evidence of management's estimates for total contract costs and forecast costs to complete, including considering the historical accuracy of such estimates and understanding the reasons for material changes where these have arisen as part of the CPBS review; • 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 management's calculations of provisions for onerous commitments, where these relate to a contract; • 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; and • Assessed the results of management's CPBS review and considered the impact on contract profitability and our audit more broadly (see separate key audit matter below). Our testing did not identify any material factors that management had not considered in its estimates of the total contract costs, stage of completion and expected profit margin of each contract (including the expected losses on loss making contracts). A number of adjustments were identified by our work which were adjusted for by Group management.

Key audit matter	How our audit addressed the key audit matter
Contract accounting and revenue/profit recognition (Group) (continued)	Overall, we consider the contract positions taken by management at 31 March 2021 to be reasonable and to comply with the relevant accounting standards. In reaching this view, we considered the risk of management bias. Whilst new management were more prudent in positions taken, overall, we did not identify any instances of inappropriate management bias.
Contract profitability and balance sheet review (Group) Refer to notes 3, 4 and 5 in the Group financial statements and the Audit Committee Report. During the current year, management, with the assistance of an independent accounting firm, performed a review of the contract portfolio and other balance sheet items as part of its contract profitability and balance sheet (CPBS) review including consideration of the impact on the annual goodwill impairment assessment. This review identified a number of findings, including: • impairment of goodwill and other assets; • changes in the estimation of contract profitability; • correction of errors in the accounting for property, plant and equipment, right of use assets and deferred contract fulfilment costs; and • changes in the estimation of provisions. As a result of these findings, management recorded adjustments in the financial statements in respect of the current year and restatements to prior years. The adjustments arising from the CPBS review, including the impact of the annual goodwill impairment review, increased the loss before tax for the year ended 31 March 2021 by £1,853m. This includes impairment of goodwill and acquired intangible assets (£1,349m), impairments of property plant and equipment and right of use assets (£157m), impairment of other assets and increased liabilities (£310m), adjustments relating to investments in joint ventures and associates (£37m) and other adjustments included within underlying operating profit of £275m. Through the CPBS review process, management also reassessed a number of key accounting policies applied and accounting judgments made in prior years. Corrections of errors in previously reported figures were also identified as being required. Where these resulted in a material impact to the financial statements, adjustments have been made to the comparative information for the year ended 31 March 2020 and opening balances. The correction of the prior year errors reduced Group net assets at 1 April 2019 by £308m and decreased the loss before tax for the year ended 31 March 2020 by £77m. The CPBS review also identified an accounting policy that management elected to change relating to the treatment of "power by the hour" agreements for aircraft. The comparative information for the year ended 31 March 2020 and opening balances have been restated, resulting in a reduction in Group net assets at 1 April 2019 of £45m and an increase to the loss before tax for the year ended 31 March 2020 of £15m.	We considered the nature and extent of the CPBS findings in determining our assessment of the risk of material misstatement to the financial statements including as a result of fraudulent manipulation of the financial statements (including the risk of override of controls), as described elsewhere in this report. We assessed and tested the key areas of judgments and accounting estimates involved in preparing the financial statements, and considered whether the results of our audit testing in the current year, including in respect of areas involving judgement and accounting estimates, were indicative of prior year errors not identified by management. The CPBS adjustments included changes in accounting estimates impacting the current year which related to the underlying profitability of long-term contracts and impairment of goodwill and other acquired intangible assets, which are covered by separate key audit matters. In respect of other CPBS adjustments, in conjunction with our component audit teams, we performed procedures to: • evaluate the classification of current year changes of estimates, corrections of prior year errors, or changes in accounting policy, for each individual adjustment with an impact greater than £800,000 (being the level agreed with the Audit Committee above which we would report any misstatements identified during our audit). We assessed the evidence of the events that occurred in the current year which resulted in the adjustments, and evaluated whether adjustments should have been recorded in prior years and their classification as policy changes or errors; • test the monetary value of adjustments greater than £800,000, through agreement and verification to supporting documentation; and • challenge management's assumptions related to accounting estimates. We considered management's view on the appropriate recoverable amount of the relevant assets 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. We also checked the accuracy of the calculations prepared by management.

Key audit matter	How our audit addressed the key audit matter
Contract profitability and balance sheet review (Group) (continued) In respect of asset impairments, management performed impairment assessments where impairment indicators were identified or where these were otherwise required by accounting standards. The determination of the recoverable amount of 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 growth rates and discount rates applied, where value in use calculations were used to determine the recoverable amount of the relevant assets. *The classification and treatment of adjustments arising from the CPBS review required judgment, specifically when assessing whether an adjustment represented a change of estimate to be recognised in the current year or related to the correction of a prior year error or change in accounting policy.* *Judgment was also required to determine the monetary value of changes in estimates and prior year errors:* • *changes to the key assumptions used by management in the valuation of internally generated intangible assets, tangible assets and right-of-use assets subject to an impairment could result in the calculated recoverable value being lower than the carrying value, resulting in additional impairment;* • *there is a broad range of acceptable outcomes resulting from estimates and judgments in the determination of forecast contract profitability that could lead to different revenue and profit being reported in the financial statements; and* • *judgment is required in the assessment of contract fulfilment costs and expenditure on the repair and maintenance of aircraft in order to determine whether the capitalisation/deferral of costs is appropriate.* *There is a risk that new management may take an overly prudent position on long term profitability.* *Judgment was also required in respect of the classification and disclosure of these items in the financial statements.*	Where appropriate, management considered the results of our procedures in determining the final classifications and monetary amounts of CPBS adjustments that impacted the current and prior years, and adjusted these accordingly in the financial statements. We evaluated the Group's revised accounting policy to determine whether these comply with the requirements of international financial reporting standards (IFRS) and IFRS interpretations committee interpretations as adopted by the European Union and in accordance with international accounting standards in conformity with the Companies Act 2006. We considered the risk of management bias and whilst new management were more prudent in positions taken, overall, we did not identify any instances of inappropriate management bias. We assessed the related disclosures included in the Group financial statements and consider them to be sufficient and appropriate to explain the nature of the CPBS items.
Goodwill and other acquired intangibles impairment (Group) Refer to notes 3, 4, 5, 13 and 14 in the Group financial statements and the Audit Committee Report. The Group has goodwill of £956m (2020: £2,288m), allocated between the Aviation, Nuclear, Marine, Land and Africa cash generating units (CGUs), which is subject to an annual impairment review. In addition, the group has acquired intangibles of £104m (2020: £202m). Management assessed a CGU to be an operating segment for the purposes of goodwill and other intangible impairment testing. An impairment charge of £1,243m has been recorded against the goodwill balances allocated to the Aviation (£817m) and Land (£426m) CGUs for the year ended 31 March 2021. In addition, the correction of a prior year error of £117m has been recorded for the year ended 31 March 2020. As disclosed in note 5 to the Group financial statements, following a review of the methodology, management has corrected an error in the determination of CGUs, which resulted in the Land and Africa operating segments being assessed as separate CGUs for the years ending 31 March 2021 and 31 March 2020. This, together with a computational error identified in the Land CGU model in the prior year, resulted in a prior year restatement to record an impairment of £123m in respect of the Land CGU in the year ended 31 March 2020.	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. We evaluated the inputs included in the value in use calculations and challenged the key assumptions by obtaining evidence, including in respect of: • The operating profit, margin and growth rates used in the cash flow forecasts by comparing them with historical results, forecasts and our understanding of the related CGU's historical pipeline, order book and future pipeline; • The inclusion of expected sale proceeds for planned business disposals were included within the cash flow forecasts for each CGU. These were supported by, and compared to, evidence including; recent offers, external valuations, discounted cash flows or recent market transaction activity; • Working capital, capital expenditure and capital employed assumptions by comparing these against historically achieved cash flows, capital expenditure plans and agreeing these to the respective CGU balance sheets; • The key market-related assumptions, including discount rates and short-term and long-term growth rates, by benchmarking these against external data and using our valuation expertise;

Key audit matter	How our audit addressed the key audit matter
Goodwill and other acquired intangibles impairment (Group) (continued) A prior year error was separately identified in respect of an impairment of Aviation oil and gas customer relationship intangible assets, which has resulted in a restatement to record an impairment of £58m at 1 April 2019 and £44m at 31 March 2020. As a result of other Aviation CGU prior year errors identified in the year ended 31 March 2020, and the associated impact on the carrying values, a corresponding adjustment was recorded to the goodwill impairment charge, to reflect the impact of the prior year adjustments, as disclosed in note 5 to the Group financial statements. The impairment assessments used to support the carrying value of, or to determine the level of impairment required against, the goodwill allocated to the Group's five 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-term 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, resulting in additional impairments. In the current year, we identified a heightened risk of impairment in respect of the Aviation and Land CGUs.*	• The reliability of cash flow forecasts through a review of actual past performance and comparison with previous forecasts. On a sample basis, projects were agreed to their estimate at completion forecast, contractual terms and previous track record performance; • The allocation of corporate assets was assessed by understanding and testing the basis for management's allocation; and • Where restructuring cost savings were assumed within the forecast, we obtained details of management's restructuring plan and how these costs savings were expected to be realised and were committed at the balance sheet date. In respect of the prior year errors arising in relation to the Aviation and Land CGU impairments, and the oil and gas relationship intangible asset impairment, we: • Determined the appropriateness of Land and Africa being treated as separate CGUs by reviewing management's internal reporting and understanding what information is provided to the chief operating decision maker (CODM); • Recalculated the 31 March 2020 Land CGU goodwill impairment, after the computational error was corrected, and performed procedures to confirm the error did not impact prior periods; • Reassessed the carrying value of the Aviation oil and gas customer intangible asset prior year error by determining which customer intangible contracts existed to confirm the point at which the associated impairment should be recognised; and • Recalculated the 31 March 2020 Aviation CGU goodwill impairment after the Aviation CGU carrying values were updated to reflect the impact of other Aviation CGU prior period errors. 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 and Land CGUs, 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 Committee and we concluded the impairment charges recognised were within an acceptable range. For the impairments recognised we also considered whether there was contradictory evidence that would indicate that the fair value less cost to sell was higher than the value in use calculations used by management to determine the impairment. We assessed the related disclosures included in the Group financial statements, including the sensitivities provided in respect of the Aviation and Land Sector CGUs for the long-term growth rates and discount rates, and consider them to be acceptable.

Key audit matter	How our audit addressed the key audit matter
Valuation of defined benefit pension liabilities (Group) Refer to note 29 in the Group financial statements and the Audit Committee Report. The Group operates a number of defined benefit pension plans, giving rise to net pension deficit of £293m (2020: £145m net pension asset), gross pension assets of £4,785m (2020: £4,411m) and gross pension liabilities of £5,078m (2020: £4,266m), 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. *Inappropriate selection of assumptions or methodologies for calculating the pension liabilities could result in a material difference in the value of the liabilities.*	We used our actuarial specialists to assess whether the assumptions used in calculating the pension liabilities were reasonable, by: • Assessing whether salary increases and mortality rate assumptions were consistent with the specifics of each plan and, where applicable, with UK industry benchmarks; • Verifying that the discount and inflation rate assumptions were consistent with our independently compiled expected ranges, based on market observable indices, relevant national and industry benchmarks, and our market experience; • Examining the IAS 19 reports prepared by management's external actuarial experts to assess the consistency of the methodologies and assumptions used, and compliance with IAS 19 requirements; and • Reviewing legal and accounting conclusions received by the Group from third party experts 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. We assessed the related disclosures included in the Group financial statements and consider them to be appropriate.
Presentation and classification of specific adjusting items, including exceptional items (Group) Refer to note 3 and 4 in the Group financial statements and the Audit Committee Report. The Group has recognised specific adjusting items of £1,615m, and a related income tax benefit of £34m, for the year ended 31 March 2021, as disclosed in note 3 to the Group financial statements. These items include pre-tax exceptional items of £1,497m, of which £1,243m related to goodwill impairment and £278m related to the impairment of other assets. Additional specific adjusting items totalling £118m related to other adjustments arising from management's CPBS review. *Judgment was required to determine the appropriate classification of specific adjusting items and exceptional items, and how these items are disclosed in the financial statements.* *Items may be inappropriately classified as exceptional in the year.*	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 challenged the appropriateness of management's policy and how this was applied. Our evaluation and conclusions in respect of goodwill impairment, impairment of other assets, and other adjustments arising from the CPBS review are set out in the related key audit matters above. 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, identifying no significant deviations from our expectations. We also considered whether there were items that were recorded within underlying loss that we considered to fall within management's definition of exceptional items that had not been classified as such. No material items were identified.
Completeness and accuracy of lease liabilities and right-of-use assets (Group) Refer to note 16 in the Group financial statements and the Audit Committee Report. The Group has lease liabilities of £612m (2020: £689m) and right-of-use assets of £521m (2020: £609m) at 31 March 2021. 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 future lease payments. All material leases across the Group and the relevant data points from each lease need to be captured to ensure leases are recorded accurately. *The impact of not capturing all material leases across the Group, not capturing relevant key 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 to the lease contract for a sample of lease additions and disposals. 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. We assessed the appropriateness and completeness of the disclosures included in the Group financial statements. No material issues were identified from our work.

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 (Group and Company) Refer to the Audit Committee Report. The COVID-19 pandemic has impacted the Group's trading performance and future expected cash flows. Therefore, there is inherent uncertainty in determining the impact of the pandemic on certain aspects of the financial statements. The key impacts of COVID-19 on the Group and Company financial statements are: • The budgets and models supporting the goodwill, indefinite-lived intangibles, investments in subsidiaries (parent company only) and tangible fixed asset impairment assessments have been updated to reflect management's best estimate of the impacts of COVID-19. • Future expected cash flows and related assumptions also underpin management's going concern and viability assessments, including covenant compliance. Management has modelled severe but plausible downside scenarios to its base case trading forecast. Having considered these models, together with a robust assessment of planned and possible mitigating actions, and covenant clarification and amendments in place, management has concluded that the Group remains a going concern, and that there is no material uncertainty in respect of this conclusion. *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 and challenging key assumptions. We assessed the Group's liquidity and confirmed the revolving credit facility terms including the clarifications and amendments to covenants agreed with the lenders to support management's going concern assessment (see separate key audit matter and the conclusions relating to going concern section below). We considered any potential impairment indicators to the carrying value of assets, including goodwill and other assets, and the broader impact to the Group's financial statements, as set out in the related key audit matters above.
Ability of the Group and Company to continue as a going concern (Group and Company) Refer to the Going concern and viability statements section of the Annual Report and the Audit Committee Report. The Group's forecast profitability and cash generation have been significantly reduced as a result of the ongoing COVID-19 pandemic and the adjustments arising from management's CPBS review. These gave rise to a greater uncertainty regarding the Group's and the Company's ability to continue as a going concern, due to the impact on the ability of the Group to meet financial covenant measures in its borrowing facilities. Subsequent to the year-end, management agreed a covenant amendment with the Group's lenders to its revolving credit facilities at 30 September 2021 and 31 March 2022, and obtained clarification of the treatment of certain CPBS items for the purposes of the covenant calculations at 31 March 2021 and 30 September 2021. In accordance with the agreement reached with the Group's lenders, management has excluded the majority of the CPBS adjustments when determining EBITDA for the purposes of the covenant calculation, which has resulted in continued compliance with the debt covenants. Management has concluded, based on the Group's cash flow forecasts and severe but plausible downsides, that there is no material uncertainty in respect of the Group's and the Company's ability to continue as a going concern.	Our procedures and conclusions in respect of going concern are set out in the conclusions relating to going concern section below.

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 five Sectors: Marine, Land, Aviation, Nuclear and Africa. 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 31 components that, in our view, required an audit of their complete financial information due to their size and/or risk, including one financially significant component, Devonport. We increased the number of components in scope to include the Aviation businesses in Norway and Sweden after PwC Oslo reported issues to us in completing the 31 March 2020 local statutory audit in December 2020. Specified audit procedures were performed at 17 further reporting components and over the Group's share of the results of six joint ventures. The number of components on which specified audit procedures were performed was expanded to cover a number of issues identified by the contract profitability and balance sheet (CPBS) review. A large proportion of these were Aviation entities in Europe where issues were identified but had not historically been in scope for Group reporting. Reporting components in scope, including joint ventures, were based in ten countries: the UK, France, Spain, Portugal, Italy, Norway, Sweden, Canada, 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. This included specific instructions in relation to the CPBS review. Due to the 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 clearances at each of the sectors and a number of clearance meetings across the components using video conferencing. During the clearance meetings, the findings reported by 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 central and component locations at which work was performed by the group engagement team and component auditors accounted for 84% of Group revenue and 78% of Group loss before tax.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows::

	Financial statements – Group	Financial statements – Company
Overall materiality	£15,900,000 (2020: £21,400,000).	£61,391,000 (2020: £72,750,000). For the purposes of the Group audit, we applied a lower materiality of £12,375,000 (2020 - £16,500,000) to Company balances and transactions, other than those which were eliminated on consolidation in the Group financial statements.
How we determined it	75% of 2020 materiality, which was based on 5% of profit before tax, adjusted for amortisation of acquired intangible assets and exceptional items.	Materiality for the Company financial statements was based on 1% of total assets. Our lower materiality of £12,375,000 for the balances and transactions set out above was based on our calculation and allocation of component materiality for the Group audit.
Rationale for benchmark applied	Given the impact to the 2021 income statement as a result of the CPBS review, which distorts the view of the ongoing performance of the Group we have chosen to base our materiality on that applied to the 2020 financial year. We have applied a 25% reduction to reflect an expected normalised performance of the Group, which considers and factors in an appropriate level of reduction in the Group's ongoing operations and performance arising from the impact of COVID-19 and the prospective impact of the CPBS review.	Balances and transactions that eliminate upon consolidation were audited to a higher materiality. We consider a total asset measure to reflect the nature of the Company, which primarily acts as a holding company for the Group's investments. The results of procedures performed over balances and transactions contributing to the Group's overall results were used to support our Group opinion.

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 £800,000 to £12,375,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £11,925,000 for the Group financial statements and £9,280,000 for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk, the effectiveness of controls as well as the outcome of the CPBS review - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £800,000 (Group audit) (2020: £1,000,000) and £800,000 (Company audit) (2020: £1,000,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining and examining management's base case forecasts and downside scenarios, checking that the forecasts were subject to board review and approval;
- Considering the historical reliability of management forecasting for cash flow and net debt by comparing budgeted results with actual performance;
- Performing our own independent sensitivity analysis to understand the impact of changes in cash flow and net debt available to the Group;
- Assessing the Group's liquidity and examining the revolving credit facility terms to support management's going concern assessment;
- Reviewing the covenants, including the amendments and clarifications obtained (referred to in the related key audit matter above), applicable to the Group's borrowings and assessing whether the forecasts supported ongoing compliance with the covenants; and
- Engaging our own specialists to assist us with our work on the Group's forecasts and severe but plausible downside cases and availability of mitigating actions when required.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

As not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this 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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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.

Directors' Remuneration

In our opinion, the part of the Remuneration Committee Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when 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.

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' responsibilities 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 Remuneration Committee 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 Committee, we were appointed by the members on 1 April 2002 to audit the financial statements for the year ended 31 March 2003 and subsequent financial periods. The period of total uninterrupted engagement is 19 years, covering the years ended 31 March 2003 to 31 March 2021.

John Waters (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

30 July 2021

Group income statement

For the year ended 31 March	Note	2021 Total £m	2020 (restated) Total £m
Revenue	3,6	**4,182.7**	4,428.5
Cost of revenue		**(4,156.6)**	(3,941.2)
Gross profit		**26.1**	487.3
Administration and distribution expenses		**(376.2)**	(359.2)
Goodwill impairment	13	**(1,243.2)**	(278.4)
(Loss)/profit on divestments	32	**(49.7)**	74.7
Operating loss	3,6,7	**(1,643.0)**	(75.6)
Share of results of joint ventures and associates	3,6,17	**(13.1)**	58.6
Finance income	8	**16.6**	14.1
Finance costs	8	**(77.8)**	(86.0)
Loss before tax	3,6	**(1,717.3)**	(88.9)
Income tax benefit/(expense)	10	**15.3**	(26.9)
Loss for the year		**(1,702.0)**	(115.8)
Attributable to:			
Owners of the parent		**(1,702.0)**	(117.8)
Non-controlling interest		**–**	2.0
		(1,702.0)	(115.8)
Loss per share	12		
Basic		**(337.0)p**	(23.3)p
Diluted		**(337.0)p**	(23.3)p

Group statement of comprehensive income

For the year ended 31 March	Note	2021 £m	2020 (restated) £m
Loss for the year		**(1,702.0)**	(115.8)
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		**1.9**	(29.5)
Reclassification of cumulative currency translation reserve on disposal		**10.5**	–
Fair value adjustment of interest rate and foreign exchange hedges		**18.2**	(25.4)
Tax on fair value adjustment of interest rate and foreign exchange hedges		**(4.5)**	5.5
Hedging gains/(losses) reclassified to profit or loss		**6.9**	(3.1)
Fair value adjustment of joint ventures and associates derivatives	17	**7.0**	(9.4)
Tax, including rate change impact, on fair value adjustment of joint ventures and associates derivatives	17	**(1.4)**	2.3
Items that will not be reclassified to income statement			
Remeasurement of retirement benefit obligations	29	**(506.8)**	99.9
Tax on remeasurement of retirement benefit obligations		**96.3**	(20.2)
Impact of change in UK tax rates		**–**	0.9
Other comprehensive (loss)/income, net of tax		**(371.9)**	21.0
Total comprehensive loss		**(2,073.9)**	(94.8)
Total comprehensive loss attributable to:			
Owners of the parent		**(2,075.0)**	(94.7)
Non-controlling interest		**1.1**	(0.1)
Total comprehensive loss		**(2,073.9)**	(94.8)

In the year ended March 2021, the contract profitability and balance sheet review identified material errors which impact the prior period. The review also resulted in changes to an accounting policy. The errors were corrected and new policy applied by restating each of the affected financial statement line items for the prior period. See note 5.

Additionally, for the year ended 31 March 2021 the income statement has been simplified to exclude the reconciliation to underlying operating profit, as this is now shown in note 3.

Group statement of changes in equity

	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Total equity attributable to owners of the Company £m	Non-controlling interest £m	Total equity £m
At 1 April 2019 as previously stated	303.4	873.0	768.8	30.6	975.8	(74.4)	(32.1)	2,845.1	17.4	2,862.5
Prior year adjustment (note 5)	–	–	–	–	(308.1)	7.2	–	(300.9)	–	(300.9)
At 1 April 2019 restated	303.4	873.0	768.8	30.6	667.7	(67.2)	(32.1)	2,544.2	17.4	2,561.6
(Loss)/profit for the year	–	–	–	–	(117.8)	–	–	(117.8)	2.0	(115.8)
Other comprehensive income/(loss)	–	–	–	–	80.6	(30.1)	(27.4)	23.1	(2.1)	21.0
Total comprehensive loss	–	–	–	–	(37.2)	(30.1)	(27.4)	(94.7)	(0.1)	(94.8)
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 33)	–	–	–	–	(0.2)	–	–	(0.2)	0.2	–
Net movement in equity	–	–	–	–	(187.6)	(30.1)	(27.4)	(245.1)	(1.7)	(246.8)
At 31 March 2020 restated	**303.4**	**873.0**	**768.8**	**30.6**	**480.1**	**(97.3)**	**(59.5)**	**2,299.1**	**15.7**	**2,314.8**
At 1 April 2020 as restated	**303.4**	**873.0**	**768.8**	**30.6**	**480.1**	**(97.3)**	**(59.5)**	**2,299.1**	**15.7**	**2,314.8**
Loss for the year	**–**	**–**	**–**	**–**	**(1,702.0)**	**–**	**–**	**(1,702.0)**	**–**	**(1,702.0)**
Other comprehensive (loss)/income	**–**	**–**	**–**	**–**	**(410.5)**	**26.2**	**11.3**	**(373.0)**	**1.1**	**(371.9)**
Total comprehensive loss	**–**	**–**	**–**	**–**	**(2,112.5)**	**26.2**	**11.3**	**(2,075.0)**	**1.1**	**(2,073.9)**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.8)**	**(0.8)**
Share-based payments	**–**	**–**	**–**	**–**	**3.2**	**–**	**–**	**3.2**	**–**	**3.2**
Tax on share-based payments	**–**	**–**	**–**	**–**	**2.3**	**–**	**–**	**2.3**	**–**	**2.3**
Own shares	**–**	**–**	**–**	**–**	**(2.2)**	**–**	**–**	**(2.2)**	**–**	**(2.2)**
Net movement in equity	**–**	**–**	**–**	**–**	**(2,109.2)**	**26.2**	**11.3**	**(2,071.7)**	**0.3**	**(2,071.4)**
At 31 March 2021	**303.4**	**873.0**	**768.8**	**30.6**	**(1,629.1)**	**(71.1)**	**(48.2)**	**227.4**	**16.0**	**243.4**

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	Note	31 March 2021 £m	31 March 2020 (restated) £m	1 April 2019 (restated) £m
Assets				
Non-current assets				
Goodwill	13	**956.3**	2,287.9	2,584.2
Other intangible assets	14	**202.0**	334.7	389.0
Property, plant and equipment	15	**731.5**	840.9	873.7
Right of use assets	16	**521.2**	609.0	623.5
Investment in joint ventures and associates	17	**73.5**	161.9	162.1
Loan to joint ventures and associates	17	**42.1**	48.6	42.5
Retirement benefits surpluses	29	**40.8**	325.3	226.9
IFRIC 12 financial assets		**11.2**	12.8	15.5
Other financial assets	24	**17.2**	21.5	93.8
Deferred tax asset	18	**141.3**	60.5	54.7
		2,737.1	4,703.1	5,065.9
Current assets				
Inventories	19	**162.4**	191.6	194.7
Trade and other receivables	20	**741.0**	837.4	868.8
Income tax recoverable		**48.4**	57.2	40.5
Other financial assets	24	**34.9**	153.9	48.0
Cash and cash equivalents	21, 31	**904.8**	1,845.9	844.7
		1,891.5	3,086.0	1,996.7
Total assets		**4,628.6**	7,789.1	7,062.6
Equity and liabilities				
Equity attributable to owners of the parent				
Share capital	27	**303.4**	303.4	303.4
Share premium		**873.0**	873.0	873.0
Capital redemption and other reserves		**680.1**	642.6	700.1
Retained earnings		**(1,629.1)**	480.1	667.7
		227.4	2,299.1	2,544.2
Non-controlling interest		**16.0**	15.7	17.4
Total equity		**243.4**	2,314.8	2,561.6
Non-current liabilities				
Bank and other borrowings	23	**1,318.8**	2,050.0	1,437.2
Lease liabilities	16, 23	**486.2**	548.5	533.7
Trade and other payables	22	**1.9**	2.1	2.0
Deferred tax liabilities	18	**7.7**	33.7	25.5
Other financial liabilities	24	**51.1**	35.6	9.3
Retirement benefit deficits	29	**333.9**	180.1	254.9
Provisions for other liabilities	26	**73.7**	32.7	33.8
		2,273.3	2,882.7	2,296.4
Current liabilities				
Bank and other borrowings	23	**383.7**	987.9	657.3
Lease liabilities	16, 23	**126.1**	140.9	107.1
Trade and other payables	22	**1,506.7**	1,301.2	1,348.8
Income tax payable		**9.7**	3.8	22.1
Other financial liabilities	24	**13.9**	27.7	10.9
Provisions for other liabilities	26	**71.8**	130.1	58.4
		2,111.9	2,591.6	2,204.6
Total liabilities		**4,385.2**	5,474.3	4,501.0
Total equity and liabilities		**4,628.6**	7,789.1	7,062.6

In March 2021, the contract profitability and balance sheet review identified material errors which impact prior periods. The review also resulted in changes to an accounting policy. The correction of the errors and application of the new policy resulted in a reduction of net assets amounting to £235.2 million at 31 March 2020 and £300.9 million at 1 April 2019. Each of the affected financial statement line items was restated for the prior periods. See note 5. This also impacts the Group cash flow statement.

The notes on pages 178 to 268 are an integral part of the consolidated financial statements. The Group financial statements on pages 174 to 177 were approved by the Board of Directors on 30 July 2021 and are signed on its behalf by:

David Lockwood OBE
Director

David Mellors
Director

Group cash flow statement

For the year ended 31 March	Note	2021 £m	2020 (restated) £m
Cash flows from operating activities			
Loss for the year		**(1,702.0)**	(115.8)
Share of results of joint ventures and associates	17	**13.1**	(58.6)
Income tax (benefit)/expense	10	**(15.3)**	26.9
Finance income	8	**(16.6)**	(14.1)
Finance costs	8	**77.8**	86.0
Depreciation and impairment of property, plant and equipment		**199.9**	91.3
Depreciation and impairment of right of use assets		**179.8**	137.5
Amortisation and impairment of intangible assets		**148.2**	81.9
Goodwill impairment		**1,243.2**	278.4
Equity share-based payments		**3.2**	2.9
Impairment of joint venture loans	17	**7.0**	–
Net derivative fair value movement through profit or loss		**6.9**	(3.1)
Loss/(profit) on disposal of subsidiaries, businesses and joint ventures and associates	32	**49.7**	(74.7)
Loss on disposal of property, plant and equipment		**26.4**	3.9
Loss on disposal of intangible assets		**–**	0.1
Cash generated from operations before movement in working capital and retirement benefit payments		**221.3**	442.6
Decrease/(increase) in inventories		**32.9**	(10.9)
Decrease in receivables		**86.8**	40.0
Increase/(decrease) in payables		**212.5**	(24.7)
(Decrease)/increase in provisions		**(14.6)**	71.8
Cash outflow from non-hedging derivatives		**(3.6)**	–
Retirement benefit contributions in excess of income statement		**(64.5)**	(73.5)
Cash generated from operations		**470.8**	445.3
Income tax received/(paid)		**19.4**	(72.4)
Interest paid		**(79.4)**	(84.9)
Interest received		**12.0**	13.3
Net cash flows from operating activities		**422.8**	301.3
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	32	**90.6**	101.6
Dividends received from joint ventures and associates	17	**36.8**	52.0
Proceeds on disposal of property, plant and equipment		**32.2**	76.5
Purchases of property, plant and equipment		**(170.8)**	(191.3)
Purchases of intangible assets		**(19.6)**	(29.0)
Vehicle leasing principal repayments	24	**14.9**	49.9
Investment in joint ventures	17	**(8.8)**	(0.3)
Loans repaid by joint ventures and associates		**4.2**	0.7
Increase in loans to joint ventures and associates		**(3.9)**	(5.5)
Net cash flows from investing activities		**(24.4)**	54.6
Cash flows from financing activities			
Dividends paid	11	**–**	(152.1)
Proceeds above market value on sale and leaseback of property, plant and equipment		**1.0**	8.3
Lease principal payments	31	**(140.6)**	(175.0)
Cash inflow from settlement of derivatives		**52.6**	–
Bank loans repaid	31	**(1,154.4)**	(253.5)
Loans raised and facilities drawn down	31	**25.1**	1,304.7
Dividends paid to non-controlling interest		**(0.8)**	(1.8)
Repurchase of own shares		**(2.2)**	(2.9)
Net cash flows from financing activities		**(1,219.3)**	727.7
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(820.9)**	1,083.6
Cash, cash equivalents and bank overdrafts at beginning of year	31	**1,348.7**	275.2
Effects of exchange rate fluctuations	31	**3.1**	(10.1)
Cash, cash equivalents and bank overdrafts at end of year	31	**530.9**	1,348.7

Notes to the Group financial statements

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 96. The Board considered the 18 month period from 31 March 2021 to 30 September 2022 in its assessment of going concern. The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. 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 England, UK.

New and amended standards adopted by the Group

The Group applied the following standards and amendments for the first time for the year beginning on 1 April 2020:

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2020 and did not have a material impact on the consolidated financial statements:

- IAS 1, 'Presentation of Financial Statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors'. The amendment is effective for annual reporting periods beginning on or after 1 January 2020 and relates to the definition of material.
- IFRS 3, 'Business Combinations', amendment is effective for annual reporting periods beginning on or after 1 January 2020 and relates to the definition of a business.

The following standards and amendments to IFRSs become effective for the annual reporting period beginning on 1 April 2020, but were early adopted by the Group for the annual reporting period beginning on 1 April 2019:

- IFRS 9 and IFRS 7, 'Financial Instruments' and 'Financial Instruments: Disclosures', amended effective for periods beginning on or after 1 January 2020 with early adoption allowed. 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. There is no impact on the Group's fair value hedge accounting or cash flow hedge accounting as a result of adopting the amendments.

New IFRS accounting standards, amendments and interpretations not yet adopted

The Group has not early adopted any other amendment, standard or interpretation that has been issued but is not yet effective. It is expected that these standards and amendments will be adopted on the applicable effective date. The following new or amended IFRS accounting standards, amendments and interpretations not yet adopted are not expected to have a significant impact on the Group:

- IAS 1, 'Presentation of Financial Statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors'. Amendment effective for annual reporting periods commencing on or after 1 January 2022. The amendment relates to the classification of liabilities as current or non-current.
- IAS 37, 'Provisions, contingent liabilities and contingent assets'. Amendment effective for periods commencing on or after 1 January 2022. The amendment relates to the clarification of costs that an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Management's project to determine the impact of this amendment is ongoing, however this is not expected to have a material impact.
- IFRS 3, 'Business Combinations', amendment effective for periods commencing on or after 1 January 2022. The amendment relates to the identification of liabilities assumed and contingent assets acquired in a business combination.
- IFRS 9 and IFRS 7, 'Financial Instruments' and 'Financial Instruments: Disclosures'. These amendments are effective for periods commencing after 1 January 2022 and relate to Phase 2 of Interest Rate Benchmark Reform.
- IFRS 16, 'Leases', amendment effective 1 June 2020. The amendment provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification.
- IFRS 17, 'Insurance Contracts', amendment effective 1 January 2023. This has been deferred from the initial effective date of 1 January 2021.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company 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.

1. Basis of preparation and significant accounting policies (continued)

Basis of consolidation (continued)

(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 carrying values of associates and joint ventures are reviewed on a regular basis and if there is objective evidence that an impairment in value has occurred as a result of one or more events during the period, the investment is impaired.

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. If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses unless it has incurred obligations to do so.

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. Loans to joint ventures are valued at amortised cost less provision for impairment.

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 and judgements in relation to these financial statements are considered below:

Critical accounting judgements

Critical accounting judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below:

Revenue and profit recognition

The Group accounts for revenue in accordance with IFRS 15. Revenue and profit are recognised over time based on costs incurred for the majority of the Group's contracts with customers. The Group's contracts are often amended for changes in customers' requirements and the Group is required to make a judgement regarding the point in time at which a contract modification is approved and should be accounted for. The Group's preferred approach is to approve contract variations following scope and pricing agreement by contract amendment. However the approval of contract modifications often requires to be at pace and other mechanisms, informed by established customer relationships and local working arrangements, can be used to achieve effective approval of contract modifications. In approving contract modifications in these circumstances, the Group considers the contract terms and the scope of the contract modification in the context of the contract.

Impact of COVID-19

During the year ended 31 March 2021 the Group's operations were significantly impacted by COVID-19. Management considered the potential impact of COVID-19 on the Group's future performance as part of the budgeting and business planning process and concluded that COVID-19 is not expected to materially impact the Group in the medium or long term. The Group's budget for FY22 includes contingency to address remaining uncertainty.

1. Basis of preparation and significant accounting policies (continued)

Critical accounting estimates and judgements (continued)

Determining the Group's operating segments

Management exercises judgement in determining the Group's operating segments. This determination is generally straightforward and factual, however in some cases judgement is required, for example it was determined that South Africa is a separate operating segment whilst operations of the Group in other territories do not represent separate operating segments. Over time management reviews the operating segments to ensure they remain appropriate as businesses are acquired and divested and reporting structures change, including how information is reported to the Chief Operating Decision Maker. There have been no changes to the operating segments in the current year. Further detail is included in notes 6 and 13.

Key sources of estimation uncertainty

The key sources of estimation uncertainty at the reporting period end that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are set out below:

Revenue and profit recognition

The Group accounts for revenue in accordance with IFRS 15. Revenue is recognised over time based on costs incurred for the majority of the Group's contracts with customers. There are two critical estimates impacting revenue and profit recognition: estimated costs to complete, which impact the estimated stage of completion, and recognition of variable revenue, which impacts the transaction price. Both of these estimates can involve significant levels of estimation uncertainty and material changes in these estimates may result in a material adjustment to the carrying value of assets and liabilities in the following year.

Management estimates outturn costs and revenues on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel.

Estimating contract revenues can involve judgements around whether the Group will meet performance targets and earn incentives. In particular, management makes judgements to consider whether it is necessary to constrain variable revenues to meet the test set out in paragraph 56 of IFRS 15 to include variable consideration in the transaction price only to the extent that it is highly probable a significant reversal in the amount of cumulative revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved. 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.

Estimates of costs include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge. As contracts near completion, often less judgement is required to determine the expected outturn.

The Group considers that the level of estimation uncertainty in the financial statements as a whole is mitigated by the size of the Group's portfolio of contracts, which are of various types and at various stages of completion at any point in time. In relation to estimates of costs to complete at the balance sheet date, given that the Group aims to have centred forecasts for projects, the portfolio effect is expected to cause upward and downward cost deviations to balance. However, this may not necessarily be the case and, to the extent that it is, it may not be the case in any one reporting period, reflecting the long-term nature of many of the Group's contracts. It is therefore possible that revised estimates of costs to complete may result in a material adjustment to the carrying value of assets and liabilities estimates in the following year. The Group considers that it is not practical to provide a quantitative analysis of the aggregated estimates that are applied across the contract portfolio.

The Group considered the estimates associated with both variable consideration and costs to complete across ten contracts considered to be significant in the context of the Group in relation to contribution to revenue, contract balance or costs to complete. Whilst at any reporting date the Group may have significant contract modifications subject to pricing agreement with customers, at 31 March 2021 there were two significant contracts which had contract modifications where pricing was not agreed with the customer. The Group assessed an estimation upside of £16.9 million and an estimation downside of £1.0 million on the first of these two contracts, which would increase and decrease revenue recognised at 31 March 2021 by £14.0 million and £0.9 million respectively. The significant upside potential reflects consideration of the highly probable not to significantly reverse test set out in IFRS 15. The estimation upside and downside on the second contract were both assessed at £1.0 million, which would impact revenue by the same amount at 31 March 2021. In relation to costs to complete across the ten significant contracts, the Group considers that outcomes could differ from management's centred forecasts and, for information, a 5% increase in estimated costs to go at 31 March 2021 would, through reassessed stages of completion, reduce revenue recognised at 31 March 2021 by £30 million.

A number of matters supported the results of the sensitivity analyses of the significant contracts including the contract completion date of one contract, the recent completion of negotiations on a significant contract modification on another contract and change in forecasts of contract outturn for a number of contracts following completion of the Group's contract profitability and balance sheet review.

Defined benefit pension schemes obligations

The Group's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit pension 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 pension obligations. In addition to the inflation and discount rate estimates, a key estimation relates to the expected availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 29.

1. Basis of preparation and significant accounting policies (continued)

Critical accounting estimates and judgements (continued)

Deferred tax assets

The Group has carried forward tax losses and other tax attributes in a number of jurisdictions, and therefore has to assess the extent to which a deferred tax asset should be recognised in respect of these. The recognition of deferred tax assets can be subjective, particularly in loss-making territories where the recognition of the deferred tax asset relies on forecast future profits.

The Group carries out two tests for each company that has carried forward tax attributes: it assesses the future availability of carried forward losses and other tax attributes by reference to the jurisdiction-specific rules around the carry forward and utilisation; and it assesses whether it is probable that future taxable profits will be available against which the attribute can be utilised. The reversal of deferred tax liabilities may provide a source of probable future taxable profits but, where these are insufficient, the Group considers the forecast profits of the company or jurisdiction in question as set out in the Group's three-year budget and extrapolates these forward on a risk-weighted basis over what is deemed to be a commercially reasonable look-out period (generally between 10 and 15 years). Risk weighting is considered to take into account risks associated with forecasting outside the Group's detailed planning cycle, such as the loss of contracts or margin, and the potential of longer-term disruption to the business. The Group recognises deferred tax assets in respect of tax attributes to the extent that it is considered they will be utilised within the look-out period. Because of the level of judgement involved, there is the possibility of a material adjustment within the following 12 months (for example due to the gain or loss of a contract with a material impact on profit forecasts).

Profit forecasts used for deferred tax asset recognition are consistent with those used for goodwill impairment testing. They are therefore subject to the same sensitivities as detailed in note 13 but as described above are risk-weighted (and not discounted – discounting is not permitted under IAS 12). In currently loss-making territories, a key assumption is the size of the steady state business, once recovery plans are complete. For example, for every £10 million recurring annual taxable profits forecast in either Spain or Italy, deferred tax assets recognised at the balance sheet date would be increased by between £6 million and £10 million (limited to the extent of the unrecognised asset available, as set out in note 18).

Significant tax losses are available as at 31 March 2021 in respect of Group companies in the UK, Spain, Australia, Italy, France and Norway. Further information in respect of the level of tax losses recognised and unrecognised is set out in note 18.

The carrying value of goodwill

Goodwill is tested annually for impairment, in accordance with IAS 36, Impairment of Assets ('IAS 36'). The impairment assessment is based on assumptions in relation to the cash flows expected to be generated by cash generating units, together with appropriate discounting of the cash flows. The assessment of the carrying value of goodwill is included as a critical accounting estimate given the significance of the remaining carrying value of goodwill and the inherent level of estimation uncertainty required to undertake impairment testing. Note 13 provides information on key assumptions and sensitivity analyses performed.

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 year except as specified below.

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, determination of contract price, 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.

In assessing whether the performance obligations are separately identifiable, the services are reviewed to determine the extent to which the goods or services within a contract are interrelated and whether they modify other goods or services within a contract. The Group also considers whether the goods and/or services are integrated and represent a combined output for which the customer has contracted.

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)

Significant accounting policies (continued)

Revenue (continued)

(b) Determination of contract price

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. Contracts can include both fixed and variable consideration.

Inclusion of variable consideration in the contract price requires the exercise of judgement in relation to the amount to be received through unpriced contract variations and claims (see section (e) below for further details) and variable elements of existing contracts, such as performance-based penalties and incentives, and gain/pain share arrangements where cost under/over spends are shared with the customer. Elements of variable consideration are estimated at contract inception and at the end of each reporting period to ensure that the contract price is not under or overstated. Any required adjustment is made against the contract price in the period in which the adjustment occurs.

Variable consideration is included in the contract price using either the expected value or the most likely amount depending on whether the variable consideration is a range of potential values or whether the amount of variable consideration to be received is one of two outcomes, respectively. This judgement is made by suitably qualified and experienced personnel based on the contract terms, status of negotiations with customers and historical experience with customers and with similar contracts.

As part of this judgement, variable consideration may be constrained. The Group recognises variable consideration only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised when the uncertainty associated with the variable consideration is subsequently resolved.

(c) Allocation of contract price to performance obligations

Given the bespoke nature of many of the goods and services the Group provides, standalone selling prices are generally not available and, in these circumstances, the Group allocates the contract price to performance obligations based on cost plus margin. This amount would be the standalone selling price of each performance obligation if contracted with a customer separately.

(d) 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.

Revenue recognised over 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.

Typical performance obligations in the Group's contracts that are recognised over time include the delivery of services (such as maintenance, engineering and training), as the customer simultaneously receives and consumes the benefits of the Group's performance as it performs. Revenue from the design, manufacture and enhancement of bespoke assets is also recognised over time, as 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 performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin.

Where the Group satisfies performance obligations over time, the Group primarily uses the input method to measure satisfaction of each performance obligation based on costs incurred compared to total estimated contract costs. Costs are included in the measurement of progress towards satisfying the performance obligation to the extent that there is a direct relationship between the input and satisfaction of the performance obligation.

Revenue recognised over time is measured in accordance with the appropriate method. Under most of the Group's contracts, the customer pays in accordance with a pre-arranged payment schedule or once milestones have been met. If the value of the goods or services rendered by the Group exceed payments, a contract asset is recognised. If payments exceed the value of the goods or services rendered, a contract liability is recognised. See section (i) for further details on how contract assets and liabilities are recognised.

1. Basis of preparation and significant accounting policies (continued)

Significant accounting policies (continued)

Revenue (continued)

Revenue recognised at a point in time

If control of the goods or services is not transferred to the customer 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 receive payment by the Group. As can be seen from note 6, sale of goods at a point in time represents approximately 12% 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 (h) below.

Assessment of contract profitability

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.

Estimating contract revenues can involve judgements around whether the Group will meet performance targets and earn incentives, as well as consideration as to whether it is necessary to constrain variable revenues to meet the highly probable not to significantly reverse test set out in paragraph 56 of IFRS 15. 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. Estimates of costs include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge and estimation uncertainty is resolved on a contract-by-contract basis as contracts near the end of the project lifecycle.

Any expected loss on a contract is recognised immediately in the income statement.

(e) Contract modifications

Claims and variations

The Group's contracts are often amended for changes in the customers' requirements. Contract modifications can relate to changes in both contract scope and price arising in the ordinary course of delivering contracts, which are referred to as contract variations. Such variations may arise as a result of customer requests or instructions or from requests from the Group in response to matters arising during the delivery of contracts. For example, some contracts include the requirement to conduct surveys and to report on or to recommend additional work as required. We note that some contracts may require the Group to proceed with variations and to agree pricing subsequently. See further detail on accounting for contract modifications below.

Contract modifications can also refer to changes in price only, with no change in scope, where there is a difference of view or dispute in relation to interpretation of contracts. For example, a claim affecting only contract price could be in relation to a change of law clause that would respond to additional costs in relation to delivery of the existing contract scope.

These contract claims and variations are considered to be modifications as referred to in paragraph 18 of IFRS 15.

Accounting for contract modifications

If the performance obligations in a contract modification are deemed to be distinct and the price of the contract increases by an amount that reflects the standalone selling prices for the additional goods or services, the Group accounts for the modification as a separate contract.

If the performance obligations in a contract modification are not distinct, for example if the services provided through the contract modification are highly interrelated with the services in the existing contract, the Group accounts for this as part of the existing contract. A cumulative catch-up adjustment to revenue is recognised to reflect the effect of the contract modification on the transaction price and the Group's measure of progress towards complete satisfaction of the performance obligation.

The Group recognises contract variations, which impact both scope and price, when they are approved in accordance with IFRS 15. The Group's preferred approach is to approve contract modifications by formal contract amendment. However the approval of contract modifications often requires to be at pace and other mechanisms, informed by established customer relationships and local working arrangements, can be used to achieve approval of contract modifications. In approving contract modifications in these circumstances, the Group considers the scope of the contract modification in the context of the contract scope and contract terms. Contract variations where the formal contract amendment has not been received but which are, in management's judgement approved, are accounted for as a contract modification in accordance with IFRS 15 paragraph 18. Revenue from these contract variations is treated as variable consideration and subject to constraint as outlined in section (b) above, until the pricing is agreed.

Contract claims are also considered to be contract modifications in accordance with IFRS 15, and revenue is subject to constraint as outlined in section (b).

1. Basis of preparation and significant accounting policies (continued)

Significant accounting policies (continued)

Revenue (continued)

Claims and variations which are not deemed to be contract modifications

Claims can also be raised by Babcock against third-party subcontractors or suppliers to the Group. As these do not relate to contracts with customers, but rather relate to contracts with suppliers, they are not accounted for under IFRS 15. The Group's accounting policy is to account for such claims in accordance with the contingent asset guidance per IAS 37. Income in relation to these claims will only be recognised once it is virtually certain.

(f) Costs of obtaining a contract

Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost are recognised as an expense when incurred.

Directly attributable costs to obtain a contract with a customer that the Group would not have incurred if the contract had not been won are recognised as an asset. These costs are capitalised as an asset after the point that it can be reliably expected that a contract will be obtained, which is typically at preferred bidder stage. The costs are capitalised 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.

(g) Contract mobilisation costs

Post contract award but pre contract operational start-up mobilisation costs which satisfy the criteria for capitalisation under another standard, such as property, plant and equipment (IAS 16) or intangible assets (IAS 38), are accounted for in accordance with the relevant policies as set out below. Post contract award but pre contract operational start-up mobilisation costs which do not fall within the scope of another standard are recognised under IFRS 15 as an asset in capitalised contract costs where they meet all of the following criteria:

(i) the costs relate directly to a contract or to an anticipated contract that can be specifically identified;

(ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(iii) the costs are expected to be recovered.

Capitalised contract costs are 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.

(h) 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, sub-contractor arrangements, and other pass-through costs. For such activity, management exercises judgement in the consideration of principal versus agent based on an assessment as to whether the Group controls the relevant goods or services under the performance obligations 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 gain share 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. Note that any changes in this judgement would not have a material impact on profit.

(i) Contract assets and liabilities

In circumstances where revenue recognised exceeds 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 revenue recognised, the Group presents as a liability the gross amount due to customers as "Amounts due to customers for contract work".

Accrued income and deferred income relate to contracts where the right to consideration is conditional on both the passage of time and satisfaction of performance obligations. These are classified separately from "Amounts due from customers for contract work" and "Amounts due to customers for contract work" as progress is measured using less judgemental measures than the "cost to cost" approach, such as time-based measures. Accrued income and deferred income typically arise where the timing of the related billing cycle differs to satisfaction of the performance obligation.

1. Basis of preparation and significant accounting policies (continued)

Significant accounting policies (continued)

Revenue (continued)

(j) Significant financing components

The Group accounts for a significant financing component on contracts where the timing of cash receipts differs significantly from revenue recognition. The majority of the Group's contracts do not include significant financing components, however on contracts which do have a significant financing component the Group recognises an interest income or expense and the transaction price is adjusted accordingly.

If, at contract inception, the Group expects that the period between transfer of the promised goods or services to a customer and receipt of consideration from the customer will be one year or less, the Group applies the practical expedient under IFRS 15 and does not adjust the amount of consideration for a significant financing component.

Underlying financial information and exceptional items

Definitions and a description of the use of the underlying performance measures can be found in note 3 on page 196.

Transactions with non-controlling interest

The Group's policy is to treat transactions with non-controlling interest as transactions with owners of the Company. These are therefore reflected as 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. Onerous contract provisions are recognised after impairment of any assets directly related to the onerous 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 provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and contract assessments are updated regularly.

A provision for the contractual maintenance, overhaul and repair requirements of aircraft and specific aircraft components arising from return condition obligations in aircraft lease contracts is recognised as the obligation to perform contractual maintenance arises with each hour flown. Where lease contracts contain contractual penalties in the event that the Group returns leased aircraft in a condition that does not meet the contractual return condition obligation, the associated provision is measured at the lower of the restoration cost and the detriment penalty in the lease. When maintenance of a leased aircraft component is performed, if the component's remaining flying hours are greater than the return condition outlined in the lease contract then a leasehold improvement asset is recognised in proportion to the excess flying hours above the contractual return condition. Maintenance provisions are not recognised in respect of aircraft components which are maintained under Power By the Hour maintenance arrangements, instead the associated payments to the maintenance provider are expensed as incurred. Any additional payments made to or received from maintenance providers at the conclusion of Power By the Hour maintenance arrangements are recognised as an expense or as income at the time at which they are incurred or received.

1. Basis of preparation and significant accounting policies (continued)

Significant accounting policies (continued)

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 capitalised. Goodwill is monitored at operating segment level and goodwill is allocated to the operating segment expected to benefit from the business combination's synergies. The Group currently has five operating segments: Marine, Land, Aviation, Nuclear and Africa.

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.

Goodwill is reviewed for impairment by assessing the recoverable amount of operating segments by reference to value-in-use calculations or fair value less cost to dispose in relation to certain businesses which the Group plans to dispose. Goodwill impairments are not subsequently reversed. See note 13 for further information on goodwill impairment reviews.

(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 contractual 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 15 years.

The carrying value of the non-contractual 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 over a period of 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. It is measured at cost less accumulated amortisation and is amortised on a straight-line basis over its expected useful life of between three and five years.

The Group is implementing an ERP system in phases over several years. The ERP system is amortised over its useful life of 10 years from the date when the asset is available for use, which occurs once the implementation has been completed for each respective phase.

1. Basis of preparation and significant accounting policies (continued)

Significant accounting policies (continued)

Property, plant and equipment (PPE)

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items after the deduction of trade discounts and rebates.

Major strategic aircraft spares are classified within property, plant and equipment. Aircraft assets, including spares, are disaggregated into separate components where the components have differing useful lives with the value of each rotable component being measured at the cost of replacement or overhaul of the component and the remaining value of the asset being attributed to the airframe component. Depreciation is provided on a straight-line basis, or in the case of certain aircraft components on an hours flown basis, to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each financial year end) at the following annual rates:

Freehold property	2.0% to 8.0%
Leasehold property	Lower of useful economic life or lease term
Plant and equipment	6.6% to 33.3%
Aircraft airframes	3.33%

Subsequent expenditure on the replacement or overhaul of aircraft components is capitalised with the carrying value of the part replaced being written off. Subsequent expenditure on maintenance which enhances the performance of aircraft airframes is capitalised whilst expenditure on replacing elements of aircraft airframes is expensed. Components of owned aircraft which are maintained under Power By the Hour maintenance arrangements are not depreciated with the associated payments to the maintenance provider instead being expensed as incurred, as the residual value of the asset is deemed to be equivalent to the cost of the asset. Any additional payments made to or received from maintenance providers at the conclusion of Power By the Hour maintenance arrangements are recognised as an expense or as income at the time at which they are incurred or received.

Impairment of non-current assets

Goodwill is reviewed for impairment at least annually. For all other non-financial non-current assets (including acquired intangible assets, capitalised development costs, software assets, property, plant and equipment and right of use assets) the Group performs impairment testing where indicators of impairment are identified. Impairment testing is performed at the individual asset level. Where an asset does not generate cash flows that are separately identifiable from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal, and value-in-use. When the recoverable amount is less than the carrying amount, an impairment loss is recognised immediately in the Group income statement.

Where an impairment loss on other non-financial non-current assets subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised in prior years. Goodwill impairments are not subsequently reversed.

Net debt

Net debt is an alternative performance measure of the Group and consists of the total of loans, bank overdrafts, cash and cash equivalents, loans to joint ventures and associates, leases granted or received, lease obligations and any derivatives used to fair value hedge the underlying debt. This includes 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 certain 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 certain lease obligations for this purpose.

1. Basis of preparation and significant accounting policies (continued)

Significant accounting policies (continued)

Leases

The Group as lessee

For all leases in which the Group is a lessee (other than those meeting the criteria detailed below), the Group recognises a right of use asset and corresponding lease liability at commencement of the lease.

The lease liability is the present value of future lease payments discounted at the rate implicit in the lease, if available, or the applicable incremental borrowing rate. The incremental borrowing rate is determined at lease inception based on a number of factors including asset type, lease currency and lease term. Lease payments include fixed payments and variable lease payments dependent on an index or rate, initially measured using the index or rate at the commencement date. The lease term reflects any extension or termination options that the Group is reasonably certain to exercise.

The lease liability is subsequently measured at amortised cost using the effective interest rate method, with interest on the lease liability being recognised as a finance expense in the income statement. The lease liability is remeasured, with a corresponding adjustment to the right of use asset, if there is a change in future lease payments, for example resulting from a rent review, change in a rate/index or change in the Group's assessment of whether it is reasonably certain to exercise an extension, termination or purchase option.

The right of use asset is initially recorded at cost, being equal to the lease liability, adjusted for any initial direct costs, lease payments made prior to commencement date, lease incentives received and any dilapidation costs. 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.

Right of use assets arising from sale and leaseback transactions are measured at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. Gains arising on sale and leaseback transactions are recognised to the extent that they relate to the rights transferred to the buyer-lessor whilst losses arising on sale and leaseback transactions are recognised in full.

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'.

The Group as lessor

As a lessor, the Group classifies lessor arrangements as finance or operating leases. Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. All lessor arrangements in the Group meet the criteria for a finance lease.

Amounts due from lessees under a finance lease are held on the statement of financial position as a financial asset at an amount equal to the Group's net investment in the lease. The finance lease payments received are treated as finance income and a repayment of principal including initial direct costs. Finance income is allocated over the lease term, with the gross receivable being reviewed for impairment on a regular basis.

Inventory

Inventory is valued at the lower of cost and net realisable value, being the estimated selling price of the assets in the ordinary course of business less estimated costs of completion and costs of sale. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. The Group does not recognise contingent liabilities. See note 34 for details of contingent liabilities.

Cash and cash equivalents

Group cash and cash equivalents consist of cash at bank and cash in hand, together with short-term deposits with an original maturity of three months or less and money market funds.

Government grants

Government grants received are recognised in the income statement so as to match them with the related expenses that they are intended to compensate. Where grants are received in advance of the related expenses, they are initially recognised as liabilities within trade payables and other liabilities and released to match the related expenditure.

1. Basis of preparation and significant accounting policies (continued)

Significant accounting policies (continued)

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 reporting date.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(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 reporting 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 tax asset recognition can involve critical accounting estimates. The Group's approach to deferred tax asset recognition is therefore set out in greater detail on page 181.

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.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

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 presentation 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 presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency of subsidiaries of the Group using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional 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 reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as part of a cashflow hedge or a net investment of a foreign operation when the amounts are recognised in the hedge or translation reserve, respectively.

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 operations are translated using the average exchange rate for the month of the applicable results, the net assets translated at year-end exchange rates and equity held at historic exchange rates. 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.

1. Basis of preparation and significant accounting policies (continued)

Significant accounting policies (continued)

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 or interest credit on the net pension surplus is included in the income statement as a finance cost or finance income, respectively. 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 reporting 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 charge is recognised in the income statement over the vesting period of the award.

The shares purchased by the Group's Employee Stock Ownership Plan (ESOP) trusts are recognised as a deduction to equity. Dividends paid on these shares are accounted for 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.

1. Basis of preparation and significant accounting policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)
For derivatives that qualify as cash flow hedges, fair value gains or 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. The fair value gains or loss are realised through the income statement as the asset is sold or as the hedged item is realised.

Fair value measurement
The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the year-end date. Fair value measurements are used on a recurring basis except where used in the acquisition of assets and liabilities through a business combination.

The fair values of derivative financial instruments are determined by the use of valuation techniques based on assumptions that are supported by observable market prices or rates. The fair values of non-financial assets and liabilities are based on observable market prices or rates.

The carrying values of financial assets and liabilities which are not held at fair value in the Group balance sheet are assumed to approximate to fair value due to their short-term nature, with the exception of fixed rate bonds.

There have been no changes to the valuation techniques used during the year.

Debt factoring
The Group engages in factoring of trade receivables in relation to certain non-UK operations of its Aviation sector as part of its working capital management arrangements. Under these arrangements, the Group transfers the rights to receive factored receivables to the factor in exchange for cash and is prevented from selling or pledging the receivables. The Group does not retain late payment or credit risk, and therefore trade receivables are not recognised under the applicable contracts. Any cash received from customers under these contracts is received as agent and transferred directly to the counterparty.

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.

Identification of prior year errors
The contract profitability and balance sheet review identified a number of prior year errors. The results of the Group have been restated where practicable by retrospectively restating the Group's prior period results for the affected periods. Any errors identified relating to reporting periods before 1 April 2019 have been corrected by cumulatively restating the impacted balance sheet line item, including retained earnings, at 1 April 2019.

Changes in accounting policies
Management implemented one change in accounting policy during the year ended 31 March 2021. See note 4 for further details.

Change in presentation
The Group changed the presentation of the Group income statement to present share of results of joint ventures and associates below operating profit, and to exclude underlying operating profit from the Group income statement. These changes were made in order to better reflect the way in which management reviews the core underlying performance of the business. The total share of results of joint ventures and associates is £13.1 million loss (2020: £58.6 million profit), due to adjustments to share of results of joint ventures and associates identified through the contract profitability and balance sheet review of £37.1 million during the year ended 31 March 2021 (see note 17 for further details).

2. Financial risk management

Management of capital

The Group's capital structure is defined as equity plus net debt and is overseen by the Board through the Group Finance Committee. The Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required.

A number of ratios are used to monitor and measure capital structure and performance, including: Net debt to EBITDA, ROIC and interest cover. Net debt to EBITDA and Interest cover are the debt covenant ratios associated with the Group's £775 million revolving credit facility. The calculation and consideration of these ratios, and the Group's ROIC, are set out in the Financial Review on page 28. Net debt to EBITDA and ROIC are also key performance indicators of the Group as set out on page 29.

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.

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 policies 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's hedging strategy is to only enter into derivative 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 treasury policies and guidelines.

The Group's treasury policies in respect of currency risk, interest rate risk, liquidity risk, and credit risk are outlined below.

Currency risk

The functional currency of Babcock International Group PLC and its UK subsidiaries is GBP. The presentation currency of the Group is GBP. The Group has exposure primarily to EUR and ZAR and some exposure to AUD, CAD, NOK and SEK.

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

The Group only enters into foreign currency swaps and forwards 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 with the treasury policies and guidelines.

The EUR exposure arises as a result of the activities of the Babcock Mission Critical Services business in Europe, where both translational and transactional exposures exist. EUR 550 million of Euro bonds retained as a hedge against these businesses was swapped into GBP post 31 March 2021. The ZAR exposure arises from the activities of Babcock's subsidiaries in South Africa where both translational and transactional exposures 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 exposures exist.

See note 25 for further detail.

The Group's risk management objective, policy and performance are as follows:

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 EUR and ZAR.
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 assets with foreign currency denominated debt.
Performance	There have been no material unhedged foreign exchange losses in the year.

2. Financial risk management (continued)

Currency risk (continued)

The following table demonstrates the effect on profit before tax for reasonably possible changes in EUR and ZAR exchange rates.

	Change in exchange rate	Effect on profit before tax £m
EUR	5%	9.3
ZAR	5%	1.0

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

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. See note 23 for further detail.

The Group's risk management objective, policy and performance are as follows:

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 rate 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 2021, the Group had 70% fixed rate debt (2020: 60%) and 30% floating rate debt (2020: 40%) based on gross debt including derivatives of £2,340.0 million (2020: £3,126.8 million). The percentages for the prior year included the fully drawn down revolving credit facility which if excluded would have resulted in 81% fixed rate debt and 19% floating rate debt. For further information see note 23.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Change in interest rate	Effect on profit before tax £m
GBP	0.5%	2.0
EUR	0.5%	1.2
ZAR	0.5%	0.1

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 23).

Each of the sectors in the Group provides regular cash forecasts for liquidity planning purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group, and to ensure that there is sufficient liquidity to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The Group utilises debt factoring in support of the non-UK operations of its Aviation sector as part of its working capital management arrangements. In addition, supply chain financing arrangements were used by the Aviation sector during the year. These facilities are classified as debt and their use reduced significantly during the year. The Group plans to phase out the use of these arrangements.

2. Financial risk management (continued)

Liquidity risk (continued)

The Group's risk management objective, policy and performance are as follows:

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 liquidity headroom is maintained on its facilities.
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 2025, a new £300 million Revolving Credit Facility entered into in May 2021 and maturing in May 2024, a EUR 550 million Eurobond maturing in October 2022, a £300 million 10-year GBP 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 23.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 March 2021					
Bank and other borrowings*	**383.7**	**476.4**	**15.6**	**826.8**	**1,702.5**
Derivative financial instruments	**(5.9)**	**(6.2)**	**(1.6)**	**(38.8)**	**(52.5)**
Lease liabilities	**156.0**	**136.1**	**282.7**	**110.4**	**685.2**
Trade and other payables**	**965.7**	**1.3**	**0.5**	**0.1**	**967.6**
At 31 March 2020 (restated)					
Bank and other borrowings*	987.9	0.4	1,260.0	789.6	3,037.9
Derivative financial instruments	113.1	8.7	(6.2)	(23.4)	92.2
Lease liabilities	161.8	137.9	308.5	149.1	757.3
Trade and other payables**	962.1	1.0	0.7	0.4	964.2

* Includes fixed rate committed interest.

** Does not include amounts due to customers for contract work, deferred income, payroll taxes and social security.

The derivative financial instruments disclosed in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts:

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 March 2021					
Forward derivative contracts – hedges:					
• Outflow	**347.5**	**203.3**	**145.9**	**501.5**	**1,198.2**
• Inflow	**341.7**	**197.2**	**144.6**	**476.8**	**1,160.3**
Net undiscounted cash flows outflows	**(5.8)**	**(6.1)**	**(1.3)**	**(24.7)**	**(37.9)**
At 31 March 2020					
Forward derivative contracts – hedges:					
• Outflow	809.4	147.3	91.9	494.9	1,543.5
• Inflow	894.8	156.2	85.9	488.9	1,625.8
Net undiscounted cash flows outflows	**85.4**	**8.9**	**(6.0)**	**(6.0)**	**82.3**

2. Financial risk management (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations to the Group, which would result in a loss for the Group.

Credit risk arises from trade and other receivables, cash and cash equivalents, investments and derivative financial instruments.

Trade and other receivables

The Group's customers are mainly government, government-backed institutions or blue chip corporations, however due to the nature of the business, there is a degree of concentration of risk due to the level of activity with individual customers. The Group's assessment is that credit risk in relation to customers or subcontractors to governments is limited as their probability of default is considered to be extremely low. The provision for expected credit losses for receivables from government and subcontractor to government customers is therefore considered immaterial in the context of the receivables balance. The Group manages credit risk in relation to trade and other receivables for all non-government commercial customers through various mitigating controls including credit checks, credit limits and ongoing monitoring. Expected credit losses are assessed for all non-government customers, however this is not considered to be material to the financial statements.

For trade receivables, contract receivables, amounts due from equity accounted investments and finance lease receivables, the Group measures a provision for expected credit losses at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Group considers that receivables more than 120 days overdue are at increased risk of default based on historical experience and recognises a provision of 100% against all such receivables unless there is evidence of recoverability at the individual receivable level.

Cash and cash equivalents and derivative financial instruments

The Group utilises approved investment-grade counterparties to carry out treasury transactions, including investments of cash and cash equivalents; with counterparty bank 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; and as such credit risk on these counterparties is not considered to be material to the financial statements.

The Group's risk management objective, policy and performance are as follows:

Objective	To ensure the Group continues to operate with an acceptable level of credit risk associated with its operating activities, such as customer trade receivables, and financial activities, including cash deposits and financial instruments.
Policy	Credit risk associated with the Group's predominately government, government-backed institutions or blue chip corporations is considered to be extremely low. Credit checks are performed on non-government commercial customers and appropriate credit limits are set and regularly reviewed. Financial transactions are carried out with approved investment grade counterparties with credit limits set according to the respective financial institution's credit rating. Counterparty bank credit risk is closely monitored on a systematic and ongoing basis.
Performance	Expected credit loss on trade receivable portfolio / provisions of £14.0 million. Further details are included in notes 20 and 26. Maximum credit risk exposure from financial assets is £1,639.6 million (note 24).

3. Adjustments between statutory and underlying information

Definition of underlying measures and exceptional items

The Group provides alternative performance measures, including underlying operating profit, to enable users to better understand the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. They are used by management to assess operating performance and as a basis for forecasting and decision-making and are understood to be used by investors in analysing business performance.

The Group's alternative performance measures are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies and they are not intended to be a substitute for, or superior to, measures defined under IFRS.

The Group revised its definition of underlying performance measures in the year, as detailed in this note.

Underlying operating profit

Underlying operating profit excludes certain Specific Adjusting Items. Transactions such as these may happen regularly and could be lumpy and may be profits or losses. As such they may distort the reporting of underlying business performance measures if they are not adjusted for. Specific Adjusting Items include:

- Amortisation of acquired intangibles;
- Business acquisition, merger and divestment related items (being acquisitions and gains or losses on disposal of assets or businesses);
- Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography, including closure costs, severance costs, the disposal of assets and termination of leases;
- The costs of large restructuring programmes that significantly exceed the minor restructuring which occurs in most years as part of normal operations. Restructuring costs incurred as a result of normal operations are included in operating costs and are not excluded from underlying operating profit;
- Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes; and
- Exceptional items that are significant, non-recurring and outside of the normal operating practice. These items are described as exceptional in order to appropriately represent the Group's underlying business performance. Exceptional items are set out in the Exceptional items section below.

Income statement including underlying results

		2021			2020 (restated)		
	Note	**Underlying £m**	**Specific Adjusting Items £m**	**Statutory £m**	Underlying £m	Specific Adjusting Items £m	Statutory £m
Revenue	6	**4,182.7**	**–**	**4,182.7**	4,428.5	–	4,428.5
Operating (loss)/profit	6, 7	**(27.6)**	**(1,615.4)**	**(1,643.0)**	377.6	(453.2)	(75.6)
Share of results of joint ventures and associates	17	**(13.1)**	**–**	**(13.1)**	58.6	–	58.6
Investment income	8	**0.9**	**–**	**0.9**	1.1	–	1.1
Net finance costs	8	**(62.1)**	**–**	**(62.1)**	(73.0)	–	(73.0)
(Loss)/profit before tax		**(101.9)**	**(1,615.4)**	**(1,717.3)**	364.3	(453.2)	(88.9)
Income tax benefit/(expense)	10	**(18.4)**	**33.7**	**15.3**	(67.4)	40.5	(26.9)
(Loss)/profit after tax for the year		**(120.3)**	**(1,581.7)**	**(1,702.0)**	296.9	(412.7)	(115.8)

Included in the Specific Adjusting Items column of the table above is £1,502.1 million relating to the contract profitability and balance sheet review. Further details are included in note 4.

3. Adjustments between statutory and underlying information (continued)

Earnings per share including underlying measures

	Note	2021 Underlying £m	2021 Adjusting items £m	2021 Statutory £m	2020 (restated) Underlying £m	2020 (restated) Adjusting items £m	2020 (restated) Statutory £m
(Loss)/profit after tax for the year		**(120.3)**	**(1,581.7)**	**(1,702.0)**	296.9	(412.7)	(115.8)
Amount attributable to owners of the parent		**(120.3)**	**(1,581.7)**	**(1,702.0)**	294.9	(412.7)	(117.8)
Amount attributable to non-controlling interests		**–**	**–**	**–**	2.0		2.0
Weighted average number of shares (m)		**505.0**		**505.0**	505.3		505.3
Effect of dilutive securities (m)		**4.0**		**4.0**	0.9		0.9
Diluted weighted average number of shares (m)		**509.0**		**509.0**	506.2		506.2
Basic EPS		**(23.8)p**		**(337.0)p**	58.4p		(23.3)p
Diluted EPS		**(23.8)p**		**(337.0)p**	58.3p		(23.3)p

Details of Specific Adjusting Items

The impact of Specific Adjusting Items is set out below:

	Note	2021 £m	2020 £m
Amortisation of acquired intangibles		**(40.2)**	(67.6)
Business acquisition, merger and divestment related items		**(49.7)**	74.7
Gains, losses and costs directly arising from withdrawal from a specific market or geography		**(11.1)**	(20.5)
Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes		**(8.9)**	–
Restructuring		**(8.4)**	(50.9)
Exceptional items		**(1,497.1)**	(388.9)
		(1,615.4)	(453.2)
Income tax benefit			
Amortisation of acquired intangibles		**8.2**	14.5
Gains, losses and costs directly arising from withdrawal from a specific market or geography		**1.0**	–
Profit or loss from amendment, curtailment, settlement or equalisation of group pension schemes		**1.7**	–
Restructuring		**0.5**	9.7
Exceptional tax items and tax on exceptional items		**22.3**	16.3
		33.7	40.5

3. Adjustments between statutory and underlying information (continued)

Explanation of Specific Adjusting Items

Amortisation of acquired intangibles

Underlying operating profit excludes the amortisation of acquired intangibles. This item is excluded from underlying results as it arises as a result of purchase price allocations on business combinations, and is a non-cash item which does not change each year dependent on the performance of the business. It is therefore not considered to represent the underlying activity of the Group. Intangible assets arising as a result of the purchase price allocation on business combinations include customer lists, technology-based assets, order book and trade names. Amortisation of internally generated intangible assets is included within underlying operating profit.

Business acquisition, merger and divestment related items

Transaction related costs and gains or losses on acquisitions, mergers and divestments of businesses are excluded from underlying operating profit as business combinations and divestments are not considered to result from underlying business performance.

The total net loss relating to business acquisition, merger and divestment related items was £49.7 million, consisting of a £38.2 million loss on disposal of the Group's share in the Holdfast joint venture and losses arising on disposal of subsidiary undertakings of £0.6 million for Cavendish Nuclear Manufacturing Limited and £10.9 million for Conbras Servricos Tecnicos Supporte Ltda. The prior year included a total net gain of £61.3 million, consisting of a £74.7 million gain on the disposal of Context Information Security Limited partially offset by additional costs from exits in the previous financial year and the costs of disposing of areas of the Group's nuclear manufacturing business.

Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography

The Group ceased its Airport baggage handling contract in the year, incurring costs of £4.2 million. Further costs were incurred in relation to exits in the previous financial year from the oil and gas business in Congo (£3.6 million), the overseas Powerlines business (£1.4 million) and certain Rail related contracts (£1.9 million).

In the prior year the Group incurred costs of £7.1 million in relation to the exits of its oil and gas businesses in Ghana and Congo, £3.4 million in relation to the overseas Powerlines business and £3.0 million in relation to the exist of its Nuclear manufacturing business.

Restructuring

The Group continued to simplify the structure of the Aviation business and incurred a restructuring charge of £9.3 million (2020: £26.5 million). This was offset by the release of £0.9 million of unused provision from prior year restructuring costs in the Nuclear and Land sectors.

Other restructuring in the prior year of £24.4 million relates to the Group's Civil Nuclear and Rail businesses and includes substantial redundancy costs. £16.5 million was incurred in reducing the cost base in Civil Nuclear following the end of the Magnox contract and in response to the ongoing trading environment in the UK.

Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes.

The Group incurred a curtailment charge of £7.5 million in relation to the closure of the Rosyth defined benefit pension scheme to future accrual. A charge of £1.4 million was incurred following a court ruling in November 2020 regarding equalisation of pension rights.

Exceptional items

See exceptional items section on page 202 for further detail.

In the prior year, business acquisition and divestment related items and restructuring charges were included as exceptional items (previously referred to as 'Exits and disposals'). These remain as Specific Adjusting Items but are no longer included as exceptional items in order to provide greater clarity and consistency to the users of the financial statements.

Amendments to underlying definitions for the year ended 31 March 2021

For the year ended 31 March 2021 management has revised the Group's definition of underlying revenue and underlying operating profit as follows.

In prior years an underlying revenue measure was provided which included the Group's share of revenue from investments in equity accounted joint ventures and associates. This measure is no longer provided as the approach adopted by management in reviewing the operating performance of the business is more closely aligned with the statutory measure of revenue.

The Group's definition of underlying operating profit no longer includes the Group's share of results from equity accounted joint ventures and associates. This more closely aligns with the approach adopted by management in reviewing the operational performance of the business.

3. Adjustments between statutory and underlying information (continued)

Reconciliation to prior year measures

Underlying income statement measures for the year ended 31 March 2021 that would have been presented under the previous underlying measures definition

	Note	Revenue £m	Underlying operating loss £m	Share of results of joint ventures and associates £m	Investment income £m	Net finance costs £m	Loss before tax £m	Income tax expense £m	Loss after tax £m
Underlying measures									
Previous definition		**4,433.2**	**(4.9)**	**–**	**–**	**(84.9)**	**(89.8)**	**(19.1)**	**(108.9)**
Reclassification of IFRIC 12 investment income		**–**	**(0.9)**	**–**	**0.9**	**–**	**–**	**–**	**–**
Share of joint venture and associates revenue		**(250.5)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Share of joint venture and associates operating profit		**–**	**4.0**	**(4.0)**	**–**	**–**	**–**	**–**	**–**
Share of joint venture and associates investment income		**–**	**(25.8)**	**25.8**	**–**	**–**	**–**	**–**	**–**
Share of joint venture and associates amortisation of acquired intangible assets		**–**	**–**	**(5.8)**	**–**	**–**	**(5.8)**		**(5.8)**
Share of joint venture and associates finance costs		**–**	**–**	**(22.8)**	**–**	**22.8**	**–**	**–**	**–**
Share of joint venture and associates exceptional items		**–**	**–**	**(5.6)**	**–**	**–**	**(5.6)**	**–**	**(5.6)**
Share of joint venture and associates taxation		**–**	**–**	**(0.7)**	**–**	**–**	**(0.7)**	**0.7**	**–**
Revised definition		**4,182.7**	**(27.6)**	**(13.1)**	**0.9**	**(62.1)**	**(101.9)**	**(18.4)**	**(120.3)**

Comparison of the Income Statement for the year ended 31 March 2021 to the results that would have been provided under the previous definition

		2021			2021		
	Note	Underlying £m	Specific Adjusting Items £m	Statutory £m	Underlying (previous definition) £m	Underlying Adjustments £m	Statutory £m
Revenue	6	**4,182.7**	**–**	**4,182.7**	4,433.2	(250.5)	4,182.7
Operating (loss)	6,7	**(27.6)**	**(1,615.4)**	**(1,643.0)**	(4.9)	(1,638.1)	(1,643.0)
Share of results of joint ventures and associates		**(13.1)**	**–**	**(13.1)**	–	(13.1)	(13.1)
Investment income	8	**0.9**	**–**	**0.9**	–	0.9	0.9
Net finance costs	8	**(62.1)**	**–**	**(62.1)**	(84.9)	22.8	(62.1)
Loss before tax		**(101.9)**	**(1,615.4)**	**(1,717.3)**	(89.8)	(1,627.5)	(1,717.3)
Income tax benefit/(expense)	10	**(18.4)**	**33.7**	**15.3**	(19.1)	34.4	15.3
Loss after tax for the year		**(120.3)**	**(1,581.7)**	**(1,702.0)**	(108.9)	(1,593.1)	(1,702.0)

3. Adjustments between statutory and underlying information (continued)

Earnings per share

	Note	2021 Underlying £m	2021 Specific Adjusting Items £m	2021 Statutory £m	2021 Underlying (previous definition) £m	2021 Underlying Adjustments £m	2021 Statutory £m
Loss after tax for the year		**(120.3)**	**(1,581.7)**	**(1,702.0)**	(108.9)	(1,593.1)	(1,702.0)
Amount attributable to owners of the parent		**(120.3)**	**(1,581.7)**	**(1,702.0)**	(108.9)	(1,593.1)	(1,702.0)
Amount attributable to non-controlling interests		**–**	**–**	**–**	–	–	–
Weighted average number of shares (m)		**505.0**		**505.0**	505.0		505.0
Effect of dilutive securities (m)		**4.0**		**4.0**	4.0		4.0
Diluted weighted average number of shares (m)		**509.0**		**509.0**	509.0		509.0
Basic EPS		**(23.8)p**		**(337.0)p**	(21.4)p		(337.0)p
Diluted EPS		**(23.8)p**		**(337.0)p**	(21.4)p		(337.0)p

Underlying income statement measures for the year ended 31 March 2020 (restated) that would have been presented under the previous underlying measures definition

	Note	Revenue £m	Underlying operating profit £m	Share of results of joint ventures and associates £m	Investment income £m	Net finance costs £m	Profit before tax £m	Income tax expense £m	Profit after tax £m
Underlying measures									
Previous definition		4,850.7	484.3	–	–	(95.8)	388.5	(83.7)	304.8
Reclassification of IFRIC 12 investment income		–	(1.1)	–	1.1	–	–	–	–
Share of joint venture and associate revenue		(422.2)	–	–	–	–	–	–	–
Share of joint venture and associate operating profit		–	(79.7)	79.7	–	–	–	–	–
Share of joint venture and associate investment income		–	(25.9)	25.9	–	–	–	–	–
Share of joint venture and associate amortisation of acquired intangible assets		–	–	(5.8)	–	–	(5.8)	–	(5.8)
Share of joint venture and associate finance costs		–	–	(22.8)	–	22.8	–	–	–
Share of joint venture and associate exceptional items		–	–	(2.1)	–	–	(2.1)	–	(2.1)
Share of joint venture and associate taxation		–	–	(16.3)	–	–	(16.3)	16.3	–
Revised definition		4,428.5	377.6	58.6	1.1	(73.0)	364.3	(67.4)	296.9

The results for the year ended 31 March 2020 have been restated due to errors identified and a change in accounting policy. Further details are set out in note 5.

3. Adjustments between statutory and underlying information (continued)

Comparison of the Income Statement for the year ended 31 March 2020 to the results that would have been presented under the previous definition

		2020			2020		
	Note	**Underlying (restated) £m**	**Specific Adjusting Items (restated) £m**	**Statutory (restated) £m**	Underlying (previous definition) (restated) £m	Underlying Adjustments (restated) £m	Statutory (restated) £m
Revenue	6	**4,428.5**	**–**	**4,428.5**	4,850.7	(422.2)	4,428.5
Operating (loss)	6,7	**377.6**	**(453.2)**	**(75.6)**	484.3	(559.9)	(75.6)
Income from joint ventures and associates	17	**58.6**	**–**	**58.6**	–	58.6	58.6
Investment income		**1.1**	**–**	**1.1**	–	1.1	1.1
Net finance costs	8	**(73.0)**	**–**	**(73.0)**	(95.8)	22.8	(73.0)
Profit/(loss) before tax		**364.3**	**(453.2)**	**(88.9)**	388.5	(477.4)	(88.9)
Income tax expense	10	**(67.4)**	**40.5**	**(26.9)**	(83.7)	56.8	(26.9)
Profit/(loss) after tax for the year		**296.9**	**(412.7)**	**(115.8)**	304.8	(420.6)	(115.8)

Earnings per share

		2020			2020		
	Note	**Underlying (restated) £m**	**Specific Adjusting Items (restated) £m**	**Statutory (restated) £m**	Underlying (restated) £m	Underlying adjustments (restated) £m	Statutory (restated) £m
Profit/(loss after) tax for the year		**296.9**	**(412.7)**	**(115.8)**	304.8	(420.6)	(115.8)
Amount attributable to owners of the parent		**294.9**	**(412.7)**	**(117.8)**	302.8	(420.6)	(117.8)
Amount attributable to non-controlling interests		**2.0**		**2.0**	2.0		2.0
Weighted average number of shares (m)		**505.3**		**505.3**	505.3		505.3
Effect of dilutive securities (m)		**0.9**		**0.9**	0.9		0.9
Diluted weighted average number of shares (m)		**506.2**		**506.2**	506.2		506.2
Basic EPS		**58.4p**		**(23.3)p**	59.9p		(23.3)p
Diluted EPS		**58.3p**		**(23.3)p**	59.8p		(23.3)p

3. Adjustments between statutory and underlying information (continued)

Exceptional items

Exceptional items are those items which are significant, non-recurring and outside the normal operating practice of the Group.

	Note	2021 £m	2020 (restated) £m
Operating costs			
Impairment of goodwill		**1,243.2**	278.4
Impairment of acquired intangibles		**56.4**	–
Impairment of internally generated intangible assets		**32.7**	–
Impairment of property, plant and equipment and aircraft fleet rationalisation		**142.6**	23.5
Impairment of right of use assets		**46.4**	14.2
Onerous contracts		**–**	17.0
Italy fine and related costs		**(24.2)**	48.5
Other		**–**	7.3
Exceptional items – Group		**1,497.1**	388.9
Exceptional tax items and tax on exceptional items		**(22.3)**	(16.3)
Exceptional items – net of tax		**1,474.8**	372.6

Explanation of exceptional items

Exceptional items include the results of the annual goodwill impairment test and other adjustments arising out of the contract profitability and balance sheet review. The contract profitability and balance sheet review includes the results of a major aircraft fleet rationalisation programme which resulted in asset impairments and crystallisation of losses on disposal of surplus aircraft.

Impairment of goodwill

The current year impairment test results in an impairment of the Land operating segment goodwill of £425.8 million, the Aviation operating segment goodwill of £808.5 million and the goodwill of £8.9 million allocated to the Aviation oil and gas business CGU. These impairments reflect significant changes in estimates, informed by consideration during the second half of the year ended 31 March 2021, of actual business performance of the Group during the current year and related assessments of future performance of the businesses. Future business performance was informed by the strategy and contract profitability and balance sheet reviews instigated by the Group's new executive management and the Group's budget addressing the years ending 31 March 2022, 31 March 2023 and 31 March 2024.

The Group combines the Africa and Land operating segments into a single Land reportable segment and, in the prior year, the goodwill impairment test was carried out at the reportable segment level rather than at the operating segment level as required by IAS 36. This error was compounded by an administrative error in the calculation of the value-in-use of the Land operating segment and the impact of both errors was an overstatement of Land value-in-use by £886 million.

In addition, the correction of a number of prior period errors in the year ended 31 March 2020, in relation to other financial statement areas, reduced the capital employed used to complete the March 2020 goodwill impairment test. A reduction in capital employed of £239.2 million, in relation to the Aviation operating segment, resulted in the restatement of the Aviation operating segment impairment charge for the year ended 31 March 2020 from £395.0 million, which reflected deterioration in the oil and gas market conditions, to £155.8 million. A reduction in capital employed of £5.1 million, in relation to the Land operating segment and the impact of the overstatement of value-in-use by £886 million noted above, resulted in a Land operating segment impairment charge of £122.6 million in the year ended 31 March 2020.

Impairment of acquired intangibles

The Land operating segment previously recognised an acquired intangible in relation to the DSG contract acquisition in 2015. Following publication of the Integrated Spending Review and reassessment of variable revenues under the contract, an impairment assessment under IAS 36 resulted in the impairment of this asset.

Impairment of internally generated intangible assets

Impairment charges of £32.7 million were recorded on mainly software assets. Further details are set out in note 3 and note 14.

Impairment of property, plant and equipment and aircraft fleet rationalisation

An impairment charge of £113.3 million was recorded on property, plant and equipment. This charge included the results of a major aircraft fleet rationalisation programme which resulted in a refreshed fleet strategy and the identification of surplus aircraft. Impairments were recorded on surplus aircraft and as the result of value-in-use tests. Losses on disposal were incurred on aircraft disposed of during the year. The prior year charge related to impairments of property, plant and equipment used in the Group's Aviation oil and gas business and reflected the prevailing market conditions. Further details are set out in note 15.

3. Adjustments between statutory and underlying information (continued)

Exceptional items (continued)

Impairment of right of use assets

Following a review of carrying amounts, a total impairment charge of £46.4 million was recorded in relation to the Group's right of use assets. This included impairments of aircraft supporting oil and gas and emergency services contracts and the impairment of assets directly attributable to the Group's DSG contract. The impairment in the prior year related to aircraft supporting oil and gas market contracts. Further details are set out in note 16.

Onerous contracts

The prior year charge relates to onerous contracts supporting the Aviation oil and gas market. As disclosed in note 4, the Group identified onerous contracts during the year ended 31 March 2021. However, the onerous contracts identified are not considered to meet the criteria for exceptional items (being items that are significant, non-recurring and outside the normal operating practice of the Group) and are therefore not considered further here. We have assessed that onerous contracts identified in the year ended 31 March 2020 meet the criteria for classification as exceptional under the policy in place for the current year.

Italy fine

In the year ended 31 March 2020, the Lazio Regional Administrative Court confirmed a €51 million fine issued by the Italian Competition Authority to our subsidiary, Babcock Mission Critical Services Italia SpA (BMCS Italia), for certain anti-trust violations. As a result, the Group recognised a provision of £46.4 million. During the year, BMCS Italia appealed the decision of the Court to the Italian Council of State. In July 2021, the Council, whilst upholding the decision of the Court on the facts, annulled the fine, though allowing the Authority leave to re-calculate it. We expect the Authority to decide on the recalculation of the fine over the next few months. Taking into account the guidance given by the Council to the Authority on the recalculation, we further expect the Authority to reduce the fine. As a result, we have reduced the provision to £20 million, being management's best estimate of the Group's obligation based on an interpretation of the Council's guidance. We have not received any indication from the Authority as to how it will choose to interpret the Council's guidance.

Other

Other charges in the prior year include costs arising from the Group's Brexit-related restructure.

4. Contract and balance sheet review

As announced in January 2021, the Group performed a review of the profitability of its contract portfolio and the carrying values of assets and liabilities on the balance sheet. The review was carried out by management using the expertise and resource of an independent accounting firm. The initial year-end financial close occurred in early April before completion of the contract profitability and balance sheet review. On 13 April 2021 the Group announced the initial headline unaudited results for the year ended 31 March 2021 before the impact of contract profitability and balance sheet review, along with an early estimate of the findings. The annual goodwill impairment test, required by IAS 36, was included within the scope of the contract profitability and balance sheet review.

The contract profitability and balance sheet scope covered over 100 contracts, representing c.£2.6 billion of annual revenues. The selected contracts received differing levels of review depending upon their perceived risk. Those contracts deemed high risk had a full review of their status, underpinning assumptions and risks and dependencies. Those deemed medium risk had a specific scope review with work targeted at any specific areas of concern, and those deemed low risk had a review with the project manager to gain an understanding of the contract and assess whether any specific scope work should be performed. The balance sheet reviews covered all main balance sheet captions for all sectors, again prioritising balances on a risk basis. As the reviews progressed, more work was performed on contracts where findings raised issues that had not been considered in the initial scoping reviews.

More than 100 accounting adjustments totalling £2.0 billion (post-tax effect on retained earnings) resulted from the contract profitability and balance sheet review, consisting of:

- Cumulative restatement at 1 April 2019 of £308.1 million (being £45.3 million relating to a change in accounting policy and correction of prior year errors of £262.8 million).
- Cumulative restatement at 31 March 2020 of £230.7 million (being £59.8 million relating to a change in accounting policy and correction of prior year errors of £170.9 million).
- Changes recorded within the current financial year of £1,813.7 million, the vast majority of which are change in estimates.

Of the adjustments recorded in the current year income statement (see table below), £274.7m were charged within underlying operating profit and the vast majority of these amounts related to changes in estimates. Their inclusion within underlying operating profit reflects the fact that the occurrence of such transactions, when taken individually, is part of the ordinary course of business. However, the number and magnitude of the adjustments as a result of the contract profitability and balance sheet review far exceeded what would normally be expected in the Group in any one period, hence the additional disclosure.

Prior year restatements

There are a number of prior year errors that have been recognised. Adjustments were denoted as errors, rather than changes in estimates, when it was identified that assumptions or methodologies were used which the Group should have known at the time were incorrect. One accounting policy has also been changed to better represent certain maintenance arrangements in the Aviation sector, and the errors and the policy change result in prior year restatements. Prior year restatements arising on or before 31 March 2019 were recorded in the 1 April 2019 opening balance sheet in these financial statements, with the continuing impact of these errors and other errors arising in the year ended 31 March 2020 being recorded in the income statement for the year ended 31 March 2020. Further details are set out in note 5.

The impacts of the contract profitability and balance sheet review adjustments on the income statement, including the results of the annual goodwill impairment test, are summarised as follows:

	2021			2020		
	Underlying £m	**Specific Adjusting Items £m**	**Statutory £m**	Underlying £m	Specific Adjusting Items £m	Statutory £m
Revenue impacts	**(207.4)**	**–**	**(207.4)**	(21.0)	–	(21.0)
Operating profit/(loss) impacts						
Impairment/disposal of goodwill and acquired intangible assets	**–**	**(1,349.4)**	**(1,349.4)**	–	130.5	130.5
Impairment of non-current assets	**(5.8)**	**(32.7)**	**(38.5)**	0.7	–	0.7
Impairment of property, plant and equipment and right of use assets	**–**	**(156.9)**	**(156.9)**	(21.6)	(1.4)	(23.0)
Impairment/write down of current assets	**(142.6)**	**(0.8)**	**(143.4)**	(19.5)	–	(19.5)
Introduction of/increase to liabilities	**(126.3)**	**(1.0)**	**(127.3)**	0.6	–	0.6
Operating profit/(loss)	**(274.7)**	**(1,540.8)**	**(1,815.5)**	(39.8)	129.1	89.3
Share of income from JVs and associates	**(37.1)**	**–**	**(37.1)**	–	–	–
Profit/(loss) before tax impacts	**(311.8)**	**(1,540.8)**	**(1,852.6)**	(39.8)	129.1	89.3
Tax adjustments	**(7.5)**	**–**	**(7.5)**	(12.4)	–	(12.4)
Tax effect	**29.3**	**17.1**	**46.4**	3.0	(2.5)	0.5
Loss after tax for the year impacts	**(290.0)**	**(1,523.7)**	**(1,813.7)**	(49.2)	126.6	77.4

4. Contract and balance sheet review (continued)

Summarised cumulative adjustments to retained earnings, including the results of the annual goodwill impairment test, are as set out below:

	£m
Restatement as at 1 April 2019	**(308.1)**
Adjustments recognised in the year ended 31 March 2020	**77.4**
Total restatement at 31 March 2020	**(230.7)**
Adjustments recognised in the year ended 31 March 2021	**(1,813.7)**
Total adjustments recognised at 31 March 2021	**(2,044.4)**

The summary of the adjustments in the table above is set out below:

Revenue

These adjustments have two components within them. Firstly is a correction of an error where revenue had been recognised on a contract the terms of which had been varied in February 2020. The effect of the contract change is that the Group is deemed an agent of the customer, not a principal and therefore the revenue should not be recognised. As a result of identifying this error, £71.8 million of revenue initially recognised in the year ended 31 March 2021 was reversed together with £11.6 million of revenue in relation to the year ended 31 March 2020. The second component of revenue adjustments reflects reassessments of the progress and profitability of a number of contracts across the Group.

Impairment of goodwill and acquired intangible assets

In the current year, goodwill was impaired by £1,243.2 million and acquired intangible assets were impaired by £56.4 million. As detailed in note 13, the impairments of the Land and Aviation sectors' goodwill of £425.8 million and £817.4 million respectively were largely as a result of reduced forecasts of future cash flows and an increase in the discount rate used to discount them.

Contract profitability and balance sheet review adjustments of £64.8 million were also recorded to allocate the goodwill that should have been allocated to the Holdfast disposal (June 2020) and to correct the allocation of goodwill to the Conbras disposal (October 2020 and provided in the first half of the financial year). Further, £56.4 million was impaired in relation to the DSG contract acquired intangible as its carrying value could no longer be justified following the reassessment of the contract profitability. Partially offsetting this is the reversal of amortisation of £15.0 million in relation to the oil and gas business acquired intangible reflecting management's judgement to dispose of this intangible at 1 April 2019 as a result of a reassessment of its useful economic life. This has been classified as a prior year error.

Previously a goodwill impairment of £395.0 million was recorded in the year ended 31 March 2020 against the Aviation sector goodwill. The credit of £130.5 million in the year ended 31 March 2020 is a reduction to that impairment and is the result of three prior year errors. Firstly, credits of £239.2 million and £5.1 million reflect the cumulative amount of prior year errors in relation to the capital employed in the Aviation and Land operating segments respectively, and therefore reduce the amount that should have been impaired in the year ended 31 March 2020. Secondly, calculation errors in the impairment test of Land goodwill in the year ended 31 March 2020 result in a charge of £127.7 million and, thirdly, a credit of £13.9 million reflects reduced intangible amortisation in relation to the oil and gas business following the derecognition of the intangible asset at 1 April 2019.

Impairment of other non-current assets:

The adjustments within underlying operating profit in the year ended 31 March 2021 largely relate to the write off of a loan to one of our joint ventures which is no longer deemed recoverable. The £32.7 million within the year ended 31 March 2021 Specific Adjusting Items is largely due to the impairment of internally generated intangibles, mainly computer software.

Impairment of property, plant and equipment and right of use assets:

Impairments of £156.9 million largely relate to fleet values in the Aviation sector where aircraft carrying values are no longer expected to be recovered through use or sale. Also included are impairments of leasehold property of £12 million and plant and equipment of £11 million. The prior year error of £21.6 million within underlying profit is all from the Aviation sector and relates to the expensing of previously capitalised maintenance and the reversal of aircraft vendor credit notes previously recognised within profit. Further details are set out in note 5.

Impairment/write down of current assets:

This covers the reassessment of several contract profitability margins and the recoverability of many trade and other receivables (including contract assets and accrued income) as well as an increase in obsolescence provisions for inventory. This is the summation of many contract reassessments across the group with £62.0 million in Aviation, £36.6 million in Land, £21.8 million in Marine and £20.6 million in Nuclear. The prior year error of £19.5 million relates to Aviation and corrects the capitalisation of mobilisation and other costs as well as revenue milestones recognised for an aircraft the Group did not take delivery of.

4. Contract and balance sheet review (continued)

Introduction of/increase to liabilities:
These increases reflect reassessment of several contract profitability margins, onerous contract provisions, aircraft maintenance accruals, and other provisions. £72.6 million are in the Aviation sector, £35.5 million in Land and £11.4 million in Marine. Around £60 million of the liabilities are expected to outflow beyond one year.

Share of income from joint ventures and associates
Historically the Group adjusted the results of the joint ventures and associates before equity accounting the relevant share in the income statement. The Group has decided such results should be incorporated without adjustment by the Group – unless required to align with IFRS. In the prior periods the Group's share of joint venture and associates results were adjusted by £23.1 million cumulatively, and a charge of this amount is booked as a change in estimate in the year ended 31 March 2021 to reverse these amounts. In addition, following the termination of the Group's Dounreay decommissioning contract on 31 March 2021, as a consequence of the NDA's decision to take contract delivery in-house, the Group booked an adjustment of £10.9 million to reflect the estimated contract settlement with the NDA. Contract settlements remain outstanding in relation to works carried out some years ago by the Land sector's ABC joint venture and, following developments during the year, a further adjustment of £3.1 million was recorded and represents an updated assessment of the contract outcomes.

Tax adjustments:
The underlying impact of £7.5 million in the year ended 31 March 2021 relates to the write off of deferred tax assets in Spain of £29.1 million now considered not recoverable within the Group's forecasting horizon, together with a £21.6 million credit, being the recognition of tax deductibility on the DSG contract intangible amortisation now confirmed with HMRC. The prior year error of £12.4 million is the write off of a deferred tax asset incorrectly calculated in the prior year.

Change in accounting policy
During the year, management amended the Group's accounting policy regarding Power By the Hour agreements. At 31 March 2021 this change in policy reduces property, plant and equipment by £65.6 million and trade and other receivables by £3.1 million and increases trade and other payables by £8.1 million. Further information is detailed at note 5.

5. Prior year restatements

The following table summarises the impact of restatements arising from the change in accounting policy and correction of prior year errors on Group net assets and earnings per share.

	31 March 2020		1 April 2019	
	Change in accounting policy	Prior period error	Change in accounting policy	Prior period error
Impact on non-current assets (£m)	(48.7)	(135.7)	(37.2)	(224.8)
Impact on current assets (£m)	(2.8)	445.6	–	549.3
Impact on non-current liabilities (£m)	–	79.2	–	(1.9)
Impact on current liabilities (£m)	(8.3)	(564.5)	(8.1)	(578.2)
Total impact on equity	**(59.8)**	**(175.4)**	**(45.3)**	**(255.6)**
Impact on profit after tax (£m)	(14.6)	92.0	N/A	N/A
Impact on Group earnings per share (basic) (pence)	(2.9)	18.6	N/A	N/A
Impact on Group earnings per share (diluted) (pence)	(2.9)	18.6	N/A	N/A

Detail of prior period errors and change in accounting policy

Through the contract profitability and balance sheet review a number of prior year errors have been identified, in addition to one area where there is a more appropriate alternative accounting policy. Prior year financial statements have been restated for these changes as indicated below.

5. Prior year restatements (continued)

1 April 2019 – Group statement of financial position (extract)

		Change in accounting policy	Correction of errors								
	1 April 2019 (previously published)	(i) Power By the Hour maintenance arrangements	(ii) Maintenance of leased aircraft	(iii) Rotables	(iv) Maintenance of customer aircraft	(v) Mobilisation costs	(vi) Credit notes	(vii) Deferred tax	(viii) Balance sheet reclassification	(x) Other	1 April 2019 (restated)
Assets											
Non-current assets											
Other intangible assets	**448.9**	–	–	–	–	–	–	–	–	(59.9)	389.0
Property, plant and equipment	**1,014.3**	(37.2)	(26.5)	(25.8)	(25.1)	(0.8)	(2.4)	–	0.7	(23.5)	873.7
Right of use assets	**592.7**	–	–	–	–	–	(35.3)	–	66.1	–	623.5
Investments in joint ventures and associates	**153.2**	–	–	–	–	–	–	–	–	8.9	162.1
Deferred tax asset	**155.9**	–	–	–	–	–	–	(8.8)	(92.4)	–	54.7
Total non-current assets*	**5,327.9**	(37.2)	(26.5)	(25.8)	(25.1)	(0.8)	(37.7)	(8.8)	(25.6)	(74.5)	5,065.9
Current assets											
Inventories	**196.5**	–	–	–	–	–	–	–	–	(1.8)	194.7
Trade and other receivables	**916.6**	–	–	–	–	(18.6)	–	–	9.5	(38.7)	868.8
Income tax receivable	**11.1**	–	–	–	–	–	–	–	26.2	3.2	40.5
Cash and cash equivalents	**275.2**	–	–	–	–	–	–	–	569.5	–	844.7
Total current assets*	**1,447.4**	–	–	–	–	(18.6)	–	–	605.2	(37.3)	1,996.7
Liabilities											
Non-current liabilities											
Bank and other borrowings	**(1,357.6)**	–	–	–	–	–	–	–	(79.6)	–	(1,437.2)
Deferred tax liabilities	**(103.2)**	–	–	–	–	–	–	11.5	66.2	–	(25.5)
Total non-current liabilities*	**(2,294.5)**	–	–	–	–	–	–	11.5	(13.4)	–	(2,296.4)
Current liabilities											
Bank and other borrowings	**(53.9)**	–	–	–	–	–	–	–	(603.4)	–	(657.3)
Trade and other payables	**(1,381.4)**	(8.1)	(2.9)	–	–	–	–	–	37.2	6.4	(1,348.8)
Other financial liabilities	**(4.9)**	–	–	–	–	–	–	–	–	(6.0)	(10.9)
Provisions for other liabilities	**(48.9)**	–	(9.7)	–	–	–	–	–	–	0.2	(58.4)
Total current liabilities*	**(1,618.3)**	(8.1)	(12.6)	–	–	–	–	–	(566.2)	0.6	(2,204.6)
Total impact on statement of financial position	**–**	(45.3)	(39.1)	(25.8)	(25.1)	(19.4)	(37.7)	2.7	–	(111.2)	(300.9)
Other reserves	**692.9**	–	–	–	–	–	–	–	–	7.2	700.1
Retained earnings	**975.8**	(45.3)	(39.1)	(25.8)	(25.1)	(19.4)	(37.7)	2.7	–	(118.4)	667.7
Total equity*	**2,862.5**	(45.3)	(39.1)	(25.8)	(25.1)	(19.4)	(37.7)	2.7	–	(111.2)	2,561.6

* The table above includes only those financial statement line items which have been restated. The total non-current assets, current assets, non-current liabilities, current liabilities and equity do not therefore represent the sum of the line items presented above.

5. Prior year restatements (continued)

31 March 2020 – Group statement of financial position (extract)

		Change in accounting policy	Correction of errors									
	31 March 2020 (previously published)	(i) Power By the Hour maintenance arrangements	(ii) Maintenance of leased aircraft	(iii) Rotables	(iv) Maintenance of customer aircraft	(v) Mobilisation costs	(vi) Credit notes	(vii) Deferred tax	(viii) Balance sheet reclassification	(ix) Goodwill impairment	(x) Other	31 March 2020 (restated)
Assets												
Non-current assets												
Goodwill	**2,171.3**	–	–	–	–	–	–	–	–	116.6	–	**2,287.9**
Other intangible assets	**379.5**	–	–	–	–	–	–	–	–	–	(44.8)	**334.7**
Property, plant and equipment	**951.1**	(48.7)	(30.5)	(30.8)	(28.1)	(0.8)	(2.4)	–	52.3	–	(21.2)	**840.9**
Right of use assets	**638.8**	–	–	–	–	–	(39.7)	–	(6.7)	–	16.6	**609.0**
Investment in joint ventures and associates	**148.0**	–	–	–	–	–	–	–	–	–	13.9	**161.9**
Deferred tax asset	**190.6**	–	–	–	–	–	–	(16.3)	(113.8)	–	–	**60.5**
Total non-current assets*	**4,887.5**	(48.7)	(30.5)	(30.8)	(28.1)	(0.8)	(42.1)	(16.3)	(68.2)	116.6	(35.5)	**4,703.1**
Current assets										–		
Inventories	**193.5**	–	–	–	–	–	–	–	–	–	(1.9)	**191.6**
Trade and other receivables	**930.8**	(2.8)	–	–	–	(30.1)	(0.7)	–	(12.7)	–	(47.1)	**837.4**
Income tax receivable	**13.6**	–	–	–	–	–	–	–	41.0	–	2.6	**57.2**
Cash and cash equivalents	**1,351.4**	–	–	–	–	–	–	–	494.5	–	–	**1,845.9**
Total current assets*	**2,643.2**	(2.8)	–	–	–	(30.1)	(0.7)	–	522.8	–	(46.4)	**3,086.0**
Liabilities												
Non-current liabilities												
Lease liabilities	**(534.8)**	–	–	–	–	–	–	–	–	–	(13.7)	**(548.5)**
Deferred tax liabilities	**(115.2)**	–	–	–	–	–	–	8.7	72.8	–	–	**(33.7)**
Provision for other liabilities	**(30.4)**	–	–	–	–	–	–	–	–	–	(2.3)	**(32.7)**
Total non-current liabilities*	**(2,948.2)**	–	–	–	–	–	–	8.7	72.8	–	(16.0)	**(2,882.7)**
Current liabilities												
Bank and other borrowings	**(400.1)**	–	–	–	–	–	–	–	(587.8)	–	–	**(987.9)**
Lease liabilities	**(138.0)**	–	–	–	–	–	–	–	–	–	(2.9)	**(140.9)**
Trade and other payables	**(1,366.3)**	(8.3)	(2.9)	–	–	–	–	–	60.4	–	15.9	**(1,301.2)**
Income tax payable	**(5.9)**	–	–	–	–	–	–	–	–	–	2.1	**(3.8)**
Other financial liabilities	**(9.0)**	–	–	–	–	–	–	–	–	–	(18.7)	**(27.7)**
Provision for other liabilities	**(113.2)**	–	(13.7)	–	–	–	–	–	–	–	(3.2)	**(130.1)**
Total current liabilities*	**(2,032.5)**	(8.3)	(16.6)	–	–	–	–	–	(527.4)	–	(6.8)	**(2,591.6)**
Total impact on statement of financial position	**–**	(59.8)	(47.1)	(30.8)	(28.1)	(30.9)	(42.8)	(7.6)	–	116.6	(104.7)	**(235.2)**
Other reserves	**647.1**	–	–	–	–	–	–	–	–	–	(4.5)	**642.6**
Retained earnings	**710.8**	(59.8)	(47.1)	(30.8)	(28.1)	(30.9)	(42.8)	(7.6)	–	116.6	(100.2)	**480.1**
Total equity*	**2,550.0**	(59.8)	(47.1)	(30.8)	(28.1)	(30.9)	(42.8)	(7.6)	–	116.6	(104.7)	**2,314.8**

* The table above includes only those financial statement line items which have been restated. The total non-current assets, current assets, non-current liabilities, current liabilities and equity do not therefore represent the sum of the line items presented above.

5. Prior year restatements (continued)

31 March 2020 – Impact on the income statement for the year ended 31 March 2020

		Change in accounting policy	Correction of errors									
	31 March 2020 (previously published)	(i) Power By the Hour maintenance agreements	(ii) Maintenance of leased aircraft	(iii) Rotables	(iv) Maintenance of customer aircraft	(v) Mobilisation costs	(vi) Credit notes	(vii) Deferred tax	(viii) Balance sheet reclassification	(ix) Goodwill impairment	(x) Other	31 March 2020 (restated)
Group income statement												
Revenue	**4,449.5**	–	–	–	–	–	–	–	–	–	(21.0)	**4,428.5**
Cost of revenue	**(3,940.5)**	(13.1)	(6.9)	(4.1)	(2.2)	(12.7)	(3.8)	–	–	–	42.1	**(3,941.2)**
Administration and distribution expenses	**(353.6)**	(1.5)	(1.3)	(0.9)	(0.8)	1.2	(1.3)	–	–	–	(1.0)	**(359.2)**
Goodwill impairment	**(395.0)**	–	–	–	–	–	–	–	–	116.6	–	**(278.4)**
(Loss)/profit from divestments	**74.7**	–	–	–	–	–	–	–	–	–	–	**74.7**
Share of results of joint ventures and associates	**58.6**	–	–	–	–	–	–	–	–	–	–	**58.6**
Finance income	**14.1**	–	–	–	–	–	–	–	–	–	–	**14.1**
Finance costs	**(86.0)**	–	–	–	–	–	–	–	–	–	–	**(86.0)**
Loss before tax	**(178.2)**	(14.6)	(8.2)	(5.0)	(3.0)	(11.5)	(5.1)	–	–	116.6	20.1	**(88.9)**
Income tax expense/benefit	**(15.0)**	–	–	–	–	–	–	(13.4)	–	–	1.5	**(26.9)**
Loss for the period	**(193.2)**	(14.6)	(8.2)	(5.0)	(3.0)	(11.5)	(5.1)	(13.4)	–	116.6	21.6	**(115.8)**
Impact on basic earnings per share	**(38.6)**	(2.9)	(1.6)	(1.0)	(0.6)	(2.3)	(1.0)	(2.7)	–	23.1	4.3	**(23.3)**
Impact on diluted earnings per share	**(38.6)**	(2.9)	(1.6)	(1.0)	(0.6)	(2.3)	(1.0)	(2.7)	–	23.1	4.3	**(23.3)**

The total impact of prior year errors and change in accounting policy on the loss for the year ended 31 March 2020 period is £77.4 million.

5. Prior year restatements (continued)

31 March 2021

The impact of the change in accounting policies on the results for the year ended 31 March 2021 is as follows:

	Change in accounting policy
	(i) Power By the Hour maintenance arrangements
Group statement of financial position (extract)	
Assets	
Non-current assets	
Property, plant and equipment	**(54.5)**
Current assets	
Trade and other receivables	**(3.1)**
Liabilities	
Current assets	
Trade and other payables	**(8.1)**
Equity	**(65.6)**
Retained earnings	**(65.6)**
Group income statement (extract)	
Cost of revenue	**(6.0)**
(Loss) / Profit before tax	**(6.0)**
Income tax	**1.0**
(Loss) / Profit for the period	**(5.0)**
Impact on basic earnings per share	**(1.0)**
Impact on diluted earnings per share	**(1.0)**

Definitions

As set out in note 1, aircraft are considered in two key components for accounting purposes. ‘Rotables’ are major life-limited parts, such as engines, gearboxes and rotor blades, where value is consumed on a flying hour basis. The ‘airframe’ represents the remainder of the aircraft, and includes the body and other structural, mechanical and electrical installations necessary for flight. These definitions exclude ‘equipment’ which is separable from the aircraft and mission specific, such as medical and firefighting installations.

Change in accounting policy

i. Power By the Hour (PBH) agreements

The Group is party to a number of ‘Power By the Hour’ (‘PBH’) maintenance arrangements, under which the provider supplies rotable and airframe parts as required in exchange for a fixed price per flying hour. The provider therefore assumes the risk associated with the failure rate of parts.

Certain of these payments have previously been capitalised within property, plant and equipment, while the rotable parts which are subject to the arrangement have been depreciated as a separate component of the aircraft. Depreciation of the PBH payments has commenced as rotable and airframe parts are provided under the arrangement.

Following a review of the terms of these arrangements, a comparison to policies of peer companies (where publicly available) and considering the requirements and application of IAS 16 ‘Property, Plant and Equipment’ (‘IAS 16’), it was determined that a more reliable and relevant accounting policy would be to recognise PBH payments in the income statement as incurred, but not to separately depreciate the rotable parts covered by the arrangement. This is more relevant as it reflects the substance of the arrangements, which is to maintain the parts covered at their full potential. It is more reliable in recording an expense in the income statement as there is no depreciation charge, which requires the use of an accounting estimate. The policy is also more prudent as (a) the cost of rotable parts does not change over time with inflation and (b) the elements of the PBH cost which reimburse the risk assumed by the PBH provider and which cover ancillary benefits such as access to the supply chain of the provider are directly expensed rather than initially capitalised.

This change in policy reduces property, plant and equipment and trade and other receivables and increases trade and other payables, reducing retained earnings by £45.3 million at 1 April 2019, £59.8 million at 31 March 2020 and £65.6 million at 31 March 2021. Trade and other receivables and trade and other payables are impacted by this change in policy as amounts were recorded in trade and other receivables and trade and other payables under the previous policy, which was deemed to be inappropriate. The tables above set out the impact on each line item of the statement of financial position and income statement.

5. Prior year restatements (continued)

Correction of errors

ii. Maintenance of leased aircraft

Leased aircraft are typically required to be returned to lessors with rotables in a similar condition to that which existed at the commencement of the lease. Betterment and detriment clauses set out the balancing payments required if these conditions are not met.

The cost of repair and replacement parts which extends the life of rotables has typically been capitalised as a leasehold improvement and depreciated over the term of the lease, resulting in an increasing cost of depreciation towards the end of the lease.

Following a review of lease return conditions and considering the requirements and application of IAS 16, it has been determined that the Group should record a leasehold improvement asset or dilapidation provision which represents the difference between the condition of the rotables at any given point in time and the return condition. This reflects the amount of leasehold improvement which will generate future benefits and the value of the liability to restore parts to the return condition, and results in a more consistent profile of cost recognition over the duration of the lease.

The correction of this error reduces the carrying value of property, plant and equipment by £26.5 million and increases trade and other payables and provisions by £2.9 million and £9.7 million, respectively, at 1 April 2019. There is an increase in operating costs of £8.2 million in the year ended 31 March 2020, resulting in a reduction in property, plant and equipment of £30.5 million and an increase in trade and other payables and provisions of £2.9 million and £13.7 million, respectively, at 31 March 2020.

iii Rotables – maintenance of owned aircraft

Rotables are depreciated as a separate component of the aircraft on the basis of flying hours, as this most appropriately reflects the consumption of economic benefits.

Following a review of balances capitalised as rotables, it was identified that in certain cases the carrying value of parts replaced prior to completion of the expected number of flying hours had not been written off, depreciation rates had not been regularly updated to reflect the latest actual cost of replacement parts and the remaining number of flying hours used for accounting purposes had not been regularly checked for accuracy against contemporaneous technical records. It was also identified that certain parts capitalised related to the airframe rather than rotables and should have been expensed as these represented a replacement rather than enhancement to the aircraft. Detailed exercises were undertaken to assess the remaining life of rotables against technical records, determine the actual cost of parts capitalised and review balances for airframe parts which should not have been capitalised under IAS 16.

The correction of these errors reduces property, plant and equipment by £25.8 million at 1 April 2019. There is a charge to the income statement of £5.0 million for the year ended 31 March 2020, resulting in a reduction in property, plant and equipment of £30.8 million at 31 March 2020.

iv. Rotables – maintenance of customer aircraft

The Group operates a number of aircraft which are provided by customers. The cost of repair and replacement parts which extends the life of rotables has been capitalised within property, plant and equipment and depreciated over the contract term in a manner similar to that applied for leased aircraft.

Following a review of the terms of these customer contracts, it has been determined that these costs should not have been capitalised as they represent the enhancement of a customer asset rather than an asset of the Group and therefore do not meet the recognition requirements of IAS 16.

The correction of this error reduces property, plant and equipment by £25.1 million at 1 April 2019. There is an increase in operating costs of £3.0 million for the year ended 31 March 2020, resulting in a reduction in property, plant and equipment of £28.1 million at 31 March 2020.

v. Mobilisation costs

The Group incurs various costs in mobilising contracts and certain of these costs have been capitalised as contract fulfilment assets. Following a review of all such assets, it has been identified that certain costs did not meet the requirements of IFRS 15 to be capitalised as contract fulfilment assets as there was insufficient evidence that the costs generated or enhanced resources which the Group would use in performing the contract. The key areas related to lease costs, maintenance costs and personnel costs incurred prior to contract commencement or the achievement of full operating capability. A significant proportion of these costs was incurred in mobilising the Group's Air Ambulance contract in Norway, which commenced in July 2019.

The correction of these errors reduces trade and other receivables by £18.6 million and property, plant and equipment by £0.8 million at 1 April 2019. There is an increase in operating costs of £11.5 million for the year ended 31 March 2020, resulting in reductions in trade and other receivables of £30.1 million and property, plant and equipment of £0.8 million at 31 March 2020.

5. Prior year restatements (continued)

Correction of errors (continued)

vi. Credit notes

The Group receives certain credit notes from aircraft manufacturers at the point of placing orders for aircraft, exercisable against the purchase of future parts and services. These credit notes have previously been recognised in the income statement on receipt and recorded within trade and other receivables until used to purchase parts or services, which is typically within a short period.

Following a review of the substance of these credit notes, it has been determined that these represent a discount on the purchase price of the aircraft. In the case of aircraft which are owned by the Group, credit notes should therefore be recognised as a reduction in the cost of aircraft acquired. The majority of aircraft ordered by the Group in recent years have been sold and leased back prior to delivery, typically at the gross purchase price excluding the credit note, resulting in a gain on disposal of the aircraft being recognised in the income statement. The accounting for these sale and leasebacks has been corrected, reversing the gain recognised on disposal and recalculating reduced right of use assets arising from the leasebacks with reference to the discounted purchase price of the aircraft.

In the case of aircraft acquired for customers under an aircraft supply contract, the credit notes should be recognised as a reduction in operating costs.

The correction of these errors results in reductions in right of use assets of £35.3 million and property, plant and equipment of £2.4 million at 1 April 2019. There is an increase in operating costs of £5.1 million for the year ended 31 March 2020, resulting in cumulative decreases in the carrying value of right of use assets of £39.7 million, property, plant and equipment of £2.4 million and trade and other receivables of £0.7 million at 31 March 2020.

vii. Deferred tax

At 31 March 2020 a net deferred tax asset of £71.7 million was recognised in the Aviation operating segment in relation to the Group's Spanish entities. The recognition of this asset was supported by forecasts which showed the Spanish tax group becoming profitable in FY23 with significant further growth beyond this date. However, this analysis did not appropriately take into account restrictions on the utilisation of various tax attributes within Spanish tax law which, when corrected, extend the duration over which the deferred tax asset is expected to be fully utilised to over 20 years. Although the relevant tax attributes can be carried forward indefinitely, it was determined that appropriately risk-weighted profit forecasts (see note 1 "Critical accounting estimates") supported only a portion of the deferred tax asset, reducing the deferred tax asset by £25.5m at 1 April 2019 and £37.9m in total at 31 March 2020. This is partially offset by the tax benefit of other CPBS adjustments which are recognised to the extent it is appropriate to do so in the relevant jurisdiction.

The correction of this error (after the partial offset by the tax benefit of other adjustments) results in a reduction in deferred tax assets of £8.8 million at 1 April 2019 and £16.3 million at 31 March 2020.

As a result of the accelerated amortisation of the acquired intangible in the oil and gas operating segment, there has been a reduction in the deferred tax liability of £11.5 million at 1 April 2019 and £8.7 million at 31 March 2020. Further information is included at 'x. Other errors'.

viii. Balance sheet reclassifications

Supply chain financing

The Group entered into certain Supply Chain Financing Facilities ('SCF arrangements') in the Aviation operating segment. Outstanding balances financed through those arrangements were previously accounted for within trade and other payables. The Group has reassessed this classification and has determined that these liabilities should be reclassified as bank and other borrowings. This has also resulted in an increase to property, plant and equipment and other borrowings, as part of the Supply Chain Financing Facilities has been used for deposits on aircraft.

At 1 April 2019, correction of this error results in an increase in property, plant and equipment of £54.7 million, an increase in trade and other receivables of £21.6 million, an increase in bank and other borrowings of £113.5 million and a reduction in trade and other payables of £37.2 million. At 31 March 2020, correction of this error results in an increase in bank and other borrowings of £93.3 million, an increase in property, plant and equipment of £32.9 million and a reduction in trade and other payables of £60.4 million. This adjustment also impacts on the cash flow statement, resulting in an increase in cash flows from financing activities and reduction in cash flows from operating activities.

Cash pool arrangement

An error has been identified in relation to the accounting for the Group's notional cash pool arrangement. Cash and cash equivalents and bank and other borrowings should have been presented on a gross rather than net basis, in line with the requirements of IAS 32, 'Financial Instruments: Presentation' ('IAS 32'). The correction of this error results in increases in cash and cash equivalents and bank other borrowings of £569.5 million at 1 April 2019 and £494.5 million at 31 March 2020. There is no impact on the income statement.

5. Prior year restatements (continued)

Correction of errors (continued)

viii. Balance sheet reclassifications (continued)

Norway mobilisation

The cost of acquiring an aircraft simulator and certain flight and medical equipment in mobilising the Norway Air Ambulance contract has been capitalised as a contract fulfilment cost. IFRS 15 requires that costs that are within the scope of another Standard shall be accounted for in accordance with those other Standards. These costs are within the scope of IAS 16 and should therefore have been capitalised as property, plant and equipment.

The correction of this error increases property, plant and equipment and reduces trade and other receivables by the same amount, being £12.1 million at 1 April 2019 and £12.7 million at 31 March 2020.

Reclassification of deferred tax asset to income tax receivable

The gross deferred tax asset included amounts that should have been classified as income tax receivable and a reduction in deferred tax liabilities. In addition, deferred tax assets and liabilities have been re-stated in strict accordance with the right-of-set-off rules whereby deferred tax assets and deferred tax liabilities in the same jurisdiction are offset where there is a legally enforceable right to offset corporation tax assets and corporation tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same Taxation Authorities.

Correction of this error reduces the deferred tax asset by £92.4 million, increases income tax receivable by £26.2 million and decreases the deferred tax liability by £66.2 million at 1 April 2019. At 31 March 2020 correction of this error results in a decrease in the deferred tax asset of £113.8 million, an increase to income tax receivable of £41.0 million and a decrease in deferred tax liabilities of £72.8 million.

Reclassification of right of use assets to property, plant and equipment

On transition to IFRS 16, finance leases that were previously recorded as property, plant and equipment were transferred to right of use assets. However, as part of the procedures for the year ended 31 March 2021 it was identified that the reclassification was processed as a movement during the year ended 31 March 2020, as opposed to at 1 April 2019, and the amount reclassified was incorrect. Correction of this error results in a reclassification from property, plant and equipment to right of use assets of £66.1 million at 1 April 2019 and £6.7 million at 31 March 2020.

ix. Goodwill impairment

As a result of the prior year adjustments recorded in the Aviation and Land operating segments, the capital employed used in the goodwill impairment assessment at 31 March 2020 reduced. This resulted in a reduction in the impairment charge of £239.2 million in the Aviation operating segment and a reduction in the impairment charge of £5.1 million in the Land operating segment.

In addition, following a review of the methodology applied in goodwill impairment testing, the Group identified that the assessment had been performed at the reportable segment rather than the operating segment level. The operating segment level is the highest level at which goodwill can be monitored in accordance with IAS 36. In addition, an administrative error was identified in the calculation of the Land operating segment value in use.

The impairment test was re-performed to correct the administrative error and with the cash flows of the Africa and Land operating segments assessed separately. This resulted in an impairment of goodwill allocated to the Land operating segment of £127.7 million at 31 March 2020. No impairment was required at 1 April 2019 as re-performance of impairment analysis at that date identified sufficient headroom between the recoverable amount and the carrying value of relevant assets. Further details are included in note 13.

x. Other errors

A number of other errors have been identified as set out below.

Other intangible assets

Balances were identified relating to IT assets capitalised under IAS 38 – Intangible Assets which are no longer used by the business, and should therefore have been written off in previous years. The correction of this error reduces intangible assets by £2.0 million at 1 April 2019. There is a reduction in operating costs of £0.7 million for the year ended 31 March 2020, resulting in a reduction in intangible assets of £1.3 million at 31 March 2020.

Through the goodwill impairment analysis for the oil and gas operating segment it was identified that the carrying value of the operating segment was less than the recoverable value. Management reviewed the acquired intangible asset included in this operating segment and determined that the customer relationships included in the intangible asset were no longer part of the customer base, and were not part of the customer base at 1 April 2019. The useful expected life of the acquired intangible asset has therefore been revised and the intangible asset has been disposed of at 1 April 2019. This has resulted in an adjustment to acquired intangible assets of £57.9 million at 1 April 2019 and £43.5 million at 31 March 2020. The amortisation of the intangible asset for the year ended 31 March 2020 has been reversed, resulting in a reduction in operating costs of £13.9 million.

5. Prior year restatements (continued)

Correction of errors (continued)

x. Other errors (continued)

Property, plant and equipment

Capitalised maintenance costs were identified in relation to aircraft which had been sold or returned to lessors, or where the underlying customer contract had been completed. The correction of this error reduces property, plant and equipment by £6.5 million at 1 April 2019. There is a reduction in operating costs of £0.8 million in the year ended 31 March 2020, resulting in a reduction in property, plant and equipment of £5.7 million at 31 March 2020.

A number of errors were identified where an inappropriate useful life was assigned to aircraft and capitalised maintenance, due to incorrect application of the Group's depreciation policy. The correction of these errors reduces property, plant and equipment by £5.2 million at 1 April 2019. There is a £0.3 million reduction in operating costs in the year end 31 March 2020, resulting in a reduction in property, plant and equipment of £4.9 million at 31 March 2020.

It was identified that a number of aircraft impairments recorded in local statutory financial statements had not been reflected in the consolidated Group financial statements. The inconsistency in carrying values arising from the fair value exercise performed for the consolidated Group financial statements following a business combination was a contributory factor in the failure to reflect the changes in those financial statements. The correction of these errors reduces property, plant and equipment by £3.9 million at 1 April 2019. There is a £0.2 million reduction in operating costs in the year ended 31 March 2020, resulting in a reduction in property, plant and equipment of £3.7 million at 31 March 2020.

It was identified that the cost of constructing a customer hangar on land leased by the Group was being depreciated beyond the term of the customer contract and the fixed end date of the lease, both of which have passed. The correction of this error reduces property, plant and equipment by £1.3 million at 1 April 2019 and 31 March 2020.

A capitalised aircraft pre-delivery payment was found to have been utilised in the purchase of goods or services and should therefore have been be written off. The correction of this error reduces property, plant and equipment by £1.1 million at 1 April 2019 and 31 March 2020.

Management has also identified maintenance costs which should not have been capitalised, resulting in an adjustment to property, plant and equipment by £1.4 million at 1 April 2019 and 31 March 2020.

Additionally, it has been identified that certain elements capitalised under the PBH arrangements were not suitable for capitalisation under the previous accounting policy or the updated accounting policy. Correction of this error has resulted in a reduction of property, plant and equipment of £4.1 million at 1 April 2019 and 3.1 million at 31 March 2020.

Right of use assets and lease liabilities

Following a review of the lease population it was identified that right of use assets and lease liabilities were understated at 31 March 2020. This was in part due to a system generated error where previously added leases were deleted from the lease management system and in part due to replacement leases not being identified and communicated to finance teams. Correction of this error has resulted in an increase in right of use assets by £16.6 million, an increase in non-current lease liabilities by £13.7 million and an increase in current lease liabilities by £2.9 million at 31 March 2020.

Inventories

Following a review of the segregation of inventories into those owned by the Group and by customers, it was identified that certain items recognised within inventories were owned by customers of the Group and should not therefore be recorded under IAS 2, 'Inventories'. The correction of this error results in a reduction to inventories of £1.8 million at 1 April 2019. There is an increase in operating costs of £0.1 million for the year ended 31 March 2020, resulting in a reduction in inventories of £1.9 million at 31 March 2020.

Trade and other receivables

Two instances were identified where reductions in lease costs in future periods were recognised in the income statement when agreed, with an asset recognised within trade and other receivables and subsequently amortised, rather than in the future periods to which the reductions related. The correction of these errors results in a reduction in trade and other receivables of £8.7 million at 1 April 2019. There is a decrease in operating costs of £2.9 million for the year ended 31 March 2020, resulting in a decrease in trade and other receivables of £5.8 million at 31 March 2020.

Following a review of the accounting for certain tax payments made by a Group entity on behalf of other Group entities, a number of inconsistencies were identified between inter-company receivables and payables. The correction of these errors decreases trade and other receivables and retained earnings by £11.5 million at 1 April 2019. There is a reduction in operating costs of £0.1 million for the year ended 31 March 2020, resulting in a reduction in trade and other receivables of £11.4 million at 31 March 2020.

It was identified that amounts due from customers for contract work were not recoverable, as the rates included in this balance were disputed by the customer. The correction of this error results in a reduction in trade and other receivables of £8.2 million at 1 April 2019. There is a reduction in revenue of £0.3 million for the year ended 31 March 2020, resulting in a reduction in trade and other receivables of £8.5 million at 31 March 2020.

5. Prior year restatements (continued)

Correction of errors (continued)

x. Other errors (continued)

Trade and other receivables (continued)

An error has been identified relating to a pain/gain share agreement, in which a reduction in revenue was incorrectly recorded as an expense. The correction of this error results in a reduction in trade and other receivables of £1.8 million and trade and other payables of £1.0 million at 1 April 2019. Correction of this error at 31 March 2020 results in a reduction in trade and other receivables of £3.3 million and trade and other payables of £2.6 million. There is a reduction in revenue of £1.5 million and a reduction in operating costs of £1.6 million for the year ended 31 March 2020.

It was identified that the Group was not entitled to certain revenue recognised on the achievement of milestones relating to the provision of aircraft. The correction of this error decreases revenue by £8.3 million and operating costs by £7.3 million in the year ended 31 March 2020, resulting in reductions in amounts due from customer for contract work of £8.3 million and trade and other payables of £7.3 million at 31 March 2020.

It was identified that certain receivables should not have been considered to be recoverable. The correction of this error decreases trade and other receivables by £0.8 million at 1 April 2019. Further receivables which should not have been considered to be recoverable were identified in the year ended 31 March 2020, resulting in an increase in operating costs for that year and a reduction in trade and other receivables of £2.1 million at 31 March 2020.

A number of warranty claims from original equipment manufacturers were identified relating to 2015 which should have been provided for in accordance with the Group's accounting policies. The correction of this error decreases trade and other receivables by £2.6 million at 1 April 2019 and 31 March 2020, with a corresponding decrease in income tax payable of £0.8 million.

Additionally, management has identified capitalised bid costs that do not meet the criteria for capitalisation under IFRS 15. Correction of this error results in a decrease in capitalised bid costs of £5.1 million at 1 April 2019 and 31 March 2020.

Trade and other payables

As mentioned under trade and other receivables above, correction of the error related to milestone revenue recognition decreases operating costs by £7.3 million for the year ended 31 March 2020 and trade and other payables by £7.3 million at 31 March 2020.

As mentioned under trade and other receivables above, correction of the error related to a pain/gain share agreement decreases trade and other payables by £1.0 million at 1 April 2019. There is a decrease in the operating costs by £1.6 million for the year ended 31 March 2020, decreasing trade and other payables by £2.6 million at 31 March 2020.

A number of inconsistencies were identified between inter-company receivables and payables. The correction of these errors decreases trade and other payables and increases retained earnings by £8.2 million at 1 April 2019 and 31 March 2020.

It was identified that a liability recorded during year ended 31 March 2020 was not supportable at the year end. The correction of this error decreases operating costs for the year ended 31 March 2020 by £1.1 million and decreases trade and other payables by the same amount at 31 March 2020.

It was identified that a customer had been mischarged by £3.3 million due to an incorrect margin being applied to the costs incurred by the Group. The correction of this error increases trade and other payables by £2.8 million at 1 April 2019. There is an increase in operating costs of £0.5 million for the year ended 31 March 2020, resulting in an increase in trade and other payables of £3.3 million at 31 March 2020.

Provisions for other liabilities

In March 2020, significant damage was sustained to the main ballast tank on a vessel undergoing work by the Group. Although the Group maintains insurance against this type of damage, a proportion of the costs were not covered by this insurance. Correction of this error has resulted in an increase to non-current provisions of £2.3 million and current provisions of £3.2 million.

Taxation

The cumulative tax benefit of these other errors increases deferred tax assets, see vii "deferred tax", or increases income tax receivable/decreases income tax payable by £3.2m as at 1 April 2019 and £4.7m as at 31 March 2020. A tax benefit is not available for the full cumulative expense recorded in each year, as some items are not deductible for tax purposes or arise in territories in which additional deferred tax assets cannot be recognised.

5. Prior year restatements (continued)

Correction of errors (continued)

x. Other errors (continued)

Other financial assets and liabilities (hedging)

Following a review of the Group's foreign currency hedging arrangements in relation to aircraft leases in Norway, it was identified that insufficient contemporaneous documentation was recorded in order to designate part of the arrangement as a hedge for accounting purposes. The correction of this error results in an increase in other financial liabilities of £6.0 million and a decrease in other reserves of £1.7 million at 1 April 2019. There is a decrease in operating costs for the year ended 31 March 2020 of £3.1 million, with a cumulative increase in other financial liabilities of £18.7 million and a decrease in other reserves of £15.8 million. There is a decrease in other comprehensive income of £13.5 million for the year ended 31 March 2020.

Investments in joint ventures and associates

The Group has an equity accounted investment in AirTanker Holdings Limited. It has been identified that this investment became a deficit during the year ended 31 March 2019 as a result of movements in the valuation of derivatives held by the company, and that the Group's investment in joint ventures and associates balance at 1 April 2019 and 31 March 2020 included this negative balance. However, as the Group has not taken on any commitment to fund AirTanker Holdings Limited's liabilities, in accordance with IAS 28 'Investments in Associates and Joint Ventures' the Group should have ceased decreasing the related investment balance once it became negative.

The correction of this error results in an increase in investments in joint ventures and associates of £8.9 million and an increase in other reserves of the same amount at 1 April 2019. There is an increase in other comprehensive income of £5.0 million for the year ending 31 March 2020, relating to movement on the derivatives held by the investment, resulting in an increase in investments in joint ventures and associates of £13.9 million and an increase in other reserves of the same amount at 31 March 2020.

Revenue and cost of revenue items not impacting the statement of financial position

An overstatement of revenue and cost of revenue has been identified in relation to pass-through revenue on the Phoenix contract in the year ended 31 March 2020. The Group had previously concluded that it acted as principal in the arrangement. It was determined that a contract amendment in February 2020 represented a contract modification under IFRS 15, following which the Group has been acting as an agent. The correction of this error results in a decrease in revenue and cost of revenue of £11.6 million in the year ended 31 March 2020. There was no impact to reported profit as a result of this adjustment.

5. Prior year restatements (continued)

Impact of prior period restatements on the cash flow statement

The prior year restatements described above have had the following impact on the cash flow statement for the year ended 31 March 2020, due to restatement of the statement of financial position and income statement:

	31 March 2020 (previously published) £m	Impact of prior year errors £m	31 March 2020 (restated) £m
Cash flows from operating activities			
Loss for the year	(193.2)	77.4	(115.8)
Income tax (credit)/expense	15.0	11.9	26.9
Depreciation and impairment of property, plant and equipment	94.2	(2.9)	91.3
Depreciation and impairment of right of use assets	143.6	(6.1)	137.5
Amortisation and impairment of intangible assets	96.5	(14.6)	81.9
Goodwill impairment	395.0	(116.6)	278.4
Investment income	1.1	(1.1)	–
Net derivative fair value movement through profit or loss	–	(3.1)	(3.1)
Loss on disposal of property, plant and equipment	3.3	0.6	3.9
Loss on disposal of intangible assets	0.2	(0.1)	0.1
Cash generated from operations before movement in working capital and retirement benefit payments*	497.2	(54.6)	442.6
Decrease in receivables	(8.4)	48.4	40.0
Increase in payables	7.4	(32.1)	(24.7)
Increase in provisions	62.4	9.4	71.8
Cash generated from operations*	474.2	(28.9)	445.3
Interest received	13.5	(0.2)	13.3
Net cash flows from operating activities*	330.4	(29.1)	301.3
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment	30.1	46.4	76.5
Purchases of property, plant and equipment	(145.5)	(45.8)	(191.3)
Purchases of intangible assets	(29.1)	0.1	(29.0)
Vehicle leasing principal repayments	–	49.9	49.9
Investment in joint ventures	–	(0.3)	(0.3)
Loan movements in joint ventures and associates	(6.4)	1.6	(4.8)
Net cash flows from investing activities*	2.7	51.9	54.6
Cash flows from financing activities			
Proceeds above market value on sale and leaseback of property, plant and equipment	–	8.3	8.3
Lease assets issued and repaid	19.9	(19.9)	–
Bank loans repaid	(140.0)	(113.5)	(253.5)
Loans raised and facilities drawn down	1,202.4	102.3	1,304.7
Net cash flows from financing activities*	750.5	(22.8)	727.7

* The table above includes only those financial statement line items which have been restated. The total cash generated from operations, investing activities and financing activities do not therefore represent the sum of the line items presented above.

As part of the cash flow restatement the Group now presents Vehicle leasing principal repayments in Investing activities (previously in Financing activities) and presents. Proceeds above market value on sale and leaseback of property, plant and equipment is presented in Financing activities (previously in Investing activities). Furthermore, Vehicle leasing principal repayments and Purchases of property, plant and equipment have been restated as in the prior year the Group presented certain lessor activities on a net basis. These are now presented on a gross basis.

6. Segmental information

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

Marine – design, build and through-life support of naval ships, equipment and marine 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.

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 Board, the chief operating decision maker as defined by IFRS 8, monitors the results of these reportable 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 includes the South African operating segment in the Land reportable segment on the basis that they have similar economic characteristics and that the nature of the services provided, the type of customer and the methods used to deliver services are similar.

The table below presents the underlying results for each reportable segment in accordance with the change in definition of underlying revenue and underlying operating profit, as set out in note 3, and reconciles the underlying profit/(loss) to the statutory profit/(loss) before tax.

Year ended 31 March 2021	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	**1,242.3**	**975.9**	**1,110.1**	**854.4**	**–**	**4,182.7**
Underlying operating profit/(loss)	**56.3**	**63.9**	**(17.4)**	**(130.4)**	**–**	**(27.6)**
Specific Adjusting Items						
Amortisation of acquired intangibles	**(0.8)**	**–**	**(16.0)**	**(23.4)**	**–**	**(40.2)**
Business acquisition, merger and divestment related items	**–**	**(0.6)**	**(49.1)**	**–**	**–**	**(49.7)**
Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography	**–**	**–**	**(7.5)**	**(3.6)**	**–**	**(11.1)**
Restructuring costs	**–**	**0.7**	**0.2**	**(9.3)**	**–**	**(8.4)**
Profit or loss from amendment, curtailment, settlement or equalisation of group pension schemes	**(7.5)**	**–**	**–**	**–**	**(1.4)**	**(8.9)**
Exceptional items	**(4.2)**	**(5.8)**	**(516.7)**	**(970.4)**	**–**	**(1,497.1)**
Operating profit/(loss)	**43.8**	**58.2**	**(606.5)**	**(1,137.1)**	**(1.4)**	**(1,643.0)**
Share of results of joint ventures and associates	**3.1**	**(15.0)**	**5.1**	**(6.3)**	**–**	**(13.1)**
Investment income	**–**	**–**	**0.9**	**–**	**–**	**0.9**
Net finance costs	**–**	**–**	**–**	**–**	**(62.1)**	**(62.1)**
Profit/(loss) before tax	**46.9**	**43.2**	**(600.5)**	**(1,143.4)**	**(63.5)**	**(1,717.3)**

Contract profitability and balance sheet review

The contract profitability and balance sheet review impacted the profit/(loss) before tax in Aviation by £1,190.3 million, Land by £770.2 million, Marine by £46.9 million, Nuclear by £35.5 million and unallocated by £84.6 million. Unallocated charges predominantly relate to deferred tax movements.

Note 4 sets out details of the contract profitability and balance sheet review.

6. Segmental information (continued)

The table below presents the underlying results for each reportable segment in accordance with the change in definition of underlying revenue and underlying operating profit, as set out in note 3, and reconciles the underlying profit/(loss) to the statutory profit/(loss) before tax.

Year ended 31 March 2020 (restated*)	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	1,163.6	896.9	1,522.5	845.5	–	4,428.5
Underlying operating profit/(loss)	134.4	113.3	98.1	31.8	–	377.6
Specific Adjusting Items						
Acquired intangible amortisation	(5.3)	(0.4)	(35.8)	(26.1)	–	(67.6)
Business acquisition, merger and divestment related items	74.7	–	–	–	–	74.7
Gains, losses and costs directly arising from the group's withdrawal from a specific market or geography	(2.1)	(3.0)	(6.5)	(8.9)	–	(20.5)
Restructuring costs	–	(16.5)	(7.7)	(26.7)	–	(50.9)
Exceptional items		–	(122.6)	(266.3)	–	(388.9)
Operating profit/(loss)	201.7	93.4	(74.5)	(296.2)	–	(75.6)
Share of results of joint ventures and associates	1.7	7.6	24.7	24.6	–	58.6
Investment income	0.2	–	0.9	–	–	1.1
Net finance costs	–	–	–	–	(73.0)	(73.0)
Profit/(loss) before tax	203.6	101.0	(48.9)	(271.6)	(73.0)	(88.9)

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

The table below presents the underlying results for each reportable segment under the previous basis for determining underlying information (which included share of joint venture revenue and profits in underlying) and reconciles the underlying revenue and underlying profit/(loss) to the statutory revenue and profit/(loss) before tax.

Year ended 31 March 2021 (previous basis)	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,301.9	1,036.7	1,131.7	962.9	–	4,433.2
Less share of joint ventures and associates revenue	(59.6)	(60.8)	(21.6)	(108.5)	–	(250.5)
Revenue	1,242.3	975.9	1,110.1	854.4	–	4,182.7
Underlying operating profit/(loss) including share of results of joint ventures and associates	61.2	48.0	(3.3)	(110.8)	–	(4.9)
Exceptional items	(11.7)	(5.7)	(573.1)	(983.3)	(1.4)	(1,575.2)
Acquired intangible amortisation	(0.8)	–	(16.0)	(23.4)	–	(40.2)
IFRIC 12 investment income	–	–	(0.9)	–	–	(0.9)
Share of operating profit – joint ventures and associates	(4.9)	15.9	(11.8)	4.8	–	4.0
Share of IFRIC 12 investment income – joint ventures and associates	–	–	(1.4)	(24.4)	–	(25.8)
Operating profit/(loss)	43.8	58.2	(606.5)	(1,137.1)	(1.4)	(1,643.0)
Share of results of joint ventures and associates	3.1	(15.0)	5.1	(6.3)	–	(13.1)
IFRIC 12 investment income	–	–	0.9	–	–	0.9
Net finance costs	–	–	–	–	(62.1)	(62.1)
Profit/(loss) before tax	46.9	43.2	(600.5)	(1,143.4)	(63.5)	(1,717.3)

6. Segmental information (continued)

The table below presents the underlying results for each reportable segment under the previous basis for determining underlying information (which included share of joint venture revenue and profits in underlying) and reconciles the underlying revenue and underlying (loss)/profit to the statutory revenue and (loss)/profit before tax.

Year ended 31 March 2020 (previous basis restated*)	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,206.7	1,109.4	1,541.4	993.2	–	4,850.7
Less share of joint ventures and associates revenue	(43.1)	(212.5)	(18.9)	(147.7)	–	(422.2)
Revenue	1,163.6	896.9	1,522.5	845.5	–	4,428.5
Underlying operating profit/(loss) before share of results of joint ventures and associates	137.9	125.5	132.4	88.5	–	484.3
Exceptional items	72.6	(19.5)	(136.8)	(301.9)	–	(385.6)
Acquired intangible amortisation	(5.3)	(0.4)	(35.8)	(26.1)	–	(67.6)
Investment income	(0.2)	–	(0.9)	–	–	(1.1)
Share of operating profit – joint ventures and associates	(3.3)	(12.2)	(32.0)	(32.2)	–	(79.7)
Share of IFRIC 12 investment income – joint ventures and associates	–	–	(1.4)	(24.5)	–	(25.9)
Operating profit/(loss)	201.7	93.4	(74.5)	(296.2)	–	(75.6)
Share of results of joint ventures and associates	1.7	7.6	24.7	24.6	–	58.6
IFRIC 12 investment income	0.2	–	0.9	–	–	1.1
Net finance costs	–	–	–	–	(73.0)	(73.0)
Profit/(loss) before tax	203.6	101.0	(48.9)	(271.6)	(73.0)	(88.9)

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

Intersegment reportable revenue is immaterial.

Revenues of £2.1 billion (2020: £2.1 billion) are derived from a single external customer. These revenues are attributable across all reportable segments.

The reportable segment assets and liabilities at 31 March 2021 and 31 March 2020 and capital expenditure and lease principal payments for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure		Lease payments	
	2021 £m	2020 (restated*) £m	**2021 £m**	2020 (restated*) £m	**2021 £m**	2020 (restated*) £m	**2021 £m**	2020 £m
Marine	**770.4**	723.7	**380.6**	420.9	**45.2**	30.6	**8.9**	9.1
Nuclear	**529.6**	544.7	**227.7**	168.6	**32.5**	23.5	**4.2**	3.7
Land	**718.2**	1,473.4	**475.6**	462.2	**13.9**	19.9	**18.1**	17.7
Aviation	**1,392.5**	2,604.4	**461.7**	446.2	**62.2**	110.0	**107.1**	143.0
Unallocated	**1,217.9**	2,442.9	**2,839.6**	3,976.4	**12.1**	6.3	**2.3**	1.5
Group total	**4,628.6**	7,789.1	**4,385.2**	5,474.3	**165.9**	190.3	**140.6**	175.0

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

Capital expenditure represents additions to property, plant and equipment and intangible assets. Proceeds from the sale of assets totalled £32.2 million (2020: £76.5 million) and are predominantly in the Aviation sector. See note 22 relating to the treatment of amounts payable in respect of capital expenditure.

All assets and liabilities are allocated to their appropriate reportable segments except for cash, cash equivalents, borrowings including lease liabilities, income and deferred tax balances and retirement benefit surpluses which are included in the unallocated segment.

The segmental analysis of joint ventures and associates is detailed in note 17.

6. Segmental information (continued)

The segmental depreciation on property, plant and equipment, right of use assets and amortisation of intangible assets for the years ended 31 March 2021 and 31 March 2020 is as follows:

	Depreciation of property, plant and equipment		Depreciation of right of use assets		Amortisation of intangible assets	
	2021 £m	2020 (restated*) £m	**2021 £m**	2020 (restated*) £m	**2021 £m**	2020 (restated*) £m
Marine	**8.3**	8.0	**9.0**	9.9	**5.6**	10.0
Nuclear	**22.8**	26.4	**4.6**	3.7	**0.4**	0.7
Land	**8.1**	8.8	**17.1**	13.9	**20.6**	37.5
Aviation	**41.6**	27.3	**100.6**	83.7	**24.2**	26.6
Unallocated	**5.8**	6.2	**2.1**	1.8	**8.3**	7.1
Group total	**86.6**	76.7	**133.4**	113.0	**59.1**	81.9

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

The segmental impairment on property, plant and equipment, right of use assets and intangible assets for the years ended 31 March 2021 and 31 March 2020 is as follows:

	Impairment of property, plant and equipment		Impairment of right of use assets		Impairment of intangible assets	
	2021 £m	2020 (restated*) £m	**2021 £m**	2020 (restated*) £m	**2021 £m**	2020 (restated*) £m
Marine	**–**	–	**–**	–	**0.6**	–
Nuclear	**2.4**	0.2	**0.7**	–	**–**	–
Land	**7.9**	–	**9.1**	–	**14.1**	–
Aviation	**103.0**	14.4	**36.6**	14.2	**8.0**	–
Unallocated	**–**	–	**–**	–	**10.0**	–
Group total	**113.3**	14.6	**46.4**	14.2	**32.7**	–

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

The geographic analysis for non-current assets by location of those assets for the years ended 31 March 2021 and 31 March 2020 is as follows:

	2021 £m	2020 (restated*) £m
United Kingdom	**1,164.5**	2,479.8
Rest of Europe	**1,034.7**	1,490.7
Africa	**56.9**	47.5
North America	**25.2**	25.6
Australasia	**242.4**	199.4
Rest of World	**2.9**	40.0
Non-current segment assets	**2,526.6**	4,283.0
Retirement benefits	**40.8**	325.3
IFRIC 12 financial assets	**11.2**	12.8
Other financial assets	**17.2**	21.5
Tax	**141.3**	60.5
Total non-current assets	**2,737.1**	4,703.1

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

6. Segmental information (continued)

The geographic analysis of revenue by origin of customer for the years ended 31 March 2021 and 31 March 2020 is as follows:

	Revenue	
Geographic analysis	**2021 £m**	2020 (restated*) £m
United Kingdom	**2,805.8**	2,986.8
Rest of Europe	**515.5**	501.2
Africa	**269.6**	358.0
North America	**161.6**	195.0
Australasia	**224.0**	198.5
Rest of World	**206.2**	189.0
Group total	**4,182.7**	4,428.5

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

The analysis of revenue for the years ended 31 March 2021 and 31 March 2020 is as follows:

	2021 £m	2020 (restated*) £m
Sale of goods – transferred at a point in time	**484.3**	585.9
Sale of goods – transferred over time	**175.7**	105.5
Sale of goods	**660.0**	691.4
Provision of services – transferred over time	**3,518.2**	3,731.0
Rental income	**4.5**	6.1
Revenue	**4,182.7**	4,428.5

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

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 mainly in the Marine and Aviation sectors. Provision of services over time is across all sectors. Further disaggregation of revenue is set out in the Strategic report on page 4.

7. Operating (loss)/profit for the year

The following items have been included in arriving at operating (loss)/profit for the year:

	2021 £m	2020 (restated**) £m
Employee costs (note 9)	**1,615.9**	1,605.6
Inventories		
• Cost of inventories recognised as an expense	**406.5**	428.3
Depreciation of property, plant and equipment (PPE) (note 15)	**86.6**	76.7
Depreciation of right of use assets (note 16)	**133.4**	123.3
Amortisation of intangible assets (note 14)		
• Acquired intangibles	**40.2**	67.6
• Other	**18.9**	14.3
	59.1	81.9
Impairment of goodwill (note 13)	**1,243.2**	278.4
Impairment of intangible assets (note 14) *	**89.1**	–
Impairment of property, plant and equipment (PPE) (note 15) *	**113.3**	14.6
Impairment of right of use assets (note 16) *	**46.4**	14.2
Loss on disposal of property, plant and equipment	**26.4**	3.9
Loss on disposal of intangible assets	**–**	0.1
Research and development	**1.1**	0.2
Net foreign exchange loss/(gain)	**7.8**	(12.7)
Loss on derivative instruments at fair value through profit or loss	**6.9**	–
Gain on derivative instruments at fair value through profit or loss	**–**	(3.1)

* Included in cost of revenue in the income statement.

** The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

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:

	2021 £m	2020 £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	**2.3**	0.9
Fees payable to the parent auditor and its associates in respect of the audit of the Company's subsidiaries	**3.7**	2.2
Fees for other services:		
Other non-audit services	**–**	0.1
Total fees paid to the Group's auditor and network firms	**6.0**	3.2

8. Net finance costs

	2021 £m	2020 (restated*) £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	**50.0**	48.6
Lease interest	**23.5**	28.2
Amortisation of issue costs of bank loan	**1.4**	2.1
Retirement benefit interest	**–**	0.1
Other	**2.9**	7.0
Total finance costs	**77.8**	86.0
Finance income		
Bank deposits, loans and leases	**11.7**	13.0
IFRIC 12 Investment income	**0.9**	1.1
Retirement benefit interest	**4.0**	–
Total finance income	**16.6**	14.1
Net finance costs	**61.2**	71.9

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

9. Employee costs

	2021 £m	2020 £m
Wages and salaries	**1,312.4**	1,323.6
Social security costs	**164.1**	156.0
Share-based payments (note 28)	**4.2**	2.9
Pension costs – defined contribution plans (note 29)	**90.9**	85.7
Pension charges – defined benefit plans (note 29)	**44.3**	37.4
	1,615.9	1,605.6

The average monthly number of people employed by the Group was:

	2021 Number	2020 Number
Operations	**28,569**	30,116
Administration and management	**3,840**	4,104
	32,409	34,220

Emoluments of the Executive Directors are included in employee costs above and reported in the Remuneration report.

Key management compensation

Key management is defined as those employees who are directly responsible for the operational management of the operating segments. The employees would typically report to the Chief Executive. The key management figures given below include Directors.

	2021 £m	2020 £m
Salaries	**6.7**	8.2
Share-based payments	**0.2**	0.6
	6.9	8.8

10. Income tax expense

	Total 2021 £m	2020 (restated*) £m
Analysis of tax (benefit)/charge in the year		
Current tax		
• UK current year (benefit)/charge	**(8.9)**	19.2
• UK prior year (benefit)	**(6.4)**	–
• Overseas current year charge	**12.8**	17.9
	(2.5)	37.1
Deferred tax		
• UK current year (benefit)	**(41.3)**	6.0
• UK prior year charge	**8.5**	–
• Overseas current year charge/(benefit)	**20.2**	(15.0)
• Impact of changes in tax rates	**(0.2)**	(1.2)
	(12.8)	(10.2)
Total income tax (benefit)/expense	**(15.3)**	26.9

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

The tax for the year is higher (2020: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2021 £m	2020 (restated) £m
Loss before tax	**(1,717.3)**	(88.9)
Loss on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2020: 19%)	**(326.3)**	(16.9)
Effects of:		
Expenses not deductible for tax purposes	**3.2**	0.9
Non-deductible write-off of goodwill	**236.2**	52.9
Re-measurement of deferred tax in respect of statutory rate changes	**(0.2)**	(1.2)
Difference in respect of share of results of joint ventures and associates' results	**2.5**	(14.1)
Prior year adjustments	**2.1**	–
Differences in respect of foreign rates and UK consortium relief rates	**2.2**	(5.3)
Unrecognised deferred tax movements	**83.4**	15.6
Non-taxable profits on disposals and non-deductible losses on disposals	**9.4**	(14.2)
Adjustments as a result of concluded enquiries with tax authorities	**(21.6)**	–
Other	**(6.2)**	9.2
Total income tax (benefit)/expense	**(15.3)**	26.9

Further information on exceptional items and tax on exceptional items is detailed in note 3.

During the period, the Group has progressed discussions with the UK tax authorities ("HMRC") regarding the deductibility of certain acquisition costs. Having reached agreement, a tax credit of £21.6m has been recognised in the current year (period ended 31 March 2020: £nil).

In the prior year, the decrease in the UK rate of corporation tax from 19% to 17% was cancelled, resulting in a tax credit of £1.2m. On 24 May 2021, the Finance Act 2021 was substantively enacted, increasing the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. As the increase of the rate to 25% had not been substantively enacted at the Balance Sheet date, its effects are not included in these Financial Statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the Balance Sheet date, would have been to increase deferred tax assets by approximately £20 million.

The European Commission decided in 2019 that certain aspects of the UK Finance Company Partial Exemption ("FCPE") rules constituted partial State Aid. However, HMRC have confirmed that the Group did not benefit from those provisions and therefore faces no liability in respect of this judgement.

Disposals of subsidiaries, businesses and joint ventures are generally exempt from tax (whether the disposal is at a gain or at a loss) under local tax legislation (for example the UK's Substantial Shareholding Exemption).

11. Dividends

	2021 £m	2020 £m
Final dividend for the year ended 31 March 2020 of nil (2019: 22.9p) per 60p share	**–**	115.7
Interim dividend for the year ended 31 March 2021 of nil (2020: 7.2p) per 60p share	**–**	36.4
	–	152.1

12. (Loss) per share

Basic loss per share is calculated by dividing the 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. Where there is a loss arising the effect of potentially dilutive ordinary shares is anti-dilutive.

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

Number of shares

	2021 Number	2020 Number
Weighted average number of ordinary shares for the purpose of basic EPS	**504,993,024**	505,284,584
Effect of dilutive potential ordinary shares: share options	**3,998,687**	872,749
Weighted average number of ordinary shares for the purpose of diluted EPS	**508,991,711**	506,157,333

Earnings

	2021			2020 (restated)		
	(Loss)/earnings from continuing operations £m	Basic per share Pence	Diluted per share Pence	(Loss)/earnings from continuing operations £m	Basic per share Pence	Diluted per share Pence
Loss for the year	**(1,702.0)**	**(337.0)**	**(337.0)**	(117.8)	(23.3)	(23.3)
Add back:						
Specific Adjusting Items, net of tax (note 3)	**1,581.7**	**313.2**	**313.2**	412.7	81.7	81.6
Earnings before Specific Adjusting Items	**(120.3)**	**(23.8)**	**(23.8)**	294.9	58.4	58.3

13. Goodwill

	2021 £m	2020 (restated) £m
Cost		
At 1 April	**2,571.1**	2,589.0
On disposal of subsidiaries (note 32)	**(72.6)**	(20.6)
Exchange adjustments	**(11.2)**	2.7
At 31 March	**2,487.3**	2,571.1
Accumulated impairment		
At 1 April	**283.2**	4.8
On disposal of subsidiaries (note 32)	**–**	–
Impairment	**1,243.2**	278.4
Exchange adjustments	**4.6**	–
At 31 March	**1,531.0**	283.2
Net book value at 31 March	**956.3**	2,287.9

13. Goodwill (continued)

Goodwill is allocated to the operating segments as set out in the table below:

	2021 £m	2020 (restated) £m
Marine	**339.2**	341.7
Nuclear	**233.1**	233.1
Land	**262.7**	762.5
Aviation	**119.3**	948.6
Africa	**2.0**	2.0
	956.3	2,287.9

During the year, goodwill was tested for impairment in accordance with IAS 36. This impairment analysis is performed on an annual basis as outlined in the Group's accounting policies. The Group monitors goodwill at operating segment level, other than in relation to the establishment of a separate CGU during the year for the Group's Aviation oil and gas business, to which goodwill was allocated, reflecting the conditional sale and purchase agreement signed pre 31 March 2021 in relation to that business. The Group considered the potential disposal in the context of the held for sale criteria set out in IFRS 5 and assessed that the business should not be classified as held for sale.

The goodwill allocated to the Africa operating segment is immaterial and the Directors do not consider there to be any reasonably possible changes in estimates that would result in impairment of this goodwill. No further disclosures are provided in relation to the Africa operating segment.

Prior year errors

The Group combines the Africa and Land operating segments into a single Land reportable segment and, in the prior year, the goodwill impairment test was carried out at the reportable segment level rather than at the operating segment level as required by IAS 36. This error was compounded by an administrative error in the calculation of the value-in-use of the Land operating segment and the impact of both errors was an overstatement of Land value-in-use by £886 million.

In addition, the correction of a number of prior period errors relating to the year ended 31 March 2020, in relation to other financial statement areas, reduced the capital employed used to complete the March 2020 goodwill impairment test. A reduction in capital employed of £239.2 million, in relation to the Aviation operating segment, resulted in the restatement of the Aviation operating segment impairment charge from £395.0 million to £155.8 million for the year ended 31 March 2020. A reduction in capital employed of £5.1 million, as a result of the correction of prior year errors discussed in Note 5 and the impact of the overstatement of value-in-use by £886 million noted above, resulted in a Land operating segment impairment charge of £122.6 million for the year ended 31 March 2020.

No impairment was required at 1 April 2019 as re-performance of impairment analysis at that date identified sufficient headroom between the recoverable amount and the capital employed.

Results of goodwill impairment test

The current year impairment test results in an impairment of the Land operating segment goodwill of £425.8 million, the Aviation operating segment goodwill of £808.5 million and the goodwill of £8.9 million allocated to the Aviation oil and gas business CGU. These impairments reflect significant changes in estimates informed by consideration during H2 of actual business performance of the Group during the current year and related assessments of future performance of the businesses. Future business performance was informed by the strategy and contract profitability and balance sheet reviews instigated by the Group's new executive management and completion of the Group's budget addressing the years ending 31 March 2022, 31 March 2023 and 31 March 2024.

Value-in-use calculations

The recoverable amount of the Group's goodwill was assessed by reference to value-in-use calculations. The value-in-use calculations are derived from risk-adjusted cash flows from the Group's three-year budget and nominal growth rates between 2.0% and 3.0% were used to establish cash flows for two further years. Terminal value assessments are included based on year five and an estimated long-term nominal growth rate of 2.0% (2020: 2.0%). The process by which the Group's budget 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 contract backlog, bid pipeline and the Group's tracking pipeline which monitors opportunities prior to release of tenders. The budget process includes consideration of risks and opportunities at contract and business level and considered matters such as COVID-19 and climate change. The value in use calculations do not include the anticipated benefits of the Group's revised operating model or the implementation costs of this project reflecting that the Group was not committed to the project at 31 March 2021.

13. Goodwill (continued)

Key assumptions

The Group updated the impairment test in the current year to incorporate changes to the model and discount rates following transition to IFRS 16. Pre-tax discount rates, derived from the Group's post tax weighted average cost of capital in the range 7.4% to 8.4% (2020: 7.8% to 8.2%) and adjusted for the gearing impact of lease liabilities were used to discount the estimated risk-adjusted cash flows. In consideration of specific risk factors associated with the Aviation operating segment, the pre-tax discount rate includes a premium of 0.9% (2020: 0.9%), to determine the value-in-use of this CGU. The gearing impact of lease liabilities impacts the Aviation segment most significantly and aligns the Aviation operating segment discount rate, inclusive of the risk premium, with the discount rates of the other operating segments.

The long-term growth rates and discount rates for the Group's operating segments are as follows:

	2021				2020			
	Aviation	**Land**	**Marine**	**Nuclear**	Aviation	Land	Marine	Nuclear
Pre-tax discount rate	**10.9**	**10.9**	**10.9**	**10.9**	10.9	10.0	10.0	10.0
Post-tax discount rate	**8.2**	**8.2**	**8.2**	**8.2**	8.9	8.2	8.2	8.2
Long-term growth rate	**2.0**	**2.0**	**2.0**	**2.0**	2.0	2.0	2.0	2.0

Expected future cash flows used in discounted cash flow models are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, such as demand for the Group's services, together with economic factors such as estimates of costs of revenue and future capital expenditure requirements. Where discounted cash flow models based on management's assumptions are used, the resulting fair value measurements are considered to be at level 3 in the fair value hierarchy, as defined in IFRS 13, 'Fair Value Measurement', as they depend to a significant extent on unobservable valuation inputs.

Key assumptions in relation to future cash flows included in the value-in-use models are set out below:

Operating segment	Key future cash flow assumption
Marine	Continuing delivery of work programmes with the UK Ministry of Defence, including the design and build of Type 31 frigates. Retention, through successful rebid, of the Group's long-term submarine support role in Canada.
Nuclear	Continuing delivery of naval nuclear services to the UK Ministry of Defence under long-term contracts. Continuing delivery of opportunities in the UK civil nuclear decommissioning programme together with maintenance of ongoing spend in provision of nuclear engineering services to operational power stations.
Land	Continuing demand for 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, not all of which have been assumed to renew. Maintenance of existing positions in Emergency Services, including successful rebid of one significant contract.
Aviation	Continuing delivery of long-term contracts with the UK Ministry of Defence and maintenance of existing positions in aerial emergency services and firefighting worldwide where the Group has a number of leadership positions. Delivery of cost savings through an embedded performance improvement programme.

Sensitivity

The goodwill allocated to Marine and Nuclear results in both operating segments having significant headroom. It would require a long-term growth of nil combined with discount rates of 86.7% and 22.8%, respectively, to reduce the headroom in Marine and Nuclear to £nil. The Directors do not consider these to be plausible assumptions and, in addition, do not consider that any reasonably possible changes to the cash flow assumptions would reduce the recoverable amount to its carrying value.

13. Goodwill (continued)

The impairments of £817.4 million and £425.8 million in relation to the Aviation and Land operating segments respectively eliminate the headroom for these operating segments at 31 March 2021. Accordingly, reasonably possible changes in estimates could give rise to a material impairment in the following year. The Group carried out sensitivity analyses on the reasonably possible changes in the discount rate and long-term growth rate used in the value-in-use models for each of the operating segments. The increase in impairment that would result from a change in the discount rate and long-term growth rate are set out in the table below:

	2021	
£m	Aviation	Land
Pre-tax discount rate		
Increase of 100bps	**46.8**	**26.8**
Long-term growth rate		
Decrease of 50bps	**16.8**	**9.8**

The Directors consider that a key cash flow assumption in the calculation of the value in use of the Aviation operating segment is delivery of forecast cost savings. A reduction of £5 million in annual operating profits, as a result of failure to deliver forecast cost savings from the year ending 31 March 2023, is considered plausible and would result in a reduction of £51 million in Aviation operating segment value in use. Key assumptions in relation to the Land operating segment include the retention of existing business, not all of which have been assumed to renew. A reduction in annual operating profit of £5 million is considered to be plausible from the year ending 31 March 2025 and would result in a reduction in Land operating segment value in use of £43 million.

14. Other intangible assets

	Acquired intangibles – relationships £m	Acquired intangibles – brands £m	Acquired intangibles – total £m	Internally generated software development costs and licences £m	Internally generated development costs and other £m	Total £m
Cost						
At 1 April 2020	**1,042.9**	**–**	**1,042.9**	**187.1**	**26.8**	**1,256.8**
On disposal of subsidiaries and joint ventures (note 32)	**(5.2)**	**–**	**(5.2)**	**(0.1)**	**–**	**(5.3)**
Additions	**–**	**–**	**–**	**11.0**	**7.0**	**18.0**
Reclassification from property, plant and equipment	**–**	**–**	**–**	**–**	**1.3**	**1.3**
Disposals at cost	**–**	**–**	**–**	**(6.0)**	**(8.4)**	**(14.4)**
Exchange adjustments	**(6.2)**	**–**	**(6.2)**	**0.1**	**(0.6)**	**(6.7)**
At 31 March 2021	**1,031.5**	**–**	**1,031.5**	**192.1**	**26.1**	**1,249.7**
Accumulated amortisation and impairment						
At 1 April 2020 as restated	**840.3**	**–**	**840.3**	**79.8**	**2.0**	**922.1**
On disposal of subsidiaries and joint ventures (note 32)	**(5.2)**	**–**	**(5.2)**	**(0.1)**	**–**	**(5.3)**
Amortisation charge	**40.2**	**–**	**40.2**	**17.9**	**1.0**	**59.1**
Impairment (note 3)	**56.4**	**–**	**56.4**	**24.0**	**8.7**	**89.1**
Reclassification from property, plant and equipment	**–**	**–**	**–**		**1.3**	**1.3**
Disposals	**–**	**–**	**–**	**(6.0)**	**(8.4)**	**(14.4)**
Exchange adjustments	**(4.2)**	**–**	**(4.2)**	**0.1**	**(0.1)**	**(4.2)**
At 31 March 2021	**927.5**	**–**	**927.5**	**115.7**	**4.5**	**1,047.7**
Net book value at 31 March 2021	**104.0**	**–**	**104.0**	**76.4**	**21.6**	**202.0**
Cost						
At 1 April 2019 as previously stated	1,169.5	23.7	1,193.2	172.0	18.6	1,383.8
Prior year adjustment (note 5)	(121.9)	–	(121.9)	–	–	(121.9)
At 1 April 2019 restated	1,047.6	23.7	1,071.3	172.0	18.6	1,261.9
On disposal of subsidiaries (note 32)	(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	1,042.9	–	1,042.9	187.1	26.8	1,256.8
Accumulated amortisation and impairment						
At 1 April 2019 as previously stated	843.3	20.2	863.5	70.1	1.3	934.9
Prior year adjustment (note 5)	(64.0)	–	(64.0)	2.0	–	(62.0)
At 1 April 2019 restated	779.3	20.2	799.5	72.1	1.3	872.9
On disposal of subsidiaries (note 32)	(5.8)	(4.1)	(9.9)	(1.2)	–	(11.1)
Amortisation charge	66.5	1.1	67.6	13.5	0.8	81.9
Disposals	–	(17.4)	(17.4)	(4.4)	–	(21.8)
Exchange adjustments	0.3	0.2	0.5	(0.2)	(0.1)	0.2
At 31 March 2020	840.3	–	840.3	79.8	2.0	922.1
Net book value at 31 March 2020	202.6	–	202.6	107.3	24.8	334.7

Acquired intangible amortisation charges for the year are recorded through cost of revenue.

Details of the prior year restatement are provided in note 5.

14. Other intangible assets (continued)

The Group holds intangible software assets in respect of its SAP enterprise resource planning system. Management reassessed the implementation plan during the year ended 31 March 2021 and determined not to progress a number of previously planned implementations of the software. The Group determined that the recoverable amounts, based upon value in use of the software intangible asset relating to these business units is £nil and an impairment charge of £10.0 million was recognised in relation to these business units.

The Land operating segment recognises a software asset relating to user interfaces for vehicle bookings that was developed for use on the Phoenix contract. Following changes in estimates of the Phoenix contract and the wider usage of the software; the recoverable amount has been determined to be £0.4 million based upon a value in use calculation resulting in an impairment charge of £4.9 million.

The Land operating segment also previously recognised an acquired intangible in relation to the purchase of the DSG relationship in 2015 and capitalised a software asset relating the implementation of the Group's Global ERP system in DSG. Following reassessment of variable revenues under the contract following publication of the Integrated Spending Review, and removal of targeted future cost savings under the contract in line with an assessment under IAS 36, both of these assets were fully impaired with impairments of £56.4 million and £9.1 million respectively.

In the Aviation operating segment, costs were capitalised in relation to a partially funded contract to develop drone technology, which is nearing completion. An assessment based on the latest business plan resulted in an impairment of £7.2 million. An indefinite life technology-based intangible asset of £1.5 million has also been fully impaired following an assessment of latest business plans.

15. 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 2020 as restated	**125.2**	**32.0**	**605.7**	**533.8**	**88.5**	**1,385.2**
On disposal of subsidiaries (note 32)	**–**	**–**	**(1.7)**	**–**	**–**	**(1.7)**
Additions	**20.6**	**1.2**	**73.0**	**36.3**	**24.4**	**155.5**
Disposals	**(3.3)**	**(0.4)**	**(79.5)**	**(210.7)**	**(4.9)**	**(298.8)**
Reclassification	**16.9**	**(17.0)**	**0.1**	**11.1**	**(11.1)**	–
Reclassification to intangible assets	**–**	**–**	**(1.3)**	**–**	**–**	**(1.3)**
Capitalised borrowing costs	**0.1**	**–**	**1.4**	**–**	**–**	**1.5**
Exchange adjustments	**(0.3)**	**–**	**3.7**	**(8.1)**	**(3.6)**	**(8.3)**
At 31 March 2021	**159.2**	**15.8**	**601.4**	**362.4**	**93.3**	**1,232.1**
Accumulated depreciation						
At 1 April 2020 as restated	**66.6**	**9.5**	**390.7**	**77.5**	**–**	**544.3**
On disposal of subsidiaries (note 32)	**–**	**–**	**(0.9)**	**–**	**–**	**(0.9)**
Charge for the year	**5.0**	**1.0**	**46.7**	**33.9**	**–**	**86.6**
Impairment (note 3)	**0.3**	**2.5**	**9.2**	**99.3**	**2.0**	**113.3**
Disposals	**(2.9)**	**(0.4)**	**(70.9)**	**(165.0)**	**–**	**(239.2)**
Reclassification	**0.7**	**(1.7)**	**0.2**	**0.8**	**–**	**–**
Reclassification to intangible assets	**–**	**–**	**(1.3)**	**–**	**–**	**(1.3)**
Exchange adjustments	**(0.2)**	**–**	**(0.6)**	**(1.1)**	**(0.3)**	**(2.2)**
At 31 March 2021	**69.5**	**10.9**	**373.1**	**45.4**	**1.7**	**500.6**
Net book value at 31 March 2021	**89.7**	**4.9**	**228.3**	**317.0**	**91.6**	**731.5**
Cost						
At 1 April 2019 as previously stated	125.1	38.0	615.2	644.3	113.5	1,536.1
Prior year adjustment (note 5)	–	–	4.4	(83.7)	22.1	(57.2)
Transfer of leased assets to right of use assets	–	–	(44.0)	(46.8)	–	(90.8)
At 1 April 2019 restated	125.1	38.0	575.6	513.8	135.6	1,388.1
On disposal of subsidiaries (note 32)	–	–	(3.8)	–	–	(3.8)
Additions	1.3	0.2	55.6	47.3	41.8	146.2
Disposals	(1.3)	(6.2)	(14.2)	(111.6)	(9.1)	(142.4)
Reclassification	–	–	0.6	80.9	(81.5)	–
Capitalised borrowing costs	–	–	1.4	–	–	1.4
Exchange adjustments	0.1	–	(9.5)	3.4	1.7	(4.3)
At 31 March 2020	125.2	32.0	605.7	533.8	88.5	1,385.2
Accumulated depreciation						
At 1 April 2019 as previously stated	60.4	9.8	354.5	97.1	–	521.8
Prior year adjustment (note 5)	1.8	–	20.3	(4.8)	–	17.3
Transfer of leased assets to right of use assets	–	–	(17.1)	(7.6)	–	(24.7)
At 1 April 2019 restated	62.2	9.8	357.7	84.7	–	514.4
On disposal of subsidiaries (note 32)	–	–	(2.2)	–	–	(2.2)
Charge for the year	5.0	1.8	50.9	19.0	–	76.7
Impairment	–	–	0.2	14.4	–	14.6
Disposals	(0.7)	(2.1)	(13.1)	(37.8)	–	(53.7)
Exchange adjustments	0.1	–	(2.8)	(2.8)	–	(5.5)
At 31 March 2020	66.6	9.5	390.7	77.5	–	544.3
Net book value at 31 March 2020	58.6	22.5	215.0	456.3	88.5	840.9

A capitalisation rate of 4% (2020: 3%) was used to determine the amount of borrowing costs eligible for capitalisation.

15. Property, plant and equipment (continued)

Following changes in senior management, a comprehensive performance improvement and restructuring programme was implemented during the year ended 31 March 2021 across the Aviation operating segment. This included a rationalisation of aircraft types and review of fleet strategy, taking account of changes in market conditions including those resulting from COVID-19 and Brexit. A number of impairment indicators were identified as a result, and impairment tests performed in accordance with IAS 36 have resulted in an impairment charge of £70.2 million across the UK and continental Europe, based on fair value less costs to dispose of £70.5 million. The fair value assessment was based on recent offers received, current market prices for assets and information received from brokers, representing Level 2 information in the fair value hierarchy.

In addition the Group recorded a £15.1 million impairment in Australia, reflecting its intention to dispose of 11 owned aircraft following completion of the associated customer contracts. The fair value less costs to dispose is assessed at £14.3 million in line with the approach set out above. There has also been an impairment of £11.7 million of the Group's fleet of six AS332 L2 Super Puma helicopters, which follows a previous impairment related to the grounding of the aircraft following a number of accidents. Following investigations, the aircraft are no longer grounded but have been repurposed from passenger transportation to firefighting. The recoverable amount of £5.7 million was assessed on a value-in-use basis, reflecting rates achievable when repositioned for firefighting.

In the Land operating segment, £5.3 million of PPE was impaired following an assessment of this PPE as directly attributable to the Group's DSG contract, the impairment indicator being reassessed DSG contract profitability. The impairment test reassessed variable revenues under the contract following publication of the Integrated Spending Review and removed targeted future cost savings in line with an assessment under IAS 36.

16. Leases

Group as a lessee

Lease liabilities represent rentals payable by the Group for certain operational, distribution and office properties and other assets such as aircraft. The leases have varying terms, purchase options, escalation clauses and renewal rights.

Right of use assets

	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Total £m
Cost				
At 1 April 2020 as restated	**148.2**	**70.6**	**549.4**	**768.2**
Additions	**18.2**	**8.0**	**65.5**	**91.7**
Disposals	**(15.3)**	**(6.5)**	**(33.5)**	**(55.3)**
Exchange adjustments	**1.8**	**–**	**7.6**	**9.4**
At 31 March 2021	**152.9**	**72.1**	**589.0**	**814.0**
Accumulated depreciation				
At 1 April 2020 as restated	**26.4**	**30.1**	**102.7**	**159.2**
Charge for the year	**27.7**	**12.6**	**93.1**	**133.4**
Impairment (see note 3)	**7.3**	**4.4**	**34.7**	**46.4**
Disposals	**(10.7)**	**(4.8)**	**(30.4)**	**(45.9)**
Exchange adjustments	**0.4**	**(0.1)**	**(0.6)**	**(0.3)**
At 31 March 2021	**51.1**	**42.2**	**199.5**	**292.8**
Net book value at 31 March 2021	**101.8**	**29.9**	**389.5**	**521.2**

	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Total £m
Cost				
On transition to IFRS 16 – 1 April 2019 as previously stated	111.3	15.4	466.0	592.7
Prior year adjustment	–	–	(35.3)	(35.3)
Reclassification from property, plant and equipment	–	44.0	46.8	90.8
On transition to IFRS 16 restated	111.3	59.4	477.5	648.2
On disposal of subsidiaries (note 32)	(2.3)	–	–	(2.3)
Additions	42.4	11.2	81.8	135.4
Exchange adjustments	(3.2)	–	(9.9)	(13.1)
At 31 March 2020	148.2	70.6	549.4	768.2
Accumulated depreciation				
Reclassification from property, plant and equipment	–	17.1	7.6	24.7
Charge for the year	27.3	13.1	82.9	123.3
Impairment (see note 3)	–	–	14.2	14.2
Exchange adjustments	(0.9)	(0.1)	(2.0)	(3.0)
At 31 March 2020	26.4	30.1	102.7	159.2
Net book value at 31 March 2020	121.8	40.5	446.7	609.0
Net book value on transition to IFRS 16 – 1 April 2019 as previously stated	111.3	42.5	511.7	665.5
Net book value on transition to IFRS 16 – 1 April 2019 as restated	111.3	42.3	469.9	623.5

16. Leases (continued)

Prior to the adoption of IFRS 16, the Group determined the Jadestone contract, delivered by the Aviation operating segment, to be onerous in accordance with IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' ('IAS 37'). On adoption of IFRS 16, an impairment test was performed on the right of use assets associated with the contract, which resulted in an impairment. Further impairment indicators were identified in the year ended 31 March 2021 through customer interactions and feedback on tender submissions, resulting in an additional impairment of £12.5 million in the value of the S-92 fleet.

During the year, a Helicopter Emergency Medical Services (HEMS) bid programme in France provided the Aviation operating segment with new information on the customer's requirements. The change in expected use of the associated leased aircraft resulted in an impairment of £6.5 million. Cancellation of customer contracts resulted in the full impairment of right of use assets of £2.1 million in the UK and £2.0 million in Italy. In addition, a £11.9 million impairment followed re-assessment of the profitability of the Sasemar contract and a £1.9 million impairment followed re-assessment of the profitability of a UK HEMS contract.

In the Land operating segment, £9.1 million of ROU assets were impaired following an assessment of these assets as directly attributable to the DSG contract, the impairment indicator being reassessed DSG contract profitability. The impairment test reassessed variable revenues under the contract following publication of the Integrated Spending Review and removed targeted future cost savings in line with an assessment under IAS 36.

Lease liabilities

The following tables show the discounted Group lease liabilities and a reconciliation of opening to closing lease liabilities:

	Total £m
Cost	
At 1 April 2020	**689.4**
Additions	**91.7**
Disposals	**(9.4)**
Exchange adjustments	**(18.8)**
Lease interest	**23.5**
Lease repayments	**(164.1)**
At 31 March 2021	**612.3**
Non-current lease liabilities	**486.2**
Current lease liabilities	**126.1**
At 31 March 2021	**612.3**

At 1 April 2019	65.8
On transition to IFRS 16 – 1 April 2019	640.8
Additions	144.7
Disposal of subsidiary undertaking	(3.1)
Exchange adjustments	16.2
Lease interest	28.2
Lease repayments	(203.2)
At 31 March 2020	689.4
Non-current lease liabilities	548.5
Current lease liabilities	140.9
At 31 March 2020	689.4

See note 2 for a maturity analysis of the contractual undiscounted lease payments

Amounts recognised in the Group income statement

	2021 £m	2020 £m
Interest on lease liabilities	**23.5**	28.2

Amounts recognised in the Group cash flow statement

	2021 £m	2020 £m
Total cash outflow for principal element of leases	**141.3**	175.0

Group as a lessor

The Group is the lessor in an arrangement for the lease of vehicles and sub-lease of leased properties. These are solely finance lease arrangements.

16. Leases (continued)

Amounts recognised in the Group income statement

	2021 £m	2020 £m
Finance lease – interest income	**1.8**	2.6

Finance lease payments receivable

	2021 £m	2020 £m
Within one year	**26.7**	31.7
Greater than one year but less than two years	**7.9**	6.9
Greater than two years but less than three years	**4.7**	–
Greater than three years but less than four years	**0.4**	–
Greater than four years but less than five years	**–**	–
Greater than five years	**–**	–
Total undiscounted finance lease payments receivable	**39.7**	38.6
Impact of discounting	**(0.2)**	–
Finance lease receivable (net investment in the lease)	**39.5**	38.6

17. Investment in and loans to joint ventures and associates

The Group's principal joint ventures and associates are:

	Nature of relationship	Year end	Business activity	% interest held (2021)	% interest held (2020)	Country of incorporation	Principal area of operation
Holdfast Training Services Limited	Joint venture	31 Mar	Provision of training services	–	74.0%	United Kingdom	United Kingdom
ALC (Superholdco) Limited	Joint venture	30 Jun	Vehicle support services for the MoD	50.0%	50.0%	United Kingdom	United Kingdom
AirTanker Holdings Limited	Associate	31 Dec	Provision and management of aircraft	15.4%	13.3%	United Kingdom	United Kingdom
AirTanker Services Limited	Associate	31 Dec	Provision of air-to-air refuelling	23.5%	22.3%	United Kingdom	United Kingdom
Ascent Flight Training (Holdings) Limited	Joint venture	31 Mar	Provision of training services	50.0%	50.0%	United Kingdom	United Kingdom
Naval Ship Management (Australia) Pty Limited	Joint venture	31 Mar	Provision of repair, engineering and maintenance services	50.0%	50.0%	Australia	Australia
Cavendish Dounreay Partnership Limited	Joint venture	31 Mar	Provision of decommissioning services	50.0%	50.0%	United Kingdom	United Kingdom
Cavendish Fluor Partnership Limited	Joint venture	31 Mar	Holding company for the Group's investment in Magnox Limited	65.0%	65.0%	United Kingdom	United Kingdom

During the year the Group increased its shareholding in Airtanker Limited and Airtanker Services Limited for total consideration of £8.8 million.

The Group disposed of its share in Holdfast Training Services Limited for total consideration of £85.0 million (note 32).

Accounting judgements in classification of joint ventures and associates

The Group has determined that it has joint control of AirTanker Services Limited and Cavendish Fluor Partnership Limited, as unanimous decision-making is required over the key decisions which drive the relevant activities of the businesses. The Group has the right to net assets of each of these joint arrangements, rather than separate rights and obligations to the assets and liabilities of the joint arrangement respectively, and they are therefore classified as equity accounted joint ventures.

Airtanker Limited is included as an associate due to the level of management input and the relative share ownership.

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

Summarised financial information for joint ventures and associates

The summarised financial information below reflects the amounts presented in the financial statements of the relevant joint ventures and associates, and not the Group's share of those amounts. These amounts have been adjusted to conform to the Group's accounting policies where required. The summarised financial information has been aggregated in order to provide useful information to users without excessive detail. Joint ventures that are not considered material to the Group are not shown below.

2021 (£m)	Ascent Flight Training (Holdings) Limited	AirTanker Limited	AirTanker Services Limited	ALC (Superholdco) Limited	Cavendish Dounreay Partnership Limited	Naval Ship Management (Australia) Pty Limited
Summarised income statement						
Revenue	155.1	131.0	144.6	43.2	134.7	140.1
Depreciation and amortisation	–	(34.2)	(3.3)	–	–	–
Interest income	7.7	144.4	–	2.8	–	–
Interest expense	(7.2)	(137.2)	(0.2)	(0.3)	–	(0.2)
Income tax (expense) / benefit	(2.9)	–	–	(4.6)	1.9	(3.1)
Profit / (loss) from continuing operations	15.3	39.3	5.7	25.6	(29.9)	7.3
Other comprehensive income/(expense)	–	143.9	–	–	–	–
Total comprehensive income/(loss)	15.3	183.2	5.7	25.6	(29.9)	7.3
Summarised balance sheet						
Non-current assets	94.2	2,314.7	41.8	0.9	–	1.5
Current assets (excluding cash and cash equivalents)	75.2	357.3	91.0	46.4	15.7	27.3
Cash and cash equivalents	25.5	63.0	64.3	1.1	0.6	5.2
Non-current financial liabilities (excluding trade and other payables and provisions)	(113.3)	(2,631.8)	(9.9)	(10.0)	–	(0.5)
Current financial liabilities (excluding trade and other payables and provisions)	(3.5)	(58.5)	–	(1.0)	(0.8)	(0.5)
Current trade and other payables and provisions	(35.4)	(46.9)	(93.6)	(6.0)	–	(27.9)
Net assets / liabilities	42.7	(2.2)	93.6	31.4	15.5	5.1
Ownership	50.0%	15.4%	23.5%	50.0%	50.0%	50.0%
Carrying value of investment at 31 March 2021	21.4	–	22.0	15.7	7.7	2.5
Carrying value of investment at 31 March 2020	22.3	–	34.2	20.7	22.6	1.4

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

Reconciliation to carrying amounts

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2021 £m	2020 (restated) £m	2021 £m	2020 £m	2021 £m	2020 (restated) £m
At 1 April	**161.9**	153.2	**48.6**	42.5	**210.5**	195.7
Prior year adjustment	**–**	8.9	**–**	–	**–**	8.9
At 1 April restated	**161.9**	162.1	**48.6**	42.5	**210.5**	204.6
Disposal of joint ventures and associates (note 32)	**(53.2)**	–	**–**	–	**(53.2)**	–
Loans repaid by joint ventures and associates	**–**	–	**(4.2)**	(0.7)	**(4.2)**	(0.7)
Increase in loans to joint ventures and associates	**–**	–	**3.9**	5.5	**3.9**	–
Impairment of JV loans	**–**	–	**(7.0)**	–	**(7.0)**	–
Investment in joint ventures and associates	**8.8**	0.3	**–**	–	**8.8**	5.8
Share of profits/(losses)	**(13.1)**	58.6	**–**	–	**(13.1)**	58.6
Interest accrued and capitalised	**–**	–	**3.1**	3.8	**3.1**	3.8
Interest received	**–**	–	**(2.3)**	(2.5)	**(2.3)**	(2.5)
Dividends received	**(36.8)**	(52.0)	**–**	–	**(36.8)**	(52.0)
Fair value adjustment of derivatives	**7.0**	(9.4)	**–**	–	**7.0**	(9.4)
Tax on fair value adjustment of derivatives	**(1.4)**	2.3	**–**	–	**(1.4)**	2.3
Foreign exchange	**0.3**	–	**–**	–	**0.3**	–
At 31 March	**73.5**	161.9	**42.1**	48.6	**115.6**	210.5

The share of results of joint ventures and associates (loss) reported of £13.1 million is due to a £37.1 million reduction to share of results of joint ventures and associates identified through the contract profitability and balance sheet review in the year ended 31 March 2021.

The total investments in joint ventures and associates is attributable to the following reportable segments:

	2021 £m	2020 £m
Marine	**6.5**	5.8
Nuclear	**9.6**	25.6
Land	**13.1**	90.6
Aviation	**86.4**	88.5
Net book value	**115.6**	210.5

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed. The Group does not have any commitments that have been made to the joint ventures or associates and not recognised at the reporting date.

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 (2020: £nil).

There are no significant restrictions on the ability of joint ventures and associates to transfer funds to the owners, other than those imposed by the Companies Act 2006 or equivalent local regulations.

Income from joint ventures and associates – AirTanker Ltd, AirTanker Services Ltd and Ascent Flight Training (Holdings) Ltd

The Group holds a 15.4% (2020: 13.3%) share in AirTanker Limited ('ATL') and a 23.5% (2020: 22.3%) share in AirTanker Services Limited ('ATSL'). The Group accounts for its interest in the joint ventures and associates based on financial information, and has previously made certain adjustments to this information to recognise revenue over time and reflect the Group's view of certain cost assumptions, including the residual value of assets. The Group revised these estimates and assumptions during the year, resulting in a reduction in the share of results of joint ventures and associates and investment in joint ventures and associates (ATL: £5.0 million, ATSL: £15.1 million).

Ascent Flight Training (Holdings) Limited ('Ascent') is a 50.0% owned joint venture. During the year management revised certain previous assumptions over the contract outturn, resulting in a reduction in share of results of joint ventures and associates and investment in joint ventures and associates of £2.9 million.

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

Income from joint ventures and associates – Cavendish Dounreay Partnership Limited

Cavendish Dounreay Partnership Limited ('CDP'), is a 50.0% owned joint venture, within the Nuclear operating segment, which owned the site licence company Dounreay Site Restoration Limited ('DSRL'). CDP operated under a parent body agreement (PBO) to the Nuclear Decommissioning Authority ('NDA'). Following notification from the NDA of the proposed termination of the PBO, the controlling 'A' shareholding in DSRL was transferred to the NDA on 31 March 2021. CDP maintains a 'B' share, which entitles it to profit earned, but yet to be agreed and distributed, up until 31 March 2021.

The recoverability of the investment in CDP was reassessed following the change in ownership of DSRL. The amount of profit due to CDP is judgemental as it is reliant on DSRL reaching an agreed settlement with the NDA. A reduction in the share of results of joint ventures and associates and investment in joint ventures and associates of £10.9m was booked to reflect the Group's latest assessment of the outcome of the settlement with the NDA.

Income from joint ventures and associates – ABC Electrification Ltd

Babcock is a one-third shareholder, in the Land operating segment, in the ABC Electrification Ltd ('ABC') joint venture which performed services under contracts with Network Rail ('NWR'). These contracts were completed several years ago and there is no further work being performed. Following developments during the year, the Group reassessed the range of possible outcomes on contracts subject to final agreement, and as a result reflected a reduction in the share of results of joint ventures and associates and investment in joint ventures and associates of £3.9 million to record the latest view of the contract outcomes. In addition, loans receivable from the JV of £7.0 million were impaired.

18. Deferred tax

	2021 £m	2020 (restated) £m
Deferred tax asset	**141.3**	60.5
Deferred tax liability	**(7.7)**	(33.7)
	133.6	26.8

18. Deferred tax (continued)

The movements in deferred tax assets and liabilities during the year are shown below. Deferred tax assets and deferred tax liabilities have been offset if, and only if, there is a legally enforceable right in that jurisdiction to set off corporation tax assets and corporation tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same Taxation Authorities:

	Tangible assets £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
At 1 April 2020	**1.9**	**(27.7)**	**71.6**	**(19.0)**	**26.8**
Income statement credit/(debit)	**(13.5)**	**(12.7)**	**31.5**	**7.3**	**12.6**
Tax credit/(debit) to equity	**–**	**96.3**	**–**	**(2.2)**	**94.1**
Disposal of subsidiary	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Effect of changes in tax rates					
• Income statement	**–**	**–**	**0.2**	**–**	**0.2**
Exchange differences	**–**	**–**	**–**	**–**	**–**
At 31 March 2021	**(11.6)**	**55.9**	**103.3**	**(14.0)**	**133.6**
At 1 April 2019 as previously stated	2.4	4.7	72.2	(26.6)	52.7
Prior year adjustment	–	–	(8.8)	(14.7)	(23.5)
At 1 April 2019 restated	2.4	4.7	63.4	(41.3)	29.2
Income statement credit/(debit) (restated)	–	(12.8)	8.1	13.7	9.0
Tax credit/(debit) to equity	–	(20.2)	–	7.6	(12.6)
Disposal of subsidiary	–	–	–	0.6	0.6
Effect of changes in tax rates					
• Income statement	(0.5)	–	0.1	1.6	1.2
• Equity	–	0.6	–	0.3	0.9
Exchange differences	–	–	–	(1.5)	(1.5)
At 31 March 2020	1.9	(27.7)	71.6	(19.0)	26.8

The deferred tax assets and liabilities at 31 March 2020 have been restated due to errors identified in prior periods. Further detail is included in note 5.

The net deferred tax assets of £133.6 million (2020: £26.8 million) include deferred tax assets of £32.9 million (2020: £60.5 million) and deferred tax liabilities of £7.7 million (2020: £18.0 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 recognition of deferred tax assets in respect of losses can be subjective. The Group's approach to the recognition of deferred tax assets in respect of losses, including how the Group assesses future profitability for recognition purposes, is set out in detail in note 1 to the Accounts. Due to the CPBS review, substantially all territories for which deferred tax assets in respect of losses are recognised made an accounting loss in the current year. However, these costs are not expected to be recurring and their recovery is expected as set out in detail in note 1. The losses can be carried forward indefinitely and have no expiry date.

The deferred tax asset in respect of tax losses includes £nil (31 March 2020: £31.7m) in respect of financial expenses carried forward.

The net deferred tax liability in respect of "Other" includes a liability in respect of acquired intangible assets of £25.5m (31 March 2020: £46.7m), with the movement between periods having been posted to the income statement.

No deferred tax has been recognised in respect of temporary differences associated with investments in subsidiaries, branches, associates and interest in joint ventures and joint operations where the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate amount of temporary differences associated with such investments in subsidiaries, branches, associates and interests in joint ventures and joint operations is represented by the contribution of those investments to the Group's retained earnings and amounted to £47.0 million (2020: £40.0 million).

At the statement of financial position date, deferred tax assets of £103.3 million (2020: £71.6 million) have been recognised in respect of unused tax losses available for carry forward. No deferred tax asset has been recognised in respect of further unutilised tax losses carried forward (excluding capital losses) of £754.1 million (2020: £383.7 million). These amounts include trading losses of £559.3 million (2020: £325.6 million) and financial expenses carried forward of £194.8 million (2020: £58.1 million). In addition to these amounts, UK capital losses of £92.0 million (2020: £92.0 million) are being carried forward, with no deferred tax asset having been recognised. Where a deferred tax asset has not been recognised in respect of these losses and financial expenses, this is because management considers that those jurisdictions are not likely to generate sufficient taxable income of the appropriate type in the foreseeable future (see note 1). The amounts shown can be carried forward indefinitely.

19. Inventories

	2021 £m	2020 (restated) £m
Raw materials and spares	**79.2**	109.9
Work-in-progress	**7.2**	6.1
Finished goods and goods for resale	**76.0**	75.6
Total	**162.4**	191.6

Write-downs of inventories amounted to £28.6 million (2020: £6.9 million) inclusive of the amounts described below. These were recognised as an expense during the year ended 31 March 2021 and included in cost of revenue in the income statement.

Through the contract profitability and balance sheet review, a comprehensive performance improvement and restructuring programme was implemented during the year across the Aviation operating segment. This included a rationalisation of aircraft types and review of fleet strategy, taking account of changes in market conditions including those resulting from COVID-19 and Brexit. The future strategy affects the Group's expected use of inventory and the calculation of net realisable value has been reassessed to reflect this, resulting in an impairment of £20.6 million.

The Group reversed £5.0 million (2020: £1.4 million) of a previous inventory write-down, as the relevant inventory items were disposed of. The amount reversed has been included in cost of revenue in the income statement.

In DSG the required inventory provision was reassessed and increased by £5.5 million based on the latest information including consideration of a lower usage of inventory due to the impacts of COVID-19.

20. Trade and other receivables

	2021 £m	2020 (restated) £m
Current assets		
Trade receivables	**281.1**	281.0
Less: provision for impairment of receivables	**(14.0)**	(8.1)
Trade receivables – net	**267.1**	272.9
Amounts due from customers for contract work	**201.7**	223.0
Accrued income	**76.9**	107.8
Capitalised contract costs	**32.3**	31.8
Contract assets	**310.9**	362.6
Retentions	**8.0**	8.1
Amounts due from related parties (note 36)	**4.4**	2.9
Other debtors	**83.8**	108.5
Prepayments	**66.8**	82.4
	741.0	837.4

Trade and other receivables are stated at amortised cost.

The Group reassessed the forecast profit margins of a number of contracts included within the scope of the contract profitability and balance sheet review. The assessments were made based on the findings from detailed contract reviews, facilitated by an external accountancy firm. The reviews considered matters such as forecast costs to complete, including the achievability of forecast cost savings, and the recognition of contract modifications including the potential requirement to constrain variable revenue. This resulted in a reduction in margin and a reduction in amounts due from customers for contract work totalling £97.5 million. Of this amount, £27.8 million relates to the DSG contract, which resulted from the reassessment of variable revenues following publication of the Integrated Spending Review and reassessment of cost savings achievable under the contract reflecting delays in implementation of efficiency programmes as a result of COVID-19. The DSG reassessment also resulted in the impairment of £6.4 million of capitalised contract costs.

The Group recognises that there is an inherent element of estimation uncertainty and judgement involved in assessing contract profitability, as disclosed in note 1, and considers that it has taken a best estimate view of contract outcomes based on the information currently available.

This reassessment of contract margin has also resulted in the increase in contract liabilities and recognition of certain onerous contract provisions; see notes 22 and 26, respectively, for further detail.

20. Trade and other receivables (continued)

The Group reviewed the recoverability of its trade and other receivables, resulting in a charge to the income statement of £51.7 million. A number of recoverability estimates have been reassessed and expected credit losses recorded following consideration of the latest facts and circumstances, resolution of certain disputed matters and an assessment of the merits of pursuing certain others, particularly in relation to less significant matters.

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 2020	**223.0**	**107.8**	**31.8**	**362.6**
Disposal of subsidiary undertaking	**(0.6)**	**(3.4)**	**–**	**(4.0)**
Transfers from contract assets recognised at the beginning of the year to receivables	**(204.5)**	**(96.5)**	**–**	**(301.0)**
Increase due to work done not transferred from contract assets	**191.7**	**70.3**	**–**	**262.0**
Amounts capitalised	**–**	**–**	**25.6**	**25.6**
Amortisation of contract assets	**–**	**–**	**(11.2)**	**(11.2)**
Write down of contract assets	**(6.9)**	**–**	**(15.5)**	**(22.4)**
Exchange adjustment	**(1.0)**	**(1.3)**	**1.6**	**(0.7)**
31 March 2021	**201.7**	**76.9**	**32.3**	**310.9**
31 March 2019 as previously stated	266.0	133.2	62.9	462.1
Prior year adjustment (note 5)	(9.3)	(0.9)	(37.0)	(47.2)
31 March 2019 restated	256.7	132.3	25.9	414.9
Transfers from contract assets recognised at the beginning of the year to receivables	(240.1)	(117.6)	–	(357.7)
Increase due to work done not transferred from contract assets	222.2	105.7	–	327.9
Amounts capitalised	–	–	39.4	39.4
Amortisation of contract assets	–	–	(9.9)	(9.9)
Write down of contract assets	(14.2)	(10.7)	(15.4)	(40.3)
Other	–	(2.2)	(5.3)	(7.5)
Exchange adjustment	(1.6)	0.3	(2.9)	(4.2)
31 March 2020	223.0	107.8	31.8	362.6

No material revenue was recognised in 2021 from performance obligations satisfied in previous years, arising from changes in stage of completion, or transaction price allocation (2020: No material revenue).

Within the Group's contract backlog, £8.7 billion (2020: £9.6 billion) represents the transaction price allocated to unsatisfied or partially satisfied performance obligations. Management expects that 26.0% (2020: 26.0%) of the transaction price allocated to unsatisfied performance obligations as at 31 March 2021 will be recognised as revenue during the next reporting period. A further 47% (2020: 41%) of the transaction price allocated to unsatisfied performance obligations is expected to be recognised as revenue in years two to five after 31 March 2021. In addition there are £6.0 billion (2020: £5.4 billion) of orders where pricing is still to be finalised and £2.0 billion (2020: £2.7 billion) of orders within joint ventures and associates.

20. Trade and other receivables (continued)

Movements on the provision for impairment of trade receivables are as follows:

	2021 £m	2020 (restated) £m
Balance at 1 April	**(8.1)**	(6.0)
Provision for receivables impairment	**(7.6)**	(4.7)
Receivables written off during the year as uncollectable	**0.2**	1.1
Unused amounts reversed	**1.0**	1.0
Exchange differences	**0.5**	0.5
Balance at 31 March	**(14.0)**	(8.1)

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 considered to be 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.

21. Cash and cash equivalents

	2021 £m	2020 (restated) £m
Cash at bank and in hand	**610.5**	783.4
Short-term bank deposits	**294.3**	1,062.5
	904.8	1,845.9

The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

	2021		2020 (restated)	
	Total £m	Floating rate £m	Total £m	Floating rate £m
Currency				
Sterling	**734.0**	**734.0**	1,676.0	1,676.0
Euro	**52.7**	**52.7**	42.6	42.6
US Dollar	**28.3**	**28.3**	15.1	15.1
South African Rand	**39.9**	**39.9**	54.0	54.0
Canadian Dollar	**16.5**	**16.5**	21.0	21.0
Omani Rial	**4.9**	**4.9**	4.9	4.9
Australian Dollar	**9.4**	**9.4**	13.1	13.1
Norwegian Krone	**3.1**	**3.1**	4.4	4.4
Swedish Krona	**3.7**	**3.7**	4.5	4.5
New Zealand Dollar	**3.1**	**3.1**	9.8	9.8
Other currencies	**9.2**	**9.2**	0.5	0.5
	904.8	**904.8**	1,845.9	1,845.9

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.

At 31 March 2021, amounts of £294.3 million were held in money market funds. These are measured at fair value through profit and loss.

Impairment of cash and cash equivalents has been determined to be immaterial.

22. Trade and other payables

	2021 £m	2020 (restated) £m
Current liabilities		
Amounts due to customers for contract work	**333.1**	210.4
Deferred income	**63.4**	32.8
Contract liabilities	**396.5**	243.2
Trade creditors	**410.6**	435.5
Amounts due to related parties (note 36)	**0.4**	0.7
Other creditors	**37.4**	37.8
Other taxes and social security	**144.5**	102.8
Accruals	**517.3**	481.2
	1,506.7	1,301.2
Non-current liabilities		
Other creditors	**1.9**	2.1

Included in creditors is £19.1 million (2020: £22.1 million) relating to capital expenditure which has therefore not been included in working capital movements within the cash flow statement.

As part of the contract profitability and balance sheet review, management has reassessed the liabilities of the Group, including the measurement of accruals. This assessment has been made based on the findings from the detailed, risk based review of the Group's contracts and sector balance sheets and has resulted in an increase in liabilities and a charge to the income statement of £52.7 million.

Of this amount, £32.0 million relates to the DSG contract, which resulted from the reassessment of variable revenues following publication of the Integrated Spending Review and reassessment of cost savings achievable under the contract reflecting delays in implementation of efficiency programmes as a result of COVID-19.

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

	Amounts due to customers for contract work £m	Deferred income £m	Contract liabilities £m
31 March 2020	**210.4**	**32.8**	**243.2**
Revenue recognised that was included in the contract liability balance at the beginning of the year	**(135.0)**	**(28.5)**	**(163.5)**
Increase due to cash received, excluding amounts recognised as revenue	**259.0**	**59.1**	**318.1**
Disposal of subsidiary undertaking	**(0.5)**	**–**	**(0.5)**
Exchange adjustment	**(0.8)**	**–**	**(0.8)**
31 March 2021	**333.1**	**63.4**	**396.5**
31 March 2019	195.3	40.0	235.3
Revenue recognised that was included in the contract liability balance at the beginning of the year	(141.9)	(38.5)	(180.4)
Increase due to cash received, excluding amounts recognised as revenue	159.4	33.9	193.3
Disposal	–	(1.2)	(1.2)
Exchange adjustment	(2.4)	(1.4)	(3.8)
31 March 2020	210.4	32.8	243.2

23. Bank and other borrowings

	2021 £m	2020 (restated) £m
Current liabilities		
Bank loans and overdrafts due within one year or on demand		
Secured	**0.2**	0.3
Unsecured	**383.5**	987.6
	383.7	987.9
Lease obligations*	**126.1**	140.9
	509.8	1,128.8
Non-current liabilities		
Bank and other borrowings		
Secured	**18.5**	17.5
Unsecured	**1,300.3**	2,032.5
	1,318.8	2,050.0
Lease obligations*	**486.2**	548.5
	1,805.0	2,598.5

* Leases are secured against the assets to which they relate.

The Group has £3.9 million of secured debt in the Land operating segment that is secured against a property owned by the Group and £14.6 million of debt that is secured against contracts with customers, which will cede to the bank in the event of default.

The Group has entered into interest rate and currency swaps, details of which are included in note 25.

The carrying amount of the Group's borrowings are denominated in the following currencies:

	2021		
Currency	**Total £m**	**Floating rate £m**	**Fixed rate £m**
Sterling	**851.8**	**399.4**	**452.4**
Euro	**1,248.9**	**245.7**	**1,003.2**
US Dollar*	**123.9**	**18.8**	**105.1**
South African Rand	**23.0**	**14.8**	**8.2**
Canadian Dollar	**8.5**	**–**	**8.5**
Australian Dollar	**36.7**	**–**	**36.7**
Norwegian Krone	**0.7**	**–**	**0.7**
Swedish Krona	**18.5**	**–**	**18.5**
New Zealand Dollar	**0.8**	**–**	**0.8**
South Korean Won	**1.5**	**–**	**1.5**
Danish Krone	**0.5**	**–**	**0.5**
	2,314.8	**678.7**	**1,636.1**

23. Bank and other borrowings (continued)

Currency	2020 (restated) Total £m	Floating rate £m	Fixed rate £m
Sterling	1,800.4	1,238.6	561.8
Euro*	1,298.3	256.8	1,041.5
US Dollar*	528.2	251.0	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	1.4	–	1.4
Swedish Krona	20.8	–	20.8
Brazilian Real	5.8	5.8	–
South Korean Won	2.0	–	2.0
	3,727.3	1,767.8	1,959.5

* USDnil million (2020: USD500 million) has been swapped into Sterling, with USDnil million (2020: USD300 million) equivalent into floating rates and USDnil million (2020: USD200 million) equivalent into fixed rate. This is included in the US Dollar amount above.
EUR550 million (2020: €550 million) has been swapped into Sterling, with €275 million (2020: €275 million) equivalent into floating rates and EUR275 million (2020: €275 million) 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 five 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 in the prior year £775 million of fully drawn RCF facility.

Total borrowings	1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £m
As at 31 March 2021	**830.9**	**586.4**	**245.0**	**652.5**	**2,314.8**
As at 31 March 2020	2,057.6	208.7	775.0	686.0	3,727.3

The effective interest rates at the statement of financial position dates were as follows:

	2021 %	2020 %
UK bank overdraft	**1.1**	1.1
UK bank borrowings	**0.6**	0.5
US private placement – fixed	**–**	6.0
US private placement – floating	**–**	2.8
8 year Eurobond September 2027– fixed	**2.9**	2.9
8 year Eurobond September 2027 – floating	**2.4**	2.8
8 year Eurobond October 2022	**1.8**	1.8
£300 million bond	**1.9**	1.9
Other borrowings	**4.8 – 6.4**	4.8 – 8.9
Leases obligations	**0.0 – 11.8**	0.4 – 12.6

Repayment details

The total borrowings of the Group at 31 March are repayable as follows:

	2021		2020	
	Loans and overdrafts £m	**Lease obligations £m**	Loans and overdrafts £m	Lease obligations £m
Within one year	**383.7**	**126.1**	987.9	140.9
Between one and two years	**476.4**	**120.1**	0.4	117.3
Between two and three years	**15.0**	**91.4**	487.4	105.4
Between three and four years	**0.3**	**96.6**	13.1	106.8
Between four and five years	**0.3**	**61.9**	759.5	78.3
Greater than five years	**826.8**	**116.2**	789.6	140.7
	1,702.5	**612.3**	3,037.9	689.4

In addition to the lease obligations above, the Group paid £45.3 million (2020: £44.3 million) under the Phoenix contract where the leases are directly on behalf of and benefit to the customer.

23. Bank and other borrowings (continued)

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at 31 March:

	2021 £m	2020 £m
Expiring in less than one year	**3.0**	3.5
Expiring in more than one year but not more than five years	**783.5**	77.6
	786.5	81.1

Bank loans include £25.1 million (2020: £93.2 million) that suppliers have chosen to early-fund under supplier financing arrangements, under which the suppliers can elect to receive a discounted early payment from the partner bank rather than being paid in line with the agreed payment terms. The total supplier financing facility available to the Group is £230 million at 31 March 2021. The typical factoring fee is 0.9% – 1.5% and the Group has payment terms with the partner banks of 120-360 days. If the option is taken the Group's liability is assigned by the supplier to be due to the partner bank rather than the supplier. The value of the liability payable by the Group remains unchanged. The Group assesses the terms and conditions of the arrangement to determine whether the arrangement should be classified as trade payables or debt. Refer to accounting policies for further information.

Various inter-bank offer rates (IBOR) are expected to be replaced by alternative risk-free rates by the end of 2021 as part of the IBOR reform. The Group is managing the transition to alternative risk-free rates with respect to its hedging arrangements and any future transactions in the financial market.

24. Financial instruments

Other financial assets and liabilities within the balance sheet comprise of:

	2021 £m	2020 (restated) £m
Non-current assets		
Leases granted	**12.9**	6.9
Derivative financial instruments (note 25)	**4.3**	14.6
	17.2	21.5
Current assets		
Leases granted	**26.7**	31.7
Derivative financial instruments (note 25)	**8.2**	122.2
	34.9	153.9
Non-current liabilities		
Derivative financial instruments (note 25)	**51.1**	35.6
Current liabilities		
Derivative financial instruments (note 25)	**13.9**	27.7

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 £33.0 million (2020: £22.3 million), these were split as £20.2 million (2020: £15.4 million) due within one year and £12.8 million (2020: £6.9 million) between one and five years.

24. Financial instruments (continued)

The Group's financial assets and financial liabilities are classified as follows:

2021 (£m)	Note	**At amortised cost**	**Fair value through profit or loss**	**Fair value hedges**	**Cash flow hedges**	**Total carrying amount**	**Fair value**
Financial assets							
Trade and other receivables	20*	**641.9**	**–**	**–**	**–**	**641.9**	**641.9**
Loans to joint ventures and associates	17	**42.1**	**–**	**–**	**–**	**42.1**	**42.1**
Cash and cash equivalents	21,31	**904.8**	**–**	**–**	**–**	**904.8**	**904.8**
Leases granted	16	**39.5**	**–**	**–**	**–**	**39.5**	**39.5**
IFRIC 12 financial assets		**11.2**	**–**	**–**	**–**	**11.2**	**11.2**
Financial liabilities							
Bank and other borrowings	23	**(1,702.5)**	**–**	**–**	**–**	**(1,702.5)**	**(1,771.4)**
Trade payables	22	**(410.6)**	**–**	**–**	**–**	**(410.6)**	**(410.6)**
Accruals and other payables	22**	**(556.6)**	**–**	**–**	**–**	**(556.6)**	**(556.6)**
Lease liabilities	16	**(612.3)**	**–**	**–**	**–**	**(612.3)**	**(612.3)**
Derivative contracts							
Hedged contracts		**–**		**(25.2)**	**(22.2)**	**(47.4)**	**(47.4)**
Non-hedged contracts		**–**	**(5.1)**	**–**	**–**	**(5.1)**	**(5.1)**
Net assets / (liabilities)		**(1,642.5)**	**(5.1)**	**(25.2)**	**(22.2)**	**(1,695.0)**	**(1,763.9)**

2020 (£m)	Note	At amortised cost	Fair value through profit or loss	Fair value hedges	Cash flow hedges	Total carrying amount	Fair value
Financial assets							
Trade and other receivables	20*	723.2	–	–	–	723.2	723.2
Loans to joint ventures and associates	17	48.6	–	–	–	48.6	48.6
Cash and cash equivalents	21,31	1,845.9	–	–	–	1,845.9	1,845.9
Leases granted	16	38.6	–	–	–	38.6	38.6
IFRIC 12 financial assets		12.8	-	-	-	12.8	12.8
Financial liabilities							
Bank and other borrowings	23	(3,710.8)	–	–	–	(3,710.8)	(3,808.8)
Trade payables	22	(435.5)	–	–	–	(435.5)	(435.5)
Accruals and other payables	22**	(521.1)	–	–	–	(521.1)	(521.1)
Lease liabilities	16	(672.8)	–	–	–	(672.8)	(672.8)
Derivative contracts							
Hedged contracts		–	–	89.4	(15.9)	73.5	73.5
Non-hedged contracts		–	2.9	–	–	2.9	2.9
Net assets / (liabilities)		(2,671.1)	2.9	89.4	(15.9)	(2,594.7)	(2,692.7)

* Trade and other receivables excludes prepayments and capitalised contract costs as these are not classed as financial instruments.

** Accruals and other payables excludes deferred income, other taxes and social security and contract liabilities as these are not classed as financial instruments.

24. Financial instruments (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 March 2021 and 31 March 2020, by level of fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

	Level 1	Level 2	Level 3	Total
Derivative contracts	–	**(52.5)**	–	**(52.5)**

During the financial year, there were no transfers (2020: no transfers) between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements (2020: no transfers).

25. Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	2021 £m	2020 £m
Non-current assets		
Other currency hedges – hedged	**4.3**	11.7
Other currency hedges – non-hedged	–	2.9
Current assets		
US private placement – derivative	–	95.5
US private placement – interest rate swaps	–	9.2
Other currency hedges – hedged	**7.8**	17.5
Other currency hedges – non-hedged	**0.4**	–
Non-current liabilities		
8 year Eurobond September 2027 – derivative	**25.2**	6.1
8 year Eurobond September 2027 – interest rate swaps	**14.1**	17.0
Interest rate hedge	**0.6**	0.8
Other currency hedges – hedged	**5.7**	11.7
Other currency hedges – non-hedged	**5.5**	–
Current liabilities		
Interest rate hedge	**0.1**	0.1
Other currency hedge	**13.8**	27.6

The Group enters into forward foreign currency contracts and cross currency interest rate swaps to hedge the currency exposures that arise on sales, purchases, deposits, borrowings and leasing arrangements denominated in foreign currencies as the transactions occur. There is no material ineffectiveness on any of the Group's hedging activities. Where derivatives do not meet the hedge accounting criteria, they are accounted for at fair value through profit or loss.

The Group's policy regarding classification of derivatives is set out in note 1.

Held for trading contracts are economic hedges and are not hedge accounted.

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

Fair value hedges

The Group maintains interest rate and cross-currency swap contracts as fair value hedges of the interest rate and currency risk on fixed-rate debt issued by the Group.

These derivative contracts receive a fixed rate of interest and pay a variable interest rate. These are formally designated in fair value hedging relationships and are used to hedge the exposure to changes in the fair value of debt which has been issued by the Group at fixed rates.

25. Derivative financial instruments (continued)

The Group held the following interest rate hedges at 31 March 2021:

	Amount £m	Fixed payable %	Floating receivable %	Maturity
Hedged				
Interest rate swap	**3.9**	**4.745**	**6 month LIBOR**	**31/03/2029**

	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**	**13/09/2027**
Cross currency and interest rate swap	**275.0**	**246.7**	**Fixed 1.375% EUR to floating 3-month LIBOR + margin GBP**	**13/09/2027**
Total cross currency and interest rate swap – EURO	**550.0**	**493.4**		

Cash flow hedges

The Group is exposed to transactional foreign currency risk and cross currency interest rate swaps to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group entities.

The Group uses forward contracts to hedge the foreign currency cost of future purchases of goods to be consumed in operations, future income to be received and debt payments to be made, and designates the spot element of these contracts to hedge the foreign currency risk.

Under the Group's hedging policy, the terms of the forward contracts are arranged to align with the expected timing and amounts of the hedged items. The foreign currency forwards are denominated in the same currency as the hedged item, such as future sales and purchases, when the timing of the hedged items can be estimated with reasonable certainty. There is an economic relationship between the hedged item and the hedging instrument as the terms of the forward contracts match the terms of the hedged item. The Group determines that the hedging arrangements meet the criteria for a cash flow hedge if the hedging relationship is at a ratio of 0.8-1.25:1, as this is consistent with the Group's risk management.

See the Group's statement of changes in equity for reconciliation of movements in the cash flow hedge reserve. Of the movement in hedging reserve: (£6.2) million relates to interest rate swaps (2020: (£6.9) million), £3.3 million relates to foreign exchange arrangements (2020: £1.7 million), £5.6 million relates to other comprehensive income from joint ventures and mark to market adjustments on joint ventures hedging arrangements (2020: (£4.5) million) and £27.9 million relates to the Group's leasing arrangements (2020: (£23.8) million). Offset by (£4.6) million deferred tax impact (2020: £2.5 million).

Full details of the Group's financial instrument accounting policies and risk management strategies, objectives and policies are set out in the accounting policies in note 1 and in note 2, financial risk management.

26. Provisions for other liabilities

	Insurance provisions (a) £m	Contract/ warranty (b) £m	Employee benefits and business reorganisation costs (c) £m	Italian anti-trust fine (d) £m	Property and other (e) £m	Expected credit losses £m	Total provisions £m
At 31 March 2020 as previously stated	**0.6**	**17.3**	**60.9**	**47.3**	**17.1**	**0.4**	**143.6**
Prior year adjustment	–	17.2	–	–	2.0	–	19.2
At 31 March 2020 restated	**0.6**	**34.5**	**60.9**	**47.3**	**19.1**	**0.4**	**162.8**
On disposal of subsidiaries (note 32)	–	–	–	–	(2.5)	–	(2.5)
Transfer	–	–	0.7	–	(0.7)	–	–
Net charge/ (release) to income statement	0.1	43.4	15.2	(24.2)	9.0	–	43.5
Utilised in year	–	(10.1)	(41.9)	(1.5)	(3.5)	–	(57.0)
Unwinding of discount	–	–	–	–	–	–	–
Foreign exchange	–	(0.7)	0.9	(1.6)	0.1	–	(1.3)
At 31 March 2021	**0.7**	**67.1**	**35.8**	**20.0**	**21.5**	**0.4**	**145.5**

(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 3), acquired businesses, personnel-related costs and payroll taxes.

(d) For further details of the provision in relation to the possible Italian anti-trust fine see note 3.

(e) Property and other provisions primarily relate to dilapidation costs and contractual obligations in respect of infrastructure.

As part of the contract profitability and balance sheet review onerous contract provisions were recognised, as well as a reduction in amounts due from customers for contract work, see note 20. There is inherent estimation uncertainty and judgement in assessing profitability outcomes in the future, with a potentially broad range of outcomes. Onerous contract provisions recognised include:

- £21.2 million in relation to three Helicopter Emergency Medical Services (HEMS) contracts secured during the year with minimum terms of up to 10 years. The pricing of these contracts had regard to future strategic considerations, with profitability dependent on future volumes. A further £8.2 million provisions were made in HEMS contracts following reassessment of future costs.
- £4.1 million in relation to a military maintenance contract following a reassessment of assumptions relating to forecast flying hours and indexation.

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

	2021 £m	2020 (restated) £m
Current	**71.8**	130.1
Non-current	**73.7**	32.7
	145.5	162.8

Included within provisions is £8 million (2020: £5 million) expected to be utilised over approximately 10 years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

27. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2020 and 31 March 2021	**505,596,597**	**303.4**
Allotted, issued and fully paid		
At 1 April 2019 and 31 March 2020	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 2021 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 10,438,350 shares (2020: 9,526,628 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	2021 Number	2020 Number
15 June 2016	PSP[1]	15/06/2019 – 15/06/2020	**–**	17,279
15 June 2016	DBMP[2]	15/06/2019 – 15/06/2020	**–**	4,733
14 June 2017	DBP[4]	14/06/2019 – 14/06/2020	**–**	8,866
14 June 2017	DBP[5]	14/06/2020 – 14/06/2021	**12,439**	179,263
14 June 2017	PSP[1]	14/06/2020 – 14/06/2021	**–**	1,358,599
14 June 2017	PSP[1]	14/06/2022 – 14/06/2023	**–**	839,723
13 June 2018	DBP[4]	13/06/2020 – 13/06/2021	**18,092**	78,746
13 June 2018	DBP[5]	13/06/2021 – 13/06/2022	**187,433**	187,433
13 June 2018	PSP[1]	13/06/2021 – 13/06/2022	**1,311,264**	1,398,259
13 June 2018	PSP[1]	13/06/2023 – 13/06/2024	**758,280**	860,157
13 June 2019	DBP[4]	13/06/2021 – 13/06/2022	**83,466**	83,466
13 June 2019	DBP[5]	13/06/2022 – 13/06/2023	**313,909**	313,909
13 June 2019	PSP[1]	13/06/2022 – 13/06/2023	**2,545,970**	2,825,524
13 June 2019	PSP[1]	13/06/2024 – 13/06/2025	**1,134,950**	1,370,671
3 August 2020	DBP[3]	3/08/2022 – 3/08/2023	**146,306**	–
3 August 2020	DBP[3]	3/08/2023 – 3/08/2024	**118,320**	–
13 August 2020	DBP[3]	13/08/2022 – 13/08/2023	**8,474**	–
13 August 2020	DBP[3]	13/08/2023 – 13/08/2024	**192,096**	–
1 December 2020	PSP[1]	1/12/2025 – 1/12/2026	**1,667,742**	–
1 December 2020	PSP[1]	1/12/2023 – 1/12/2024	**1,939,609**	–
			10,438,350	9,526,628

Options granted to Directors are summarised in the Remuneration report on pages 132 to 153 and are included in the outstanding options set out above.

1. 2009 Performance Share Plan ('PSP').
2. 2012 Deferred Bonus Matching Plan ('DBMP').
3. Deferred Bonus Plan ('DBP').
4. DBP – Award issued without matching shares, has two-year vesting period.
5. DBP – Award issued without matching shares, has three-year vesting period.

27. Share capital (continued)

The table below shows shares already held by the trustees of the BEST in order to meet these awards.

	2021		2020	
	Shares newly issued by the Company	**Shares bought in the market**	Shares newly issued by the Company	Shares bought in the market
BEST	**–**	**661,463**	–	221,320
Total	**–**	**661,463**	–	221,320

A reconciliation of PSP and DBMP movements is shown below:

	2021 Number '000	2020 Number '000
Outstanding at 1 April	**9,527**	7,748
Granted	**4,593**	4,797
Exercised	**(258)**	(654)
Forfeited/lapsed	**(3,424)**	(2,364)
Outstanding at 31 March	**10,438**	9,527
Exercisable at 31 March	**31**	31

The weighted average share price for awards exercised during the year was 301.8p per share (2020: 497.7p per share).

During the year 697,886 ordinary shares (2020: 635,326 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 2021, 257,743 shares (2020: 653,868 shares) were disposed of by the Trust resulting from options exercised. At 31 March 2021, the Trust held a total of 661,463 ordinary shares (2020: 221,320 ordinary shares) at a total market value of £1,512,104 (2020: £848,098) representing 0.13% (2020: 0.04%) of the issued share capital at that date. The Company did not pay dividends to the Babcock Employee Share Trust 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.

28. 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 £4.2 million (2020: £2.9 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £3.3 million (2020: £2.4 million).

The fair value per option granted and the assumptions used in the calculation are as follows:

DBMP, PSP and DBP[1]

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – non-market conditions %	Fair value per option – TSR Pence	Fair value per option – non-market conditions Pence	Correlation %	Grant or modification date
2020 PSP	695,458	350.0	19.0%	6.0	100.0%	–	305.2	55.0%	01/12/20
2020 PSP	2,091,247	350.0	19.0%	4.0	100.0%	–	350.0	55.0%	01/12/20
2020 PSP	1,341,477	350.0	19.0%	6.0	100.0%	137.9	305.2	55.0%	01/12/20
2020 DBP	118,320	289.0	19.0%	4.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	146,306	289.0	19.0%	3.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	192,096	284.2	19.0%	4.0	100.0%	–	284.2	55.0%	13/08/20
2020 DBP	8,474	284.2	19.0%	3.0	100.0%	–	284.2	55.0%	13/08/20
2019 PSP	1,370,671	472.8	11.0%	6.0	–	70.9	472.8	45.0%	13/06/19
2019 PSP	3,019,033	472.8	11.0%	4.0	–	70.9	472.8	45.0%	13/06/19
2019 DBP	313,909	472.8	11.0%	4.0	100.0%	–	472.8	45.0%	13/06/19
2019 DBP	93,430	472.8	11.0%	3.0	100.0%	–	472.8	45.0%	13/06/19
2018 PSP	860,157	856.0	14.0%	6.0	–	370.9	856.0	56.0%	13/06/18
2018 PSP	1,699,323	856.0	14.0%	4.0	–	370.9	856.0	56.0%	13/06/18
2018 DBP	187,433	856.0	14.0%	4.0	100.0%	–	856.0	56.0%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100.0%	–	856.0	56.0%	13/06/18
2017 PSP	902,424	905.5	15.0%	6.0	–	131.2	905.5	46.0%	14/06/17
2017 PSP	1,769,338	905.5	15.0%	4.0	–	131.2	905.5	46.0%	14/06/17
2017 DBP	186,949	905.5	15.0%	4.0	100.0%	–	905.5	46.0%	14/06/17
2017 DBP	103,246	905.5	15.0%	3.0	100.0%	–	905.5	46.0%	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.

PSP awards for 2017 to 2019 are split evenly between the performance criteria of TSR, EPS and ROCE.

For PSP awards made in December 2020, 2,786,705 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 1,341,477 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

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 180,175 matching shares (2020: 104,756 matching shares) at a cost of £0.5 million (2020: £0.5 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year 5,000 matching shares were purchased on the open market (2020: 1,000 matching shares) and 1,193 matching shares vested (2020: 713 matching shares) leaving a balance of 5,012 matching shares (2020: 1,205 matching shares).

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan and DBP = 2012 Deferred Bonus Plan.

29. Retirement benefits and liabilities

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	2021 £m	2020 £m
Defined contribution schemes	**90.9**	85.7

Defined benefit schemes

Statement of financial position assets and liabilities recognised are as follows:

	2021 £m	2020 £m
Retirement benefits – funds in surplus	**40.8**	325.3
Retirement benefits – funds in deficit	**(333.9)**	(180.1)
	(293.1)	145.2

The Group has a number of defined benefit pension schemes. The principal defined benefit pension schemes 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 of each scheme 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 (i) taking out longevity swaps in respect of pensioners and their spouses at the time; (ii) through investment strategies which have significantly hedged the interest rate and inflation risk through derivative instruments; (iii) in 2019 closed the Babcock International Group Pension Scheme to future accrual for some employees; and (iv) in 2020 closed the Rosyth Royal Dockyard Pension Scheme to future accrual for all employees.

The Group also participates in the Babcock Rail Ltd 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 the railway scheme.

The defined benefit 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 details of the latest formal actuarial valuation of the scheme are as follows (the actuarial valuation of the Rosyth Royal Dockyard Scheme as at 31 March 2021 has commenced):

	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	31/03/2020	31/03/2019	31/03/2018	31/12/2019
Number of active members at above date	823	643	573	180
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Attained age
Results of formal actuarial valuation:				
Value of assets	£1,894m	£1,480m	£1,189m	£271m
Level of funding	90%	97%	78%	92%

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 Section of the Electricity Supply Pension Scheme and runs the Babcock Naval Services Pension Scheme for which the MOD fully reimburses the contributions payable.

29. 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	21.6%	51.1%	–	12.5%	17.5%-48.0%	–
Future service cash contributions	£12.9m	£6.5m	–	£0.9m	£2.9m	£23.2m
Deficit contributions	£18.6m	£22.9m	£67.5m	£1.6m	£1.3m	£111.9m
Additional longevity swap payments	£7.3m	£3.6m	£5.9m	–	–	£16.8m
Expected employer cash costs for 2021/22	£38.8m	£33.0m	£73.4m	£2.5m	£4.2m	£151.9m
Expected salary sacrifice contributions	£6.5m	£0.5m	–	£1.1m	£0.7m	£8.8m
Expected total employer contributions	£45.3m	£33.5m	£73.4m	£3.6m	£4.9m	£160.7m

Where salary sacrifice arrangements are in place, the Group effectively meets the members' contributions. The above level of funding is expected to continue until the next actuarial valuation of each scheme; valuations are carried out every three years.

The expected payments from the schemes are primarily pension payments and lump sums. Most of the pensions increase at a fixed rate or in line with RPI or CPI inflation when in payment. Benefit payments commence at retirement, death or incapacity and are predominantly calculated with reference to final salary. The levels of deficit contributions reflected above are expected to continue until technical provisions (self-sufficiency for the Babcock International Group Pension Scheme) funding levels are met either through asset performance or 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 2021 by independent qualified actuaries for IAS 19 purposes, on a best estimate basis, using the following assumptions:

March 2021	**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	**2.9%**	**2.9%**	**2.9%**	**2.9%**
Rate of increase in pensions (past service)	**2.7%**	**3.1%**	**3.2%**	**2.7%**
Discount rate	**2.0%**	**2.0%**	**2.0%**	**2.0%**
Inflation rate (RPI)	**3.2%**	**3.2%**	**3.2%**	**3.2%**
Inflation rate (CPI)	**2.7%**	**2.7%**	**2.7%**	**2.7%**
Weighted average duration of cashflows (years)				
Total life expectancy for current pensioners aged 65 (years)	**85.7**	**87.1**	**84.8**	**85.9**
Total life expectancy for future pensioners currently aged 45 (years)	**86.8**	**87.7**	**85.9**	**86.9**
March 2020				
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

29. 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:

	2021 Principal schemes £m	2021 Railways scheme £m	2021 Other schemes £m	2021 Total £m	2020 Principal schemes £m	2020 Railways scheme £m	2020 Other schemes £m	2020 Total £m
Fair value of plan assets								
Growth assets								
Equities	**55.1**	**12.5**	**23.0**	**90.6**	33.7	14.0	19.8	67.5
Property funds	**437.1**	**2.1**	**4.7**	**443.9**	426.0	4.6	4.4	435.0
High yield bonds/emerging market debt	**348.4**	**–**	**–**	**348.4**	75.3	–	–	75.3
Absolute return and multi-strategy funds	**428.5**	**194.5**	**25.4**	**648.4**	345.0	191.1	22.3	558.4
Low-risk assets								
Bonds	**1,422.9**	**54.8**	**83.2**	**1,560.9**	1,397.4	30.3	75.0	1,502.7
Matching assets*	**1,682.7**	**1.7**	**219.5**	**1,903.9**	1,918.7	1.4	59.2	1,979.3
Longevity swaps	**(211.2)**	**–**	**–**	**(211.2)**	(206.9)	–	–	(206.9)
Fair value of assets	**4,163.5**	**265.6**	**355.8**	**4,784.9**	3,989.2	241.4	180.7	4,411.3
Percentage of assets quoted	**100%**	**100%**	**100%**	**100%**	100%	100%	100%	100%
Percentage of assets unquoted	**–**	**–**	**–**	**–**	–	–	–	–
Present value of defined benefit obligations								
Active members	**857.6**	**126.1**	**39.5**	**1,023.2**	892.0	93.1	91.8	1,076.9
Deferred pensioners	**1,227.3**	**107.4**	**273.9**	**1,608.6**	863.4	82.0	45.0	990.4
Pensioners	**2,259.1**	**136.1**	**51.0**	**2,446.2**	2,035.4	122.4	41.0	2,198.8
Total defined benefit obligations	**4,344.0**	**369.6**	**364.4**	**5,078.0**	3,790.8	297.5	177.8	4,266.1
Net (liabilities)/assets recognised in the statement of financial position	**(180.5)**	**(104.0)**	**(8.6)**	**(293.1)**	198.4	(56.1)	2.9	145.2

* The matching assets aim to hedge the liabilities and consist of gilts, repos, cash and swaps. They are shown net of repurchase obligations of £2,177 million (2020: £2,033 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:

	2021 Principal schemes £m	2021 Railways scheme £m	2021 Other schemes £m	2021 Total £m	2020 Principal schemes £m	2020 Railways scheme £m	2020 Other schemes £m	2020 Total £m
Current service cost	**24.1**	**2.0**	**2.0**	**28.1**	29.5	2.5	1.7	33.7
Incurred expenses	**6.4**	**0.7**	**0.2**	**7.3**	3.4	0.2	0.1	3.7
Past service costs	**1.4**	**–**	**–**	**1.4**	–	–	–	–
Curtailment	**7.5**	**–**	**–**	**7.5**	–	–	–	–
Total included within operating profit	**39.4**	**2.7**	**2.2**	**44.3**	32.9	2.7	1.8	37.4
Net interest (credit)/cost	**(5.2)**	**1.3**	**(0.1)**	**(4.0)**	(1.6)	1.6	0.1	0.1
Total included within income statement	**34.2**	**4.0**	**2.1**	**40.3**	31.3	4.3	1.9	37.5

Notes to the Group financial statements continued

29. Retirement benefits and liabilities (continued)

Amounts recorded in the Group statement of comprehensive income

	2021				2020			
	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	224.3	26.3	174.0	424.6	(64.0)	(2.4)	30.3	(36.1)
Experience gains/(losses) arising on scheme liabilities	(33.5)	(0.6)	1.4	(32.7)	(27.8)	–	(1.4)	(29.2)
Changes in assumptions on scheme liabilities	(638.1)	(72.4)	(188.2)	(898.7)	172.0	12.1	(18.9)	165.2
At 31 March	(447.3)	(46.7)	(12.8)	(506.8)	80.2	9.7	10.0	99.9

Analysis of movement in the Group statement of financial position

	2021				2020			
	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	3,989.2	241.4	180.7	4,411.3	4,104.7	246.6	230.9	4,582.2
Interest on assets	91.7	5.7	3.0	100.4	96.0	5.8	3.0	104.8
Actuarial gain/(loss) on assets	224.3	26.3	174.0	424.6	(64.0)	(2.4)	30.3	(36.1)
Employer contributions	102.5	2.8	3.5	108.8	105.1	3.0	2.8	110.9
Employee contributions	0.2	–	–	0.2	0.2	–	0.1	0.3
Benefits paid	(244.4)	(10.6)	(5.4)	(260.4)	(252.8)	(11.6)	(6.1)	(270.5)
Settlements	–	–	–	–	–	–	(80.3)	(80.3)
At 31 March	4,163.5	265.6	355.8	4,784.9	3,989.2	241.4	180.7	4,411.3
Present value of benefit obligations								
At 1 April	3,790.8	297.5	177.8	4,266.1	4,060.3	311.1	238.8	4,610.2
Service cost	24.1	2.0	2.0	28.1	29.5	2.5	1.7	33.7
Incurred expenses	6.4	0.7	0.2	7.3	3.4	0.2	0.1	3.7
Interest cost	86.4	7.0	3.0	96.4	94.4	7.4	3.1	104.9
Employee contributions	0.2	–	–	0.2	0.2	–	0.1	0.3
Experience loss/(gain)	33.5	0.6	(1.4)	32.7	27.8	–	1.4	29.2
Actuarial (gain)/loss – demographics	8.4	(0.6)	(0.2)	7.6	14.8	1.2	(1.2)	14.8
Actuarial loss /(gain)– financial	629.7	73.0	188.4	891.1	(186.8)	(13.3)	20.1	(180.0)
Benefits paid	(244.4)	(10.6)	(5.4)	(260.4)	(252.8)	(11.6)	(6.1)	(270.5)
Past service costs	1.4	–	–	1.4	–	–	–	–
Curtailment	7.5	–	–	7.5				
Settlements	–	–	–	–	–	–	(80.2)	(80.2)
At 31 March	4,344.0	369.6	364.4	5,078.0	3,790.8	297.5	177.8	4,266.1
Net (deficit)/surplus at 31 March	(180.5)	(104.0)	(8.6)	(293.1)	198.4	(56.1)	2.9	145.2

* Settlement effect in Other schemes is 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 it is neutral in terms of both the income statement and other comprehensive income,

The movement in net deficits for the year ending 31 March 2021 is as a result of the movement in assets and liabilities shown above.

29. Retirement benefits and liabilities (continued)

The changes to the Group statement of financial position at March 2021 and the charges to the Group income statement for the year to March 2022, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2021 £m	Income statement 2022 £m
Initial assumptions	**5,078.0**	**45.5**
Discount rate assumptions increased by 0.5%	**(378.1)**	**(11.7)**
Discount rate assumptions decreased by 0.5%	**378.1**	**7.9**
Inflation rate assumptions increased by 0.5%	**306.0**	**8.4**
Inflation rate assumptions decreased by 0.5%	**(279.4)**	**(7.8)**
Total life expectancy increased by half a year	**129.6**	**3.0**
Total life expectancy decreased by half a year	**(129.6)**	**(3.0)**
Salary increase assumptions increased by 0.5%	**57.4**	**2.3**
Salary increase assumptions decreased by 0.5%	**(57.4)**	**(2.3)**

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.

30. Movement in net debt

	2021 £m	2020 restated £m
(Decrease)/increase in cash in the year	**(820.9)**	1,083.6
Cash flow from the decrease/(increase) in debt	**1,202.1**	(912.3)
Change in net funds resulting from cash flows	**381.2**	171.3
Net additional lease obligations	**(82.3)**	(144.7)
New leases – granted	**13.9**	29.9
Transition to IFRS 16	**–**	(640.8)
Disposal of subsidiary undertaking	**–**	3.1
Other non-cash movements	**(6.2)**	1.3
Foreign currency translation differences	**44.6**	(53.8)
Movement in net debt in the year	**351.2**	(633.5)
Net debt at the beginning of the year	**(1,704.8)**	(1,071.1)
Net debt at the end of the year	**(1,353.6)**	(1,704.8)

31. Changes in net debt

	31 March 2020 (restated) £m	Cash flow £m	Additional leases £m	Other non-cash movement £m	Exchange movement £m	**31 March 2021 £m**
Cash and bank balances	1,845.9	(944.4)	–	–	3.3	**904.8**
Bank overdrafts	(497.2)	123.5	–	–	(0.2)	**(373.9)**
Cash, cash equivalents and bank overdrafts	1,348.7	(820.9)	–	–	3.1	**530.9**
Debt	(2,540.7)	1,129.3	–	–	82.8	**(1,328.6)**
Leases – received	(689.4)	140.6	(91.7)	9.4	18.8	**(612.3)**
Net debt derivative	89.4	(52.6)	–	–	(62.0)	**(25.2)**
Changes in liabilities from financing arrangements	(3,140.7)	1,217.3	(91.7)	9.4	39.6	**(1,966.1)**
Leases – granted	38.6	(14.9)	13.9	–	1.9	**39.5**
Net debt before loans to joint ventures and associates	(1,753.4)	381.5	(77.8)	9.4	44.6	**(1,395.7)**
Loans to joint ventures and associates	48.6	(0.3)	–	(6.2)	–	**42.1**
Net debt	(1,704.8)	381.2	(77.8)	3.2	44.6	**(1,353.6)**

32. Disposal of subsidiaries, businesses and joint ventures and associates

In June 2020 the Group completed the sale of its 74% shareholding in Holdfast Training Services Limited for a cash consideration of £85.0 million which resulted in a loss on disposal of £38.2 million. This loss arose following goodwill allocation of £68.4 million to Holdfast Training Services Limited upon disposal (using the relative value method), as Holdfast Training Services Limited was integrated into the Land operating segment.

In September 2020, the Group disposed of Cavendish Nuclear Manufacturing Limited for no consideration which resulted in a loss on disposal of £0.6 million.

In October 2020, the Group completed the sale of Conbras Servicos Tecnicos de Suporte Ltda for a consideration of £9.7 million which resulted in a loss on disposal of £10.9 million.

During the previous year 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 paid certain accrued costs on previously disposed of businesses of £0.8 million.

	2021				2020		
	Holdfast Training Services Limited £m	**Cavendish Nuclear Manufacturing Limited £m**	**Conbras Servicos Tecnicos de Suporte Ltda £m**	**Total £m**	Context Information Security Limited £m	Previously disposed of business £m	Total £m
Goodwill	**68.4**	**–**	**4.2**	**72.6**	20.6	–	20.6
Investment in joint ventures and associates	**53.2**	**–**	**–**	**53.2**	–	–	–
Other intangible assets	**–**	**–**	**–**	**–**	4.0	–	4.0
Property, plant and equipment	**–**	**–**	**0.8**	**0.8**	1.6	–	1.6
Right of use assets	**–**	**–**	**–**	**–**	2.3	–	2.3
Inventory	**–**	**0.5**	**0.1**	**0.6**	–	–	–
Other current assets	**–**	**0.7**	**11.1**	**11.8**	6.7	–	6.7
Cash, cash equivalents and bank overdrafts	**–**	**0.4**	**3.1**	**3.5**	1.8	–	1.8
Lease liabilities	**–**	**–**	**–**	**–**	(3.1)	–	(3.1)
Other current liabilities	**–**	**(1.0)**	**(8.2)**	**(9.2)**	(3.7)	–	(3.7)
Taxation	**–**	**–**	**–**	**–**	(0.4)	–	(0.4)
Provisions	**–**	**–**	**(2.5)**	**(2.5)**	(0.3)	–	(0.3)
Net assets disposed	**121.6**	**0.6**	**8.6**	**130.8**	29.5	–	29.5
Disposal costs	**1.6**	**–**	**1.5**	**3.1**	2.9	–	2.9
Cumulative currency translation loss	**–**	**–**	**10.5**	**10.5**	–	–	–
Deferred consideration	**–**	**–**	**–**	**–**	–	–	–
(Loss)/profit on disposal	**(38.2)**	**(0.6)**	**(10.9)**	**(49.7)**	74.7	–	74.7
Sale proceeds	**85.0**	**–**	**9.7**	**94.7**	107.1	–	107.1
Sale proceeds less cash disposed of	**85.0**	**(0.4)**	**6.6**	**91.2**	105.3	–	105.3
Less costs paid in the year	**–**	**–**	**(0.6)**	**(0.6)**	(2.9)	(0.8)	(3.7)
Net cash inflow/(outflow)	**85.0**	**(0.4)**	**6.0**	**90.6**	102.4	(0.8)	101.6

33. Transactions with non-controlling interests
There were no material transactions with non-controlling interests in the current or prior year.

34. Contingent liabilities
There are a number of contingent liabilities that arise in the normal course of business. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

(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 Royal Rosyth Dockyard Limited and the MOD dated 30 January 1997. By way of security for the MOD's rights to such share, the Royal Rosyth Dockyard Limited 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) As a large contracting organisation, the Group has a significant number of contracts with customers to deliver services and products, as well as with its supply chain, where the Group cannot deliver all those services and products itself. The Group is involved in disputes and litigation, which have arisen in the course of its normal trading in connection with these contracts. Whilst the Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position, it is possible that, if any of these disputes come to court, the court may take a different view to the Group.

(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.

35. Capital and other financial commitments

	2021 £m	2020 £m
Contracts placed for future capital expenditure not provided for in the financial statements	**57.9**	14.7

36. 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 17.

2021	2021 Revenue to £m	2021 Purchases from £m	2021 Year-end debtor balance £m	2021 Year-end creditor balance £m
Joint ventures and associates				
Holdfast Training Services Limited	**10.8**	**–**	**0.2**	**–**
First Swietelsky Operation and Maintenance	**9.0**	**–**	**0.8**	**(0.4)**
Ascent Flight Training (Management) Limited	**2.0**	**–**	**0.2**	**–**
Ascent Flight Training (Holdings) Limited	**0.3**	**–**	**0.1**	**–**
ALC (Superholdco) Limited	**–**	**–**	**0.1**	**–**
Rotary Wing Training Limited	**4.0**	**–**	**–**	**–**
Fixed Wing Training Limited	**4.2**	**–**	**–**	**–**
Advanced Jet Training Limited	**2.7**	**–**	**0.2**	**–**
Rear Crew Training Limited	**1.3**	**–**	**–**	**–**
AirTanker Services Limited	**11.1**	**–**	**0.1**	**–**
Alert Communications Limited	**3.5**	**–**	**–**	**–**
Naval Ship Management (Australia) Pty Limited	**12.2**	**–**	**–**	**–**
Cavendish Dounreay Partnership Limited	**6.7**	**–**	**0.2**	**–**
ABC Electrification Limited	**–**	**–**	**2.5**	**–**
Duqm Naval Dockyard SAOC	**0.2**	**(0.4)**	**–**	**–**
	68.0	**(0.4)**	**4.4**	**(0.4)**

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	–
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	–	–	–
	132.6	–	2.9	(0.7)

All transactions noted above arise in the normal course of business.

(b) Defined benefit pension schemes.
Please refer to note 29 for transactions with the Group defined benefit pension schemes.

(c) Key management compensation is shown in note 9.

(d) Transactions in employee benefits trusts are shown in note 29.

37. Events after the reporting period

In April 2021, the Group announced a new operating model. The related restructuring will result in an exceptional charge of around £40 million being recognised in the 2022 financial year.

In the year ended 31 March 2020, the Lazio Regional Administrative Court confirmed a €51 million fine issued by the Italian Competition Authority to our subsidiary, Babcock Mission Critical Services Italia SpA (BMCS Italia), for certain anti-trust violations. In July 2021, the Council annulled the fine, though allowing the Authority leave to re-calculate it. As a result we have reduced the provision to £20 million, being management's best estimate. Further information is detailed in note 3.

38. 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 2021 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 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 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 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 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]
Orange Point Building, Second Floor, Dun Karm Street, Birkirkara By-Pass, Birkirkara BKR 9037, 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 Integrated Technology (Korea) Limited

Babcock Integrated Technology GmbH
Am Zoppenberg 23, 42366 Schwalmtal, 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
21 Rue Leblanc 75015, Paris, France

Babcock International France Terre SAS
21 Rue Leblanc 75015, Paris, France

Babcock International Holdings BV
Bezuidenhoutseweg 1, 2594 AB The Hague, The Netherlands

Babcock International Holdings Limited[2]
Orange Point Building, Second Floor, Dun Karm Street, Birkirkara By-Pass, Birkirkara BKR 9037, Malta

Babcock International Italy S.p.A.
Piazza Castello no.26 – 20121 Milan, Italy

Babcock International Limited[5]

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

38. 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 Defence 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]
Orange Point Building, Second Floor, Dun Karm Street, Birkirkara By-Pass, Birkirkara BKR 9037, Malta

Babcock Malta Finance Limited[3]
Orange Point Building, Second Floor, Dun Karm Street, Birkirkara By-Pass, Birkirkara BKR 9037, Malta

Babcock Malta Holdings (Number Two) Limited[3]
Orange Point Building, Second Floor, Dun Karm Street, Birkirkara By-Pass, Birkirkara BKR 9037, Malta

Babcock Malta Holdings Limited[3]
Orange Point Building, Second Floor, Dun Karm Street, Birkirkara By-Pass, Birkirkara BKR 9037, 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 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.
Corso Vercelli, 40, 20145, Milano, Italy

Babcock Technical Services Limited*

Babcock Training Limited

Babcock UK Finance

38. 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]

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 Topco Limited[5]

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

Chepstow Insurance Limited
PO Box 155, Mill Court, La Charroterie, St Peter Port, GY1 4ET, Guernsey

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

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 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

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

Touchstone Learning & Skills Ltd*

Vosper Thornycroft (UK) Limited

Westminster Education Consultants Limited*

38. Group entities (continued)

Subsidiaries, partly owned:

Airwork Technical Services & Partners LLC (51.0%)
PO Box 248 (Muaskar Al Murtafa'a (MAM) Garrison), Muscat, 100, Sultanate of Oman

Babcock Africa (Pty) Limited (90.0%)[7]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Holdings (Pty) Ltd (90.0%)[14]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Services (Pty) Ltd (90.0%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Aviation Services Holdings International Limited (49.82%)[14]
52 St Christopher Street, Valletta, VLT 1462, Malta

Babcock Denmark A/S (49.82%)[14]
Esberg Business Park, John Tranums, Vej 23, 6705, Esbjerg, Denmark

Babcock Dyncorp Limited (56.0%)[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%)
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Financial Services (Pty) Ltd (90.0%)
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 (90.0%)
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%)
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, 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 (90.0%)
Av. Samora Machel 3380/1, Mozambique

Babcock Namibia Services Pty Ltd (90.0%)
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 (90.0%)
4th Floor, Consulting House, Broadway, Ndola, Zambia

Cognac Formation Aero (90.0%)
Base Aérienne 709 Cognac 16100 Châteaubernard, France

INAER Helicopter Peru S.A.C. (In liquidation) (70.0%)
Av. De La Floresta No 497 Int., Lima, Peru

National Training Institute LLC (70.0%)
PO Box 267, MadinatQaboos, Sultanate of Oman, 115 Oman

38. Group entities (continued)

Joint ventures and associates (equity accounted):

ABC Electrification Ltd (33.3%)[12]
8th Floor, The Place, High Holborn, London, WC1V 7AA

AirTanker Holdings Limited (15.4%)
Airtanker Hub RAF Brize Norton, Carterton, Oxfordshire, England, OX18 3LX, United Kingdom

AirTanker Services Limited (23.5%)[15]
Airtanker Hub RAF Brize Norton, Carterton, Oxfordshire, England, OX18 3LX, United Kingdom

ALC (Superholdco) Limited (50.0%)[16]
3rd Floor, Chancery Exchange, 10 Furnival Street, London, England, EC4A 1AB, United Kingdom

Alert Communications Group Holdings Limited (20.0%)

Ascent Flight Training (Holdings) Limited (50.0%)

Cavendish Boccard Nuclear Limited (51.0%)

Cavendish Dounreay Partnership Limited (50.0%)[12]

Cavendish Fluor Partnership Limited (65.0%)

Debut Services (South West) Limited (50.0%)
20 Triton Street, Regent's Place, London, NW1 3BF, United Kingdom

Duqm Naval Dockyard SAOC (49.0%)
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 (50.0%)[2]
Kintail House, 3 Lister Way, Hamilton International Park, Blantyre, G72 0FT, Scotland

Naval Ship Management (Australia) Pty Ltd (50.0%)
Level 10, 40 Miller Street, North Sydney NSW 2060, Australia

Okeanus Vermogensverwaltungs GmbH & Co. KG (50.0%)
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:

Babcock Careers Guidance Limited[6]; Babcock Careers Management Limited[3]; Babcock Environmental Services Limited; Babcock Lifeskills Limited; Capital Careers Limited (88.3%); Cura Classis UK (Hold Co) Limited (48.0%); F N Consultancy Limited; FNC Group Limited; FNCG 2019 Limited; Surrey Careers Services Limited (94.1%)[5]; UKAEA Limited.

Wholly owned subsidiaries with registered office at 55 Baker Street, London, W1U 7EU, United Kingdom, currently in Members Voluntary Liquidation:

2019 S&H Limited; Babcock Civil Infrastructure Limited; Babcock Infrastructure Holdings LLP; BIL Solutions Limited; Bond Aviation Leasing Limited; INS Innovation Limited; Scimco Limited.

Wholly owned subsidiaries with pending applications for voluntary strike off under s1003 of the Companies Act 2006:

Babcock Power Maintenance Limited; First Projects Limited; Transfleet Distribution 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.
16. Year end 30 June.

Company statement of financial position

As at 31 March	Note	2021 £m	2020 £m
Fixed assets			
Investment in subsidiaries	5	**2,466.5**	2,466.5
Current assets			
Trade and other receivables	6	**3,764.7**	3,944.1
Cash and cash equivalents		**115.0**	865.0
Creditors: Amounts falling due within one year:			
Trade and other payables	7	**(2,270.6)**	(2,482.7)
Net current assets		**1,609.1**	2,326.4
Total assets less current liabilities		**4,075.6**	4,792.9
Creditors: Amounts falling due after more than one year:			
Trade and other payables	7	**(1,322.4)**	(2,054.0)
Net assets		**2,753.2**	2,738.9
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		**777.4**	763.1
Total shareholders' funds		**2,753.2**	2,738.9

The accompanying notes are an integral part of this Company statement of financial position. Company number 02342138.

The Company has taken advantage of the exemption granted by Section 408 of the Companies Act 2006 whereby no individual income statement of the Company is disclosed. The Company's profit for the financial year was £30.5 million (2020: £143.9 million).

The financial statements on pages 269 to 270 were approved by the Board of Directors on 30 July 2021 and are signed on its behalf by:

David Lockwood OBE
Director

David Mellors
Director

Company statement of changes in equity

	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Total equity £m
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
Total comprehensive income	–	–	–	–	145.7	145.7
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
Profit for the year	**–**	**–**	**–**	**–**	**30.5**	**30.5**
Other comprehensive income	**–**	**–**	**–**	**–**	**(19.5)**	**(19.5)**
Total comprehensive income	**–**	**–**	**–**	**–**	**11.0**	**11.0**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**
Share-based payments	**–**	**–**	**–**	**–**	**3.2**	**3.2**
Tax on share-based payments	**–**	**–**	**–**	**–**	**2.3**	**2.3**
Own shares	**–**	**–**	**–**	**–**	**(2.2)**	**(2.2)**
Net movement in equity	**–**	**–**	**–**	**–**	**14.3**	**14.3**
At 31 March 2021	**303.4**	**873.0**	**768.8**	**30.6**	**777.4**	**2,753.2**

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.

Notes to the Company financial statements

1. General information

Babcock International PLC is incorporated and domiciled in England, 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 the Companies Act 2006 as applicable to companies using 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 year).
- 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 2020:

- IAS 1, 'Presentation of Financial Statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors'. Amendment effective from 1 January 2020. The amendment related to the definition of material.
- IFRS 3, 'Business Combinations', amendment effective 1 January 2020. The amendment related to the definition of a business.

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)

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 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.

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 year 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 28 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 28 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 29 to the Group financial statements for further details.

Financial instruments

(a) Financial assets and liabilities at amortised cost
Amounts due from subsidiary undertakings and preference shares in subsidiary undertakings are classified as financial assets held at amortised cost. Amounts due to subsidiary undertakings and bank loans and overdrafts are classified as financial liabilities held at amortised cost. These balances are initially recognised at fair value and then held at amortised cost using the effective interest rate method.

The Company assesses on a forward-looking basis the expected credit losses associated with financial assets held at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(b) Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Company designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair value is recognised in profit or loss immediately.

2. Significant accounting policies (continued)

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 year 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. The key assumptions about the future, and other key sources of estimation uncertainty at the reporting year end that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Impairment of investment in subsidiaries

The carrying value of investment in subsidiaries is tested annually for impairment, in accordance with IAS 36. The impairment assessment is based on assumptions in relation to the cashflows expected to be generated by the subsidiaries, together with appropriate discounting of the cashflows. Note 5 provides information on key assumptions and sensitivity analyses performed.

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 £0.7 million (2020: £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 £2.9 million (2020: £4.3 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 £0.1 million (2020: £0.4 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 £0.1 million (2020: £0.4 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

	2021 £m	2020 £m
Investment in subsidiary undertaking	**2,466.5**	2,466.5
Preference shares in subsidiary undertaking (note 6)	**918.0**	981.9
Total investment in subsidiary undertaking	**3,384.5**	3,448.4

At 31 March 2021, the investment in subsidiary undertakings was tested for impairment in accordance with IAS 36. Management identified that the Group's market capitalisation of £1,155.7 million at 31 March 2021 was less than the carrying value of the Company's investment in subsidiary undertakings of £3,384.5 million at 31 March 2021 and that this represented an impairment indicator.

This impairment test did not result in an impairment of the total investment in subsidiary undertakings.

Impairment methodology

Cash-generating units

The CGU for the purpose of this analysis is the Group as a whole, as the Company has an investment in a single holding company through which it indirectly owns the rest of the Group. The recoverable amount of the CGU is the higher of its value-in-use and its fair value less costs of disposal.

Calculation of recoverable amount

The recoverable amount of the Company's investment in subsidiary undertakings was assessed by reference to value-in-use calculations. Note 13 of the Group financial statements sets out further details in relation to how the value in use calculations are determined.

5. Investment in subsidiary undertakings (continued)

Key assumptions

The key assumptions to which the recoverable amount of the Company's investment in subsidiary undertakings is most sensitive are future cash flows, long-term growth rates and discount rates. Further details on how these inputs are determined are set out in note 13 of the Group financial statements. The value in use calculations do not include the anticipated benefits of the Group's revised operating model or the implementation costs of this project reflecting that the Group was not committed to the project at 31 March 2021.

The discount rates and long-term growth rates used to determine the recoverable amount of the Company's investment in subsidiary undertakings is set out below.

	2021				2020			
	Aviation	**Land**	**Marine**	**Nuclear**	Aviation	Land	Marine	Nuclear
Pre-tax discount rate	**12.0**	**11.0**	**11.0**	**11.0**	10.9	10.0	10.0	10.0
Post-tax discount rate	**9.0**	**8.25**	**8.25**	**8.25**	8.9	8.2	8.2	8.2
Long-term growth rate	**2.0**	**2.0**	**2.0**	**2.0**	2.0	2.0	2.0	2.0

The Aviation operating segment discount rate includes a premium of 1% in relation to risks specific to this operating segment. The discount rates were not adjusted for the gearing impact of IFRS 16, reflecting that the impairment test is considering the recoverability of the Company's investment in subsidiary undertakings, which is carried at cost less impairment.

Sensitivity

The recoverable amount, headroom and carrying value of the Company's investment in subsidiary undertakings are set out in the table below:

£m	**2021 £m**
Carrying value	**3,384.5**
Headroom	**50.6**
Recoverable amount	**3,435.1**

The Directors carried out sensitivity analyses on the reasonably possible changes in key assumptions used to determine the recoverable value of the Company's investment in subsidiary undertakings.

The Company's calculation of recoverable value presents a headroom of £50.6 million. Accordingly, reasonably possible changes in estimates could give rise to a material impairment in the following year. The Company carried out sensitivity analyses on the reasonably possible changes in the discount rate and long-term growth rate used in the value-in-use models for each of the operating segments and the results are set out in the table below:

	2021 £m
Pre-tax discount rate	
Increase of 100bps	**300.5**
Long-term growth rate	
Decrease of 50bps	**115.8**

The Directors consider that key cash flow assumptions in the calculation of the recoverable value of the Company's investment in subsidiary undertakings include the retention of a key contract in the Marine operating segment which is due for renewal in two years. Failure to retain this contract would reduce the recoverable value of the investment in subsidiary undertaking by £66 million. Additionally, a reduction of £5 million in annual operating profits in the Aviation operating segment, as a result of failure to deliver forecast cost savings from FY23, is considered plausible and would result in a reduction of £51 million in the recoverable value of the Company's investment in subsidiary undertakings. A further key assumption relates to the retention of existing business in the Land operating segment. A reduction in annual operating profit of £5 million in relation to this is considered to be plausible from FY25, and would result in a reduction in the recoverable value of the Company's investment in subsidiary undertakings of £43 million.

6. Trade and other receivables

	2021 £m	2020 £m
Amounts due after one year		
Amounts due from subsidiary undertakings	**351.4**	351.9
Other debtors	**–**	0.1
	351.4	352.0
Amounts due within one year		
Amounts due from subsidiary undertakings	**2,472.7**	2,489.7
Preference shares in a subsidiary undertaking	**918.0**	981.9
Other financial assets – currency and interest rate swaps	**–**	104.7
Income tax recoverable	**6.2**	2.8
Deferred tax	**16.4**	13.0
	3,413.3	3,592.1
Total trade and other receivables	**3,764.7**	3,944.1

There are no material provisions held against trade and other receivables under the expected credit loss model. Amounts due from subsidiary undertakings that do not carry interest are repayable on demand.

Based on the investment in subsidiary undertakings impairment analysis above, the Company does not consider that there was an increased credit risk in relation to amounts due from subsidiaries. The Group concluded that the credit risk for intercompany balances is low as the borrower has a strong capacity to meet the contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Of the preference shares in a subsidiary undertaking, the B preference shares of USD500 million mature by mutual agreement of both parties 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 + 4.0%, and with a maturity date of 29 July 2021.

Interest rates on amounts owed by subsidiary operations:

	Non-current		Current	
	2021 £m	2020 £m	2021 £m	2020 £m
EURIBOR + 4.0%	**78.4**	81.9	**88.1**	58.3
EURIBOR + 2.0%	**12.1**	12.4	**–**	–
GBP LIBOR + 4.0%	**84.0**	73.5	**51.4**	51.4
GBP LIBOR + 5.0%	**140.0**	140.0	**–**	–
USD LIBOR + 4.0%	**5.8**	18.0	**1.5**	1.7
STIBOR + 4%	**1.8**	–	**7.2**	14.0
BBSW + 4.0%	**12.8**	11.5	**3.3**	2.9
NIBOR + 4.0%	**14.6**	12.8	**15.0**	8.1
4.5%	**–**	–	**100.8**	100.8
5.4%	**1.9**	1.8	**–**	–
Interest-free	**–**	–	**2,205.4**	2,252.5
	351.4	351.9	**2,472.7**	2,489.7

7. Trade and other payables

	2021 £m	2020 £m
Amounts due within one year		
Bank loans and overdrafts	**198.3**	547.7
Amounts due to subsidiary undertakings	**2,059.3**	1,821.9
Other financial liabilities – currency and interest rate swaps	**4.8**	104.7
Accruals and deferred income	**8.2**	8.4
	2,270.6	2,482.7
Amounts due after one year		
Bank loans and other borrowings	**1,283.1**	2,030.6
Other financial liabilities – currency and interest rate swaps	**39.3**	23.1
Other creditors	**–**	0.3
	1,322.4	2,054.0

The Company has £2,011.3 million (2020: £2,554.6 million) of committed borrowing facilities, of which £1,293.1 million (2020: £2,443.1 million) was drawn at the year end.

The effective interest rate applying to bank loans and other borrowings were as follows:

	2021 %	2020 %
UK bank overdraft	**1.1**	1.1
UK bank borrowings	**0.5**	0.5
US private placement – fixed	**–**	6.0
US private placement – floating	**–**	2.8
8 year Eurobond October 2022	**1.8**	1.8
8 year Eurobond September 2027 – fixed	**2.9**	2.9
8 year Eurobond September 2027 – floating	**2.8**	2.8
£300 million bond	**1.9**	1.9

The amounts due to subsidiary undertakings are repayable on demand and £2,059.3 million (2020: £1,821.9 million) is interest-free.

8. Other financial assets and liabilities

The notional principal amount of outstanding interest rate swap contracts at 31 March 2021 included interest rate swaps in relation to €550 million (2020: €550 million) Euro to Sterling 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 174 to 268.

9. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2020 and 31 March 2021	**505,596,597**	**303.4**
Allotted, issued and fully paid		
At 1 April 2019 and 31 March 2020	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 2021 (2020: 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 2021 these amounted to £329.7 million (2020: £340.7 million), of which the Company had counter-indemnified £307.1 million (2020: £302.6 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 38 of the Group financial statements for further details.

12. Events after the reporting period

In July 2021, the Company and the counterparty agreed to extend the maturity date of the B preference shares by 12 months. The amounts and terms and conditions attached to the B preference shares are unchanged.

Shareholder information

Financial calendar

Financial year end	31 March 2021
2020/21 full-year results announced	30 July 2021
Annual General Meeting	22 September 2021

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Company number 02342138

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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 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

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

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