Group income statement

For the year ended 31 March 2020	Note	2020 £m	2020 Total £m	2019 £m	2019 Total £m
Revenue[1]	3		**4,449.5**		4,474.8
Cost of revenue			**(3,940.5)**		(3,928.3)
Gross profit			**509.0**		546.5
Distribution expenses			**(9.3)**		(11.9)
Administration expenses			**(344.3)**		(352.9)
Goodwill impairment			**(395.0)**		–
Profit on disposal of subsidiaries			**74.7**		14.8
Operating (loss)/profit before share of results of joint ventures and associates	3, 4		**(164.9)**		196.5
Share of results of joint ventures and associates	3, 15		**58.6**		83.8
Group and joint ventures and associates					
Operating profit before amortisation of acquired intangibles and exceptional items		**497.2**		559.3	
Investment income		**27.0**		29.1	
Underlying operating profit[2]	3	**524.2**		588.4	
Amortisation of acquired intangibles	5	**(87.3)**		(101.0)	
Exceptional items – Group	5	**(500.8)**		(160.8)	
Exceptional items – joint ventures and associates		**(2.1)**		–	
Investment income – Group		**(1.1)**		(1.3)	
Joint ventures and associates finance costs		**(22.8)**		(24.1)	
Joint ventures and associates income tax expense		**(16.4)**		(20.9)	
Operating (loss)/profit			**(106.3)**		280.3
Finance costs					
Investment income	3	**1.1**		1.3	
Retirement benefit interest	26	**(0.1)**		0.3	
Finance costs	6	**(85.9)**		(62.7)	
Finance income	6	**13.0**		16.0	
			(71.9)		(45.1)
(Loss)/profit before tax	3		**(178.2)**		235.2
Income tax expense	8		**(15.0)**		(35.4)
(Loss)/profit for the year			**(193.2)**		199.8
Attributable to:					
Owners of the parent			**(195.2)**		199.4
Non-controlling interest			**2.0**		0.4
			(193.2)		199.8
Earnings per share	10				
Basic			**(38.6)p**		39.5p
Diluted			**(38.6)p**		39.4p

1. Revenue does not include the Group's share of revenue from joint ventures and associates of £422.2 million (2019: £685.8 million).
2. Including IFRIC 12 investment income but before exceptional items and amortisation of acquired intangibles.

Group statement of comprehensive income

For the year ended 31 March 2020	Note	2020 £m	2019 £m
(Loss)/profit for the year		**(193.2)**	199.8
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		**(26.3)**	(31.0)
Fair value adjustment of interest rate and foreign exchange hedges		**(12.0)**	(0.5)
Tax on fair value adjustment of interest rate and foreign exchange hedges		**2.5**	0.4
Hedging gains reclassified to profit or loss		**–**	(1.3)
Fair value adjustment of joint ventures and associates derivatives	15	**(14.4)**	1.8
Tax, including rate change impact, on fair value adjustment of joint ventures and associates derivatives	15	**2.3**	(0.3)
Items that will not be reclassified to income statement			
Remeasurement of retirement benefit obligations	26	**99.9**	(58.4)
Tax on remeasurement of retirement benefit obligations		**(20.2)**	10.4
Impact of change in UK tax rates		**0.9**	(0.4)
Other comprehensive income/(loss), net of tax		**32.7**	(79.3)
Total comprehensive (loss)/income		**(160.5)**	120.5
Total comprehensive (loss)/income attributable to:			
Owners of the parent		**(160.4)**	122.3
Non-controlling interest		**(0.1)**	(1.8)
Total comprehensive (loss)/income		**(160.5)**	120.5

Group statement of changes in equity

For the year ended 31 March 2020	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Owners of the parent £m	Non-controlling interest £m	Total equity £m
At 31 March 2018	303.4	873.0	768.8	30.6	994.9	(74.5)	(3.3)	2,892.9	18.1	2,911.0
Total comprehensive income	–	–	–	–	151.0	0.1	(28.8)	122.3	(1.8)	120.5
Dividends	–	–	–	–	(150.5)	–	–	(150.5)	(2.8)	(153.3)
Share-based payments	–	–	–	–	2.4	–	–	2.4	–	2.4
Tax on share-based payments	–	–	–	–	2.4	–	–	2.4	–	2.4
Transactions with non-controlling interests (note 30)	–	–	–	–	(2.0)	–	–	(2.0)	3.9	1.9
Net movement in equity	–	–	–	–	3.3	0.1	(28.8)	(25.4)	(0.7)	(26.1)
At 31 March 2019	**303.4**	**873.0**	**768.8**	**30.6**	**998.2**	**(74.4)**	**(32.1)**	**2,867.5**	**17.4**	**2,884.9**
Transition to IFRS 16	**–**	**–**	**–**	**–**	**(22.4)**	**–**	**–**	**(22.4)**	**–**	**(22.4)**
At 1 April 2019	**303.4**	**873.0**	**768.8**	**30.6**	**975.8**	**(74.4)**	**(32.1)**	**2,845.1**	**17.4**	**2,862.5**
Total comprehensive income	**–**	**–**	**–**	**–**	**(114.6)**	**(21.6)**	**(24.2)**	**(160.4)**	**(0.1)**	**(160.5)**
Dividends	**–**	**–**	**–**	**–**	**(152.1)**	**–**	**–**	**(152.1)**	**(1.8)**	**(153.9)**
Share-based payments	**–**	**–**	**–**	**–**	**2.9**	**–**	**–**	**2.9**	**–**	**2.9**
Tax on share-based payments	**–**	**–**	**–**	**–**	**1.9**	**–**	**–**	**1.9**	**–**	**1.9**
Own shares	**–**	**–**	**–**	**–**	**(2.9)**	**–**	**–**	**(2.9)**	**–**	**(2.9)**
Transactions with non-controlling interests (note 30)	**–**	**–**	**–**	**–**	**(0.2)**	**–**	**–**	**(0.2)**	**0.2**	**–**
Net movement in equity	**–**	**–**	**–**	**–**	**(265.0)**	**(21.6)**	**(24.2)**	**(310.8)**	**(1.7)**	**(312.5)**
At 31 March 2020	**303.4**	**873.0**	**768.8**	**30.6**	**710.8**	**(96.0)**	**(56.3)**	**2,534.3**	**15.7**	**2,550.0**

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

Group statement of financial position

As at 31 March 2020	Note	2020 £m	2019 £m
Assets			
Non-current assets			
Goodwill	11	**2,171.3**	2,584.2
Other intangible assets	12	**379.5**	448.9
Property, plant and equipment	13	**951.1**	1,014.3
Right of use assets	14	**638.8**	–
Investment in joint ventures and associates	15	**148.0**	153.2
Loan to joint ventures and associates	15	**48.6**	42.5
Retirement benefits surpluses	26	**325.3**	226.9
IFRIC 12 financial assets		**12.8**	15.5
Other financial assets	22	**21.5**	93.8
Deferred tax asset	16	**190.6**	150.9
		4,887.5	4,730.2
Current assets			
Inventories	17	**193.5**	196.5
Trade and other receivables	18	**930.8**	917.1
Income tax recoverable		**13.6**	11.1
Other financial assets	22	**153.9**	48.0
Cash and cash equivalents	19, 28	**1,351.4**	275.2
		2,643.2	1,447.9
Total assets		**7,530.7**	6,178.1
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	24	**303.4**	303.4
Share premium		**873.0**	873.0
Capital redemption and other reserves		**647.1**	692.9
Retained earnings		**710.8**	998.2
		2,534.3	2,867.5
Non-controlling interest		**15.7**	17.4
Total equity		**2,550.0**	2,884.9
Non-current liabilities			
Bank and other borrowings	21	**2,050.0**	1,357.6
Lease liabilities		**534.8**	–
Trade and other payables	20	**2.1**	2.0
Deferred tax liabilities	16	**115.2**	103.2
Other financial liabilities	22	**35.6**	9.3
Retirement benefit deficits	26	**180.1**	254.9
Provisions for other liabilities	23	**30.4**	40.5
		2,948.2	1,767.5
Current liabilities			
Bank and other borrowings	21	**400.1**	53.9
Lease liabilities		**138.0**	–
Trade and other payables	20	**1,366.3**	1,381.4
Income tax payable		**5.9**	22.1
Other financial liabilities	22	**9.0**	4.9
Provisions for other liabilities	23	**113.2**	63.4
		2,032.5	1,525.7
Total liabilities		**4,980.7**	3,293.2
Total equity and liabilities		**7,530.7**	6,178.1

The notes on pages 161 to 214 are an integral part of the consolidated financial statements. The Group financial statements on pages 158 to 214 were approved by the Board of Directors on 11 June 2020 and are signed on its behalf by:

A Bethel
Director

F Martinelli
Director

Group cash flow statement

For the year ended 31 March 2020	Note	2020 £m	2019 £m
Cash flows from operating activities			
Operating profit before amortisation of acquired intangibles and exceptional items		**417.4**	452.5
Amortisation of acquired intangibles and exceptional items	5	**(582.3)**	(256.0)
Operating (loss)/profit before share of results of joint ventures and associates	3	**(164.9)**	196.5
Depreciation and impairment of property, plant and equipment		**94.2**	123.1
Depreciation and impairment of right of use assets		**143.6**	–
Amortisation of intangible assets		**96.5**	110.0
Goodwill impairment		**395.0**	–
Investment income	3	**1.1**	1.3
Equity share-based payments		**2.9**	2.4
Profit on disposal of subsidiaries, businesses and joint ventures and associates	29	**(74.7)**	(14.8)
Loss/(profit) on disposal of property, plant and equipment		**3.3**	(5.4)
Loss on disposal of intangible assets		**0.2**	0.3
Cash generated from operations before movement in working capital and retirement benefit payments		**497.2**	413.4
Increase in inventories		**(10.9)**	(34.0)
(Increase)/decrease in receivables		**(8.4)**	138.8
Increase in payables		**7.4**	4.1
Increase in provisions		**62.4**	10.7
Retirement benefit contributions in excess of income statement		**(73.5)**	(25.1)
Cash generated from operations		**474.2**	507.9
Income tax paid		**(72.4)**	(74.0)
Interest paid		**(84.9)**	(63.1)
Interest received		**13.5**	15.6
Net cash flows from operating activities		**330.4**	386.4
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	29	**101.6**	29.5
Dividends received from joint ventures and associates	15	**52.0**	44.6
Proceeds on disposal of property, plant and equipment		**30.1**	78.5
Purchases of property, plant and equipment		**(145.5)**	(194.3)
Purchases of intangible assets		**(29.1)**	(32.7)
Investment in, loan movements and interest received from joint ventures and associates	15	**(6.4)**	(14.6)
Net cash flows from investing activities		**2.7**	(89.0)
Cash flows from financing activities			
Dividends paid	9	**(152.1)**	(150.5)
Lease principal payments	28	**(175.0)**	(26.4)
Lease assets issued and repaid	28	**19.9**	(19.4)
Bank loans repaid	28	**(140.0)**	(103.4)
Loans raised and facilities drawn down	28	**1,202.4**	–
Dividends paid to non-controlling interest		**(1.8)**	(2.8)
Transactions with non-controlling interest	30	**–**	(0.5)
Movement on own shares		**(2.9)**	–
Net cash flows from financing activities		**750.5**	(303.0)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**1,083.6**	(5.6)
Cash, cash equivalents and bank overdrafts at beginning of year		**275.2**	286.3
Effects of exchange rate fluctuations		**(10.1)**	(5.5)
Cash, cash equivalents and bank overdrafts at end of year	28	**1,348.7**	275.2

1. Basis of preparation and significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis, as set out in the Directors' report on page 142, and in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments. Babcock International Group PLC is listed on the London Stock Exchange and is incorporated and domiciled in the UK.

Significant accounting policies

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

New and amended standards adopted by the Group

The Group applied the following standards and amendments for the first time for the period beginning on 1 April 2019:

- IFRS 16, 'Leases', effective from 1 January 2019 and endorsed by the EU. Operating leases have now been recognised on the statement of financial position; the impact of this standard has been to recognise a lease liability and right of use asset on the Group's statement of financial position in relation to almost all leases formerly classified as operating leases. The change has resulted in an improvement in operating profit, with the depreciation of the right of use asset being less than the operating lease charge under IAS 17. This has however been offset by an increase in interest charge with an immaterial net impact on profit before tax resulting from the Group's maturity of leases on adoption. Please refer to Note 31 and below for further details.

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

The following standards and amendments to IFRSs became effective for the period beginning on 1 April 2019 and did not have a material impact on the consolidated financial statements:

- IAS 19, 'Employee Benefits', amended effective from 1 January 2019. The amendment related to treatment of plan amendments, curtailments and settlements.
- IFRIC 23, 'Uncertainty over Income Tax Treatments', effective from 1 January 2019.
- IFRS 9, 'Financial Instruments', amended effective from 1 January 2019.
- Annual improvement 2015-2017 Cycle, effective from 1 January 2019. Including clarifications on IFRS 3, IFRS 11, IAS 12 and IAS 23.

The following standards and amendments to IFRSs become effective for the period beginning on 1 April 2020 or later, but have been early adopted by the Group for the period beginning on 1 April 2019:

- IFRS 9 and IFRS 7, 'Financial Instruments' and 'Financial Instruments: Disclosures', amended effective from 1 January 2020. Amendments to IFRS 7 and IFRS 9 have been issued which modify specific hedge accounting requirements and allow it to be assumed that the interest rate benchmark is not altered as a result of the uncertainties of LIBOR reform when performing hedge effectiveness testing. These amendments are effective from 1 January 2020 with early adoption allowed. The Group has elected to early adopt for the year ending 31 March 2020. There is no impact on the Group's fair value hedge accounting as a result of adopting the amendments.

(a) IFRS 16, 'Leases'

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

Under the new standard, the Group has now recognised almost all leases, where the Group is a lessee, on the statement of financial position as the distinction between finance leases and operating leases has been removed. Both short-term leases and low-value leases are exempt from IFRS 16, and instead their lease payments continue to be recognised as expenses on a straight-line basis. The approach for lessors has remained largely unchanged.

Transition

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

1. Basis of preparation and significant accounting policies (continued)

The following practical expedients have been adopted on transition:

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

Subsequent measurement

Right-of-use assets are held at cost less accumulated depreciation and impairment. Any impairments are determined in line with IAS 36, 'Impairment of Assets'. Depreciation is charged on a straight-line basis over the full length of the lease.

Lease liabilities decrease over time by the net of lease payments made and the interest accrued. Interest is charged to the income statement as the effect of discounting the future lease payments is unwound.

Basis of consolidation

The consolidated financial statements comprise the Company financial statements and its subsidiary undertakings together with its share of joint ventures and associates results. Intra-Group transactions, balances, income and expenses are eliminated on consolidation.

(a) Subsidiaries

A subsidiary is an entity controlled by the Group. An entity is controlled by the Group regardless of the level of the Group's equity interest in the entity, when the Group is exposed or has rights to variable returns from its involvement with the entity and has the ability to impact those returns through its power over the entity.

In determining whether control exists, the Group considers all relevant facts and circumstances to assess its control over an entity such as contractual commitments and potential voting rights held by the Group if they are substantive.

Subsidiaries are fully consolidated from the date control has been transferred to the Group and de-consolidated from the date control ceases. Where control ceases the results for the year up to the date of relinquishing control or closure are analysed as continuing or discontinued operations.

(b) Joint ventures and associates

Associates are those entities over which the Group exercises its significant influence when it has the power to participate in the financial and operating policy decisions of the entity but it does not have the power to control or jointly control the entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

The Group's interests in joint ventures and associates are accounted for by the equity method of accounting and are initially recorded at cost. The Group's investment in joint ventures and associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its joint ventures and associates post-acquisition profits or losses after tax is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains and losses on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in the joint venture and associate. The Group's share of joint venture revenue is disclosed after elimination of sales to that joint venture. Loans to joint ventures are valued at amortised cost.

Critical accounting estimates and judgements

In the course of preparation of the financial statements judgements and estimates have been made in applying the Group's accounting policies that have had a material effect on the amounts recognised in the financial statements. The application of the Group's accounting policies requires the use of estimates and the inherent uncertainty in certain forward-looking estimates may result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates in relation to these financial statements are considered below:

1. Basis of preparation and significant accounting policies (continued)

Critical accounting estimates and judgements (continued)

Revenue and profit recognition

Revenue and profit recognition on contracts is based on estimates of outturn revenues and costs on a contract-by-contract basis. Both of these estimates can involve significant levels of estimation uncertainty. Estimating contract revenues can involve judgements around whether the Group will meet performance targets, earn incentives and around the pricing of any scope changes, variations or claims under the contract. When considering variations to contracts, the Group must make a judgement as to whether the variation should be accounted for as a separate, distinct contract or be considered, and accounted for, as part of the original contract. This judgement will depend on the scope of the variation, its pricing and the contractual terms. Contract outturn assessments are carried out by suitably qualified and experienced Group personnel and include assessments of variable consideration and contract contingencies arising out of technical, commercial, operational and other risks. When considering variations, claims and contingencies, the Group analyses various factors including the contractual terms, status of negotiations with the customer and historical experience with that customer and with similar contracts. The assessments of all significant contracts are subject to review and challenge. As contracts near completion, often less judgement is needed to determine the expected outturn. The level of estimation uncertainty in the financial statements as a whole is therefore mitigated by the size of the Group's portfolio of contracts, which are of various types and at various stages of completion. Nevertheless, the levels of estimation can be significant and material changes in estimates made could affect the profitability of individual contracts. Further information is set out in the Revenue accounting policy below.

Defined benefit pension schemes defined benefit obligations

The Group's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit obligations. In addition to the inflation and discount rate estimates, a key judgement relates to the availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 26.

Deferred tax

The Group has carried forward losses for tax purposes in a number of jurisdictions and has recognised deferred tax assets to the extent that it is considered that the losses will be utilised. That assessment is reached by prudently estimating the future taxable profits in the jurisdictions in question (or the particular company in question, where the utilisation of losses is entity-restricted) and assessing these against the jurisdiction-specific rules around the carry forward and utilisation of tax losses. In circumstances where the Group considers that either of those tests (future profitability or future availability of carried forward losses) might not be passed, no deferred tax asset is recognised to that extent. Further information on the level of tax losses recognised and unrecognised is given in note 16.

The carrying value of goodwill

Goodwill is tested annually for impairment, in accordance with IAS 36, and the impairment assessment is based on assumptions in relation to the cashflows expected to be generated by cash generating units, together with appropriate discounting of the cashflows. This year the Group impaired the goodwill within the Aviation operating segment and, accordingly, reasonably possible changes exist which would give rise to a further impairment. The carrying value of goodwill is included as a critical accounting estimate given this impairment and also as a result of the significance of the remaining goodwill held and the inherent judgemental nature of impairment testing. Note 11 provides information on key assumptions and sensitivity analyses performed.

Revenue

Revenue recognised represents income derived from contracts with customers for the provision of goods and services in the ordinary course of the Group's activities. The Group recognises revenue in line with IFRS 15, Revenue from Contracts with Customers. IFRS 15 requires the identification of performance obligations in contracts, allocation of the contract price to the performance obligations and recognition of revenue as performance obligations are satisfied.

(a) Performance obligations

Contracts are assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations if the customer can benefit from them either on their own or together with other resources readily available to the customer and they are separately identifiable in the contract. The integrated output nature of many of the services provided by the Group can result in contracts with one performance obligation.

1. Basis of preparation and significant accounting policies (continued)

Revenue (continued)

(b) Allocation of contract price to performance obligations

The contract price represents the amount of consideration which the Group expects to receive in exchange for delivering the promised goods or services to the customer. Variable consideration is included in the contract price on the most likely outcome basis but only to the extent that it is highly probable that it will not reverse in the future. Given the bespoke nature of many of the goods and services the Group provides, stand-alone selling prices are generally not available and, in these circumstances, the Group allocates the contract price to performance obligations based on cost plus margin. The Group's contracts typically do not include significant financing components.

(c) Revenue and profit recognition

Performance obligations are satisfied, and revenue recognised, as control of goods and services is transferred to the customer. Control can be transferred at a point in time or over time and the Group determines, for each performance obligation, whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if any of the following criteria are satisfied:

- the customer simultaneously receives and consumes the benefits of the Group's performance as it performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for work done; or
- the Group's performance creates or enhances an asset controlled by the customer.

Most of the Group's contracts meet the requirements to satisfy performance obligations and recognise revenue over time either because the customer simultaneously receives and consumes the benefits of the Group's performance as it performs or the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for work done.

Where the Group satisfies performance obligations over time, revenue is recognised using costs incurred as a proportion of total estimated costs to assess stage of completion, but with the stage of completion and revenue assessed in relation to each performance obligation.

If a performance obligation is not satisfied over time, then revenue is recognised at the point in time that control is transferred to the customer. Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to payment by the Group. As can be seen from note 3, sale of goods represents approximately 15% of Group revenues. These revenues are delivered predominantly by the Land sector and include sales of equipment to commercial customers and procurement of consumables on behalf of the Ministry of Defence (MOD). The procurement of consumables for MOD is within the scope of the principal versus agent consideration at paragraph (f) below.

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outturn assessments are carried out on a contract-by-contract basis, including consideration of technical and other risks, by suitably qualified and experienced personnel and the assessments of all significant contracts are subject to review and challenge. Assessment of outcomes is in relation to separate performance obligations and includes variable consideration, which can include judgements on contract variations and claims, measured using the most likely outcome approach, to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. Judgement on contract variations and claims may consider, amongst other matters, the contract terms and conditions, previous experience with customers and the status of negotiations at the time the judgement is made. Any expected loss on a contract is recognised immediately in the income statement.

The Group operates in a partnering environment with some customers and certain contracts include pain/gain share arrangements under which cost under/over spends against the contract target cost are shared with the customer. These contract sharing arrangements are included in the assessment of contract outturns.

In circumstances where costs incurred plus recognised profits (less recognised losses) exceed progress billings the Group presents as an asset the gross amount due from customers as "amounts due from customers for contract work". Similarly, in circumstances where progress billings exceed costs incurred plus recognised profits (less recognised losses), the Group presents as a liability the gross amount due to customers as "amounts due to customers for contract work".

(d) Costs of obtaining a contract

Pre-contract costs are recognised as expenses as incurred, except that directly attributable costs incurred from the point that it can be reliably expected that a contract will be obtained, typically at preferred bidder stage, are recognised as an asset in capitalised contract costs and amortised to cost of revenue on a systematic basis consistent with the transfer to the customer of the goods and services to which the asset relates, provided that the contract is expected to result in future net cash inflows. These costs are classified as current assets on the basis that the contracts represent the normal trading cycle.

1. Basis of preparation and significant accounting policies (continued)

Revenue (continued)

(e) Contract mobilisation costs

Post-contract award but pre-contract operational start-up mobilisation costs are recognised as an asset in capitalised contract costs and amortised to cost of revenue on a systematic basis consistent with the transfer to the customer of the goods and services to which the asset relates. These mobilisation costs are included within the contract value and relate to ensuring that assets and resources are mobilised as necessary to support delivery of performance obligations in accordance with contract requirements. These costs are classified as current assets on the basis that the contracts represent the normal trading cycle.

(f) Principal versus agent considerations

A number of the Group's contracts include promises in relation to procurement activity undertaken on behalf of customers at low or nil margin, together with other promises. For such procurement activity, management exercises judgement in the consideration of principal versus agent based on an assessment as to whether the Group controls goods or services prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Group has under the contract for the provision of the goods or services, the extent to which the Group is incentivised to fulfil orders on time and within budget, either through gainshare arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Group exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the Group then comes to a judgement as to whether it acts as principal or agent on a performance obligation by performance obligation basis.

Exceptional items

Items that are exceptional in size or nature are presented as exceptional items within the consolidated income statement. The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of businesses, the exit of business lines or markets and material acquisition costs along with the restructuring of businesses and asset impairments.

Transactions with non-controlling interest

The Group's policy is to treat transactions with non-controlling interest as transactions with owners of the parent which are therefore reflected in movements in reserves.

Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Group incurring further costs.

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of contract balances for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly.

A provision for deferred consideration on acquisitions is recognised at the fair value at acquisition. Fair value is based on an assessment of the likelihood of payment.

A provision for employee benefits is recognised when there is a probable outflow of economic benefits that can be reliably estimated.

Goodwill and intangible assets

(a) Goodwill

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets, the difference is treated as purchased goodwill and is capitalised. When the fair value of the consideration for an acquired undertaking is less than the fair value of its separable net assets, the difference is taken directly to the income statement.

Goodwill relating to acquisitions prior to 1 April 2004 is maintained at its net book value on the date of transition to IFRS. From that date goodwill is not amortised but is reviewed at least annually for impairment.

Annual impairment reviews are performed as outlined in note 11.

1. Basis of preparation and significant accounting policies (continued)

Goodwill and intangible assets (continued)

(b) Acquired intangibles

Acquired intangibles are the estimated fair value of customer relationships and brands which are in part contractual, represented by the value of the acquired order book, and in part non-contractual, represented by the risk adjusted value of future orders expected to arise from the relationships.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation periods, reflecting the lengths of the various contracts, are mainly in the range one year to five years, with a minority of contracts and hence amortisation periods, up to fifteen years.

The carrying value of the non-contracted element is amortised over the period in which it is estimated that the relationships are likely to bring economic benefit via future orders. The method of amortisation is tailored to the expectations of the timing of the receipt of specific future orders and therefore the charge to the income statement matches the timing of value likely to be generated in those years.

Relationships are valued on a contract-by-contract and customer-by-customer basis and the pattern of amortisation reflects the expected pattern of benefit in each case. The amortisation profile is determined on a case-by-case basis and in all cases results in a front-loaded profile, reflecting the greater certainty of future orders in the near term compared with the longer term. The amortisation period is in the range one year to fifteen years.

Acquired brand names are valued dependent on the characteristics of the market in which they operate and the likely value a third party would place on them. Useful lives are likewise dependent on market characteristics of the acquired business brand. These are amortised on a straight-line basis up to five years.

(c) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit but not exceeding seven years.

(d) Computer software

Computer software, excluding the Group's Enterprise Resource Planning (ERP) system, includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful life of between three and five years.

The Group is implementing an ERP system in phases over several years. The ERP system is amortised over its useful life of 10 years from the date when the asset is available for use, which occurs once the implementation has been completed for each respective phase.

Property, plant and equipment (PPE)

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each statement of financial position date) at the following annual rates:

Freehold property	2% to 8%
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%
Aircraft airframes	3.33%
Aircraft components	14% to 33.3%

PPE is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

Net debt

Net debt includes lease obligations and consists of the total of loans, bank overdrafts, cash and cash equivalents, joint venture and associate loans and leases granted or received plus any derivatives whose objective is to fair value hedge the underlying debt. This will include swaps of the currency of the debt into the functional currency of the company carrying the debt and fair value hedges. The Group's key performance indicators exclude lease obligations from net debt in order to more closely align with the Group's debt covenants which are prepared on a pre-IFRS 16 basis and the financial review presents net debt and related performance measures including and excluding lease obligations for this purpose.

1. Basis of preparation and significant accounting policies (continued)

Leases

For all leases in which the Group is a lessee (other than those meeting the criteria detailed below), the present value of future lease payments are capitalised to the statement of financial position in accordance with IFRS 16 'Leases', with a corresponding right of use asset recognised. Depreciation of right of use assets is recognised as an expense in the income statement on a straight-line basis over the shorter of the asset's useful life or expected term of the lease.

Interest on the lease liability is recognised as a finance expense in the income statement over time, with the rate being determined at lease inception based on a number of factors including asset type, lease currency and lease term.

Right of use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, with the impairment expense being recognised in the income statement. Where a lease is terminated early, any termination fees or gain or loss relating to the release of right of use asset and lease obligation are recognised as a gain or loss through the income statement.

Payments in respect of short-term leases not exceeding 12 months in duration or low-value leases are expensed straight-line to the income statement as permitted by IFRS 16 'Leases'.

As a lessor, the Group recognises assets held under a lease in the statement of financial position as a financial asset. The lease payment receivable is treated as finance income and a repayment of principal including initial direct costs. Finance income is allocated over the lease term, with the gross receivable being reviewed for impairment on a regular basis.

In previous years, under IAS 17, operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

Inventory

Inventory is valued at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Taxation

(a) Current income tax

Current tax, including UK Corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted, by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Foreign currencies

(a) Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Sterling, which is the Company's functional and presentational currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the year-end exchange rates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the statement of financial position date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as part of the net investment of a foreign operation.

1. Basis of preparation and significant accounting policies (continued)

Foreign currencies (continued)

Exchange differences arising from the translation of the statement of financial positions and income statements of foreign operations into Sterling are recognised as a separate component of equity on consolidation. Results of foreign subsidiary undertakings are translated using the average exchange rate for the month of the applicable results. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at period end exchange rates.

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred unless they are attributable to an asset under construction, in which case finance costs are capitalised.

Employee benefits

(a) Pension obligations

The Group operates a number of pension schemes. The schemes are generally funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit actuarial valuation method. The service cost and associated administration costs of the Group's pension schemes are charged to operating profit. In addition, a retirement benefit interest charge on the net pension deficit is charged to the income statement as a finance cost. Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income so that the Group's statement of financial position reflects the IAS 19 measurement of the schemes' surpluses or deficits at the statement of financial position date.

(b) Share-based compensation

The Group operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

The shares purchased by the Group's ESOP trusts are recognised as a deduction to equity.

(c) Holiday pay

Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned.

Financial instruments

(a) Financial assets and liabilities at amortised cost

Cash and cash equivalents, trade receivables, amounts due from related parties and other debtors are classified as financial assets held at amortised cost. Trade creditors, amounts due to related parties, other creditors, accruals and bank loans and overdrafts are classified as financial liabilities held at amortised cost.

The Company assesses on a forward-looking basis the expected credit losses associated with financial assets held at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(b) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at fair value. The Group designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the asset's carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

1. Basis of preparation and significant accounting policies (continued)

Service concession arrangements

IFRIC 12 'Service concession arrangements' addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. For all arrangements falling within the scope of the Interpretation (essentially those where the infrastructure assets are not controlled by the operator), the infrastructure assets are not recognised as property, plant and equipment of the operator. Rather, depending on the terms of the arrangement, the operator recognises:

- a financial asset – where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement; or
- an intangible asset – where the operator's future cash flows are not specified (e.g. where they will vary according to usage of the infrastructure asset); or
- both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

As a consequence of this treatment the operator recognises investment income in respect of the financial asset on an effective interest basis and amortisation of any intangible asset arising.

Dividends

Dividends are recognised as a liability in the Group's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

Standards, amendments and interpretations to published standards

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2020 or later periods but which the Group has not early adopted.

Standards, amendments and interpretations that are not yet effective and the impact on the Group's operations is not expected to be material:

- IFRS 3, 'Business Combinations', amended effective from 1 January 2020. The amendment related to the definition of a business on a combination.
- IAS 1, 'Presentation of Financial Statements', and IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', amendments effective from1 January 2020 related to the definition of material.
- IFRS 17, 'Insurance Contracts', effective 1 January 2021.

2. Financial risk management

The Group's treasury and capital policies in respect of the management of debt, interest rates, liquidity, and currency are outlined below. The Group's treasury policies are kept under close review given the continuing volatility and uncertainty in the financial markets.

Capital availability

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

Objective on available financial capital

To ensure an appropriate level of capital and available financial capital to maintain liquidity and the operational flexibility and meet financial obligations whilst funding the Group's organic and acquisitive growth. The Group seeks to maintain the necessary headroom to cover the peaks and troughs in its working capital cycle, and sufficient liquidity to see it through any periods of tightened liquidity in the market which is particularly relevant as a result of the COVID-19 crisis.

Policy

The Board aims to maintain a balance between equity and debt capital which optimises the Group's cost of capital whilst allowing access to both equity and debt capital markets at optimum pricing when appropriate. The Group, in considering its capital structure and financial capital, views net debt to EBITDA at between one and one and a half times, as being steady state and sustainable in normal market and economic conditions. This level may be tempered in periods of market volatility and economic and/or political uncertainty as we are currently experiencing during the COVID-19 crisis. This is not to rule out acquisition spikes above one and a half times, as illustrated by previous acquisitions, but only to the extent that the Group can see a clear path to reducing net debt to EBITDA back to circa one and a half times or below within a reasonable time frame.

Performance

The interest and net debt to EBITDA ratios, used by the Group to evaluate capital, are set out below. The net debt to EBITDA ratio aligns with the Group's key performance indicator as set out and defined on page 21 noting that the measure is calculated on a pre-IFRS 16 basis to more closely align with the Group's debt covenants. Net debt to EBITDA is broadly unchanged at 1.7 times in 2020 (2019: 1.6 times). Interest cover is as presented in the financial review on page 56, on a pre-IFRS 16 basis, in order to more closely align with the Group's debt covenants.

	2020	2019
Interest cover – covenant basis	**11.5**	13.0
Net debt to EBITDA – covenant basis	**1.7x**	1.6x

The Group has interest cover and net debt to EBITDA covenants that utilise JV dividends rather than share of JV profits included in the Group's key performance indicators and these ratios are well below covenanted levels. Current debt covenanted ratios reflect the strength of the Group in the current crisis and will leave sufficient headroom for funding of organic growth and for bolt on acquisitions when circumstances allow. The Group considers that capital markets remain accessible, if or when required.

Financial risk management

Financial instruments, in particular forward currency contracts and interest rate swaps, are used to manage the financial risks arising from the business activities of the Group and the financing of those activities.

The Group looks in the first instance to prime-rated counterparties with which to carry out treasury transactions, including investments of cash and cash equivalents.

The Group's customers are mainly from government, government-backed institutions or blue chip corporations and as such credit risk is considered small.

Treasury activities within the Group are managed in accordance with the parameters set out in the treasury policies and guidelines approved by the Board. A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes.

The Group only enters into financial instruments where it has a high level of confidence of the hedged item occurring. Both the treasury department and the business sectors have responsibility for monitoring compliance within the Group to ensure adherence with the principal treasury policies and guidelines.

2. Financial risk management (continued)

Management of capital

The Group's capital structure is derived from equity and net debt and is overseen by the Board through the Group Finance Committee.

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

A range of gearing and liquidity ratios are used to monitor and measure capital structure and performance, including: Net debt to EBITDA (defined as net debt excluding lease obligations divided by underlying earnings before interest, tax, depreciation and amortisation but excluding IFRS 16 depreciation), ROIC (defined as underlying operating profit divided by net debt excluding lease obligations and by shareholder funds excluding retirement benefit deficits or surpluses) and interest cover (defined as underlying earnings before interest, tax, depreciation and amortisation divided by net Group finance costs excluding IFRS 16 interest). Net debt to EBITDA and ROIC align with the Group's key performance indicators as set out and defined on page 21 noting that the measures are calculated on a pre-IFRS 16 basis, to more closely align with the Group's debt covenants. Interest cover is as presented in the financial review on page 63 on a pre-IFRS 16 basis, in order to more closely align with the Group's debt covenants.

Through the monitoring of these metrics it remains the Group's intention to ensure the business is prudently funded and to maintain statement of financial position strength at this time, balancing risk and price on the capital markets and retaining sufficient flexibility to fund future organic and acquisitive growth as described further within its capital allocation policy on page 64.

Foreign exchange risk

The functional and presentational currency of Babcock International Group PLC and its UK subsidiaries is Sterling. The Group has exposure primarily to EUR, USD, ZAR and increasingly AUD, CAD, NOK and SEK. The USD exposure arises firstly through the USD500 million US Private Placements which are swapped into Sterling and secondly, through a number of activities in the Babcock Mission Critical Services business, where it has some revenue and costs denominated in USD. Similarly, the EUR exposure arises firstly through EUR 550 million of Eurobonds which are retained as hedges against our Euro businesses and also through a further EUR 550 million raised in the year, which are swapped into Sterling and secondly, due to the activities of the Babcock Mission Critical Services business in Europe, where both translational and transactional exposure exists. The ZAR exposure arises from the activities of Babcock's subsidiaries in South Africa where both translational and transactional exposure exist. The increasing AUD, CAD, NOK and SEK exposure arises from the activities of Babcock's subsidiaries in those countries where both transactional and translational exposure exists.

Objective	To reduce exposure to volatility in earnings and cash flows from movements in foreign currency exchange rates. The Group is exposed to a number of foreign currencies, the most significant being the Euro, US Dollar and South African Rand.
Policy – Transactional risk	The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions. To mitigate this risk, the Group's policy is to hedge all material transactional exposures, using financial instruments where appropriate. Where possible, the Group seeks to apply IFRS 9 hedge accounting treatment to all derivatives that hedge material foreign currency transaction exposures.
Policy – Translational risk	The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and joint ventures and associates. It is not the Group's policy to hedge through the use of derivatives the translation effect of exchange rate movements on the income statements or statement of financial positions of overseas subsidiaries and joint ventures and associates it regards as long-term investments. However, where the Group has material assets denominated in a foreign currency, it will consider matching the aforementioned assets with foreign currency denominated debt.
Performance	There have been no material unhedged foreign exchange losses in the year.

A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes.

The Group only enters into financial instruments where it has a high level of confidence of the hedged item occurring. Both the treasury department and the business sectors have responsibility for monitoring compliance within the Group to ensure adherence with the principal treasury policies and guidelines.

The largest foreign exchange exposure of Group entities on the net monetary position against their respective functional currencies results from exposure of GBP to Euro, being £7.2 million (2019: Euro to US Dollars £15.2 million).

The pre-tax effect on profit and equity, increase or decrease, if the rates moved up or down by an appropriate percentage volatility, assuming all other variables remained constant, would in total be £0.7 million (2019: £0.5 million). The reasonable shifts in exchange rates are based on historical volatility and range from 10% for Sterling and US Dollars; 15% for Euro; and 25% for Canadian and Australian Dollars and South African Rand.

2. Financial risk management (continued)

Interest rate risk

The fair values of debt, and related hedging instruments are affected by movements in interest rates. The following table illustrates the sensitivity in interest rate-sensitive instruments and associated debt to a hypothetical parallel shift of the forward interest rate curves of ±50bp (2019: ±50bp), with pre-tax effect annualised and an additional shift in variable rates for the floating rate element of the gross debt, offset by short-term money market deposits of surplus cash. All other variables are held constant. The Group believes ±50bp is an appropriate measure of volatility at this time.

	2020		2019	
	£m +50bp	£m –50bp	£m +50bp	£m –50bp
Net results for the year	**(1.1)**	**1.1**	(2.0)	2.0
Equity	**9.8**	**(9.8)**	1.9	(1.9)

Interest rate risk is managed through the maintenance of a mixture of fixed and floating rate debt and interest rate swaps, each being reviewed on a regular basis to ensure the appropriate mix is maintained.

Objective	To manage exposure to interest rate fluctuations on borrowings by varying the proportion of fixed rate debt relative to floating rate debt to reflect the underlying nature of its commitments and obligations. As a result, the Group does not maintain a specific set proportion of fixed versus floating debt, but monitors the mix to ensure that it is compatible with its business requirements and capital structure.
Policy	Interest hedging and the monitoring of the mix between fixed and floating rates are the responsibility of the treasury department, and are subject to the policy and guidelines set by the Board.
Performance	As at 31 March 2020, the Group had 60% fixed rate debt (2019: 74%) and 40% floating rate debt (2019: 26%) based on gross debt including derivatives of £3,020.4 million (2019: £1,336.4 million). The percentages for this year include the fully drawn down revolving credit facility which if excluded would result in 80% fixed rate debt and 20% floating rate debt. For further information see note 22.

Liquidity risk

Liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining cash and/or availability under committed credit lines (see note 21).

Each of the sectors in the Group provides regular cash forecasts for both management and liquidity purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group, and ensure that there is sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The cash performance of the business sectors is a KPI.

The Group adopts a conservative approach to the investment of its surplus cash. It is deposited with strong financial institutions for short periods, with bank counterparty credit risk being monitored closely on a systematic and ongoing basis. A credit limit is allocated to each institution taking account of its market capitalisation and credit rating.

Objective	With debt as a key component of available capital, the Group seeks to ensure that there is an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.
Policy	All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required. It remains the Group's policy to ensure the business is prudently funded and that sufficient headroom is maintained on its facilities to fund its future growth.
Performance	The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective. The Group's main corporate debt facilities include: a £775 million Revolving Credit Facility maturing in August 2024, US$500 million US private placement notes maturing in March 2021, a EUR 550 million Eurobond maturing in October 2022, a £300 million ten year Sterling bond maturing in October 2026 and a EUR 550 million Eurobond maturing in September 2027. These borrowing and debt facilities provide the Group with total available committed banking facilities and loan notes of £2.4 billion and sufficient sources of liquidity and headroom to meet the Group's ongoing commitments. For further information see note 21.

2. Financial risk management (continued)

Liquidity risk (continued)

The table below analyses the Group's liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contract maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of interest is not significant.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
At 31 March 2020				
Bank and other borrowings*	**429.4**	**21.3**	**1,303.7**	**823.6**
Derivative financial instruments	**113.1**	**8.7**	**(6.2)**	**(23.4)**
Trade and other payables**	**1,119.1**	**1.0**	**0.7**	**0.3**
At 31 March 2019				
Bank and other borrowings*	62.9	424.1	632.6	316.3
Derivative financial instruments	(1.2)	74.1	(4.7)	(1.5)
Trade and other payables**	1,142.6	0.5	0.4	0.8

* Includes fixed rate committed interest.

** Does not include amounts due to customers for contract work, deferred income, payroll taxes and social security.

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Held for trading contracts are economic hedges and are not hedge accounted.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
At 31 March 2020				
Forward derivative contracts – hedges:				
• Outflow	**790.7**	**147.3**	**91.9**	**494.9**
• Inflow	**894.8**	**156.2**	**85.9**	**488.9**
At 31 March 2019				
Forward derivative contracts – hedges:				
• Outflow	392.6	418.0	117.9	16.2
• Inflow	391.4	493.3	113.6	15.1

3. Segmental information

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

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

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

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

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

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

On 1 April 2019 a single Nuclear operating segment was established by combining our naval nuclear business, included within the Marine operating segment, with our civil nuclear business within the Nuclear operating segment. The 2019 comparatives have been restated to reflect this.

2020	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,206.9	1,110.9	1,553.6	1,000.3	–	4,871.7
Less: joint ventures and associates revenue	43.1	212.5	18.9	147.7	–	422.2
Revenue	1,163.8	898.4	1,534.7	852.6	–	4,449.5
Operating (loss)/profit before share of results of joint ventures and associates	207.7	94.2	49.6	(513.9)	(2.5)	(164.9)
Exceptional items	(72.5)	19.5	14.2	538.1	1.5	500.8
Acquired intangible amortisation – Group	5.3	0.4	35.8	40.0	–	81.5
Operating profit*	140.5	114.1	99.6	64.2	(1.0)	417.4
IFRIC 12 investment income – Group	0.2	–	0.9	–	–	1.1
Share of operating profit – joint ventures and associates	3.3	12.2	32.0	32.3	–	79.8
Share of IFRIC 12 investment income – joint ventures and associates	–	–	1.4	24.5	–	25.9
Underlying operating profit	144.0	126.3	133.9	121.0	(1.0)	524.2
Share of finance costs – joint ventures and associates	(0.5)	–	0.3	(22.6)	–	(22.8)
Share of tax – joint ventures and associates	(1.1)	(2.5)	(7.0)	(5.8)	–	(16.4)
Acquired intangible amortisation – Group	(5.3)	(0.4)	(35.8)	(40.0)	–	(81.5)
Share of acquired intangible amortisation – joint ventures and associates	–	–	(2.0)	(3.8)	–	(5.8)
Net finance costs – Group	–	–	–	–	(73.0)	(73.0)
Exceptional items – Group	72.5	(19.5)	(14.2)	(538.1)	(1.5)	(500.8)
Exceptional items – joint ventures and associates	–	(2.1)	–	–	–	(2.1)
(Loss)/profit before tax	209.6	101.8	75.2	(489.3)	(75.5)	(178.2)

* Before amortisation of acquired intangibles and exceptional items.

3. Segmental information (continued)

2019	Marine (restated) £m	Nuclear (restated) £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,086.0	1,318.9	1,620.2	1,135.5	–	5,160.6
Less: joint ventures and associates revenue	20.3	465.7	60.2	139.6	–	685.8
Revenue	1,065.7	853.2	1,560.0	995.9	–	4,474.8
Operating profit/(loss) before share of results of joint ventures and associates	110.4	89.8	42.3	(25.0)	(21.0)	196.5
Exceptional items – Group	22.5	16.0	17.7	86.4	18.2	160.8
Acquired intangible amortisation – Group	4.7	0.7	44.1	45.7	–	95.2
Operating profit*	137.6	106.5	104.1	107.1	(2.8)	452.5
IFRIC 12 investment income – Group	0.3	–	1.0	–	–	1.3
Share of operating profit – joint ventures and associates	3.3	37.0	39.5	27.0	–	106.8
Share of IFRIC 12 investment income – joint ventures and associates	–	–	1.4	26.4	–	27.8
Underlying operating profit	141.2	143.5	146.0	160.5	(2.8)	588.4
Share of finance costs – joint ventures and associates	(0.4)	–	(0.1)	(23.6)	–	(24.1)
Share of tax – joint ventures and associates	(1.3)	(7.2)	(7.1)	(5.3)	–	(20.9)
Acquired intangible amortisation – Group	(4.7)	(0.7)	(44.1)	(45.7)	–	(95.2)
Share of acquired intangible amortisation – joint ventures and associates	–	–	(2.0)	(3.8)	–	(5.8)
Net finance costs – Group	–	–	–	–	(46.4)	(46.4)
Exceptional items – Group	(22.5)	(16.0)	(17.7)	(86.4)	(18.2)	(160.8)
Profit before tax	112.3	119.6	75.0	(4.3)	(67.4)	235.2

* Before amortisation of acquired intangibles and exceptional items.

Inter divisional revenue is immaterial.

Revenues of £2.3 billion (2019: £2.2 billion) are derived from a single external customer. These revenues are attributable across all sectors.

The segment assets and liabilities at 31 March 2020 and 31 March 2019 and capital expenditure and lease payments for the years then ended are as follows:

	Assets		**Liabilities**		**Capital expenditure**		**Lease payments**	
	2020 £m	2019 (restated) £m	**2020 £m**	2019 (restated) £m	**2020 £m**	2019 (restated) £m	**2020 £m**	2019 £m
Marine	**719.8**	687.4	**402.9**	427.3	**32.4**	30.0	**9.1**	–
Nuclear	**545.9**	517.0	**163.0**	145.4	**23.5**	28.7	**3.7**	–
Land	**1,630.6**	1,673.2	**427.4**	515.5	**21.7**	16.2	**17.7**	4.6
Aviation	**2,567.6**	2,466.9	**433.1**	408.3	**90.5**	141.4	**143.0**	21.8
Unallocated	**2,066.8**	833.6	**3,554.3**	1,796.7	**6.4**	10.7	**1.5**	–
Group total	**7,530.7**	6,178.1	**4,980.7**	3,293.2	**174.5**	227.0	**175.0**	26.4

Capital expenditure represents additions to property, plant and equipment and intangible assets. Proceeds from the sale of assets totalled £30.1 million (2019: £78.5 million). Proceeds are in the main within the Aviation sector. See note 20 relating to the treatment of amounts payable in respect of capital expenditure.

All assets and liabilities are allocated to their appropriate segments except for cash, cash equivalents, borrowings including lease obligations, income and deferred tax and retirement benefit surpluses which are included in the unallocated segment.

The segmental analysis of joint ventures and associates is detailed in note 15.

3. Segmental information (continued)

The segmental depreciation on tangible assets and amortisation of intangible assets for the years ended 31 March 2020 and 31 March 2019 is as follows:

	Depreciation		Amortisation of intangible assets	
	2020 £m	2019 (restated) £m	**2020 £m**	2019 (restated) £m
Marine	**8.1**	8.1	**10.0**	9.7
Nuclear	**25.8**	21.0	**0.7**	0.9
Land	**10.1**	17.9	**37.6**	46.2
Aviation	**30.6**	39.9	**41.2**	46.6
Unallocated	**6.1**	6.9	**7.0**	6.6
Group total	**80.7**	93.8	**96.5**	110.0

The geographic analysis for non-current assets by location of those assets for the years ended 31 March 2020 and 31 March 2019 is as follows:

	2020 £m	2019 £m
United Kingdom	**2,745.3**	2,825.3
Rest of Europe	**1,335.2**	1,165.7
Africa	**34.9**	34.2
North America	**16.1**	7.0
Australasia	**167.9**	175.0
Rest of World	**37.9**	37.2
Non-current segment assets	**4,337.3**	4,244.4
Retirement benefits	**325.3**	226.9
IFRIC 12 financial assets	**12.8**	15.5
Other financial assets	**21.5**	92.5
Tax	**190.6**	150.9
Total non-current assets	**4,887.5**	4,730.2

The geographic analysis by origin of customer for the years ended 31 March 2020 and 31 March 2019 is as follows:

	Revenue	
Geographic analysis	**2020 £m**	2019 £m
United Kingdom	**2,998.9**	2,954.3
Rest of Europe	**509.0**	649.4
Africa	**358.0**	353.6
North America	**198.5**	181.3
Australasia	**196.1**	189.2
Rest of World	**189.0**	147.0
Group total	**4,449.5**	4,474.8

The analysis of revenue for the years ended 31 March 2020 and 31 March 2019 is as follows:

	2020 £m	2019 £m
Sales of goods – transferred at a point in time	**607.5**	635.7
Sale of goods – transferred over time	**101.6**	61.8
Sale of goods	**709.1**	697.5
Provision of services – transferred over time	**3,734.3**	3,768.6
Rental income	**6.1**	8.7
Revenue	**4,449.5**	4,474.8

The sale of goods at a point in time is mainly in the Land sector. This includes revenue subject to judgement as to whether the Group operates as principal or agent. The sale of goods over time is in the Marine sector. Provision of services over time is across all sectors. Further disaggregation of revenue is set out in the Strategic report on page 4.

4. Operating profit for the year

The following items have been included in arriving at operating profit for the year:

	2020 £m	2019 £m
Employee costs (note 7)	**1,605.6**	1,611.6
Inventories		
• cost of inventories recognised as an expense	**428.3**	504.5
• increase/(decrease) in inventory provisions	**(7.5)**	(5.9)
Depreciation of property, plant and equipment (PPE)	**80.7**	81.0
Depreciation of right-of-use assets	**129.4**	–
Depreciation of property, plant and equipment (PPE) – under finance leases	**–**	12.8
Amortisation of intangible assets		
• acquired intangibles	**81.5**	95.2
• other	**15.0**	14.8
	96.5	110.0
Impairment of goodwill	**395.0**	–
(Loss)/profit on disposal of property plant and equipment	**(3.3)**	5.4
Loss on disposal of intangible assets	**0.2**	0.3
Operating lease rentals payable		
• property	**–**	32.4
• vehicles, plant and equipment	**–**	124.4
Research and development	**0.2**	0.4
Trade receivables charged	**1.2**	1.6
Net foreign exchange (gain)/loss	**12.7**	(5.9)

Services provided by the Group's auditor and network firms

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor as detailed below:

	2020 £m	2019 £m
Audit fees:		
Fees payable to the parent auditor and its associates for the audit of the parent company's individual and consolidated financial statements	**0.9**	0.6
Fees for other services:		
Fees payable to the parent auditor and its associates in respect of the audit of the Company's subsidiaries	**2.2**	1.9
Other non-audit services	**0.1**	–
Total fees paid to the Group's auditor and network firms	**3.2**	2.5

5. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Aviation						
• Goodwill impairment	**395.0**	–	**–**	–	**395.0**	–
• Asset impairment*	**22.2**	39.0	**–**	–	**22.2**	39.0
• Right-of-use asset impairment	**14.2**	–	**–**	–	**14.2**	–
• Onerous contracts	**17.0**	–	**–**	–	**17.0**	–
• Onerous lease provisions	**–**	42.1	**–**	–	**–**	42.1
• Exit of Ghana and Congo	**7.1**	–	**–**	–	**7.1**	–
• Aviation restructuring	**26.5**	–	**–**	–	**26.5**	–
• Aviation other	**55.8**	–	**–**	–	**55.8**	–
Total Aviation	**537.8**	81.1	**–**	–	**537.8**	81.1
Restructuring	**24.3**	42.4	**–**	–	**24.3**	42.4
Exit and disposals	**(61.3)**	6.6	**2.1**	–	**(59.2)**	6.6
Pension GMP equalisation and bulk transfer	**–**	30.7	**–**	–	**–**	30.7
Exceptional items	**500.8**	160.8	**2.1**	–	**502.9**	160.8
Exceptional tax items and tax on exceptional items	**(25.7)**	(16.7)	**(0.4)**	–	**(26.1)**	(16.7)
Exceptional items – net of tax	**475.1**	144.1	**1.7**	–	**476.8**	144.1
Acquired intangible amortisation	**81.5**	95.2	**5.8**	5.8	**87.3**	101.0
Tax on acquired intangibles amortisation	**(17.3)**	(20.4)	**(1.1)**	(1.1)	**(18.4)**	(21.5)
Acquired intangible amortisation – net of tax	**64.2**	74.8	**4.7**	4.7	**68.9**	79.5

* Included within the asset impairment charge of £22.2 million is £13.5 million relating to the impairment of owned aircraft and plant and equipment.

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

Aviation market

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

Aviation: Goodwill impairment

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

Aviation: Oil and Gas

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

Aviation: Restructuring

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

Aviation: Other (including Italy anti-trust fine)

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

5. Exceptional items and acquired intangible amortisation (continued)

We have recognised a provision of £46 million in respect of a €51 million fine issued by the Italian Competition Authority to our subsidiary, Babcock Mission Critical Services Italia S.p.A ("BMCS Italy") following an unsuccessful first instance decision. This matter was previously a contingent liability to the Group. The fine relates to a publicly available "tariff list" dating back to 2001 produced by a trade association of which BMCS Italy was a member. BMCS Italy does not understand the basis of this decision, given that the tariff list did not apply to any of the services provided by BMCS Italy and was not relevant to BMCS Italy's activities. In particular, BMCS Italy is convinced that the tariff list did not relate to the helicopter emergency medical services ("HEMS") and, indeed, this lack of relevance was explicitly stated on the front of the list from 2012, two years prior to the acquisition of BMCS Italy by Babcock in 2014. BMCS Italy will appeal this decision.

Restructuring

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

Exits and disposals

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

6. Net finance costs

	2020 £m	2019 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	**45.6**	41.9
Lease interest	**28.2**	5.3
Amortisation of issue costs of bank loan	**2.1**	1.4
Other	**10.0**	14.1
Total finance costs	**85.9**	62.7
Finance income		
Bank deposits, loans and leases	**13.0**	16.0
Total finance income	**13.0**	16.0
Net finance costs	**72.9**	46.7

7. Employee costs

	2020 £m	2019 £m
Wages and salaries	**1,323.6**	1,319.2
Social security costs	**156.0**	159.9
Share-based payments (note 25)	**2.9**	2.4
Pension costs – defined contribution plans (note 26)	**85.7**	69.5
Pension charges – defined benefit plans (note 26)	**37.4**	60.6
	1,605.6	1,611.6

The average number of people employed by the Group during the year was:

	2020 Number	2019 Number
Operations	**30,116**	30,554
Administration and management	**4,104**	4,735
	34,220	35,289

Emoluments of the Executive Directors are included in employee costs above and reported in the Remuneration report.

7. Employee costs (continued)

Key management compensation

Key management is defined as those employees who are directly responsible for the operational management of the key cash generating units. The employees would typically report to the Chief Executive. The key management figures given below include Directors.

	2020 £m	2019 £m
Salaries	**8.2**	10.3
Share-based payments	**0.6**	0.2
	8.8	10.5

8. Income tax expense

	Total	
	2020 £m	2019 £m
Analysis of tax charge in the year		
Current tax		
• UK current year charge	**56.2**	51.6
• UK prior year charge	**–**	11.6
• Overseas current year charge	**19.4**	22.8
	75.6	86.0
Deferred tax		
• UK current year credit	**(33.4)**	(33.6)
• Overseas current year credit	**(26.0)**	(1.3)
• Overseas prior year credit	**–**	(17.0)
• Impact of change in UK tax rate	**(1.2)**	1.3
	(60.6)	(50.6)
Total income tax expense	**15.0**	35.4

The tax for the year is higher (2019: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2020 £m	2019 £m
(Loss)/profit before tax	**(178.2)**	235.2
(Loss)/profit on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2019: 19%)	**(33.9)**	44.7
Effects of:		
Expenses not deductible for tax purposes	**0.9**	0.4
Re-measurement of deferred tax re change in UK tax rate	**(1.2)**	1.3
Difference in respect of joint venture results	**(14.1)**	(15.9)
Differences in respect of foreign rates and UK consortium relief rates	**(3.5)**	3.4
Adjustments in respect of earlier years	**–**	(5.4)
Other (including effect of exceptional items at effective tax rate)	**66.8**	6.9
Total income tax expense	**15.0**	35.4

In the UK 2019 Budget it was announced that the UK corporation tax rate would not reduce to 17% but would remain at 19% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 19% as this is the tax rate that will apply on reversal. As a result a credit of £1.2 million has been taken to the income statement in respect of the re-measurement of year end UK deferred tax balances to 19%. A further £0.9 million has been credited to reserves in respect of the re-measurement of year end UK deferred tax balances to 19%.

The European Commission decided during 2019 that certain aspects of the UK Finance Company Partial Exemption ("FCPE") rules constituted partial State Aid for the period from 2013 to 2018. The Group has been applying the FCPE rules to certain intra-group interest income earned in that period. The Group submitted an appeal against the decision in September 2019, the UK Government having, by then, also appealed the decision. Regardless of the outcome of these appeals, the Group believes the risk of a potential liability to be remote, and that, in any event, such a liability would be immaterial.

The exceptional tax item and the tax effect of the other exceptional items are set out in more detail in note 5.

9. Dividends

	2020 £m	2019 £m
Final dividend for the year ended 31 March 2019 of 22.9p (2018: 22.65p) per 60p share	**115.7**	115.5
Interim dividend for the year ended 31 March 2020 of 7.20p (2019: 7.10p) per 60p share	**36.4**	35.0
	152.1	150.5

In addition, the Directors have deferred a decision on a final dividend in respect of the financial year ended 31 March 2020 until further notice (2019: 22.9p per 60p ordinary share).

10. (Loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year excluding those held in the Babcock Employee Share Trust.

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

Number of shares

	2020 Number	2019 Number
Weighted average number of ordinary shares for the purpose of basic EPS	**505,284,584**	505,165,728
Effect of dilutive potential ordinary shares: share options	**872,749**	947,702
Weighted average number of ordinary shares for the purpose of diluted EPS	**506,157,333**	506,113,430

Earnings

	2020 Earnings £m	2020 Basic per share Pence	2020 Diluted per share Pence	2019 Earnings £m	2019 Basic per share Pence	2019 Diluted per share Pence
(Loss)/earnings from continuing operations	**(195.2)**	**(38.6)**	**(38.6)**	199.4	39.5	39.4
Add back:						
Amortisation of acquired intangible assets, net of tax	**68.9**	**13.6**	**13.6**	79.5	15.7	15.7
Exceptional items, net of tax	**476.8**	**94.3**	**94.3**	144.1	28.5	28.5
Impact of change in statutory tax rates	**(1.2)**	**(0.2)**	**(0.2)**	1.3	0.3	0.3
Earnings before amortisation, exceptional items and other	**349.3**	**69.1**	**69.1**	424.3	84.0	83.9

11. Goodwill

	2020 £m	2019 £m
Cost		
At 1 April	**2,589.0**	2,608.0
On disposal of subsidiaries (note 29)	**(20.6)**	(9.4)
Exchange adjustments	**2.7**	(9.6)
At 31 March	**2,571.1**	2,589.0
Accumulated impairment		
At 1 April	**4.8**	7.1
On disposal of subsidiaries (note 29)	**–**	(2.3)
Impairment	**395.0**	–
At 31 March	**399.8**	4.8
Net book value at 31 March	**2,171.3**	2,584.2

During the year, goodwill was tested for impairment in accordance with IAS 36. The recoverable amount of the Group's goodwill was assessed by reference to value-in-use calculations derived from risk-adjusted cash flows from the Group's budget and strategic plan for four years, a further year informed by the average growth included in the budget and strategic plan period and extrapolated cash flows thereafter based on an estimated long-term growth rate of 2.0% (2019: 3.0%). The process by which the budget and strategic plan is prepared, reviewed and approved benefits from historical experience, visibility of long-term work programmes in relation to work undertaken for the UK Government, available government spending information (both UK and overseas), the Group's £35 billion order book and bid pipeline and the Group's significant tracking pipeline which monitors opportunities prior to release of tenders. The Group's FY21 budget cash flows include an assessment of the impact of COVID-19. Recognising the current economic uncertainties the Group reduced the long-term growth rate used to value the extrapolated cash flows from 3% to 2%, equivalent to no growth in real terms.

The Group's weighted average cost of capital post-tax is approximately 7.8% to 8.2% (2019: 7.8% to 8.6%). This equates to a pre-tax discount rate in the range 9.5% to 10.0% (2019: 9.5% to 10.5%) and a rate within this range, other than in relation to the Aviation CGU as set out below, was used in the value-in-use calculations.

Goodwill is allocated to the Group's cash generating units (CGUs) as presented below. These align with the Group's operating segments and represent the lowest level in the Group at which goodwill is monitored. A single Nuclear operating segment was established on 1 April 2019 by combining our naval nuclear business, included within the Marine operating segment, with our civil nuclear business and goodwill of £163 million was reallocated from the Marine operating segment to the Nuclear operating segment based on a relative value in use calculation at that date. The 2019 comparative has been restated for the reallocation.

	2020 £m	2019 (restated) £m
Marine	**341.7**	361.2
Nuclear	**233.1**	233.1
Land	**887.1**	889.7
Aviation	**709.4**	1,100.2
	2,171.3	2,584.2

Key assumptions in relation to the risk-adjusted budget and strategy plan cash flows included in the value in use models are set out below, noting that the budget cash flows include an assessment of the impact of COVID-19:

Marine	Continuing delivery of work programmes with the UK Ministry of Defence.
Nuclear	Continuing delivery of naval nuclear services to the UK Government under long-term contracts. Continuing delivery of opportunities in the civil nuclear decommissioning programme together with maintenance of ongoing spend in provision of nuclear engineering services to operational power stations.
Land	Continuing demand for large-scale vehicle fleet management, equipment support and training from both military and civil customers, noting that significant elements of equipment support and training are the subject of long-term contracts.
Aviation	Continuing delivery of long-term contracts with the UK Ministry of Defence and growth in aerial emergency services worldwide where the Group has a number of leadership positions. Reflecting the low oil price and the highly competitive oil and gas market, no improvement is expected in this area.

The value in use calculations present significant headroom in respect of all the CGUs other than Aviation. There are no reasonably possible changes in assumptions for all CGUs other than Aviation which could give rise to the recoverable amount being lower than the carrying amount. In this respect it would require long-term growth of nil (effectively negative growth of 2% in real terms), together with discount rates of 58%, 46% and 14% to eliminate the headroom in the Marine, Nuclear and Land CGUs respectively. The Directors do not consider these to be plausible assumptions.

11. Goodwill (continued)

Recognising the current economic conditions and market expectations, particularly in oil and gas, the Directors revised the estimate of risk-adjusted cash flows expected from the Aviation CGU and additionally, in consideration of CGU specific risk factors, used an increased discount rate of 10.9% (2019: 10%) to determine the value in use. These revisions, together with the reduced long-term growth rate applied to all CGUs, resulted in an impairment of £395 million.

The recoverable amount of Aviation goodwill continues to be subject to sensitivities. An increase in the discount rate of 25bps would decrease value in use by £46 million and a reduction in the long-term growth rate of 25bps would decrease value in use by £34 million. A reduction of £10 million in the operating profit of the continuing year used to extrapolate cash flows, for example as a result of failure to maintain cost savings, would result in a reduction in value in use by £79 million. Accordingly, reasonably possible changes exist which would give rise to a further impairment.

12. Other intangible assets

	Acquired intangibles – relationships £m	Acquired intangibles – brands £m	Acquired intangibles – total £m	Software development costs and licences £m	Development costs and other £m	Total £m
Cost						
At 1 April 2019	**1,169.5**	**23.7**	**1,193.2**	**172.0**	**18.6**	**1,383.8**
On disposal of subsidiaries (note 29)	**(7.0)**	**(6.4)**	**(13.4)**	**(1.7)**	**–**	**(15.1)**
Additions	**–**	**–**	**–**	**21.6**	**7.8**	**29.4**
Disposals at cost	**–**	**(17.4)**	**(17.4)**	**(4.5)**	**–**	**(21.9)**
Exchange adjustments	**2.3**	**0.1**	**2.4**	**(0.3)**	**0.4**	**2.5**
At 31 March 2020	**1,164.8**	**–**	**1,164.8**	**187.1**	**26.8**	**1,378.7**
Accumulated amortisation and impairment						
At 1 April 2019	**843.3**	**20.2**	**863.5**	**70.1**	**1.3**	**934.9**
On disposal of subsidiaries (note 29)	**(5.8)**	**(4.1)**	**(9.9)**	**(1.2)**	**–**	**(11.1)**
Amortisation charge	**80.4**	**1.1**	**81.5**	**14.2**	**0.8**	**96.5**
Amortisation on disposals	**–**	**(17.4)**	**(17.4)**	**(4.4)**	**–**	**(21.8)**
Exchange adjustments	**0.8**	**0.2**	**1.0**	**(0.2)**	**(0.1)**	**0.7**
At 31 March 2020	**918.7**	**–**	**918.7**	**78.5**	**2.0**	**999.2**
Net book value at 31 March 2020	**246.1**	**–**	**246.1**	**108.6**	**24.8**	**379.5**
Cost						
At 1 April 2018	1,174.4	23.9	1,198.3	153.0	8.0	1,359.3
Additions	–	–	–	21.4	10.8	32.2
Disposals at cost	–	–	–	(2.3)	–	(2.3)
Exchange adjustments	(4.9)	(0.2)	(5.1)	(0.1)	(0.2)	(5.4)
At 31 March 2019	1,169.5	23.7	1,193.2	172.0	18.6	1,383.8
Accumulated amortisation and impairment						
At 1 April 2018	751.5	19.7	771.2	57.9	0.9	830.0
Amortisation charge	94.6	0.6	95.2	14.3	0.5	110.0
Amortisation on disposals	–	–	–	(1.9)	–	(1.9)
Exchange adjustments	(2.8)	(0.1)	(2.9)	(0.2)	(0.1)	(3.2)
At 31 March 2019	843.3	20.2	863.5	70.1	1.3	934.9
Net book value at 31 March 2019	326.2	3.5	329.7	101.9	17.3	448.9

Acquired intangible amortisation charges for the year have been charged through cost of revenue.

13. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2019	**125.1**	**38.0**	**615.2**	**644.3**	**113.5**	**1,536.1**
Transfer of leased assets to right-of-use assets	**–**	**–**	**(45.1)**	**(59.8)**	**–**	**(104.9)**
On disposal of subsidiaries (note 29)	**–**	**–**	**(3.8)**	**–**	**–**	**(3.8)**
Additions	**1.3**	**0.2**	**61.7**	**51.9**	**15.3**	**130.4**
Disposals	**(1.3)**	**(6.2)**	**(14.2)**	**(40.6)**	**(8.4)**	**(70.7)**
Reclassification	**–**	**–**	**0.6**	**26.2**	**(26.8)**	**–**
Capitalised borrowing costs	**–**	**–**	**1.4**	**–**	**–**	**1.4**
Exchange adjustments	**0.1**	**–**	**(8.7)**	**7.5**	**2.4**	**1.3**
At 31 March 2020	**125.2**	**32.0**	**607.1**	**629.5**	**96.0**	**1,489.8**
Accumulated depreciation						
At 1 April 2019	**60.4**	**9.8**	**354.5**	**97.1**	**–**	**521.8**
Transfer of leased assets to right-of-use assets	**–**	**–**	**(18.0)**	**(14.1)**	**–**	**(32.1)**
On disposal of subsidiaries (note 29)	**–**	**–**	**(2.2)**	**–**	**–**	**(2.2)**
Charge for the year	**5.1**	**1.8**	**54.6**	**19.2**	**–**	**80.7**
Impairment*	**–**	**–**	**0.2**	**13.3**	**–**	**13.5**
Disposals	**(0.7)**	**(2.1)**	**(13.1)**	**(21.4)**	**–**	**(37.3)**
Exchange adjustments	**–**	**–**	**(3.4)**	**(2.3)**	**–**	**(5.7)**
At 31 March 2020	**64.8**	**9.5**	**372.6**	**91.8**	**–**	**538.7**
Net book value at 31 March 2020	**60.4**	**22.5**	**234.5**	**537.7**	**96.0**	**951.1**
Cost						
At 1 April 2018	124.9	35.4	614.0	625.4	90.0	1,489.7
On disposal of subsidiaries (note 29)	(0.7)	(0.1)	(22.8)	–	–	(23.6)
Additions	4.2	3.6	45.8	100.7	47.5	201.8
Disposals	(2.9)	(0.8)	(14.2)	(76.9)	(16.3)	(111.1)
Reclassification	–	–	0.1	4.7	(4.8)	–
Capitalised borrowing costs	–	–	1.7	–	–	1.7
Exchange adjustments	(0.4)	(0.1)	(9.4)	(9.6)	(2.9)	(22.4)
At 31 March 2019	125.1	38.0	615.2	644.3	113.5	1,536.1
Accumulated depreciation						
At 1 April 2018	56.8	9.1	327.5	67.9	–	461.3
On disposal of subsidiaries (note 29)	(0.2)	(0.1)	(18.3)	–	–	(18.6)
Charge for the year	5.0	1.5	63.6	23.7	–	93.8
Impairment*	–	–	–	29.3	–	29.3
Disposals	(1.2)	(0.6)	(13.8)	(22.3)	–	(37.9)
Exchange adjustments	–	(0.1)	(4.5)	(1.5)	–	(6.1)
At 31 March 2019	60.4	9.8	354.5	97.1	–	521.8
Net book value at 31 March 2019	64.7	28.2	260.7	547.2	113.5	1,014.3

* During the year, the Group impaired eight (2019: eight) owned helicopters as a result of the reshaping of our Oil and Gas business, as set out in note 5.

Two of the assets were impaired using market values to estimate fair value less costs of disposal observing Level 2 inputs and six of the assets were impaired as a result of a value in use assessment. The eight assets have been written down to a combined recoverable amount of £28 million.

A capitalisation rate of 3% (2019: 3%) was used to determine the amount of borrowing costs eligible for capitalisation.

13. Property, plant and equipment (continued)

Assets held under finance leases, in the prior year, have the following net book value within property, plant and equipment:

2019	Plant and equipment £m	Aircraft fleet £m	Total £m
Cost	45.1	113.3	158.4
Aggregate depreciation	(18.0)	(24.8)	(42.8)
Net book value	27.1	88.5	115.6

Not all assets held under finance leases were transferred to Right-of-use assets as they were in effect purchased and retained in Property, plant and equipment.

14. Right-of-use assets

	Freehold property £m	Plant and equipment £m	Aircraft fleet £m	Total £m
Cost				
On transition to IFRS 16 – 1 April 2019	**111.3**	**15.4**	**466.0**	**592.7**
Transferred from property, plant and equipment	**–**	**45.1**	**59.8**	**104.9**
On disposal of subsidiaries (note 29)	**(2.3)**	**–**	**–**	**(2.3)**
Additions	**32.5**	**8.4**	**87.2**	**128.1**
Exchange adjustments	**(3.2)**	**–**	**(8.3)**	**(11.5)**
At 31 March 2020	**138.3**	**68.9**	**604.7**	**811.9**
Accumulated depreciation				
Transferred from property, plant and equipment	**–**	**18.0**	**14.1**	**32.1**
Charge for the year	**27.3**	**13.1**	**89.0**	**129.4**
Impairment (see note 5)	**–**	**–**	**14.2**	**14.2**
Exchange adjustments	**(0.9)**	**(0.1)**	**(1.6)**	**(2.6)**
At 31 March 2020	**26.4**	**31.0**	**115.7**	**173.1**
Net book value at 31 March 2020	**111.9**	**37.9**	**489.0**	**638.8**
Net book value on transition to IFRS 16 – 1 April 2019	111.3	42.5	511.7	665.5

The Group impaired 11 right-of-use helicopters as a result of the reshaping of our Oil and Gas business, as set out in note 5.

The assets were impaired as a result of a value in use assessment. The 11 assets were written down to a combined recoverable amount of £17.4 million.

15. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
At 1 April	**153.2**	119.3	**42.5**	27.8	**195.7**	147.1
Disposal of joint ventures and associates (note 29)	**–**	(6.6)	**–**	–	**–**	(6.6)
Loans repaid by joint ventures and associates	**–**	–	**(0.7)**	(2.3)	**(0.7)**	(2.3)
Investment in joint ventures and associates	**0.3**	–	**5.5**	10.8	**5.8**	10.8
Share of profits	**58.6**	83.8	**–**	–	**58.6**	83.8
Interest accrued and capitalised	**–**	–	**3.8**	6.5	**3.8**	6.5
Interest received	**–**	–	**(2.5)**	(0.3)	**(2.5)**	(0.3)
Dividends received	**(52.0)**	(44.6)	**–**	–	**(52.0)**	(44.6)
Fair value adjustment of derivatives	**(14.4)**	1.8	**–**	–	**(14.4)**	1.8
Tax on fair value adjustment of derivatives	**2.3**	(0.3)	**–**	–	**2.3**	(0.3)
Foreign exchange	**–**	(0.2)	**–**	–	**–**	(0.2)
At 31 March	**148.0**	153.2	**48.6**	42.5	**196.6**	195.7

Included within investment in joint ventures and associates is goodwill of £1.2 million (2019: £1.2 million).

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

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

	2020 £m	2019 £m
Marine	**5.8**	6.0
Nuclear	**25.6**	42.1
Land	**90.6**	77.4
Aviation	**74.6**	70.2
Net book value	**196.6**	195.7

Included within joint ventures and associates are:

2020	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit/(loss)* £m	Total comprehensive income/(loss) £m	% interest held
Holdfast Training Services Limited	United Kingdom	**61.5**	**(5.7)**	**69.3**	**18.4**	**14.4**	**74%**
ALC (Superholdco) Limited	United Kingdom	**34.4**	**(14.5)**	**18.9**	**14.6**	**11.2**	**50%**
AirTanker Limited	United Kingdom	**405.1**	**(394.2)**	**38.2**	**9.8**	**7.1**	**13%**
AirTanker Services Limited	United Kingdom	**35.5**	**(5.1)**	**40.2**	**4.4**	**2.6**	**22%**
Ascent Flight Training (Holdings) Limited	United Kingdom	**94.6**	**(69.7)**	**85.9**	**18.0**	**14.8**	**50%**
Naval Ship Management (Australia) Pty Limited	Australia	**13.9**	**(12.4)**	**48.0**	**3.7**	**2.6**	**50%**
Cavendish Dounreay Partnership Limited	United Kingdom	**38.7**	**(16.0)**	**99.8**	**6.9**	**5.5**	**50%**
Cavendish Fluor Partnership Limited	United Kingdom	**3.3**	**–**	**130.1**	**5.2**	**2.2**	**65%**
Other		**45.0**	**(17.8)**	**15.7**	**(1.2)**	**(1.8)**	
		732.0	**(535.4)**	**546.1**	**79.8**	**58.6**	

2019	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit/(loss)* £m	Total comprehensive income/(loss) £m	% interest held
Holdfast Training Services Limited	United Kingdom	46.3	(3.6)	80.6	28.4	23.6	74%
ALC (Superholdco) Limited	United Kingdom	19.1	–	19.3	11.3	8.3	50%
AirTanker Limited	United Kingdom	409.3	(390.6)	42.5	13.4	10.2	13%
AirTanker Services Limited	United Kingdom	32.9	–	43.7	5.0	3.1	22%
Ascent Flight Training (Holdings) Limited	United Kingdom	113.5	(98.7)	61.5	5.0	5.3	50%
Naval Ship Management (Australia) Pty Limited	Australia	5.2	(4.1)	23.7	4.2	2.9	50%
Cavendish Dounreay Partnership Limited	United Kingdom	39.4	(19.8)	110.5	7.8	6.2	50%
Cavendish Fluor Partnership Limited	United Kingdom	102.6	(80.2)	390.8	28.9	23.4	65%
ABC Electrification Limited	United Kingdom	2.6	–	50.7	(0.2)	(0.2)	33%
Other		21.8	–	33.9	3.0	1.0	
		792.7	(597.0)	857.2	106.8	83.8	

* Before amortisation of acquired intangibles.

Joint ventures and associates revenue excluding Group sub-contract revenue is £422.2 million (2019: £685.8 million).

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

None (2019: none) of the joint ventures or associates had material amounts of other comprehensive income or profits from discontinued operations and therefore the total comprehensive income noted in the table above is in line with profits from continuing operations.

Holdfast Training Services Limited and Cavendish Fluor Partnership Limited are equity accounted as unanimous decision making is required over key decisions which drive the relevant activities of the business. Both the Holdfast Training Services Limited and Cavendish Fluor Partnership Limited joint arrangements are shown as joint ventures as the Group has the right to net assets of the joint arrangement rather than separate rights and obligations to the assets and liabilities of the joint arrangement respectively. Holdfast Training Services Limited and Cavendish Fluor Partnership Limited had other comprehensive income of £nil in the year (2019: £nil). The Magnox decommissioning contract being delivered by the Cavendish Flour Partnership Limited completed on 31 August 2019.

AirTanker Limited is included as an associate due to the level of management input and the relative share ownership.

Ascent Flight Training (Holdings) Limited and ALC (Superholdco) Limited benefitted from an improved cumulative margin position in the year.

No joint ventures and associates are deemed individually material to the Group.

16. Deferred tax

	2020 £m	2019 £m
Deferred tax asset	**190.6**	150.9
Deferred tax liability	**(115.2)**	(103.2)
	75.4	47.7

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction as permitted by IAS 12) during the period are shown below:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
At 1 April 2019	**(2.6)**	**4.7**	**72.2**	**(26.6)**	**47.7**
On transition to IFRS 16 – 1 April 2019	**5.0**	**–**	**–**	**–**	**5.0**
Income statement credit	**–**	**7.1**	**18.6**	**33.7**	**59.4**
Tax credit to equity	**–**	**(20.2)**	**–**	**4.5**	**(15.7)**
Transfer to corporation tax	**–**	**(19.9)**	**–**	**(2.1)**	**(22.0)**
Disposal of subsidiary (note 30)	**–**	**–**	**–**	**0.6**	**0.6**
Effect of change in UK tax rate					
• income statement	**(0.5)**	**–**	**0.1**	**1.6**	**1.2**
• equity	**–**	**0.6**	**–**	**0.3**	**0.9**
Exchange differences	**–**	**–**	**–**	**(1.7)**	**(1.7)**
At 31 March 2020	**1.9**	**(27.7)**	**90.9**	**10.3**	**75.4**
At 1 April 2018	(8.0)	0.8	41.4	(43.0)	(8.8)
Income statement credit	–	11.4	–	11.8	23.2
Exceptional credit at 19%	3.4	–	–	5.8	9.2
Exceptional credit at 17%	2.2	–	–	0.1	2.3
Prior year adjustment	–	–	17.0	–	17.0
Tax credit to equity	–	10.4	–	2.8	13.2
Transfer (to)/from corporation tax	–	(17.4)	13.8	(3.4)	(7.0)
Effect of change in UK tax rate					
• income statement	(0.2)	–	–	(1.1)	(1.3)
• equity	–	(0.5)	–	0.1	(0.4)
Exchange differences	–	–	–	0.3	0.3
At 31 March 2019	(2.6)	4.7	72.2	(26.6)	47.7

The net deferred tax assets of £75.4 million includes deferred tax assets of £120.7 million and deferred tax liabilities of £63.3 million in respect of the Group's non-UK operations.

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because the Directors believe that it is probable that these assets will be recovered.

The net deferred tax liability in respect of 'Other items' is primarily made up of the deferred tax liability in respect of intangibles less deferred tax assets in respect of other short–term timing differences.

Deferred tax expected to be recovered within 12 months:

	2020 £m	2019 £m
Deferred tax liability	**(11.6)**	(21.5)
	(11.6)	(21.5)

At the statement of financial position date, deferred tax assets of £90.9 million (2019: £72.0 million) have been recognised in respect of unused tax losses available for carry forward. This is out of a total potential deferred tax asset in respect of unutilised tax losses (excluding capital losses) of approximately £91.5 million.

17. Inventories

	2020 £m	2019 (restated) £m
Raw materials and spares	**111.9**	102.8
Work-in-progress	**6.0**	7.7
Finished goods and goods for resale	**75.6**	86.0
Total	**193.5**	196.5

The 2019 amounts for Raw Materials and spares have increased by £14.9 million due to a reclassification of fuel and spare parts from Finished goods and goods for resale.

18. Trade and other receivables

	2020 £m	2019 (restated) £m
Current assets		
Trade receivables	**283.6**	255.5
Less: provision for impairment of receivables	**(7.0)**	(6.0)
Trade receivables – net	**276.6**	249.5
Amounts due from customers for contract work	**242.3**	266.0
Accrued income	**108.6**	133.2
Capitalised contract costs	**80.8**	62.9
Contract assets	**431.7**	462.1
Retentions	**8.1**	9.1
Amounts due from related parties (note 34)	**2.9**	11.4
Other debtors	**127.9**	108.3
Prepayments	**83.6**	76.7
	930.8	917.1

Other debtors in 2019 have been restated by £9.3 million as the non-current Trade and other receivables amount was repaid during the current year and is therefore now not shown separately.

Trade and other receivables are stated at amortised cost.

18. Trade and other receivables (continued)

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

	Amounts due from customers for contract work £m	Accrued income £m	Capitalised contract costs £m	Contract assets £m
31 March 2019	**266.0**	**133.2**	**62.9**	**462.1**
Transfers from contract assets recognised at the beginning of the year to receivables	**(240.1)**	**(118.7)**	**–**	**(358.8)**
Increase due to work done not transferred from contract assets	**222.4**	**104.8**	**–**	**327.2**
Amounts capitalised	**–**	**–**	**39.3**	**39.3**
Amortisation of contract assets	**–**	**–**	**(9.9)**	**(9.9)**
Write down of contract assets*	**(4.6)**	**(8.7)**	**(0.2)**	**(13.5)**
Other	**–**	**(2.2)**	**(5.3)**	**(7.5)**
Exchange adjustment	**(1.4)**	**0.2**	**(6.0)**	**(7.2)**
31 March 2020	**242.3**	**108.6**	**80.8**	**431.7**
31 March 2018	462.8	118.5	–	581.3
Reclassification – IFRS 15 adoption	(53.5)	–	53.5	–
1 April 2018 – restated	409.3	118.5	53.5	581.3
Transfers from contract assets recognised at the beginning of the year to receivables	(394.7)	(112.5)	–	(507.2)
Increase due to work done not transferred from contract assets	264.5	128.5	–	393.0
Amounts capitalised	–	–	26.5	26.5
Amortisation of contract assets	–	–	(8.7)	(8.7)
Write down of contract assets*	(14.4)	–	(6.3)	(20.7)
Other	–	(1.0)	–	(1.0)
Exchange adjustment	1.3	(0.3)	(2.1)	(1.1)
31 March 2019	266.0	133.2	62.9	462.1

* The asset write downs are included in exceptional charges in Note 5; amounts due from customers for contract work relate to business exits and accrued income relates to the Aviation sector.

No material revenue was recognised in 2020 from performance obligations satisfied in previous periods, arising from changes in stage of completion, or transaction price allocation (2019: No material revenue).

Within the Group's order book £12.8 billion (2019: £10.6 billion) represents the transaction price allocated to unsatisfied or partially satisfied performance obligations. Management expects that 23% (2019: 28%) of the transaction price allocated to unsatisfied performance obligations as at 31 March 2020 will be recognised as revenue during the next reporting period. A further 49% (2019: 48%) of the transaction price allocated to unsatisfied performance obligations is expected to be recognised as revenue in years two to five after 31 March 2020. In addition there are £4.0 billion (2019: £3.4 billion) of orders where pricing is still to be finalised and £0.8 billion (2019: £3.0 billion) of orders within joint ventures and associates.

18. Trade and other receivables (continued)

Movements on the provision for impairment of trade receivables are as follows:

	2020 £m	2019 £m
Balance at 1 April*	**(6.0)**	(4.9)
Provision for receivables impairment	**(3.6)**	(1.6)
Receivables written off during the year as uncollectable	**1.1**	0.2
Unused amounts reversed	**1.0**	0.2
Exchange differences	**0.5**	0.1
Balance at 31 March	**(7.0)**	(6.0)

* No adjustment to the impairment of trade receivables was required on transition from IAS 39 to IFRS 9.

The creation and release of provisions for impairment of receivables have been included in cost of revenue in the income statement. Amounts charged to the impairment provision are generally written off when there is no expectation of recovering additional cash.

The total provision held against trade receivables and contract assets is immaterial. No further disclosures relating to impairment provisions have been included as these are not to be considered material.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security other than retention of title clauses issued as part of the ordinary course of business.

19. Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank and in hand	**289.1**	275.0
Short-term bank deposits	**1,062.3**	0.2
	1,351.4	275.2

The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

	2020		2019	
	Total £m	**Floating rate £m**	Total £m	Floating rate £m
Currency				
Sterling	**1,214.1**	**1,214.1**	66.4	66.4
Euro	**32.0**	**32.0**	72.7	72.7
US Dollar	**5.6**	**5.6**	5.7	5.7
South African Rand	**53.9**	**53.9**	69.4	69.4
Canadian Dollar	**20.7**	**20.7**	36.8	36.8
Omani Rial	**4.9**	**4.9**	5.6	5.6
Australian Dollar	**1.0**	**1.0**	1.2	1.2
Norwegian Krone	**4.4**	**4.4**	1.9	1.9
Swedish Krona	**4.5**	**4.5**	3.2	3.2
New Zealand Dollar	**9.8**	**9.8**	0.1	0.1
Brazilian Real	**–**	**–**	6.0	6.0
Other currencies	**0.5**	**0.5**	6.2	6.2
	1,351.4	**1,351.4**	275.2	275.2

The above balances are typically invested at short-term, floating rates linked to LIBOR in the case of Sterling, EURIBOR in the case of Euro, the prime rate in the case of South African Rand and the local prime rate for other currencies.

Impairment of cash and cash equivalents has been determined to be trivial.

20. Trade and other payables

	2020 £m	2019 £m
Current liabilities		
Contract cost accruals	**222.8**	188.5
Amounts due to customers for contract work	**207.3**	192.8
Deferred income	**32.8**	40.0
Contract liabilities	**462.9**	421.3
Trade creditors	**474.3**	510.6
Amounts due to related parties (note 34)	**0.7**	1.0
Other creditors	**80.8**	63.9
Other taxes and social security	**125.2**	125.6
Accruals	**222.4**	259.0
	1,366.3	1,381.4
Non-current liabilities		
Other creditors	**2.1**	2.0

Included in creditors is £6.1 million (2019: £19.5 million) relating to capital expenditure which has therefore not been included in working capital movements within the cashflow.

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

	Contract cost accrual £m	Amounts due to customers for contract work £m	Deferred income £m	Contract liabilities £m
31 March 2019	**188.5**	**192.8**	**40.0**	**421.3**
Revenue recognised that was included in the contract liability balance at the beginning of the year	**–**	**(141.1)**	**(38.5)**	**(179.6)**
Increase due to cash received, excluding amounts recognised as revenue	**–**	**158.0**	**33.9**	**191.9**
Amounts accrued	**219.2**	**–**	**–**	**219.2**
Amounts utilised	**(182.1)**	**–**	**–**	**(182.1)**
Disposal	**–**	**–**	**(1.2)**	**(1.2)**
Exchange adjustment	**(2.8)**	**(2.4)**	**(1.4)**	**(6.6)**
31 March 2020	**222.8**	**207.3**	**32.8**	**462.9**
31 March 2018	179.9	173.4	60.0	413.3
Revenue recognised that was included in the contract liability balance at the beginning of the year	–	(143.8)	(56.4)	(200.2)
Increase due to cash received, excluding amounts recognised as revenue	–	168.5	37.4	205.9
Amounts accrued	183.7	–	–	183.7
Amounts utilised	(167.2)	–	–	(167.2)
Disposal	(6.0)	(4.1)	–	(10.1)
Exchange adjustment	(1.9)	(1.2)	(1.0)	(4.1)
31 March 2019	188.5	192.8	40.0	421.3

21. Bank and other borrowings

	2020 £m	2019 £m
Current liabilities		
Bank loans and overdrafts due within one year or on demand		
Secured	**(0.2)**	0.3
Unsecured	**400.3**	38.3
	400.1	38.6
Lease obligations*	**138.0**	15.3
	538.1	53.9
Non-current liabilities		
Bank and other borrowings		
Secured	**19.4**	22.0
Unsecured	**2,030.6**	1,285.1
	2,050.0	1,307.1
Lease obligations*	**534.8**	50.5
	2,584.8	1,357.6

* Leases are secured against the assets to which they relate.

The Group has entered into interest rate and currency swaps, details of which are included in note 22.

The carrying amount of the Group's borrowings are denominated in the following currencies:

	2020		
Currency	**Total £m**	**Floating rate £m**	**Fixed rate £m**
Sterling	**1,225.4**	**764.3**	**461.1**
Euro	**1,287.2**	**252.0**	**1,035.2**
US Dollar*	**518.7**	**241.5**	**277.2**
South African Rand	**23.1**	**15.6**	**7.5**
Canadian Dollar	**10.2**	**–**	**10.2**
Australian Dollar	**37.1**	**–**	**37.1**
Norwegian Krone	**0.9**	**–**	**0.9**
Swedish Krona	**20.3**	**–**	**20.3**
	3,122.9	**1,273.4**	**1,849.5**

	2019		
Currency	Total £m	Floating rate £m	Fixed rate £m
Sterling	505.4	134.7	370.7
Euro	508.1	19.9	488.2
US Dollar*	382.1	229.3	152.8
South African Rand	15.9	15.9	–
	1,411.5	399.8	1,011.7

* US$500 million (2019: US$500 million) has been swapped into Sterling, with US$300 million (2019: US$300 million) equivalent into floating rates and US$200 million (2019: US$200 million) equivalent into fixed rate. This is included in the US Dollar amount above.
EUR550 million (2019: €nil) has been swapped into Sterling, with €275 million (2019: €nil) equivalent into floating rates and EUR275 million (2019: €nil) equivalent into fixed rates. This is included in the Euro amount above.

The weighted average interest rate of Sterling fixed rate borrowings is 1.9%. The weighted average period for which these interest rates are fixed is four years.

The floating rate for borrowings is linked to LIBOR in the case of Sterling, EURIBOR in the case of Euro, the prime rate in the case of South African Rand and the local prime rate for other currencies.

The exposure of the Group to interest rate changes when borrowings re-price is as follows, including £775 million of fully drawn RCF facility expected to be repaid once the current crisis abates:

Total borrowings	**1 year £m**	**1–5 years £m**	**>5 years £m**	**Total £m**
As at 31 March 2020	**1,554.6**	**885.7**	**682.6**	**3,122.9**
As at 31 March 2019	352.6	753.9	305.0	1,411.5

21. Bank and other borrowings (continued)

The effective interest rates at the statement of financial position dates were as follows:

	2020 %	2019 %
UK bank overdraft	**1.1**	1.3
UK bank borrowings	**0.5**	2.4
US private placement – fixed	**6.0**	6.0
US private placement – floating	**2.8**	3.1
8 year Eurobond September 2027– fixed	**2.9**	–
8 year Eurobond September 2027 – floating	**2.8**	–
8 year Eurobond October 2022	**1.8**	1.8
£300 million bond	**1.9**	1.9
Other borrowings	**4.8 – 8.9**	4.8 – 9.7
Leases obligations	**0.4 – 12.6**	0.4 – 9.0

Repayment details

The total borrowings of the Group at 31 March are repayable as follows:

	2020		2019	
	Loans and overdrafts £m	Lease obligations £m	Loans and overdrafts £m	Lease obligations £m
Within one year	**400.1**	**138.0**	38.6	15.3
Between one and two years	**–**	**115.1**	382.2	19.2
Between two and five years	**1,260.4**	**287.3**	623.2	23.5
Greater than five years	**789.6**	**132.4**	301.7	7.8
	2,450.1	**672.8**	1,345.7	65.8

In addition to the lease obligations above, the Group paid £44.3 million (2019: £53.5 million) for the Phoenix contract where the leases are directly on behalf of and benefit to the customer.

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at 31 March:

	2020 £m	2019 £m
Expiring in less than one year	**3.5**	4.6
Expiring in more than one year but not more than five years	**77.6**	778.2
	81.1	782.8

22. Other financial assets and liabilities

Financial instruments and leases granted

	Fair value			
	Assets		Liabilities	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Non-current				
US private placement – derivative	**–**	75.2	**–**	–
US private placement – interest rate swaps	**–**	–	**–**	1.0
8 year Eurobond September 2027 – derivative	**–**	–	**6.1**	–
8 year Eurobond September 2027 – interest rate swaps	**–**	–	**17.0**	–
Interest rate hedge	**–**	–	**0.8**	0.8
Other currency hedges	**14.6**	2.0	**11.7**	7.5
Financial derivatives	**14.6**	77.2	**35.6**	9.3
Leases granted	**6.9**	16.6	**–**	–
Total non-current other financial assets and liabilities	**21.5**	93.8	**35.6**	9.3
Current				
US private placement – derivative	**95.5**	–	**–**	–
US private placement – interest rate swaps	**9.2**	–	**–**	–
Interest rate hedge	**–**	–	**0.1**	0.1
Other currency hedge	**17.5**	3.7	**8.9**	4.8
Financial derivatives	**122.2**	3.7	**9.0**	4.9
Leases granted	**31.7**	44.3	**–**	–
Total current other financial assets and liabilities	**153.9**	48.0	**9.0**	4.9

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

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

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

The Group entered into a facility to sell its lease debtors on the Fomedec equipment supply contract. The Group analysed the terms of the facility and considers that the facility transfers substantially all the risks and rewards associated with the lease debtors. Lease debtors are derecognised at the date they are discounted by the bank. At 31 March 2020 the non-recourse balance was £100.9 million which will be recovered over approximately three years.

Interest rate hedges

The notional principal amount of outstanding interest rate swap contracts at 31 March 2020 included £4.2 million of UK interest rate swaps and interest rate swaps in relation to the US$500 million US$ to GBP cross-currency swap.

The Group held the following interest rate hedges at 31 March 2020:

	Amount £m	Fixed payable %	Floating receivable %	Maturity
Hedged				
Interest rate swap	**4.2**	**4.745**	**Six month LIBOR**	**31/3/2029**

	Amount US$m	Amount at swapped rates £m	Swap %	Maturity
Hedged – US$				
Cross currency and interest rate swap	**200.0**	**122.9**	**Fixed 5.64% US$ to fixed 5.95% GBP**	**17/3/2021**
Cross currency and interest rate swap	**300.0**	**184.3**	**Fixed 5.64 US$ to floating three-month LIBOR + margin GBP**	**17/3/2021**
Total cross currency and interest rate swap – US$	**500.0**	**307.2**		

22. Other financial assets and liabilities (continued)

	Amount EURm	Amount at swapped rates £m	Swap %	Maturity
Hedged – EURO				
Cross currency and interest rate swap	**275.0**	**246.7**	**Fixed 1.375% EUR to fixed 2.931% GBP**	**13/9/27**
Cross currency and interest rate swap	**275.0**	**246.7**	**Fixed 1.375 EUR to floating three-month LIBOR + margin GBP**	**13/9/27**
Total cross currency and interest rate swap – EURO	**550.0**	**493.4**		

Leases granted

In South Africa the Group operates its own finance company to facilitate the sale of DAF vehicles. It obtains external borrowings and sells vehicles on leases to external customers. At the year end the present value of the minimum lease receivable amounted to £22.3 million (2019: £24.4 million), these were split as £15.4 million (2019: £7.8 million) due within one year and £6.9 million (2019: £16.6 million) between one and five years. In addition there is £16.3 million (2019: £36.5 million) due within one year in respect of our Fomedec contract.

Fair values of non-current borrowings and loans

The fair values of non-current borrowings and loans at the statement of financial position date were:

	2020		2019	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Fair value of non-current borrowings and loans				
Long-term borrowings	**(2,584.8)**	**(2,682.8)**	(1,357.6)	(1,404.6)
Loan to joint venture	**48.6**	**48.6**	42.5	42.5
	(2,536.2)	**(2,634.2)**	(1,315.1)	(1,362.1)

Fair values of long-term borrowings are based on cash flows discounted using the GBP Zero IR Curve as at 31 March 2020 (2019: 4% to 5%).

23. Provisions for other liabilities

	Insurance provisions (a) £m	Contract/ warranty (b) £m	Employee benefits and business reorganisation costs (c) £m	Property and other (d) £m	Expected credit losses £m	Total provisions £m
At 1 April 2019	**0.5**	**8.8**	**65.3**	**29.0**	**0.3**	**103.9**
Transition to IFRS 16	**–**	**–**	**(17.1)**	**(4.1)**	**–**	**(21.2)**
On disposal of subsidiaries (note 29)	**–**	**–**	**–**	**(0.3)**	**–**	**(0.3)**
Net charge to income statement	**–**	**9.4**	**56.0**	**45.4**	**0.1**	**110.9**
Utilised in year	**0.1**	**(0.9)**	**(42.9)**	**(4.8)**	**–**	**(48.5)**
Foreign exchange	**–**	**–**	**(0.4)**	**(0.8)**	**–**	**(1.2)**
At 31 March 2020	**0.6**	**17.3**	**60.9**	**64.4**	**0.4**	**143.6**

Included within net charge to income statement is £111.7 million relating to exceptional items, with £10.3 million relating to contract/warranty, £53.8 million relating to employee benefits and business reorganisation, and £47.6 million relating to property and other.

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

	2020 £m	2019 £m
Current	**113.2**	63.4
Non-current	**30.4**	40.5
	143.6	103.9

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

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

(c) The employee benefits and reorganisation costs arise mainly in relation to restructuring (see note 5), acquired businesses, personnel related costs and payroll taxes.

(d) Property and other in the main relate to provisions for the fine in Italy (see note 3), dilapidation costs and contractual obligations in respect of infrastructure. Onerous lease provisions have been utilised and offset against right-of-use assets as part of the IFRS 16 transition (refer to note 31).

Included within provisions is £5 million expected to be utilised over approximately ten years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

24. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2019 and 31 March 2020	**505,596,597**	**303.4**
Allotted, issued and fully paid		
At 1 April 2018 and 31 March 2019	505,596,597	303.4

Potential issues of ordinary shares

The table below shows options and conditional share awards existing over the Company's shares as at 31 March 2020 that are capable of being met on exercise or vesting by the issue of new shares. They represent outstanding awards granted under the Company's executive share plans. The awards were granted directly by the Company and satisfied by the Trustees of the Babcock Employee Share Trust (BEST) – a total of 9,526,628 shares (2019: 7,747,703 shares). The Company decides from time to time whether to satisfy the awards by way of a fresh issue of shares (either to the award holder or to the employee share trust) or by way of financing the employee share trusts to purchase already issued shares in the market. This decision is made according to available headroom within the dilution limits contained in the relevant share plan rules and what the Directors consider to be in the best interest of the Company at the time.

Grant date	Type	Exercise period	2020 Number	2019 Number
11 June 2015	PSP[1]	11/06/2018 – 11/06/2019	**–**	23,897
11 June 2015	DBMP[2]	11/06/2018 – 11/06/2019	**–**	24,279
15 June 2016	DBP[4]	15/06/2019 – 15/06/2020	**–**	62,845
15 June 2016	PSP[1]	15/06/2019 – 15/06/2020	**17,279**	1,786,612
12 October 2016	PSP[1]	12/10/2019 – 12/10/2020	**–**	27,578
15 June 2016	DBMP[2]	15/06/2019 – 15/06/2020	**4,733**	444,648
14 June 2017	DBP[3]	14/06/2019 – 14/06/2020	**8,866**	91,284
14 June 2017	DBP[4]	14/06/2020 – 14/06/2021	**179,263**	179,263
14 June 2017	PSP[1]	14/06/2020 – 14/06/2021	**1,358,599**	1,507,664
14 June 2017	PSP[1]	14/06/2022 – 14/06/2023	**839,723**	839,723
13 June 2018	DBP[3]	13/06/2020 – 13/06/2021	**78,746**	84,207
13 June 2018	DBP[4]	13/06/2021 – 13/06/2022	**187,433**	187,433
13 June 2018	PSP[1]	13/06/2021 – 13/06/2022	**1,398,259**	1,628,113
13 June 2018	PSP[1]	13/06/2023 – 13/06/2024	**860,157**	860,157
13 June 2019	DBP[3]	13/06/2021 – 13/06/2022	**83,466**	–
13 June 2019	DBP[4]	13/06/2022 – 13/06/2023	**313,909**	–
13 June 2019	PSP[1]	13/06/2022 – 13/06/2023	**2,825,524**	–
13 June 2019	PSP[1]	13/06/2024 – 13/06/2025	**1,370,671**	–
			9,526,628	7,747,703

Options granted to Directors are summarised in the Remuneration report on pages 113 to 136 and are included in the outstanding options set out above.

1. 2009 Performance Share Plan.
2. 2012 Deferred Bonus Matching Plan.
3. Award issued without matching shares, has two–year vesting period.
4. Award issued without matching shares, has three–year vesting period.

24. Share capital (continued)

The table below shows shares already held by the trustees of the BEST and PEST in order to meet these awards.

	2020		2019	
	Shares newly issued by the Company	**Shares bought in the market**	Shares newly issued by the Company	Shares bought in the market
BEST	**–**	**221,320**	–	239,862
Total	**–**	**221,320**	–	239,862

A reconciliation of PSP and DBMP movements is shown below:

	2020 Number '000	2019 Number '000
Outstanding at 1 April	**7,748**	8,027
Granted	**4,797**	2,838
Exercised	**(654)**	(830)
Forfeited/lapsed	**(2,364)**	(2,287)
Outstanding at 31 March	**9,527**	7,748
Exercisable at 31 March	**31**	48

The weighted average share price for awards exercised during the year was 497.7p per share (2019: 823.3p per share).

During the year 635,326 ordinary shares (2019: nil shares) were acquired or subscribed for through the Babcock Employee Share Trust ('the Trust'). The Trust holds shares to be used towards satisfying awards made under the Company's employee share schemes. During the year ended 31 March 2020, 653,868 shares (2019: 829,859 shares) were disposed of by the Trust resulting from options exercised. At 31 March 2020, the Trust held a total of 221,320 ordinary shares (2019: 239,862 ordinary shares) at a total market value of £848,098 (2019: £1,183,719) representing 0.04% (2019: 0.05%) of the issued share capital at that date. The Company elected to pay dividends to the Babcock Employee Share Trust at the rate of 0.001p per share during the year. The Company meets the operating expenses of the Trust.

The Trust enables shares in the Company to be held or purchased and made available to employees through the exercise of rights or pursuant to awards made under the Company's employee share scheme. The Trust is a discretionary settlement for the benefit of employees within the Group. The Company is excluded from benefiting under it. It is controlled and managed outside the UK and has a single corporate trustee which is an independent trustee services organisation. The right to remove and appoint the trustees rests ultimately with the Company. The trustee of the Babcock Employee Share Trust is required to waive both voting rights and dividends payable on any share in the Company in excess of 0.001p, unless otherwise directed by the Company.

25. Share-based payments

The charge to the income statement has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report.

During the year the total charge relating to employee share-based payment plans was £2.9 million (2019: £2.4 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £2.4 million (2019: £2.0 million).

The fair value per option granted and the assumptions used in the calculation are as follows:

DBMP, PSPs and DBP[1]

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS/ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS/ROCE Pence	Correlation %	Grant or modification date
2019 PSP	1,370,671	472.8	11.0%	6.0	–	70.9	472.8	45%	13/06/19
2019 PSP	3,019,033	472.8	11.0%	4.0	–	70.9	472.8	45%	13/06/19
2019 DBP	313,909	472.8	11.0%	4.0	100%	–	472.8	45%	13/06/19
2019 DBP	93,430	472.8	11.0%	3.0	100%	–	472.8	45%	13/06/19
2018 PSP	860,157	856.0	14.0%	6.0	–	370.9	856.0	56%	13/06/18
2018 PSP	1,699,323	856.0	14.0%	4.0	–	370.9	856.0	56%	13/06/18
2018 DBP	187,433	856.0	14.0%	4.0	100%	–	856.0	56%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100%	–	856.0	56%	13/06/18
2017 PSP	902,424	905.5	15.0%	6.0	–	131.2	905.5	46%	14/06/17
2017 PSP	1,769,338	905.5	15.0%	4.0	–	131.2	905.5	46%	14/06/17
2017 DBP	186,949	905.5	15.0%	4.0	100%	–	905.5	46%	14/06/17
2017 DBP	103,246	905.5	15.0%	3.0	100%	–	905.5	46%	14/06/17

Both the vesting period and the expected life of all DBMP and PSP awards are three years, but for the DBP they are two years, other than for Executive Directors where the vesting period is three years. The holders of all awards receive dividends.

The PSP awards are split evenly between the performance criteria of TSR, EPS and ROCE. There are no performance conditions attached to the DBP.

The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 104,756 matching shares (2019: 92,772 matching shares) at a cost of £0.5 million (2019: £0.6 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year 1,000 matching shares were purchased on the open market (2019: nil matching shares) and 713 matching shares vested (2019: 82 matching shares) leaving a balance of 1,205 matching shares (2019: 918 matching shares).

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan and DBP = 2012 Deferred Bonus Plan.

26. Retirement benefits and liabilities

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	2020 £m	2019 £m
Defined contribution schemes	**85.7**	69.5

Defined benefit schemes

Statement of financial position assets and liabilities recognised are as follows:

	2020 £m	2019 £m
Retirement benefits – funds in surplus	**325.3**	226.9
Retirement benefits – funds in deficit	**(180.1)**	(254.9)
	145.2	(28.0)

The Group provides a number of pension schemes for its employees. The principal defined benefit pension schemes for employees in the UK are the Devonport Royal Dockyard Pension Scheme, the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme (the Principal schemes). The nature of these schemes is that the employees contribute to the schemes with the employer paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the Group with the trustees who are advised by independent, qualified actuaries.

The key risks in all of the defined benefit schemes relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases, and the discount rate used to value the liabilities. The Principal schemes have mitigated some of these risks by taking out longevity swaps in respect of pensioners and their spouses at the time, through investment strategies which have significantly hedged the interest rate and inflation risk through derivative instruments, made benefit changes in 2014 and 2015 with respect to future service benefits, and in 2019 closed the Babcock International Group Pension Scheme to future accrual for some employees.

The Group also participates in the Babcock Rail Shared Cost Section of the Railways Pension Scheme (the Railways scheme). This scheme is a multi-employer shared cost scheme with the contributions required, the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments all agreed with the trustees who are advised by an independent, qualified actuary. The costs are, in the first instance, shared such that the active employees contribute 40% of the cost of providing the benefits and the employer contributes 60%. However the assumption is that as the active membership reduces, the liability will ultimately revert to the Group. The Group's share of the assets and liabilities is separately identified to those of other employers in the scheme and therefore the Group cannot be held liable for the obligations of other entities that participate in this scheme.

The schemes are prudently funded by payments to legally separate trustee-administered funds. The trustees of each scheme are required by law to act in the best interests of each scheme's members. In addition to determining future contribution requirements (with the agreement of the Group), the trustees are responsible for setting the schemes' investment strategy (subject to consultation with the Group). All the schemes have at least one independent trustee and member nominated trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004. The detail of the latest formal actuarial valuation of the scheme is as follows. The next valuations of the Devonport Royal Dockyard Pension Scheme and the Rosyth Royal Dockyard Scheme are currently being undertaken:

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
Date of last formal completed actuarial valuation	31/03/2017	31/03/2019	31/03/2015	31/12/2016
Number of active members at above date	2,241	643	829	279
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Projected unit
Results of formal actuarial valuation:				
Value of assets	£1,860.8m	£1,480.0m	£714.0m	£253.9m
Level of funding	91%	97%	74%	90%

The Group also participates in or provides a number of other smaller pension schemes including a number of sections of the local government pension schemes where in most cases the employer contribution rates are fully reimbursed by the administering authorities. It also participates in the Magnox Electric Group of the Electricity Supply Pension Scheme and runs the Babcock Naval Services Pension Scheme for which the MOD fully reimburses the contributions payable.

26. Retirement benefits and liabilities (continued)

The Group's cash contribution rates payable to the schemes are expected to be as follows:

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme	Other	Total
Future service contribution rate	22.2%	51.1%	20.0%	12.5%	–	–
Future service cash contributions	£12.8m	£7.7m	£3.4m	£0.5m	£1.8m	£26.2m
Deficit contributions	£18.6m	£12.5m	£17.5m	£1.6m	£1.4m	£51.6m
Longevity swap payments	£7.3m	£3.6m	£4.4m	–	–	£15.3m
Expected employer cash costs for 2020/21	£38.7m	£23.8m	£25.3m	£2.1m	£3.2m	£93.1m
Expected salary sacrifice contributions	£6.1m	£0.8m	£1.6m	£0.6m	£0.2m	£9.3m
Expected total employer contributions	£44.8m	£24.6m	£26.9m	£2.7m	£3.4m	£102.4m

Where salary sacrifice arrangements are in place, the Group effectively meets the members' contributions. The above level of funding is expected to continue until the next actuarial valuation of each scheme; valuations are carried out every three years.

The current agreement with the Rosyth trustees includes annual deficit contributions of £17.5 million until 2032. The Group anticipates that this agreement will be superseded and expects to make additional payments into the Rosyth scheme over the next two years of approximately £90 million, however this is subject to final agreement with the trustees.

The expected payments from the schemes are primarily pension payments and lump sums. Most of the pensions increase at a fixed rate or in line with RPI or CPI inflation when in payment. Benefit payments commence at retirement, death or incapacity and are predominantly calculated with reference to final salary. The level of deficit contributions reflected above are expected to continue until technical provisioning funding levels are met either through asset performance or funding. The current discussions regarding the Rosyth Royal Dockyard Scheme are expected to require an increased level of funding.

Although the Group anticipates that scheme surpluses will be utilised during the life of the scheme to address member benefits, the Group recognises its retirement benefit surpluses in full in respect of the schemes in surplus, on the basis that it is management's judgement that there are no substantive restrictions on the return of residual scheme assets in the event of a winding-up of the scheme after all member obligations have been met. The Group also considers that the trustees do not have the power to unilaterally wind up the schemes or vary benefits.

The latest full actuarial valuations of the Group's defined benefit pension schemes have been updated to 31 March 2020 by independent qualified actuaries for IAS 19 purposes, on a best estimate basis, using the following assumptions:

March 2020	**Devonport Royal Dockyard Scheme**	**Babcock International Group Scheme**	**Rosyth Royal Dockyard Scheme**	**Babcock Rail Ltd section of the Railways Pension Scheme**
Rate of increase in pensionable salaries	**2.0%**	**2.0%**	**2.0%**	**2.0%**
Rate of increase in pensions (past service)	**2.0%**	**2.6%**	**2.8%**	**2.0%**
Discount rate	**2.4%**	**2.4%**	**2.4%**	**2.4%**
Inflation rate (RPI)	**2.6%**	**2.6%**	**2.6%**	**2.6%**
Inflation rate (CPI)	**1.8%**	**1.8%**	**1.8%**	**1.8%**
Weighted average duration of cashflows (years)	**16**	**15**	**17**	**18**
Total life expectancy for current pensioners aged 65 (years)	**85.7**	**87.1**	**84.8**	**85.8**
Total life expectancy for future pensioners currently aged 45 (years)	**86.8**	**87.7**	**85.9**	**86.9**
March 2019				
Rate of increase in pensionable salaries	2.3%	2.3%	2.3%	2.3%
Rate of increase in pensions (past service)	2.2%	3.0%	3.3%	2.2%
Discount rate	2.4%	2.4%	2.4%	2.4%
Inflation rate (RPI)	3.2%	3.2%	3.2%	3.2%
Inflation rate (CPI)	2.1%	2.1%	2.1%	2.1%
Weighted average duration of cashflows (years)	17	16	18	17
Total life expectancy for current pensioners aged 65 (years)	85.6	86.7	84.7	85.7
Total life expectancy for future pensioners currently aged 45 (years)	86.6	87.7	85.7	86.8

26. Retirement benefits and liabilities (continued)

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

	2020				2019			
	Principal schemes £m	**Railways scheme £m**	**Other schemes £m**	**Total £m**	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets								
Growth assets								
Equities	**33.7**	**14.0**	**19.8**	**67.5**	1,267.4	15.0	24.9	1,307.3
Property	**426.0**	**4.6**	**4.4**	**435.0**	337.2	5.6	1.9	344.7
Absolute return and multi-strategy funds	**420.3**	**191.1**	**22.3**	**633.7**	127.6	192.1	18.8	338.5
Low-risk assets								
Bonds	**1,397.4**	**30.3**	**75.0**	**1,502.7**	822.9	33.3	98.3	954.5
Matching assets*	**1,918.7**	**1.4**	**59.2**	**1,979.3**	1,736.7	0.6	87.0	1,824.3
Active position on longevity swaps	**(206.9)**	**–**	**–**	**(206.9)**	(187.1)	–	–	(187.1)
Fair value of assets	**3,989.2**	**241.4**	**180.7**	**4,411.3**	4,104.7	246.6	230.9	4,582.2
Percentage of assets quoted	**100%**	**100%**	**100%**	**100%**	100%	100%	100%	100%
Percentage of assets unquoted	**–**	**–**	**–**	**–**	–	–	–	–
Present value of defined benefit obligations								
Active members	**892.0**	**93.1**	**91.8**	**1,076.9**	1,075.0	93.7	113.5	1,282.2
Deferred pensioners	**863.4**	**82.0**	**45.0**	**990.4**	947.4	86.2	63.8	1,097.4
Pensioners	**2,035.4**	**122.4**	**41.0**	**2,198.8**	2,037.9	131.2	61.5	2,230.6
Total liabilities	**3,790.8**	**297.5**	**177.8**	**4,266.1**	4,060.3	311.1	238.8	4,610.2
Net assets (liabilities) recognized in the statement of financial position	**198.4**	**(56.1)**	**2.9**	**145.2**	44.4	(64.5)	(7.9)	(28.0)

* The matching assets aim to hedge the liabilities and consist of gilts, repos, cash and swaps. They are shown net of repurchase obligations of £2,033 million (2019: £1,655 million).

The schemes do not invest directly in assets or shares of the Group.

The longevity swaps have been valued in line with assumptions that are consistent with the requirements of IFRS 13, the valuation of which is equal to the amount of collateral posted by the schemes as at statement of financial position date. This is a level 3 derivative and the key inputs to the valuation are the discount rate and mortality assumptions.

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

	2020				2019			
	Principal schemes £m	**Railways scheme £m**	**Other schemes £m**	**Total £m**	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Current service cost	**29.5**	**2.5**	**1.7**	**33.7**	34.2	2.7	2.0	38.9
Incurred expenses	**3.4**	**0.2**	**0.1**	**3.7**	3.4	0.2	0.2	3.8
Past service costs	**–**	**–**	**–**	**–**	24.3	1.0	0.6	25.9
Settlements*	**–**	**–**	**–**	**–**	4.8	–	(12.8)	(8.0)
Total included within operating profit	**32.9**	**2.7**	**1.8**	**37.4**	66.7	3.9	(10.0)	60.6
Net interest (credit)/cost	**(1.6)**	**1.6**	**0.1**	**0.1**	(2.3)	1.5	0.5	(0.3)
Total included within income statement	**31.3**	**4.3**	**1.9**	**37.5**	64.4	5.4	(9.5)	60.3

* Settlement gain in Other schemes is offset by movements in contract balances and is accordingly not classified as exceptional.

26. Retirement benefits and liabilities (continued)

Amounts recorded in the Group statement of comprehensive income

	2020				2019			
	Principal schemes £m	**Railways scheme £m**	**Other schemes £m**	**Total £m**	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Actual return less interest on pension scheme assets	**(64.0)**	**(2.4)**	**30.3**	**(36.1)**	110.3	6.1	20.8	137.2
Experience (losses)/gains arising on scheme liabilities	**(27.8)**	**–**	**(1.4)**	**(29.2)**	(35.7)	(5.5)	3.0	(38.2)
Changes in assumptions on scheme liabilities	**172.0**	**12.1**	**(18.9)**	**165.2**	(131.6)	(5.1)	(20.7)	(157.4)
At 31 March	**80.2**	**9.7**	**10.0**	**99.9**	(57.0)	(4.5)	3.1	(58.4)

Analysis of movement in the Group statement of financial position

	2020				2019			
	Principal schemes £m	**Railways scheme £m**	**Other schemes £m**	**Total £m**	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets (including reimbursement rights)								
At 1 April	**4,104.7**	**246.6**	**230.9**	**4,582.2**	4,143.2	239.8	351.9	4,734.9
Interest on assets	**96.0**	**5.8**	**3.0**	**104.8**	105.5	6.1	3.8	115.4
Actuarial gain/(loss) on assets	**(64.0)**	**(2.4)**	**30.3**	**(36.1)**	110.3	6.1	20.8	137.2
Employer contributions	**105.1**	**3.0**	**2.8**	**110.9**	88.4	4.4	2.7	95.5
Employee contributions	**0.2**	**–**	**0.1**	**0.3**	0.4	–	0.1	0.5
Benefits paid	**(252.8)**	**(11.6)**	**(6.1)**	**(270.5)**	(301.4)	(9.8)	(28.2)	(339.4)
Settlements	**–**	**–**	**(80.3)**	**(80.3)**	(41.7)	–	(120.2)	(161.9)
At 31 March	**3,989.2**	**241.4**	**180.7**	**4,411.3**	4,104.7	246.6	230.9	4,582.2
Present value of benefit obligations								
At 1 April	**4,060.3**	**311.1**	**238.8**	**4,610.2**	4,065.8	298.8	375.1	4,739.7
Service cost	**29.5**	**2.5**	**1.7**	**33.7**	34.2	2.7	2.0	38.9
Incurred expenses	**3.4**	**0.2**	**0.1**	**3.7**	3.4	0.2	0.2	3.8
Interest cost	**94.4**	**7.4**	**3.1**	**104.9**	103.2	7.6	4.3	115.1
Employee contributions	**0.2**	**–**	**0.1**	**0.3**	0.4	–	0.1	0.5
Experience loss/(gain)	**27.8**	**–**	**1.4**	**29.2**	35.7	5.5	(3.0)	38.2
Actuarial (gain)/loss – demographics	**14.8**	**1.2**	**(1.2)**	**14.8**	(35.4)	(9.3)	(2.5)	(47.2)
Actuarial loss /(gain)– financial	**(186.8)**	**(13.3)**	**20.1**	**(180.0)**	167.0	14.4	23.2	204.6
Benefits paid	**(252.8)**	**(11.6)**	**(6.1)**	**(270.5)**	(301.4)	(9.8)	(28.2)	(339.4)
Past service costs	**–**	**–**	**–**	**–**	24.3	1.0	0.6	25.9
Settlements	**–**	**–**	**(80.2)**	**(80.2)**	(36.9)	–	(133.0)	(169.9)
At 31 March	**3,790.8**	**297.5**	**177.8**	**4,266.1**	4,060.3	311.1	238.8	4,610.2
Net surplus/(deficit) at 31 March	**198.4**	**(56.1)**	**2.9**	**145.2**	44.4	(64.5)	(7.9)	(28.0)

* Settlement effect in Other schemes in a result of a transfer of assets and liabilities from the Babcock Naval Services Pension Scheme back into the Principal Civil Service Pension Scheme. As the Group is reimbursed by MOD for any contributions payable to this scheme, the settlement has an equal impact on both the value of the benefit obligations and the plan assets, hence is it neutral in terms of both the income statement and other comprehensive income,

The movement in net deficits for the year ending 31 March 2020 is as a result of the movement in assets and liabilities shown above.

26. Retirement benefits and liabilities (continued)

The changes to the Group statement of financial position at March 2020 and the charges to the Group income statement for the year to March 2021, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2020 £m	Income statement 2021 £m
Initial assumptions	**4,266.1**	**28.0**
Discount rate assumptions increased by 0.5%	**(326.8)**	**(13.5)**
Discount rate assumptions decreased by 0.5%	**326.8**	**10.1**
Inflation rate assumptions increased by 0.5%	**260.4**	**8.1**
Inflation rate assumptions decreased by 0.5%	**(235.8)**	**(7.5)**
Total life expectancy increased by half a year	**88.1**	**2.5**
Total life expectancy decreased by half a year	**(88.1)**	**(2.5)**
Salary increase assumptions increased by 0.5%	**53.6**	**2.1**
Salary increase assumptions decreased by 0.5%	**(53.6)**	**(2.1)**

The figures in the table above have been calculated on an approximate basis, using information about the expected future benefit payments out of the schemes. The analysis above may not be representative of actual changes to the position since changes in assumptions are unlikely to happen in isolation. The change in inflation rates is assumed to affect the assumed rate of RPI inflation, CPI inflation and future pension increases by an equal amount. The fair value of the schemes' assets (including reimbursement rights) are assumed not to be affected by any sensitivity changes shown and so the statement of financial position values would increase or decrease by the same amount as the change in the defined benefit obligations.

27. Movement in net debt

	2020 £m	2019 £m
(Decrease)/increase in cash in the year	**1,083.6**	(5.6)
Cash flow from the increase in debt and lease financing	**(937.3)**	(27.4)
Change in net funds resulting from cash flows	**146.3**	(33.0)
Debt disposed of with subsidiaries	**3.1**	–
Additional lease obligations	**(128.1)**	–
New leases – granted	**30.0**	176.6
Movement in joint venture and associate loans	**6.1**	14.7
Transition to IFRS 16	**(640.8)**	–
Foreign currency translation differences	**(53.8)**	(1.0)
Movement in net debt in the year	**(637.2)**	157.3
Net debt at the beginning of the year	**(957.7)**	(1,115.0)
Net debt at the end of the year	**(1,594.9)**	(957.7)

28. Changes in net debt

	31 March 2019 £m	Cash flow £m	Disposal of subsidiaries £m	Additional leases £m	Transition to IFRS 16 £m	Exchange movement £m	**31 March 2020 £m**
Cash and bank balances	275.2	985.0	101.6	–	–	(10.4)	**1,351.4**
Bank overdrafts	–	(3.0)	–	–	–	0.3	**(2.7)**
Cash, cash equivalents and bank overdrafts	275.2	982.0	101.6	–	–	(10.1)	**1,348.7**
Debt	(1,345.7)	(1,062.4)	–	–	–	(39.3)	**(2,447.4)**
Leases – received	(65.8)	175.0	3.1	(128.1)	(640.8)	(16.2)	**(672.8)**
Leases – granted	60.9	(49.9)	–	30.0	–	(2.4)	**38.6**
	(1,350.6)	(937.3)	3.1	(98.1)	(640.8)	(57.9)	**(3,081.6)**
Net debt before derivatives and joint ventures and associates loans	(1,075.4)	44.7	104.7	(98.1)	(640.8)	(68.0)	**(1,732.9)**
Net debt derivative	75.2	–	–	–	–	14.2	**89.4**
Joint ventures and associates loans	42.5	6.1	–	–	–	–	**48.6**
Net debt	(957.7)	50.8	104.7	(98.1)	(640.8)	(53.8)	**(1,594.9)**

29. Disposal of subsidiaries, businesses and joint ventures and associates

On 5 March 2020 the Group disposed of Context Information Security Limited for £107.1 million, which resulted in a profit on disposal of £74.7 million.

During the previous year the Group disposed of its media business for £28.7 million, which resulted in a profit of £14.0 million. A further three disposals were made for a total consideration of £11.4 million, which resulted in a profit on disposal of £0.8 million.

During both the current and previous years the Group paid certain accrued costs on previously disposed of businesses of £0.8 million (2019: £0.8 million).

	2020			2019					
	Context Information Security Limited £m	**Previously disposed of business £m**	**Total £m**	Babcock Media Services £m	Babcock 4S Limited £m	Powerlines £m	Helidax S.A.S £m	Previously disposed of business £m	Total £m
Goodwill	**20.6**	**–**	**20.6**	7.1	–	–	–	–	7.1
Investment in joint ventures and associates	**–**	**–**	**–**	–	–	–	6.6	–	6.6
Other intangible assets	**4.0**	**–**	**4.0**						
Property, plant and equipment	**1.6**	**–**	**1.6**	1.4	–	3.6	–	–	5.0
Right of use assets	**2.3**	**–**	**2.3**						
Inventory	**–**	**–**	**–**	7.4	–	–	–	–	7.4
Current assets	**6.7**	**–**	**6.7**	4.0	0.5	–	–	–	4.5
Cash, cash equivalents and bank overdrafts	**1.8**	**–**	**1.8**	2.6	4.9	–	–	–	7.5
Lease liabilities	**(3.1)**	**–**	**(3.1)**						
Current liabilities	**(3.7)**	**–**	**(3.7)**	(9.6)	(2.2)	–	–	–	(11.8)
Taxation	**(0.4)**	**–**	**(0.4)**						
Provisions	**(0.3)**	**–**	**(0.3)**	–	(0.9)	–	–	–	(0.9)
Net assets disposed	**29.5**	**–**	**29.5**	12.9	2.3	3.6	6.6	–	25.4
Disposal costs	**2.9**	**–**	**2.9**	1.8	1.3	–	–	–	3.1
Deferred consideration	**–**	**–**	**–**	–	–	(3.2)	–	–	(3.2)
Profit on disposal of subsidiary	**74.7**	**–**	**74.7**	14.0	(1.5)	(0.1)	2.4	–	14.8
Sale proceeds	**107.1**	**–**	**107.1**	28.7	2.1	0.3	9.0	–	40.1
Sale proceeds less cash disposed of	**105.3**	**–**	**105.3**	26.1	(2.8)	0.3	9.0	–	32.6
Less costs paid in the period	**(2.9)**	**(0.8)**	**(3.7)**	(1.8)	(0.5)	–	–	(0.8)	(3.1)
Net cash inflow/(outflow)	**102.4**	**(0.8)**	**101.6**	24.3	(3.3)	0.3	9.0	(0.8)	29.5

30. Transactions with non-controlling interests

There were no transactions with non-controlling interest in the current year.

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

Also in the previous year, Cognac Formation Aero France was created with a 10% non-controlling interest and the Fomedec business was transferred into this company.

A reconciliation to the March 2019 Group statement of changes in equity and the Group cash flow statement is shown below:

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

31. Adoption of IFRS 16, 'Leases'

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

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

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

The Group has completed its transition to IFRS 16 and has taken advantage of permitted expedience to exclude leases under £5,000, leases of less than one year and service contracts in place at the date of transition.

The weighted average incremental borrowing rate applied by the Group to the lease liabilities on 1 April 2019 was 3.99%.

The impact on the Group statement of financial position at 1 April 2019 is reflected below:

	£m
Non-current assets	
Right-of-use assets	592.7
Deferred tax asset	5.0
Other receivables	(0.4)
Total assets	597.3
Equity and liabilities	
Retained earnings	(22.3)
Total equity	(22.3)
Non-current liabilities	
Lease liabilities	533.7
Provisions	(6.7)
Total non-current liabilities	527.0
Current liabilities	
Lease liabilities	107.1
Provisions	(14.5)
Total current liabilities	92.6
Total equity and liabilities	597.3

31. Adoption of IFRS 16, 'Leases' (continued)

Following a detailed review of the new IFRS 16 transition balances an adjustment has been made to both right-of-use assets and lease liabilities to the balances previously disclosed, primarily reflecting hindsight on lease extensions.

The table below explains the difference between the total operating lease commitments recognised under IAS 17 as at 31 March 2019 and the total lease liability recognised on transition to IFRS 16 as at 1 April 2019.

	1 April 2019 £m
Operating lease commitments at 31 March 2019	685.5
Effect of discounting	(82.8)
Change in assessment of lease term	38.1
IFRS 16 lease liability at 1 April 2019	640.8

The expense recognised in the income statement in the year relating to low-value and short-term leases amounted to £10.0 million.

Operating lease commitments – minimum lease payments

The minimum operating lease payments for the previous year were:

	2019	
	Property £m	Vehicles, plant and equipment £m
Commitments under non-cancellable operating leases payable:		
Within one year	29.5	121.5
Later than one year and less than five years	78.8	320.6
After five years	33.1	102.0
	141.4	544.1

In addition assets held under finance leases at 31 March 2019 with a net book value of £72.8 million were transferred to Right-of-use assets (see note 14).

32. Contingent liabilities

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

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

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

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

33. Capital and other financial commitments

	2020 £m	2019 £m
Contracts placed for future capital expenditure not provided in the financial statements	**14.7**	12.2

34. Related party transactions

(a) The following related parties either sell to or receive services from the Group. Loans to joint ventures and associates are detailed in note 14.

2020	2020 Revenue to £m	2020 Purchases from £m	2020 Year end debtor balance £m	2020 Year end creditor balance £m
Joint ventures and associates				
Holdfast Training Services Limited	**67.2**	**–**	**0.9**	**–**
First Swietelsky Operation and Maintenance	**9.7**	**–**	**0.2**	**(0.7)**
FSP (2004) Limited	**–**	**–**	**–**	**–**
Ascent Flight Training (Management) Limited	**1.6**	**–**	**0.5**	**–**
ALC (Superholdco) Limited	**2.3**	**–**	**–**	**–**
Rotary Wing Training Limited	**3.8**	**–**	**–**	**–**
Fixed Wing Training Limited	**3.8**	**–**	**–**	**–**
Advanced Jet Training Limited	**1.9**	**–**	**0.3**	**–**
Rear Crew Training Limited	**1.2**	**–**	**0.2**	**–**
AirTanker Services Limited	**11.3**	**–**	**0.2**	**–**
Alert Communications Limited	**5.0**	**–**	**0.4**	**–**
Naval Ship Management (Australia) Pty Limited	**8.7**	**–**	**–**	**–**
Cavendish Dounreay Partnership Limited	**6.6**	**–**	**0.2**	**–**
Cavendish Fluor Partnership Limited	**10.2**	**–**	**–**	**–**
Cavendish Boccard Nuclear Limited	**1.6**	**–**	**–**	**–**
	134.9	**–**	**2.9**	**(0.7)**

2019	2019 Revenue to £m	2019 Purchases from £m	2019 Year end debtor balance £m	2019 Year end creditor balance £m
Joint ventures and associates				
Holdfast Training Services Limited	69.6	(0.1)	–	–
ABC Electrification Limited	–	–	4.6	–
First Swietelsky Operation and Maintenance	9.9	–	–	(0.8)
FSP (2004) Limited	–	(0.1)	–	–
Ascent Flight Training (Management) Limited	1.1	–	5.0	–
Rotary Wing Training Limited	3.3	–	–	–
Fixed Wing Training Limited	4.6	–	0.4	–
Advanced Jet Training Limited	2.4	–	0.3	–
Rear Crew Training Limited	1.0	–	–	–
AirTanker Services Limited	12.3	–	0.3	–
Alert Communications Limited	4.1	–	0.4	(0.2)
Naval Ship Management (Australia) Pty Limited	4.9	–	–	–
Cura Classis (UK) Limited	1.7	–	–	–
Cura Classis (US) LLC	1.5	–	–	–
Cura Classis Canada (Hold Co) Inc.	3.9	–	–	–
Cavendish Dounreay Partnership Limited	5.5	(0.1)	0.2	–
Cavendish Fluor Partnership Limited	32.9	(0.1)	0.2	–
Cavendish Boccard Nuclear Limited	3.4	–	–	–
	162.1	(0.4)	11.4	(1.0)

All transactions noted above arise in the normal course of business.

(b) Defined benefit pension schemes.
Please refer to note 26 for transactions with the Group defined benefit pension schemes.

(c) Key management compensation is shown in note 7.

(d) Transactions in employee benefits trusts are shown in note 25.

35. Subsequent events

Holdfast Training Services Limited

In June 2020, the Group completed the sale of its 74% shareholding in Holdfast Training Services Limited ("Holdfast") to HICL Infrastructure PLC ("HICL") for a cash consideration of £85 million.

Holdfast was a joint venture in the Babcock Group created in 2008 to undertake a 30-year contract for the Ministry of Defence to provide training infrastructure and services for the Royal School of Military Engineering ("RSME"). Babcock will continue to provide services for RSME on its existing subcontract.

Italy competition fine

During May 2020 the Group lost a first instance decision in relation to a €51 million fine imposed by the Italian Competition Authority during February 2019 on its subsidiary Babcock Mission Critical Services Italia S.p.A ("BMCS Italy"). The Group had reasonable grounds to believe that the court would overturn the fine or substantially reduce it and the matter was therefore previously reported as a contingent liability. BMCS Italy will appeal the decision but given the loss of the first instance decision the Group has recognised a provision of £46 million in respect of the fine and related legal costs. Further details of this matter are included in note 5.

Details on dividends are given in note 9. There are no further material events subsequent to 31 March 2020 that require disclosure.

36. Group entities

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 31 March 2020 is disclosed below. Unless otherwise stated, the Group's shareholding represents ordinary shares held indirectly by Babcock International Group PLC, the entities are unlisted, and have one type of ordinary share capital, the year end is 31 March and the address of the registered office is 33 Wigmore Street, London W1U 1QX. The Group's interest in the voting share capital is 100% unless otherwise stated. No subsidiary undertakings have been excluded from the consolidation.

Subsidiaries, wholly owned

Airwork Limited

Appledore Shipbuilders (2004) Limited[2]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

Armstrong Technology Associates Limited*

Babcock (Ireland) Treasury Limited
Custom House Plaza, Block 6, IFSC, Dublin, 1, Ireland

Babcock (NZ) Limited
C/O Babcock Central Office, HMNZ Dockyard, Devonport Naval Base, Queens Parade, Devonport, Auckland, 0744, New Zealand

Babcock (UK) Holdings Limited[1]

Babcock Aerospace Limited

Babcock Africa Investments (Pty) Ltd
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Investments BV
Bezuidenhoutseweg 1, 2594 AB The Hague, The Netherlands

Babcock Airports Limited

Babcock Assessments Limited

Babcock Australia Holdings Pty Ltd
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Aviation Services (Holdings) Limited[1, 14]

Babcock Aviation Services Holdings, S.L.
Plaza Pablo Ruiz, Picasso 1, Torre Picasso, 28020, Madrid, Spain

Babcock B.V.
Bezuidenhoutseweg 1, 2594 AB The Hague, The Netherlands

Babcock Canada Inc.
45 O'Connor Street, Suite 1500, Ottawa, Ontario K1P 1A4, Canada

Babcock Civil Infrastructure Limited

Babcock Communications Cyprus Limited
10 Diomidous Str, Alpha Mega Building, 3rd floor, Office 401, CY2024 NICOSIA, Cyprus

Babcock Communications Limited

Babcock Contractors Limited[2]

Babcock Corporate Secretaries Limited*

Babcock Corporate Services Limited

Babcock Critical Assets Holdings LLP

Babcock Critical Services Limited
110 Queen Street, Glasgow, Scotland, G1 3HD, United Kingdom

Babcock Defence & Security Holdings LLP

Babcock Defence and Security Investments Limited

Babcock Defence Systems Limited

Babcock Design & Technology Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Babcock DS 2019 Limited*

Babcock DSG Ltd

Babcock Education & Training Holdings LLP

Babcock Education and Skills Limited

Babcock Education Holdings Limited

Babcock Emergency Services Limited[2]

Babcock Engineering Limited*

Babcock Engineering Portugal, Unipessoal, LDA
Heliporto de Salemas, Lousa, 2670-769, Lisboa, Loures, Portugal

Babcock Europe Finance Limited[2]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Fire Services (SW) Limited

Babcock Fire Services Limited

Babcock Fire Training (Avonmouth) Limited

Babcock Group (US Investments) Limited

Babcock Holdings (USA) Incorporated[7]
Prentice Hall Corporation Systems Inc., S32 Loockerman Square, Ste. L-100 Dover Delaware, United States

Babcock Holdings Limited[11]

Babcock Information Analytics and Security Holdings Limited*

Babcock Information Analytics and Security Limited[5]

Babcock Infrastructure Holdings LLP*

Babcock Integrated Technology (Korea) Limited

Babcock Integrated Technology GmbH
Am Zoppenberg 23, 42366 Schwalmtal-Waldniel, Germany

Babcock Integrated Technology Limited

Babcock Integration LLP

Babcock International France Aviation SAS
Lieu dit le Portaret, 83340, Le Cannet-des-Maures, France

Babcock International France SAS
4 rue Lord Byron, 75008, Paris, France

Babcock International France Terre SAS
4 rue Lord Byron, 75008, Paris, France

Babcock International Holdings BV
Bezuidenhoutseweg 1, 2594 AB The Hague, The Netherlands

Babcock International Holdings Limited[2]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock International Italy S.p.A.
Piazza Castello no.26 – 20121 Milan, Italy

Babcock International Limited[5]

Babcock International Middle East Limited

Babcock International Spain S.L.U.
Mutxamel, Alicante, Aeródromo de Mutxamel, 03110, Partida la Almaina 92, Spain

Babcock International Support Services Limited

Babcock International US Inc
National Registered Agents, Inc., 1209 Orange Street, Wilmington DE 19801, United States

Babcock Investments (Fire Services) Limited

Babcock Investments (Number Four) Limited

Babcock Investments (Number Nine) Limited

Babcock Investments Limited

Babcock IP Management (Number One) Limited

Babcock IP Management (Number Two) Limited

Babcock Ireland Finance Limited
44 Esplanade, St Helier, JE4 9WG, Jersey

36. Group entities (continued)

Subsidiaries, wholly owned (continued)

Babcock Korea Limited
72-1, Shinsan-ro, Saha-gu, Busan-si (Shinpyeong-dong), Republic of Korea

Babcock Land Limited

Babcock Leaseco Limited*

Babcock Luxembourg Finance S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg

Babcock Luxembourg Investments I S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg

Babcock Luxembourg Investments S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg

Babcock Luxembourg S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg

Babcock M 2019 Limited*

Babcock Malta Limited
44 Esplanade, St Helier, JE4 9WG, Jersey

Babcock Malta (Number Two) Limited
44 Esplanade, St Helier, JE4 9WG, Jersey

Babcock Malta Finance (Number Two) Limited[3]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Finance Limited[3]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Holdings (Number Two) Limited[3]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Holdings Limited[3]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Management 2019 Limited*

Babcock Management Limited

Babcock Marine & Technology Holdings Limited

Babcock Marine (Clyde) Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Babcock Marine (Devonport) Limited[7]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, England

Babcock Marine (Rosyth) Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Babcock Marine Holdings (UK) Limited[5]

Babcock Marine Limited

Babcock Marine Products Limited*

Babcock Marine Training Limited[2]

Babcock MCS Congo SA
Avenue Charles de Gaulle, PB 5871, Pointe-Noire, PB 5871, The Republic of Congo

Babcock MCS Fleet Management S.p.A.
Piazza Castello no. 26, 20121, Milan, Italy

Babcock Mission Critical Services Asset Management SAU
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services Australasia Pty Ltd
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Mission Critical Services Design and Completions Limited

Babcock Mission Critical Services Germany GmbH
Augsburg Airport, Flughafenstrasse 19, 86169 Augsburg, Germany

Babcock Mission Critical Services Group, S.A.U.
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services Holdings, S.L.U.
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services International SAU
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services Leasing Limited

Babcock Mission Critical Services Ltd

Babcock Mission Critical Services Offshore Limited

Babcock Mission Critical Services Onshore Limited

Babcock Mission Critical Services SAU
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services Topco Ltd[2]

Babcock Mission Critical Services UK Limited

Babcock MSS Limited

Babcock Mission Critical Services Fleet Management SAU
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Networks Ireland Limited (In liquidation)
Unit 2, Red Cow Interchange Estate, Ballymounth, Dublin, 22, Ireland

Babcock Networks Limited

Babcock Norway AS*
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Nuclear Limited

Babcock Offshore Services Australasia Pty Ltd
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Oman LLC
P.O. Box 2315, Ghala, Muscat, 130, Oman

Babcock Overseas Investments Limited

Babcock Power Maintenance Limited*

Babcock Project Investments Limited

Babcock Project Services Limited

Babcock Pty Ltd
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Rail Limited

Babcock Scandinavia Holding AB
Flygstationsvägen 4, 972 54, Luleå, Sweden

Babcock Services Group Limited

Babcock Services Limited

Babcock Skills Development and Training Limited

Babcock Southern Careers Limited*[3]

Babcock Southern Holdings Limited[6]

Babcock Support Services (Investments) Limited

Babcock Support Services GmbH
Am Zoppenberg 23, 41366 Schwalmtal, Germany

Babcock Support Services Limited[10]
110 Queen Street, Glasgow, Scotland, G1 3HD, United Kingdom

Babcock Support Services s.r.l.
Via Foro Buonaparte, 70 20121, Milano, Italy

Babcock Technical Services Limited*

Babcock Training Limited

Babcock UK Finance

36. Group entities (continued)

Subsidiaries, wholly owned (continued)

Babcock US Investments (Number Two) LLC[2]
National Registered Agents, Inc, 1209 Orange Street, Wilmington DE 19801, United States

Babcock US Investments Inc.[2]
National Registered Agents, Inc., 1209 Orange Street, Wilmington DE 19801, United States

Babcock US Investments Limited[5]

Babcock Vehicle Engineering Limited[4]

BMH Technologies (Holdings) GmbH (In liquidation)[2]
Berliner Platz 12, 41061, Moenchengladbach, Germany

BNS Pension Trustees Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

BNS Pensions Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Bond Aviation Leasing Limited

Bond Aviation Topco Limited[5]

Bond Mission Critical Services PLC

Brooke Marine Shipbuilders Limited*

Cavendish Nuclear (Overseas) Limited

Cavendish Nuclear Japan KK
GYB Akihabara Room 405, Kandasuda-cho 2-25, Chiyoda-ku, Tokyo, Japan

Cavendish Nuclear Limited[5]

Cavendish Nuclear Manufacturing Limited

Chart Distribution Services Limited*

Chart Services Limited*
110 Queen Street, Glasgow, Scotland, G1 3HD, United Kingdom

Chart Storage & Transportation Limited*

Chepstow Insurance Limited
St Martin's House, Le Bordage, St Peter Port, GY1 4AU, Guernsey

Conbras Servicos Tecnicos de Suporte Ltda
Rua Nilo Pecanha no 50, Suites 314 & 315, Centro, Rio de Janeiro, 20020.100, Brazil

Defence SCS Limited*
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

Devonport Royal Dockyard Limited[12]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

Devonport Royal Dockyard Pension Trustees Limited*
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

FBM Babcock Marine Holdings (UK) Limited*

FBM Babcock Marine Limited*

FBM Marine International (UK) Limited*

First Engineering Holdings Limited
Kintail House, 3 Lister Way, Hamilton International Park, Blantyre, G72 0FT, Scotland

First Projects Limited*

Flagship Fire Fighting Training Limited

FNC Limited*
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

Frazer-Nash Consultancy (Australia) Pty Ltd*
Level 8, 99 Gawler Place, Adelaide SA 5000, Australia

Frazer-Nash Consultancy Limited[8]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

Frazer-Nash Consultancy LLC[2]
Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808, United States

Heli Aviation (Tianjin) Helicopter Sales Co., Ltd. (In liquidation)
Room 514/515, The Aviation Industry Support Center, Comprehensive Free Trade Zone, Airport Industrial Park, 1 Boahang Riad, Tianjin, China

Heli Aviation China Limited*
World Finance Centre, Room 1102-1103 11/F, Kowloon Building, 555 Nathan Road, Mongkok, Kowloon, Hong Kong

HCTC Limited*

iMAST Limited*

INAER Helicopter Chile S.A.*
2880 Americo Vespucio Norte Avenue, Suite 1102, Conchali, Santiago, Chile

KML (UK) Limited*

Liquid Gas Equipment Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, Scotland, KY11 2YD, United Kingdom

Marine Engineering & Fabrications (Holdings) Limited*

Marine Engineering & Fabrications Limited*

Marine Industrial Design Limited
c/o Babcock Central Office, HMNZ Dockyard, Devonport Naval Base, Queens Parade, Devonport, Auckland, 0744, New Zealand

Peterhouse Group Limited

Peterhouse6 (IETG) Limited

Peterhouse GmbH
Am Zoppenberg 23, 41366 Schwalmtal, Germany

Port Babcock Rosyth Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Rosyth Royal Dockyard Limited[13]
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Rosyth Royal Dockyard Pension Trustees Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

SBRail Limited*

Skills2Learn Ltd

Strachan & Henshaw Canada Inc*
45 O'Connor Street, Suite 1500, Ottawa, Ontario K1P 1A4, Canada

Touchstone Learning & Skills Ltd*

Transfleet Distribution Limited*

Vosper Thornycroft (UK) Limited

Westminster Education Consultants Limited*

36. Group entities (continued)

Subsidiaries, partly owned:

Airwork Technical Services & Partners LLC (51%)
PO Box 248 (Muaskar Al Murtafa'a (MAM) Garrison), Muscat, 100, Sultanate of Oman

Babcock Africa (Pty) Limited (90%)[7]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Holdings (Pty) Ltd (90%)[14]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Services (Pty) Ltd (90%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Aviation Services Holdings International Limited (49.82%)[14]
Verdala Business Centre, Level 1, LM Complex, Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Dyncorp Limited (56%)[12]

Babcock Education and Training (Pty) Ltd (90%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Emergencias Aéreas España Holding, S.L.U. (49.82%)
Avenida de Burgos, 17, 7a planta, 28036, Madrid, Spain

Babcock Financial Services (Pty) Ltd (90%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Holdings (Italy) S.p.A. (49.82%)
Piazza Castello 26, 20121, Milan, Italy

Babcock Learning and Development Partnership LLP (80.1%)

Babcock MCS Ghana Limited (90%)
2nd Floor, Opeibea House, 37 Liberation Road, P.O. Box CT 9347, Cantonments, Accra, Ghana

Babcock MCS Mozambique, Limitada (90%)
Sala no. 2022, 1 Andar, Terminal A, Aeroporto Internacional do Maputo, Distrito Urbano 2, Mozambique

Babcock Mission Critical Services (Ireland) Limited (49.82%)
13-18 City Quay, Dublin 2, Ireland

Babcock Mission Critical Services España SAU (49.82%)
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Mission Critical Services France SA (49.82%)
Lieu dit le Portaret, 83340, Le Cannet-des-Maures, France

Babcock Mission Critical Services Galicia SL (91.1%)
Lugar Lavacolla-Aeropuerto Santiago, S/N, C.P., 15820, Santiago de Compostela, A Coruna, Spain

Babcock Mission Critical Services Italia S.p.A (49.82%)
Piazza Castello no. 26, 20121, Milan, Italy

Babcock Mission Critical Services Portugal, Unipessoal, LDA (49.82%)
Heliporto de Salemas, Lousa, 2670-769, Lisboa, Loures, Portugal

Babcock Mission Critical Services, Scandinavia AB (49.82%)[2]
c/o Ashurst Advokatbyra AB, PO Box 7124, 10387, Stockholm, Sweden

Babcock Moçambique Limitada (90%)
Av. Samora Machel 3380/1, Mozambique

Babcock Namibia Services Pty Ltd (90%)
Unit 5 Ground Floor, Dr Agostinho Neto Road, Ausspann Plaza, Ausspanplatz, Windhoek, Namibia

Babcock Ntuthuko Aviation (Pty) Limited (66.78%)*
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Engineering (Pty) Limited (46.37%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Powerlines (Pty) Limited (46.81%)*
Plot 17295, Molekangwetsi Cresent, Gaborone West Phase 1, Botswana

Babcock Plant Services (Pty) Ltd (64.82%)[5]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock SAA FW AB (49.82%)*
Flygstationsvägen 4, 972 54, Luleå, Sweden

Babcock Scandinavian AirAmbulance AB (49.82%)
Lägervägen 3, 832 56, Frösön, Sweden

Babcock Scandinavian AirAmbulance AS (49.82%)
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Scandinavian Aviation Services AS (49.82%)
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Scandinavian Engineering AS (49.82%)
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Scandinavian Holding AS (49.82%)
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock TCM Plant (Proprietary) Limited (90%)[7]
Plot 17295, Molekangwetsi Cresent, Gaborone West Phase 1, Botswana

Babcock Zambia Limited (90%)
4th Floor, Consulting House, Broadway, Ndola, Zambia

Cognac Formation Aero (90%)
Base Aérienne 709 Cognac 16100 Châteaubernard, France

INAER Helicopter Peru S.A.C. (In liquidation) (70%)
Av. De La Floresta No 497 Int., Lima, Peru

National Training Institute LLC (70%)
PO Box 267, MadinatQaboos, Sultanate of Oman, 115 Oman

Joint ventures and associates (equity accounted):

ABC Electrification Ltd (33.3%)[12]
8th Floor, The Place, High Holborn, London, WC1V 7AA

AirTanker Holdings Limited (13.3%)
Airtanker Hub RAF Brize Norton, Carterton, Oxfordshire, England, OX18 3LX, United Kingdom

AirTanker Services Limited (22.3%)[15]
Airtanker Hub RAF Brize Norton, Carterton, Oxfordshire, England, OX18 3LX, United Kingdom

ALC (Superholdco) Limited (50%)[15]
3rd Floor, Chancery Exchange, 10 Furnival Street, London, England, EC4A 1AB, United Kingdom

Alert Communications Group Holdings Limited (20%)

Ascent Flight Training (Holdings) Limited (50%)

Cavendish Boccard Nuclear Limited (51%)

Cavendish Dounreay Partnership Limited (50%)[12]

Cavendish Fluor Partnership Limited (65%)

Debut Services (South West) Limited (50%)
20 Triton Street, Regent's Place, London, NW1 3BF, United Kingdom

Duqm Naval Dockyard SAOC (49%)
Wadi Say, Al-Duqm, Al-Wusta'a, 3972 112, Oman

European Air-Crane S.p.A. (24.41%)
Via Duca D'Aosta no. 20, 50129, Florence, Italy

FSP (2004) Limited (50%)[2]
Kintail House, 3 Lister Way, Hamilton International Park, Blantyre, G72 0FT, Scotland

Holdfast Training Services Limited (74%)

Naval Ship Management (Australia) Pty Ltd (50%)
Level 10, 40 Miller Street, North Sydney NSW 2060, Australia

Okeanus Vermogensverwaltungs GmbH & Co. KG (50%)
Vorsetzen 54, 20459, Hamburg, Germany

Wholly owned subsidiaries, unless otherwise stated, with registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom, currently in Members Voluntary Liquidation:

2019 S&H Limited; Babcock Careers Guidance Limited[6]; Babcock Careers Management Limited[3]; Babcock Environmental Services Limited; Babcock Lifeskills Limited; BIL Solutions Limited; Capital Careers Limited (88.3%); Cura Classis UK (Hold Co) Limited (48%); F N Consultancy Limited; FNC Group Limited; FNCG 2019 Limited; INS Innovation Limited; Scimco Limited; Surrey Careers Services Limited (94.1%)[5]; UKAEA Limited.

Wholly owned subsidiaries with pending applications for voluntary strike off under s1003 of the Companies Act 2006:

Alstec Limited; Babcock Group International Limited; First Engineering Limited; Merlin Communications Group Limited; Municipal Vehicle Hire Limited; Northern Cable Installations Limited; Transfleet Truck Rentals Limited.

Notes

* Dormant entity.

1. Babcock International Group PLC has direct holdings in Babcock (UK) Holdings Limited, and preference shares class A and B in Babcock Aviation Services (Holdings) Limited.
2. Holding of two types of ordinary shares.
3. Holding of three types of ordinary shares.
4. Holding of six types of ordinary shares.
5. Holding of ordinary and preference shares.
6. Holding of ordinary and deferred shares.
7. Holding of ordinary and redeemable preference shares.
8. Holding of ordinary and two types of preference shares.
9. Holding of ordinary and three types of preference shares.
10. Holding of ordinary and five types of preference shares.
11. Holding of two types of ordinary shares and two types of preference shares.
12. Holding of one type of ordinary share only, where more than one type of share is authorised or in issue.
13. Holding of two types of ordinary shares, where more than two types of share are authorised or in issue.
14. Holding of one type of ordinary share and one type of preference share, where more than two types of share are authorised or in issue.
15. Year end 31 December.

Company statement of financial position

As at 31 March 2020	Note	2020 £m	2019 (restated) £m
Fixed assets			
Investment in subsidiaries	5	**2,466.5**	2,466.5
Current assets			
Trade and other receivables	6	**3,944.1**	3,736.6
Cash and cash equivalents		**865.0**	–
Creditors: Amounts falling due within one year:			
Trade and other payables	7	**(2,482.7)**	(2,098.0)
Net current assets		**2,326.4**	1,638.6
Total assets less current liabilities		**4,792.9**	4,105.1
Creditors: Amounts falling due after more than one year:			
Trade and other payables	7	**(2,054.0)**	(1,361.7)
Net assets		**2,738.9**	2,743.4
Equity			
Called up share capital	9	**303.4**	303.4
Share premium account		**873.0**	873.0
Capital redemption reserve		**30.6**	30.6
Other reserve		**768.8**	768.8
Retained earnings		**763.1**	767.6
Total shareholders' funds		**2,738.9**	2,743.4

The accompanying notes are an integral part of this Company statement of financial position. Company number 02342138.

Please refer to note 2 for details of the restatement of the 2019 results.

The Company has taken advantage of the exemption granted by Section 408 of the Companies Act 2006 whereby no individual profit and loss account of the Company is disclosed. The Company's profit for the financial year was £143.9 million (2019: £184.3 million).

The financial statements on pages 215 to 221 were approved by the Board of Directors on 11 June 2020 and are signed on its behalf by:

A Bethel
Director

F Martinelli
Director

Company statement of changes in equity

For the year ended 31 March 2020	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Total equity £m
At 31 March 2018	303.4	873.0	768.8	30.6	739.6	2,715.4
Profit for the year	–	–	–	–	184.3	184.3
Other comprehensive income	–	–	–	–	(10.8)	(10.8)
Dividends	–	–	–	–	(150.3)	(150.3)
Share-based payments	–	–	–	–	2.4	2.4
Tax on share-based payments	–	–	–	–	2.4	2.4
Net movement in equity	–	–	–	–	28.0	28.0
At 31 March 2019	303.4	873.0	768.8	30.6	767.6	2,743.4
Profit for the year	**–**	**–**	**–**	**–**	**143.9**	**143.9**
Other comprehensive income	**–**	**–**	**–**	**–**	**1.8**	**1.8**
Dividends	**–**	**–**	**–**	**–**	**(152.1)**	**(152.1)**
Share-based payments	**–**	**–**	**–**	**–**	**2.9**	**2.9**
Tax on share-based payments	**–**	**–**	**–**	**–**	**1.9**	**1.9**
Own shares	**–**	**–**	**–**	**–**	**(2.9)**	**(2.9)**
Net movement in equity	**–**	**–**	**–**	**–**	**(4.5)**	**(4.5)**
At 31 March 2020	**303.4**	**873.0**	**768.8**	**30.6**	**763.1**	**2,738.9**

1. General information

Babcock International PLC is incorporated and domiciled in the UK. The address of the registered office is 33 Wigmore Street, London, W1U 1QX.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

Basis of accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments on a going concern basis. The financial statements are prepared in Sterling which is the functional currency of the Company and rounded to the nearest £ million.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payments'
- IFRS 7, 'Financial instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
  - paragraph 79(a) (iv) of IAS 1, 'Share capital and reserves';
  - paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
  - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), 10(f), 16, 38A-38D, 40A-40D, 111, and 134-136.
- IAS 7, 'Statement of cash flows'
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors'
- Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

New standards adopted by the Company

The Company has applied the following standards and amendments for the first time for its annual reporting period commencing 1 April 2019:

- IFRS16, 'Leases.'
- IFRS 9, 'Financial instruments', amended.
- IAS 19, 'Employee Benefits', amendment. The amendment related to treatment of plan amendments, curtailments and settlements.
- IFRIC 23, 'Uncertainty over Income Tax Treatments'.

The adoption of these standards has not had any impact on the amounts recognised in the prior period and is not expected to affect the current or future periods.

2. Significant accounting policies (continued)

Restatement

The comparatives at 31 March 2019 have been restated to recognise £76.2 million non-current other financial assets – currency and interest rate swaps and £76.2 million other financial liabilities – currency and interest rate swaps due after more than one year reflecting cross currency interest rate swaps with an external party and swaps issued to a subsidiary undertaking under the same terms, for which a legal right of offset did not exist. The value of the adjustment at the beginning of the comparative period, 1 April 2018, is £47.7 million non-current other financial assets – currency and interest rate swaps and £47.7 million other financial liabilities – currency and interest rate swaps due after more than one year. There was no impact on profit or net assets.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

Taxation

Current income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred.

Employee benefits

(a) Share-based compensation

The Company operates equity-settled, share-based compensation plans which are recharged to the relevant subsidiaries. Full details of the share-based compensation plans are disclosed in note 24 to the Group financial statements.

(b) Treasury shares

The shares purchased by the Company's ESOP trusts are recognised as a deduction to equity. See note 23 to the Group financial statements for further details.

(c) Pension arrangements

The Company operates a multi-employer defined benefit pension scheme, however all assets and liabilities are recognised in the relevant subsidiary in which the employee operates. See note 25 to the Group financial statements for further details.

Financial instruments

(a) Financial assets and liabilities at amortised cost

Amounts due from subsidiary undertakings and preference shares in subsidiary undertakings are classified as financial assets held at amortised cost. Amounts due to subsidiary undertakings and bank loans and overdrafts are classified as financial liabilities held at amortised cost. These balances are initially recognised at fair value and then held at amortised cost using the effective interest rate method.

The Company assesses on a forward-looking basis the expected credit losses associated with financial assets held at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(b) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Company designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

2. Significant accounting policies (continued)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair value is recognised in the profit and loss account immediately.

Financial risk management

All treasury transactions are carried out only with prime-rated counterparties as are investments of cash and cash equivalents.

Dividends

Dividends are recognised in the Company's financial statements in the period in which they are approved and in the case of interim dividends, when paid.

Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There are no key estimates or judgements for the Company.

3. Company profit

The Company has no employees other than the Directors.

The fee payable to the parent auditor and its associates in respect of the audit of the Company's financial statements was £0.6 million (2019: £0.6 million).

4. Directors' emoluments

Under Schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 5), total Directors' emoluments, excluding Company pension contributions, were £4.3 million (2019: £5.7 million); these amounts are calculated on a different basis from emoluments in the Remuneration report which are calculated under Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Schedule 8 (2013)). These emoluments were paid for the Directors' services on behalf of Babcock International Group. No emoluments relate specifically to their work for the Company. Under Schedule 5, the aggregate gains made by Directors from the exercise of Long Term Incentive Plans in 2020 as at the date of exercise was £0.4 million (2019: £0.5 million) and the net aggregate value of assets received by Directors in 2020 from Long Term Incentive Plans as calculated at the date of vesting was £0.4 million (2019: £0.5 million); these amounts are calculated on a different basis from the valuation of share plan benefits under Schedule 8 (2013) in the Remuneration report.

5. Investment in subsidiary undertakings

	2020 £m	2019 £m
At 1 April 2019 and 31 March 2020	**2,466.5**	2,466.5

6. Trade and other receivables

	2020 £m	2019 £m
Non-current debtors		
Amounts due from subsidiary undertakings	**351.9**	313.8
Preference shares in a subsidiary undertaking	**–**	943.7
Other financial assets – currency and interest rate swaps	**–**	76.2
Other debtors	**0.1**	0.4
	352.0	1,334.1
Current debtors		
Amounts due from subsidiary undertakings	**2,489.7**	2,386.6
Preference shares in a subsidiary undertaking	**981.9**	–
Other financial assets – currency and interest rate swaps	**104.7**	–
Income tax recoverable	**2.8**	6.2
Deferred tax	**13.0**	9.7
	3,592.1	2,402.5
Total trade and other receivables	**3,944.1**	3,736.6

There are no material provisions held against trade and other receivables under the expected credit loss model.

Of the preference shares in a subsidiary undertaking, the B preference shares of US$500 million mature on 17 March 2021 and carry interest at 5.64%. The remaining preference shares in subsidiary undertakings are Euro denominated preference shares, totalling €652 million, carrying a coupon rate of EURIBOR + 4%, and with a maturity date of 29 July 2019.

Interest rates on amounts owed by subsidiary operations:

	Non-current		Current	
	2020 £m	2019 £m	2020 £m	2019 £m
EURIBOR + 4%	**81.9**	85.3	**58.3**	62.8
EURIBOR + 2%	**12.4**	11.8	**–**	–
GBP LIBOR + 4%	**73.5**	58.3	**51.4**	51.4
GBP LIBOR + 5%	**140.0**	140.0	**–**	–
USD LIBOR + 4%	**18.0**	5.8	**1.7**	–
STIBOR + 4%	**–**	–	**14.0**	7.2
BBSW + 4%	**11.5**	12.6	**2.9**	3.4
NIBOR + 4%	**12.8**	–	**8.1**	11.8
4.5%	**–**	–	**100.8**	100.8
5.4%	**1.8**	–	**–**	–
Interest free	**–**	–	**2,252.5**	2,149.2
	351.9	313.8	**2,489.7**	2,386.6

7. Trade and other payables

	2020 £m	2019 £m
Amounts due within one year		
Bank loans and overdrafts	**547.7**	404.0
Amounts due to subsidiary undertakings	**1,821.9**	1,685.9
Other financial liabilities – currency and interest rate swaps	**104.7**	–
Accruals and deferred income	**8.4**	8.1
	2,482.7	2,098.0
Amounts due after one year		
Bank loans and other borrowings	**2,030.6**	1,285.1
Other financial liabilities – currency and interest rate swaps	**23.1**	76.2
Other creditors	**0.3**	0.4
	2,054.0	1,361.7

The Company has £2,554.6 million (2019: £2,047.1 million) of committed borrowing facilities, of which £2,443.1 million (2018: £1,331.9 million) was drawn at the year end.

7. Trade and other payables (continued)

The effective interest rate applying to bank loans and other borrowings were as follows:

	2020 %	2019 %
UK bank overdraft	**1.1**	1.6
UK bank borrowings	**0.5**	2.4
US private placement – fixed	**6.0**	6.0
US private placement – floating	**2.8**	3.1
8 year Eurobond October 2022	**1.8**	1.8
8 year Eurobond September 2027 – fixed	**2.9**	–
8 year Eurobond September 2027 – floating	**2.8**	–
£300 million bond	**1.9**	1.9

The amounts due to subsidiary undertakings are repayable on demand and £1,821.9 million (2019: £1,685.9 million) is interest free.

8. Other financial assets and liabilities

The notional principal amount of outstanding interest rate swap contracts at 31 March 2020 included interest rate swaps in relation to

- US$500 million (2019: US$500 million) US$ to GBP cross-currency swap
- €550 million (2019: nil million) Euro to GBP cross-currency swap.

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

The Company has taken advantage of the exemptions within FRS 101 not to disclose all IFRS 7 and IFRS 13 requirements, as it and its subsidiary undertakings are included by full consolidation in the Group accounts on pages 158 to 214.

9. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2019 and 31 March 2020	**505,596,597**	**303.4**
Allotted, issued and fully paid		
At 1 April 2018 and 31 March 2019	505,596,597	303.4

10. Contingent liabilities

(a) The Company has guaranteed or has joint and several liability for bank facilities with nil utilisation at 31 March 2020 (2019: nil) provided to certain Group companies.

(b) Throughout the Group, guarantees exist in respect of performance bonds and indemnities issued on behalf of Group companies by banks and insurance companies in the ordinary course of business. At 31 March 2020 these amounted to £340.7 million (2019: £255.4 million), of which the Company had counter-indemnified £302.6 million (2019: £215.8 million).

(c) The Company has given guarantees on behalf of Group companies in connection with the completion of contracts within specification.

11. Group entities

See note 36 of the Group financial statements for further details.

Financial calendar

Financial year end	31 March 2020
2019/20 full-year results announced	11 June 2020
Annual General Meeting	4 August 2020

Registered office and company number

33 Wigmore Street
London, W1U 1QX

Registered in England
Company number 2342138

Registrars

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent, BR3 4TU
Email: enquiries@linkgroup.co.uk.

www.babcock-shares.com

Shareholdings can be managed by registering for the Share Portal at www.babcock-shares.com. Alternatively, shareholder enquiries relating to shareholding, dividend payments, change of address, loss of share certificate etc., can be addressed to Link Asset Services using their postal or email addresses given above.

Tel: +44 (0)37 1664 0300
(Calls are charged at standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.)
www.babcock-shares.com.

Independent auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London, WC2N 6RH

Share dealing services

Link Share Dealing Services provide Babcock shareholders with a low-cost, execution only share dealing service. To use the service, either log on to www.linksharedeal.com or call +44 (0)37 1664 0445. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. We are open 8.00am to 4.30pm, Monday to Friday, excluding public holidays in England and Wales. Terms and conditions apply.

This is not a recommendation to buy and sell shares and this service may not be suitable for all shareholders. The price of shares can go down as well as up and you are not guaranteed to get back the amount you originally invested, Terms, conditions and risks apply. Link Asset Services is a trading name of Link Market Services Trustees Limited which is authorised and regulated by the Financial Conduct Authority. This service is only available to private shareholders resident in the European Economic Area, the Channel Islands or the Isle of Man.

Dividend Reinvestment Plan

Babcock operates a Dividend Reinvestment Plan (DRIP) whereby shareholders can choose to invest their cash dividend to buy further shares on the market.

For details on how to join the DRIP please log on at www.babcock-shares.com using your Investor Code reference number or call Link Market Services Trustees Limited on +44 (0)37 1664 0381. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales. Alternatively email shares@linkgroup.co.uk.

ShareGift

If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations.

Further information about ShareGift may be obtained on 020 7930 3737 or from www.ShareGift.org.

Five-year financial record

	2020 IFRS 16 basis £m	2019 Pre-IFRS 16 basis £m	2018 Pre-IFRS 16 basis £m	2017 Pre-IFRS 16 basis £m	2016 Pre-IFRS 16 basis £m
Continuing revenue	**4,449.5**	4,474.8	4,659.6	4,547.1	4,158.4
Operating (loss)/profit from continuing operations	**(164.9)**	196.5	370.6	359.6	352.5
Share of profit from joint ventures	**58.6**	83.8	68.5	56.7	34.6
(Loss)/profit before interest from continuing operations	**(106.3)**	280.3	439.1	416.3	387.1
Net interest and similar charges	**(71.9)**	(45.1)	(48.0)	(54.2)	(57.0)
(Loss)/profit before taxation from continuing operations	**(178.2)**	235.2	391.1	362.1	330.1
Income tax expense	**(15.0)**	(35.4)	(53.4)	(46.5)	(39.0)
(Loss)/profit from continuing operations	**(193.2)**	199.8	337.7	315.6	291.1
(Loss)/profit for the year	**(193.2)**	199.8	337.7	315.6	291.1
Non-controlling interest	**(2.0)**	(0.4)	(1.4)	(3.8)	(4.5)
(Loss)/profit attributable to owners of parent	**(195.2)**	199.4	336.3	311.8	286.6
Non-current assets	**4,887.5**	4,730.2	4,750.3	4,866.5	4,551.8
Net current assets/(liabilities)	**610.7**	(77.8)	72.2	(239.9)	(245.7)
Non-current liabilities	**(2,948.2)**	(1,767.5)	(1,911.5)	(1,934.4)	(1,949.8)
Total net assets	**2,550.0**	2,884.9	2,911.0	2,692.2	2,356.3
Equity holders of the parent	**2.534.3**	2,867.5	2,892.9	2,669.8	2,338.5
Non-controlling interest	**15.7**	17.4	18.1	22.4	17.8
Total equity	**2,550.0**	2,884.9	2,911.0	2,692.2	2,356.3
Total (loss)/earnings per share – basic	**(38.6)**	39.5	66.6p	61.8p	57.0p
Dividend per share	**7.2p**	30.0p	29.5p	28.15p	25.8p