Independent auditors' report to the members of Babcock International Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Babcock International Group plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2021 and of the Group's loss and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Group and Company statements of financial position as at 31 March 2021; the Group income statement and statement of comprehensive income, the Group cash flow statement, and the Group and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the Group financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group in the period under audit.

Our audit approach

Overview

Audit scope

- We conducted our audit work over the complete financial information for 31 of the largest and higher risk reporting components located in the UK, Europe, South Africa and Australia, including one financially significant component, Devonport. We increased the number of components in scope to include the Aviation businesses in Norway and Sweden after PwC Oslo reported issues to us in completing the 31 March 2020 local statutory audit in December 2020.
- In addition, we performed specified audit procedures at 17 further reporting components and for the Group's share of the results of six joint ventures, selected based on their relative contribution to the Group results. The number of components on which specified audit procedures were performed was expanded to cover a number of issues identified by the contract profitability and balance sheet (CPBS) review. A large proportion of these were Aviation entities in Europe where issues were identified but had not historically been in scope for Group reporting.
- Where the operating businesses were located outside the UK, we worked together with our network firms located in the relevant territories to ensure we had sufficient evidence upon which to base our audit opinion.
- Taken together, the central and component locations at which work was performed by the group engagement team and component auditors accounted for 84% of Group revenue and 78% of Group loss before tax.

Key audit matters

- Contract accounting and revenue/profit recognition (Group)
- Contract profitability and balance sheet review (Group)
- Goodwill and other acquired intangibles impairment (Group)
- Valuation of defined benefit pension liabilities (Group)
- Presentation and classification of specific adjusting items, including exceptional items (Group)
- Completeness and accuracy of lease liabilities and right-of-use assets (Group)
- Impact of COVID-19 (Company and Group)
- Going concern (Company and Group)

Materiality

- Overall Group materiality: £15,900,000 (2020: £21,400,000) based on 75% of the 2020 materiality, given the impact to the 2021 income statement of the CPBS review, which distorts the ongoing performance of the Group. We have applied a 25% reduction to reflect an expected normalised performance of the Group, which considers and factors in an appropriate level of reduction in the Group's ongoing operations and performance arising from the impact of COVID-19 and the prospective impact of the CPBS review. The 2020 materiality was based on 5% of profit before tax, adjusted for amortisation of acquired intangible assets and exceptional items.
- Company financial statements: £61,391,000 (2020: £72,750,000), based on 1% of total assets. For the purposes of the Group audit, we applied a lower materiality of £12,375,000 (2020: £16,500,000) to Company balances and transactions, other than those which were eliminated on consolidation in the Group financial statements.
- Performance materiality: £11,925,000 (Group) and £9,280,000 (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to aviation and nuclear industry legislation and regulation, defence contracting, tax regulations, anti-bribery and corruption legislation, health and safety regulation and equivalent local laws and regulations applicable to reporting components, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries and management bias in accounting estimates and judgments. This included the risk of manipulation of results to achieve performance targets through improper revenue/profit recognition, given the judgmental nature of contract accounting (see key audit matter); inappropriate capitalisation of costs or expenses; and assessing the adjustments arising from management's CPBS review. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Gaining an understanding of the legal and regulatory framework applicable to the Group and the industries in which its businesses operate, and considering the risk of any acts by the Group which may be contrary to applicable laws and regulations, including fraud.
- Discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluating the results of whistleblowing procedures and related investigations;
- Review of reporting component auditors' work, including any matters reported by component auditors relating to non-compliance with laws and regulations or fraud;
- Challenging assumptions and judgments made by management in their significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In particular in relation to contract accounting and revenue/profit recognition, management's CPBS review, and goodwill impairment (see related key audit matters below). This included meetings with, and reviewing working papers prepared by, component auditors to understand and assess the areas of estimation and judgement relevant to the component, and how component auditors challenged management to support their conclusions;
- As in all of our audits we also addressed the risk of management override of internal controls, including testing journals, and evaluated whether there was evidence of bias by management or the directors that represented a risk of material misstatement due to fraud. In particular, we considered the results of management's CPBS review and our procedures thereon (as detailed in the related key audit matter below), and we did not identify any specific material matters relating to fraud. As part of our work on the CPBS review we considered the risk that new management may take an overly prudent position, both at a group and a component level, on long term profitability.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgment, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

There are two new key audit matters this year. One in respect of the CPBS review which reflects the additional work involved in addressing the adjustments proposed by management and one in respect of Going Concern. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Contract accounting and revenue/profit recognition (Group) Refer to notes 6, 20 and 22 in the Group financial statements and the Audit Committee Report. The Group's business involves entering into contractual relationships with customers to provide a range of services with a significant proportion of the Group's revenues and profits derived from long term contracts. Due to the contracting nature of the business, revenue and profit recognition involves a significant degree of judgment and a number of assumptions to be made, including to: • Estimate total contract costs; • Estimate the stage of completion of the contract; • Forecast the profit margin, after consideration of additional revenue relating to cost and time completion incentive targets, where applicable; • Recognise revenue arising from forecast contract variations and the outcome of claims to the extent that it is highly probable that a significant reversal of revenue will not occur, and dependent on stage of negotiation or agreement with the customer; and • Provide appropriately against loss making contracts. *There is a broad range of acceptable outcomes resulting from these estimates and judgments that could lead to different revenue and profit being reported in the financial statements.*	We read the relevant clauses within new and amended key contracts and discussed each with management to obtain a full understanding of the specific terms and risks, which informed our consideration as to whether revenue and profit for these contracts were appropriately recognised. We performed procedures for a sample of contracts, based on quantitative and qualitative factors including size and risk. These procedures varied according to the facts and circumstances of the contract and the relevant areas of judgment and estimation uncertainty. Where applicable, we: • Attended management's contract review meetings and, through interviews with the contract project teams, we obtained an understanding of the performance and status of the contracts; • Evaluated management's positions through the examination of externally generated evidence, such as customer correspondence (including the validation of any incentives or contract variations), acceptance certificates, milestone agreements, and/or discussions with external legal advisors; • Performed procedures over management's contract forecast models, testing the mathematical accuracy and agreeing amounts to underlying contracts; • Discussed and obtained supporting evidence of management's estimates for total contract costs and forecast costs to complete, including considering the historical accuracy of such estimates and understanding the reasons for material changes where these have arisen as part of the CPBS review; • Evaluated any correspondence in respect of customer disputes/claims, including discussion with internal legal counsel at a Group and component level; • Compared management's position on the recognition of any cost and time completion incentive target amounts with the actual costs incurred and current progress of the contract; • Evaluated management's calculations of provisions for onerous commitments, where these relate to a contract; • Agreed contract positions to amounts recognised in the financial statements, including amounts due from/to customers for contract work on the balance sheet, and considered the valuation and recoverability of asset balances and the completeness of liability balances; and • Assessed the results of management's CPBS review and considered the impact on contract profitability and our audit more broadly (see separate key audit matter below). Our testing did not identify any material factors that management had not considered in its estimates of the total contract costs, stage of completion and expected profit margin of each contract (including the expected losses on loss making contracts). A number of adjustments were identified by our work which were adjusted for by Group management.

Key audit matter	How our audit addressed the key audit matter
Contract accounting and revenue/profit recognition (Group) (continued)	Overall, we consider the contract positions taken by management at 31 March 2021 to be reasonable and to comply with the relevant accounting standards. In reaching this view, we considered the risk of management bias. Whilst new management were more prudent in positions taken, overall, we did not identify any instances of inappropriate management bias.
Contract profitability and balance sheet review (Group) Refer to notes 3, 4 and 5 in the Group financial statements and the Audit Committee Report. During the current year, management, with the assistance of an independent accounting firm, performed a review of the contract portfolio and other balance sheet items as part of its contract profitability and balance sheet (CPBS) review including consideration of the impact on the annual goodwill impairment assessment. This review identified a number of findings, including: • impairment of goodwill and other assets; • changes in the estimation of contract profitability; • correction of errors in the accounting for property, plant and equipment, right of use assets and deferred contract fulfilment costs; and • changes in the estimation of provisions. As a result of these findings, management recorded adjustments in the financial statements in respect of the current year and restatements to prior years. The adjustments arising from the CPBS review, including the impact of the annual goodwill impairment review, increased the loss before tax for the year ended 31 March 2021 by £1,853m. This includes impairment of goodwill and acquired intangible assets (£1,349m), impairments of property plant and equipment and right of use assets (£157m), impairment of other assets and increased liabilities (£310m), adjustments relating to investments in joint ventures and associates (£37m) and other adjustments included within underlying operating profit of £275m. Through the CPBS review process, management also reassessed a number of key accounting policies applied and accounting judgments made in prior years. Corrections of errors in previously reported figures were also identified as being required. Where these resulted in a material impact to the financial statements, adjustments have been made to the comparative information for the year ended 31 March 2020 and opening balances. The correction of the prior year errors reduced Group net assets at 1 April 2019 by £308m and decreased the loss before tax for the year ended 31 March 2020 by £77m. The CPBS review also identified an accounting policy that management elected to change relating to the treatment of "power by the hour" agreements for aircraft. The comparative information for the year ended 31 March 2020 and opening balances have been restated, resulting in a reduction in Group net assets at 1 April 2019 of £45m and an increase to the loss before tax for the year ended 31 March 2020 of £15m.	We considered the nature and extent of the CPBS findings in determining our assessment of the risk of material misstatement to the financial statements including as a result of fraudulent manipulation of the financial statements (including the risk of override of controls), as described elsewhere in this report. We assessed and tested the key areas of judgments and accounting estimates involved in preparing the financial statements, and considered whether the results of our audit testing in the current year, including in respect of areas involving judgement and accounting estimates, were indicative of prior year errors not identified by management. The CPBS adjustments included changes in accounting estimates impacting the current year which related to the underlying profitability of long-term contracts and impairment of goodwill and other acquired intangible assets, which are covered by separate key audit matters. In respect of other CPBS adjustments, in conjunction with our component audit teams, we performed procedures to: • evaluate the classification of current year changes of estimates, corrections of prior year errors, or changes in accounting policy, for each individual adjustment with an impact greater than £800,000 (being the level agreed with the Audit Committee above which we would report any misstatements identified during our audit). We assessed the evidence of the events that occurred in the current year which resulted in the adjustments, and evaluated whether adjustments should have been recorded in prior years and their classification as policy changes or errors; • test the monetary value of adjustments greater than £800,000, through agreement and verification to supporting documentation; and • challenge management's assumptions related to accounting estimates. We considered management's view on the appropriate recoverable amount of the relevant assets by reference to available external market data, including alternative sources of information. Where applicable, we tested the discounted cash flow models used by management to determine the amount of asset impairment required. We also checked the accuracy of the calculations prepared by management.

Key audit matter	How our audit addressed the key audit matter
Contract profitability and balance sheet review (Group) (continued) In respect of asset impairments, management performed impairment assessments where impairment indicators were identified or where these were otherwise required by accounting standards. The determination of the recoverable amount of assets requires judgment, particularly management's view on determining an appropriate asset market value, or key inputs and assumptions made in cash flow forecasts, including growth rates and discount rates applied, where value in use calculations were used to determine the recoverable amount of the relevant assets. *The classification and treatment of adjustments arising from the CPBS review required judgment, specifically when assessing whether an adjustment represented a change of estimate to be recognised in the current year or related to the correction of a prior year error or change in accounting policy.* *Judgment was also required to determine the monetary value of changes in estimates and prior year errors:* • *changes to the key assumptions used by management in the valuation of internally generated intangible assets, tangible assets and right-of-use assets subject to an impairment could result in the calculated recoverable value being lower than the carrying value, resulting in additional impairment;* • *there is a broad range of acceptable outcomes resulting from estimates and judgments in the determination of forecast contract profitability that could lead to different revenue and profit being reported in the financial statements; and* • *judgment is required in the assessment of contract fulfilment costs and expenditure on the repair and maintenance of aircraft in order to determine whether the capitalisation/deferral of costs is appropriate.* *There is a risk that new management may take an overly prudent position on long term profitability.* *Judgment was also required in respect of the classification and disclosure of these items in the financial statements.*	Where appropriate, management considered the results of our procedures in determining the final classifications and monetary amounts of CPBS adjustments that impacted the current and prior years, and adjusted these accordingly in the financial statements. We evaluated the Group's revised accounting policy to determine whether these comply with the requirements of international financial reporting standards (IFRS) and IFRS interpretations committee interpretations as adopted by the European Union and in accordance with international accounting standards in conformity with the Companies Act 2006. We considered the risk of management bias and whilst new management were more prudent in positions taken, overall, we did not identify any instances of inappropriate management bias. We assessed the related disclosures included in the Group financial statements and consider them to be sufficient and appropriate to explain the nature of the CPBS items.
Goodwill and other acquired intangibles impairment (Group) Refer to notes 3, 4, 5, 13 and 14 in the Group financial statements and the Audit Committee Report. The Group has goodwill of £956m (2020: £2,288m), allocated between the Aviation, Nuclear, Marine, Land and Africa cash generating units (CGUs), which is subject to an annual impairment review. In addition, the group has acquired intangibles of £104m (2020: £202m). Management assessed a CGU to be an operating segment for the purposes of goodwill and other intangible impairment testing. An impairment charge of £1,243m has been recorded against the goodwill balances allocated to the Aviation (£817m) and Land (£426m) CGUs for the year ended 31 March 2021. In addition, the correction of a prior year error of £117m has been recorded for the year ended 31 March 2020. As disclosed in note 5 to the Group financial statements, following a review of the methodology, management has corrected an error in the determination of CGUs, which resulted in the Land and Africa operating segments being assessed as separate CGUs for the years ending 31 March 2021 and 31 March 2020. This, together with a computational error identified in the Land CGU model in the prior year, resulted in a prior year restatement to record an impairment of £123m in respect of the Land CGU in the year ended 31 March 2020.	We evaluated management's cash flow forecasts and the process by which they were determined and approved. This included confirming that the forecasts were consistent with the latest Board approved budgets, including COVID-19 considerations, and checking the mathematical accuracy of the underlying calculations. We evaluated the inputs included in the value in use calculations and challenged the key assumptions by obtaining evidence, including in respect of: • The operating profit, margin and growth rates used in the cash flow forecasts by comparing them with historical results, forecasts and our understanding of the related CGU's historical pipeline, order book and future pipeline; • The inclusion of expected sale proceeds for planned business disposals were included within the cash flow forecasts for each CGU. These were supported by, and compared to, evidence including; recent offers, external valuations, discounted cash flows or recent market transaction activity; • Working capital, capital expenditure and capital employed assumptions by comparing these against historically achieved cash flows, capital expenditure plans and agreeing these to the respective CGU balance sheets; • The key market-related assumptions, including discount rates and short-term and long-term growth rates, by benchmarking these against external data and using our valuation expertise;

Key audit matter

Goodwill and other acquired intangibles impairment (Group) (continued)

A prior year error was separately identified in respect of an impairment of Aviation oil and gas customer relationship intangible assets, which has resulted in a restatement to record an impairment of £58m at 1 April 2019 and £44m at 31 March 2020.

As a result of other Aviation CGU prior year errors identified in the year ended 31 March 2020, and the associated impact on the carrying values, a corresponding adjustment was recorded to the goodwill impairment charge, to reflect the impact of the prior year adjustments, as disclosed in note 5 to the Group financial statements.

The impairment assessments used to support the carrying value of, or to determine the level of impairment required against, the goodwill allocated to the Group's five CGUs involve the application of subjective judgment about future business performance.

Management considered certain assumptions in the value in use calculations supporting the impairment assessments, including the forecast cash flows, the short-term and long-term growth rates and the discount rates applied.

Changes to the key assumptions used by management could result in the calculated value in use being lower than the carrying value of the CGU, resulting in additional impairments. In the current year, we identified a heightened risk of impairment in respect of the Aviation and Land CGUs.

How our audit addressed the key audit matter

- The reliability of cash flow forecasts through a review of actual past performance and comparison with previous forecasts. On a sample basis, projects were agreed to their estimate at completion forecast, contractual terms and previous track record performance;
- The allocation of corporate assets was assessed by understanding and testing the basis for management's allocation; and
- Where restructuring cost savings were assumed within the forecast, we obtained details of management's restructuring plan and how these costs savings were expected to be realised and were committed at the balance sheet date.

In respect of the prior year errors arising in relation to the Aviation and Land CGU impairments, and the oil and gas relationship intangible asset impairment, we:

- Determined the appropriateness of Land and Africa being treated as separate CGUs by reviewing management's internal reporting and understanding what information is provided to the chief operating decision maker (CODM);
- Recalculated the 31 March 2020 Land CGU goodwill impairment, after the computational error was corrected, and performed procedures to confirm the error did not impact prior periods;
- Reassessed the carrying value of the Aviation oil and gas customer intangible asset prior year error by determining which customer intangible contracts existed to confirm the point at which the associated impairment should be recognised; and
- Recalculated the 31 March 2020 Aviation CGU goodwill impairment after the Aviation CGU carrying values were updated to reflect the impact of other Aviation CGU prior period errors.

We tested the mathematical accuracy of the value in use calculations and performed sensitivity analyses of the key inputs and assumptions, including the market-related assumptions and the key driver of the cash flow forecasts, being the operating profit.

For the Aviation and Land CGUs, we performed alternative sensitivity scenarios to ascertain the extent of changes in assumptions that would impact the amount of goodwill impairment recognised. Our findings were discussed with the Audit Committee and we concluded the impairment charges recognised were within an acceptable range.

For the impairments recognised we also considered whether there was contradictory evidence that would indicate that the fair value less cost to sell was higher than the value in use calculations used by management to determine the impairment.

We assessed the related disclosures included in the Group financial statements, including the sensitivities provided in respect of the Aviation and Land Sector CGUs for the long-term growth rates and discount rates, and consider them to be acceptable.

Key audit matter	How our audit addressed the key audit matter
Valuation of defined benefit pension liabilities (Group) Refer to note 29 in the Group financial statements and the Audit Committee Report. The Group operates a number of defined benefit pension plans, giving rise to net pension deficit of £293m (2020: £145m net pension asset), gross pension assets of £4,785m (2020: £4,411m) and gross pension liabilities of £5,078m (2020: £4,266m), which are significant in the context of the overall balance sheet of the Group. The valuation of pension liabilities requires judgment and technical expertise in choosing appropriate assumptions such as salary increases, mortality rates, discount rates and inflation levels. Management engaged external actuarial experts to assist them in selecting appropriate assumptions and to calculate the liabilities. *Inappropriate selection of assumptions or methodologies for calculating the pension liabilities could result in a material difference in the value of the liabilities.*	We used our actuarial specialists to assess whether the assumptions used in calculating the pension liabilities were reasonable, by: • Assessing whether salary increases and mortality rate assumptions were consistent with the specifics of each plan and, where applicable, with UK industry benchmarks; • Verifying that the discount and inflation rate assumptions were consistent with our independently compiled expected ranges, based on market observable indices, relevant national and industry benchmarks, and our market experience; • Examining the IAS 19 reports prepared by management's external actuarial experts to assess the consistency of the methodologies and assumptions used, and compliance with IAS 19 requirements; and • Reviewing legal and accounting conclusions received by the Group from third party experts for the recognition of surpluses. Based on our procedures, we found no exceptions and overall considered management's key assumptions to be within acceptable ranges. We assessed the related disclosures included in the Group financial statements and consider them to be appropriate.
Presentation and classification of specific adjusting items, including exceptional items (Group) Refer to note 3 and 4 in the Group financial statements and the Audit Committee Report. The Group has recognised specific adjusting items of £1,615m, and a related income tax benefit of £34m, for the year ended 31 March 2021, as disclosed in note 3 to the Group financial statements. These items include pre-tax exceptional items of £1,497m, of which £1,243m related to goodwill impairment and £278m related to the impairment of other assets. Additional specific adjusting items totalling £118m related to other adjustments arising from management's CPBS review. *Judgment was required to determine the appropriate classification of specific adjusting items and exceptional items, and how these items are disclosed in the financial statements.* *Items may be inappropriately classified as exceptional in the year.*	We challenged management's rationale for the designation of certain items as exceptional and assessed such items against the Group's accounting policy, considering the nature and value of these items. Additionally, we challenged the appropriateness of management's policy and how this was applied. Our evaluation and conclusions in respect of goodwill impairment, impairment of other assets, and other adjustments arising from the CPBS review are set out in the related key audit matters above. We assessed the appropriateness and completeness of the disclosures included in the Group financial statements and checked that these reflected the output of management's calculations and positions taken, identifying no significant deviations from our expectations. We also considered whether there were items that were recorded within underlying loss that we considered to fall within management's definition of exceptional items that had not been classified as such. No material items were identified.
Completeness and accuracy of lease liabilities and right-of-use assets (Group) Refer to note 16 in the Group financial statements and the Audit Committee Report. The Group has lease liabilities of £612m (2020: £689m) and right-of-use assets of £521m (2020: £609m) at 31 March 2021. The valuation of the lease liabilities and right-of-use assets requires judgment when determining the discount rates to obtain the present value of the future lease payments. All material leases across the Group and the relevant data points from each lease need to be captured to ensure leases are recorded accurately. *The impact of not capturing all material leases across the Group, not capturing relevant key data points from each lease and/or inaccurately calculating the right-of-use asset or lease liability could be material.*	We assessed management's process for identifying the completeness of the Group's leases. We agreed the lease input data to the lease contract for a sample of lease additions and disposals. We recalculated the right-of-use asset and lease liability balances for the sample selected and compared these to the outputs from management's IFRS 16 model. We recalculated the depreciation charge on the right-of-use assets and interest charge on the lease liabilities. We tested the assumptions used in the incremental borrowing rates used to discount the future cash flows associated with the right-of-use assets and lease liabilities, including consideration of management's methodology compared to common practice. We considered potential impairment indicators to the carrying value of the right-of-use assets and tested any relevant impairment charges. We assessed the appropriateness and completeness of the disclosures included in the Group financial statements. No material issues were identified from our work.

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 (Group and Company) Refer to the Audit Committee Report. The COVID-19 pandemic has impacted the Group's trading performance and future expected cash flows. Therefore, there is inherent uncertainty in determining the impact of the pandemic on certain aspects of the financial statements. The key impacts of COVID-19 on the Group and Company financial statements are: • The budgets and models supporting the goodwill, indefinite-lived intangibles, investments in subsidiaries (parent company only) and tangible fixed asset impairment assessments have been updated to reflect management's best estimate of the impacts of COVID-19. • Future expected cash flows and related assumptions also underpin management's going concern and viability assessments, including covenant compliance. Management has modelled severe but plausible downside scenarios to its base case trading forecast. Having considered these models, together with a robust assessment of planned and possible mitigating actions, and covenant clarification and amendments in place, management has concluded that the Group remains a going concern, and that there is no material uncertainty in respect of this conclusion. *Changes to the Group's future cash flows and the general economic environment as a result of COVID-19 could result in impairments to the Group's assets and reduce liquidity.*	We reviewed and evaluated management's cash flow forecasts and the process by which they were determined and approved, agreeing the forecasts with the latest Board approved budgets and confirming the mathematical accuracy of underlying calculations and challenging key assumptions. We assessed the Group's liquidity and confirmed the revolving credit facility terms including the clarifications and amendments to covenants agreed with the lenders to support management's going concern assessment (see separate key audit matter and the conclusions relating to going concern section below). We considered any potential impairment indicators to the carrying value of assets, including goodwill and other assets, and the broader impact to the Group's financial statements, as set out in the related key audit matters above.
Ability of the Group and Company to continue as a going concern (Group and Company) Refer to the Going concern and viability statements section of the Annual Report and the Audit Committee Report. The Group's forecast profitability and cash generation have been significantly reduced as a result of the ongoing COVID-19 pandemic and the adjustments arising from management's CPBS review. These gave rise to a greater uncertainty regarding the Group's and the Company's ability to continue as a going concern, due to the impact on the ability of the Group to meet financial covenant measures in its borrowing facilities. Subsequent to the year-end, management agreed a covenant amendment with the Group's lenders to its revolving credit facilities at 30 September 2021 and 31 March 2022, and obtained clarification of the treatment of certain CPBS items for the purposes of the covenant calculations at 31 March 2021 and 30 September 2021. In accordance with the agreement reached with the Group's lenders, management has excluded the majority of the CPBS adjustments when determining EBITDA for the purposes of the covenant calculation, which has resulted in continued compliance with the debt covenants. Management has concluded, based on the Group's cash flow forecasts and severe but plausible downsides, that there is no material uncertainty in respect of the Group's and the Company's ability to continue as a going concern.	Our procedures and conclusions in respect of going concern are set out in the conclusions relating to going concern section below.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate. The Group is primarily structured and managed across five Sectors: Marine, Land, Aviation, Nuclear and Africa. The Group financial statements are a consolidation of multiple reporting components, including both operating businesses and central functions.

The Group's reporting components vary significantly in size and we identified 31 components that, in our view, required an audit of their complete financial information due to their size and/or risk, including one financially significant component, Devonport. We increased the number of components in scope to include the Aviation businesses in Norway and Sweden after PwC Oslo reported issues to us in completing the 31 March 2020 local statutory audit in December 2020. Specified audit procedures were performed at 17 further reporting components and over the Group's share of the results of six joint ventures. The number of components on which specified audit procedures were performed was expanded to cover a number of issues identified by the contract profitability and balance sheet (CPBS) review. A large proportion of these were Aviation entities in Europe where issues were identified but had not historically been in scope for Group reporting. Reporting components in scope, including joint ventures, were based in ten countries: the UK, France, Spain, Portugal, Italy, Norway, Sweden, Canada, South Africa and Australia.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those locations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. We issued formal, written instructions to component auditors setting out the work to be performed by each of them and maintained regular communication throughout the audit cycle. This included specific instructions in relation to the CPBS review. Due to the restrictions on travel and social distancing measures, the Group engagement leader and senior members of the Group team used video conferencing to oversee the component auditor work and had remote discussions with management in the UK, France, Italy, Spain, South Africa and Australia during the audit. Senior team members also attended clearances at each of the sectors and a number of clearance meetings across the components using video conferencing. During the clearance meetings, the findings reported by component teams were discussed. The Group team also evaluated the sufficiency of the audit evidence obtained through discussions with, and review of the work performed by, component teams.

This, together with additional procedures performed at the Group level (including audit procedures over material head office entities, pensions, impairment assessments, financial statement disclosures, tax, treasury, share based payments and consolidation adjustments), gave us the evidence we needed for our opinion on the financial statements as a whole. Taken together, the central and component locations at which work was performed by the group engagement team and component auditors accounted for 84% of Group revenue and 78% of Group loss before tax.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows::

	Financial statements – Group	Financial statements – Company
Overall materiality	£15,900,000 (2020: £21,400,000).	£61,391,000 (2020: £72,750,000). For the purposes of the Group audit, we applied a lower materiality of £12,375,000 (2020 - £16,500,000) to Company balances and transactions, other than those which were eliminated on consolidation in the Group financial statements.
How we determined it	75% of 2020 materiality, which was based on 5% of profit before tax, adjusted for amortisation of acquired intangible assets and exceptional items.	Materiality for the Company financial statements was based on 1% of total assets. Our lower materiality of £12,375,000 for the balances and transactions set out above was based on our calculation and allocation of component materiality for the Group audit.
Rationale for benchmark applied	Given the impact to the 2021 income statement as a result of the CPBS review, which distorts the view of the ongoing performance of the Group we have chosen to base our materiality on that applied to the 2020 financial year. We have applied a 25% reduction to reflect an expected normalised performance of the Group, which considers and factors in an appropriate level of reduction in the Group's ongoing operations and performance arising from the impact of COVID-19 and the prospective impact of the CPBS review.	Balances and transactions that eliminate upon consolidation were audited to a higher materiality. We consider a total asset measure to reflect the nature of the Company, which primarily acts as a holding company for the Group's investments. The results of procedures performed over balances and transactions contributing to the Group's overall results were used to support our Group opinion.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £800,000 to £12,375,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £11,925,000 for the Group financial statements and £9,280,000 for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk, the effectiveness of controls as well as the outcome of the CPBS review - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £800,000 (Group audit) (2020: £1,000,000) and £800,000 (Company audit) (2020: £1,000,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining and examining management's base case forecasts and downside scenarios, checking that the forecasts were subject to board review and approval;
- Considering the historical reliability of management forecasting for cash flow and net debt by comparing budgeted results with actual performance;
- Performing our own independent sensitivity analysis to understand the impact of changes in cash flow and net debt available to the Group;
- Assessing the Group's liquidity and examining the revolving credit facility terms to support management's going concern assessment;
- Reviewing the covenants, including the amendments and clarifications obtained (referred to in the related key audit matter above), applicable to the Group's borrowings and assessing whether the forecasts supported ongoing compliance with the covenants; and
- Engaging our own specialists to assist us with our work on the Group's forecasts and severe but plausible downside cases and availability of mitigating actions when required.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

As not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Directors' Remuneration

In our opinion, the part of the Remuneration Committee Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Remuneration Committee Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 1 April 2002 to audit the financial statements for the year ended 31 March 2003 and subsequent financial periods. The period of total uninterrupted engagement is 19 years, covering the years ended 31 March 2003 to 31 March 2021.

John Waters (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

30 July 2021

Group income statement

For the year ended 31 March	Note	2021 Total £m	2020 (restated) Total £m
Revenue	3,6	**4,182.7**	4,428.5
Cost of revenue		**(4,156.6)**	(3,941.2)
Gross profit		**26.1**	487.3
Administration and distribution expenses		**(376.2)**	(359.2)
Goodwill impairment	13	**(1,243.2)**	(278.4)
(Loss)/profit on divestments	32	**(49.7)**	74.7
Operating loss	3,6,7	**(1,643.0)**	(75.6)
Share of results of joint ventures and associates	3,6,17	**(13.1)**	58.6
Finance income	8	**16.6**	14.1
Finance costs	8	**(77.8)**	(86.0)
Loss before tax	3,6	**(1,717.3)**	(88.9)
Income tax benefit/(expense)	10	**15.3**	(26.9)
Loss for the year		**(1,702.0)**	(115.8)
Attributable to:			
Owners of the parent		**(1,702.0)**	(117.8)
Non-controlling interest		**–**	2.0
		(1,702.0)	(115.8)
Loss per share	12		
Basic		**(337.0)p**	(23.3)p
Diluted		**(337.0)p**	(23.3)p

Group statement of comprehensive income

For the year ended 31 March	Note	2021 £m	2020 (restated) £m
Loss for the year		**(1,702.0)**	(115.8)
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		**1.9**	(29.5)
Reclassification of cumulative currency translation reserve on disposal		**10.5**	–
Fair value adjustment of interest rate and foreign exchange hedges		**18.2**	(25.4)
Tax on fair value adjustment of interest rate and foreign exchange hedges		**(4.5)**	5.5
Hedging gains/(losses) reclassified to profit or loss		**6.9**	(3.1)
Fair value adjustment of joint ventures and associates derivatives	17	**7.0**	(9.4)
Tax, including rate change impact, on fair value adjustment of joint ventures and associates derivatives	17	**(1.4)**	2.3
Items that will not be reclassified to income statement			
Remeasurement of retirement benefit obligations	29	**(506.8)**	99.9
Tax on remeasurement of retirement benefit obligations		**96.3**	(20.2)
Impact of change in UK tax rates		**–**	0.9
Other comprehensive (loss)/income, net of tax		**(371.9)**	21.0
Total comprehensive loss		**(2,073.9)**	(94.8)
Total comprehensive loss attributable to:			
Owners of the parent		**(2,075.0)**	(94.7)
Non-controlling interest		**1.1**	(0.1)
Total comprehensive loss		**(2,073.9)**	(94.8)

In the year ended March 2021, the contract profitability and balance sheet review identified material errors which impact the prior period. The review also resulted in changes to an accounting policy. The errors were corrected and new policy applied by restating each of the affected financial statement line items for the prior period. See note 5.

Additionally, for the year ended 31 March 2021 the income statement has been simplified to exclude the reconciliation to underlying operating profit, as this is now shown in note 3.

Group statement of changes in equity

	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Total equity attributable to owners of the Company £m	Non-controlling interest £m	Total equity £m
At 1 April 2019 as previously stated	303.4	873.0	768.8	30.6	975.8	(74.4)	(32.1)	2,845.1	17.4	2,862.5
Prior year adjustment (note 5)	–	–	–	–	(308.1)	7.2	–	(300.9)	–	(300.9)
At 1 April 2019 restated	303.4	873.0	768.8	30.6	667.7	(67.2)	(32.1)	2,544.2	17.4	2,561.6
(Loss)/profit for the year	–	–	–	–	(117.8)	–	–	(117.8)	2.0	(115.8)
Other comprehensive income/(loss)	–	–	–	–	80.6	(30.1)	(27.4)	23.1	(2.1)	21.0
Total comprehensive loss	–	–	–	–	(37.2)	(30.1)	(27.4)	(94.7)	(0.1)	(94.8)
Dividends	–	–	–	–	(152.1)	–	–	(152.1)	(1.8)	(153.9)
Share-based payments	–	–	–	–	2.9	–	–	2.9	–	2.9
Tax on share-based payments	–	–	–	–	1.9	–	–	1.9	–	1.9
Own shares	–	–	–	–	(2.9)	–	–	(2.9)	–	(2.9)
Transactions with non-controlling interests (note 33)	–	–	–	–	(0.2)	–	–	(0.2)	0.2	–
Net movement in equity	–	–	–	–	(187.6)	(30.1)	(27.4)	(245.1)	(1.7)	(246.8)
At 31 March 2020 restated	**303.4**	**873.0**	**768.8**	**30.6**	**480.1**	**(97.3)**	**(59.5)**	**2,299.1**	**15.7**	**2,314.8**
At 1 April 2020 as restated	**303.4**	**873.0**	**768.8**	**30.6**	**480.1**	**(97.3)**	**(59.5)**	**2,299.1**	**15.7**	**2,314.8**
Loss for the year	**–**	**–**	**–**	**–**	**(1,702.0)**	**–**	**–**	**(1,702.0)**	**–**	**(1,702.0)**
Other comprehensive (loss)/income	**–**	**–**	**–**	**–**	**(410.5)**	**26.2**	**11.3**	**(373.0)**	**1.1**	**(371.9)**
Total comprehensive loss	**–**	**–**	**–**	**–**	**(2,112.5)**	**26.2**	**11.3**	**(2,075.0)**	**1.1**	**(2,073.9)**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.8)**	**(0.8)**
Share-based payments	**–**	**–**	**–**	**–**	**3.2**	**–**	**–**	**3.2**	**–**	**3.2**
Tax on share-based payments	**–**	**–**	**–**	**–**	**2.3**	**–**	**–**	**2.3**	**–**	**2.3**
Own shares	**–**	**–**	**–**	**–**	**(2.2)**	**–**	**–**	**(2.2)**	**–**	**(2.2)**
Net movement in equity	**–**	**–**	**–**	**–**	**(2,109.2)**	**26.2**	**11.3**	**(2,071.7)**	**0.3**	**(2,071.4)**
At 31 March 2021	**303.4**	**873.0**	**768.8**	**30.6**	**(1,629.1)**	**(71.1)**	**(48.2)**	**227.4**	**16.0**	**243.4**

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

Group statement of financial position

As at	Note	31 March 2021 £m	31 March 2020 (restated) £m	1 April 2019 (restated) £m
Assets				
Non-current assets				
Goodwill	13	**956.3**	2,287.9	2,584.2
Other intangible assets	14	**202.0**	334.7	389.0
Property, plant and equipment	15	**731.5**	840.9	873.7
Right of use assets	16	**521.2**	609.0	623.5
Investment in joint ventures and associates	17	**73.5**	161.9	162.1
Loan to joint ventures and associates	17	**42.1**	48.6	42.5
Retirement benefits surpluses	29	**40.8**	325.3	226.9
IFRIC 12 financial assets		**11.2**	12.8	15.5
Other financial assets	24	**17.2**	21.5	93.8
Deferred tax asset	18	**141.3**	60.5	54.7
		2,737.1	4,703.1	5,065.9
Current assets				
Inventories	19	**162.4**	191.6	194.7
Trade and other receivables	20	**741.0**	837.4	868.8
Income tax recoverable		**48.4**	57.2	40.5
Other financial assets	24	**34.9**	153.9	48.0
Cash and cash equivalents	21, 31	**904.8**	1,845.9	844.7
		1,891.5	3,086.0	1,996.7
Total assets		**4,628.6**	7,789.1	7,062.6
Equity and liabilities				
Equity attributable to owners of the parent				
Share capital	27	**303.4**	303.4	303.4
Share premium		**873.0**	873.0	873.0
Capital redemption and other reserves		**680.1**	642.6	700.1
Retained earnings		**(1,629.1)**	480.1	667.7
		227.4	2,299.1	2,544.2
Non-controlling interest		**16.0**	15.7	17.4
Total equity		**243.4**	2,314.8	2,561.6
Non-current liabilities				
Bank and other borrowings	23	**1,318.8**	2,050.0	1,437.2
Lease liabilities	16, 23	**486.2**	548.5	533.7
Trade and other payables	22	**1.9**	2.1	2.0
Deferred tax liabilities	18	**7.7**	33.7	25.5
Other financial liabilities	24	**51.1**	35.6	9.3
Retirement benefit deficits	29	**333.9**	180.1	254.9
Provisions for other liabilities	26	**73.7**	32.7	33.8
		2,273.3	2,882.7	2,296.4
Current liabilities				
Bank and other borrowings	23	**383.7**	987.9	657.3
Lease liabilities	16, 23	**126.1**	140.9	107.1
Trade and other payables	22	**1,506.7**	1,301.2	1,348.8
Income tax payable		**9.7**	3.8	22.1
Other financial liabilities	24	**13.9**	27.7	10.9
Provisions for other liabilities	26	**71.8**	130.1	58.4
		2,111.9	2,591.6	2,204.6
Total liabilities		**4,385.2**	5,474.3	4,501.0
Total equity and liabilities		**4,628.6**	7,789.1	7,062.6

In March 2021, the contract profitability and balance sheet review identified material errors which impact prior periods. The review also resulted in changes to an accounting policy. The correction of the errors and application of the new policy resulted in a reduction of net assets amounting to £235.2 million at 31 March 2020 and £300.9 million at 1 April 2019. Each of the affected financial statement line items was restated for the prior periods. See note 5. This also impacts the Group cash flow statement.

The notes on pages 178 to 268 are an integral part of the consolidated financial statements. The Group financial statements on pages 174 to 177 were approved by the Board of Directors on 30 July 2021 and are signed on its behalf by:

David Lockwood OBE
Director

David Mellors
Director

Group cash flow statement

For the year ended 31 March	Note	2021 £m	2020 (restated) £m
Cash flows from operating activities			
Loss for the year		**(1,702.0)**	(115.8)
Share of results of joint ventures and associates	17	**13.1**	(58.6)
Income tax (benefit)/expense	10	**(15.3)**	26.9
Finance income	8	**(16.6)**	(14.1)
Finance costs	8	**77.8**	86.0
Depreciation and impairment of property, plant and equipment		**199.9**	91.3
Depreciation and impairment of right of use assets		**179.8**	137.5
Amortisation and impairment of intangible assets		**148.2**	81.9
Goodwill impairment		**1,243.2**	278.4
Equity share-based payments		**3.2**	2.9
Impairment of joint venture loans	17	**7.0**	–
Net derivative fair value movement through profit or loss		**6.9**	(3.1)
Loss/(profit) on disposal of subsidiaries, businesses and joint ventures and associates	32	**49.7**	(74.7)
Loss on disposal of property, plant and equipment		**26.4**	3.9
Loss on disposal of intangible assets		**–**	0.1
Cash generated from operations before movement in working capital and retirement benefit payments		**221.3**	442.6
Decrease/(increase) in inventories		**32.9**	(10.9)
Decrease in receivables		**86.8**	40.0
Increase/(decrease) in payables		**212.5**	(24.7)
(Decrease)/increase in provisions		**(14.6)**	71.8
Cash outflow from non-hedging derivatives		**(3.6)**	–
Retirement benefit contributions in excess of income statement		**(64.5)**	(73.5)
Cash generated from operations		**470.8**	445.3
Income tax received/(paid)		**19.4**	(72.4)
Interest paid		**(79.4)**	(84.9)
Interest received		**12.0**	13.3
Net cash flows from operating activities		**422.8**	301.3
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	32	**90.6**	101.6
Dividends received from joint ventures and associates	17	**36.8**	52.0
Proceeds on disposal of property, plant and equipment		**32.2**	76.5
Purchases of property, plant and equipment		**(170.8)**	(191.3)
Purchases of intangible assets		**(19.6)**	(29.0)
Vehicle leasing principal repayments	24	**14.9**	49.9
Investment in joint ventures	17	**(8.8)**	(0.3)
Loans repaid by joint ventures and associates		**4.2**	0.7
Increase in loans to joint ventures and associates		**(3.9)**	(5.5)
Net cash flows from investing activities		**(24.4)**	54.6
Cash flows from financing activities			
Dividends paid	11	**–**	(152.1)
Proceeds above market value on sale and leaseback of property, plant and equipment		**1.0**	8.3
Lease principal payments	31	**(140.6)**	(175.0)
Cash inflow from settlement of derivatives		**52.6**	–
Bank loans repaid	31	**(1,154.4)**	(253.5)
Loans raised and facilities drawn down	31	**25.1**	1,304.7
Dividends paid to non-controlling interest		**(0.8)**	(1.8)
Repurchase of own shares		**(2.2)**	(2.9)
Net cash flows from financing activities		**(1,219.3)**	727.7
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(820.9)**	1,083.6
Cash, cash equivalents and bank overdrafts at beginning of year	31	**1,348.7**	275.2
Effects of exchange rate fluctuations	31	**3.1**	(10.1)
Cash, cash equivalents and bank overdrafts at end of year	31	**530.9**	1,348.7

Notes to the Group financial statements

1. Basis of preparation and significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis, as set out in the Directors' report on page 96. The Board considered the 18 month period from 31 March 2021 to 30 September 2022 in its assessment of going concern. The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments. Babcock International Group PLC is listed on the London Stock Exchange and is incorporated and domiciled in England, UK.

New and amended standards adopted by the Group

The Group applied the following standards and amendments for the first time for the year beginning on 1 April 2020:

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2020 and did not have a material impact on the consolidated financial statements:

- IAS 1, 'Presentation of Financial Statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors'. The amendment is effective for annual reporting periods beginning on or after 1 January 2020 and relates to the definition of material.
- IFRS 3, 'Business Combinations', amendment is effective for annual reporting periods beginning on or after 1 January 2020 and relates to the definition of a business.

The following standards and amendments to IFRSs become effective for the annual reporting period beginning on 1 April 2020, but were early adopted by the Group for the annual reporting period beginning on 1 April 2019:

- IFRS 9 and IFRS 7, 'Financial Instruments' and 'Financial Instruments: Disclosures', amended effective for periods beginning on or after 1 January 2020 with early adoption allowed. Amendments to IFRS 7 and IFRS 9 have been issued which modify specific hedge accounting requirements and allow it to be assumed that the interest rate benchmark is not altered as a result of the uncertainties of LIBOR reform when performing hedge effectiveness testing. There is no impact on the Group's fair value hedge accounting or cash flow hedge accounting as a result of adopting the amendments.

New IFRS accounting standards, amendments and interpretations not yet adopted

The Group has not early adopted any other amendment, standard or interpretation that has been issued but is not yet effective. It is expected that these standards and amendments will be adopted on the applicable effective date. The following new or amended IFRS accounting standards, amendments and interpretations not yet adopted are not expected to have a significant impact on the Group:

- IAS 1, 'Presentation of Financial Statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors'. Amendment effective for annual reporting periods commencing on or after 1 January 2022. The amendment relates to the classification of liabilities as current or non-current.
- IAS 37, 'Provisions, contingent liabilities and contingent assets'. Amendment effective for periods commencing on or after 1 January 2022. The amendment relates to the clarification of costs that an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Management's project to determine the impact of this amendment is ongoing, however this is not expected to have a material impact.
- IFRS 3, 'Business Combinations', amendment effective for periods commencing on or after 1 January 2022. The amendment relates to the identification of liabilities assumed and contingent assets acquired in a business combination.
- IFRS 9 and IFRS 7, 'Financial Instruments' and 'Financial Instruments: Disclosures'. These amendments are effective for periods commencing after 1 January 2022 and relate to Phase 2 of Interest Rate Benchmark Reform.
- IFRS 16, 'Leases', amendment effective 1 June 2020. The amendment provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification.
- IFRS 17, 'Insurance Contracts', amendment effective 1 January 2023. This has been deferred from the initial effective date of 1 January 2021.

Basis of consolidation

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

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

Basis of consolidation (continued)

(a) Subsidiaries

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

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

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

(b) Joint ventures and associates

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

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

The Group's interests in joint ventures and associates are accounted for by the equity method of accounting and are initially recorded at cost. The Group's investment in joint ventures and associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The carrying values of associates and joint ventures are reviewed on a regular basis and if there is objective evidence that an impairment in value has occurred as a result of one or more events during the period, the investment is impaired.

The Group's share of its joint ventures and associates post-acquisition profits or losses after tax is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses unless it has incurred obligations to do so.

Unrealised gains and losses on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in the joint venture and associate. Loans to joint ventures are valued at amortised cost less provision for impairment.

Critical accounting estimates and judgements

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

Critical accounting judgements

Critical accounting judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below:

Revenue and profit recognition

The Group accounts for revenue in accordance with IFRS 15. Revenue and profit are recognised over time based on costs incurred for the majority of the Group's contracts with customers. The Group's contracts are often amended for changes in customers' requirements and the Group is required to make a judgement regarding the point in time at which a contract modification is approved and should be accounted for. The Group's preferred approach is to approve contract variations following scope and pricing agreement by contract amendment. However the approval of contract modifications often requires to be at pace and other mechanisms, informed by established customer relationships and local working arrangements, can be used to achieve effective approval of contract modifications. In approving contract modifications in these circumstances, the Group considers the contract terms and the scope of the contract modification in the context of the contract.

Impact of COVID-19

During the year ended 31 March 2021 the Group's operations were significantly impacted by COVID-19. Management considered the potential impact of COVID-19 on the Group's future performance as part of the budgeting and business planning process and concluded that COVID-19 is not expected to materially impact the Group in the medium or long term. The Group's budget for FY22 includes contingency to address remaining uncertainty.

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

Critical accounting estimates and judgements (continued)

Determining the Group's operating segments

Management exercises judgement in determining the Group's operating segments. This determination is generally straightforward and factual, however in some cases judgement is required, for example it was determined that South Africa is a separate operating segment whilst operations of the Group in other territories do not represent separate operating segments. Over time management reviews the operating segments to ensure they remain appropriate as businesses are acquired and divested and reporting structures change, including how information is reported to the Chief Operating Decision Maker. There have been no changes to the operating segments in the current year. Further detail is included in notes 6 and 13.

Key sources of estimation uncertainty

The key sources of estimation uncertainty at the reporting period end that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are set out below:

Revenue and profit recognition

The Group accounts for revenue in accordance with IFRS 15. Revenue is recognised over time based on costs incurred for the majority of the Group's contracts with customers. There are two critical estimates impacting revenue and profit recognition: estimated costs to complete, which impact the estimated stage of completion, and recognition of variable revenue, which impacts the transaction price. Both of these estimates can involve significant levels of estimation uncertainty and material changes in these estimates may result in a material adjustment to the carrying value of assets and liabilities in the following year.

Management estimates outturn costs and revenues on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel.

Estimating contract revenues can involve judgements around whether the Group will meet performance targets and earn incentives. In particular, management makes judgements to consider whether it is necessary to constrain variable revenues to meet the test set out in paragraph 56 of IFRS 15 to include variable consideration in the transaction price only to the extent that it is highly probable a significant reversal in the amount of cumulative revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved. When considering variations, claims and contingencies, the Group analyses various factors including the contractual terms, status of negotiations with the customer and historical experience with that customer and with similar contracts.

Estimates of costs include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge. As contracts near completion, often less judgement is required to determine the expected outturn.

The Group considers that the level of estimation uncertainty in the financial statements as a whole is mitigated by the size of the Group's portfolio of contracts, which are of various types and at various stages of completion at any point in time. In relation to estimates of costs to complete at the balance sheet date, given that the Group aims to have centred forecasts for projects, the portfolio effect is expected to cause upward and downward cost deviations to balance. However, this may not necessarily be the case and, to the extent that it is, it may not be the case in any one reporting period, reflecting the long-term nature of many of the Group's contracts. It is therefore possible that revised estimates of costs to complete may result in a material adjustment to the carrying value of assets and liabilities estimates in the following year. The Group considers that it is not practical to provide a quantitative analysis of the aggregated estimates that are applied across the contract portfolio.

The Group considered the estimates associated with both variable consideration and costs to complete across ten contracts considered to be significant in the context of the Group in relation to contribution to revenue, contract balance or costs to complete. Whilst at any reporting date the Group may have significant contract modifications subject to pricing agreement with customers, at 31 March 2021 there were two significant contracts which had contract modifications where pricing was not agreed with the customer. The Group assessed an estimation upside of £16.9 million and an estimation downside of £1.0 million on the first of these two contracts, which would increase and decrease revenue recognised at 31 March 2021 by £14.0 million and £0.9 million respectively. The significant upside potential reflects consideration of the highly probable not to significantly reverse test set out in IFRS 15. The estimation upside and downside on the second contract were both assessed at £1.0 million, which would impact revenue by the same amount at 31 March 2021. In relation to costs to complete across the ten significant contracts, the Group considers that outcomes could differ from management's centred forecasts and, for information, a 5% increase in estimated costs to go at 31 March 2021 would, through reassessed stages of completion, reduce revenue recognised at 31 March 2021 by £30 million.

A number of matters supported the results of the sensitivity analyses of the significant contracts including the contract completion date of one contract, the recent completion of negotiations on a significant contract modification on another contract and change in forecasts of contract outturn for a number of contracts following completion of the Group's contract profitability and balance sheet review.

Defined benefit pension schemes obligations

The Group's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit pension obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit pension obligations. In addition to the inflation and discount rate estimates, a key estimation relates to the expected availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 29.

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

Critical accounting estimates and judgements (continued)

Deferred tax assets

The Group has carried forward tax losses and other tax attributes in a number of jurisdictions, and therefore has to assess the extent to which a deferred tax asset should be recognised in respect of these. The recognition of deferred tax assets can be subjective, particularly in loss-making territories where the recognition of the deferred tax asset relies on forecast future profits.

The Group carries out two tests for each company that has carried forward tax attributes: it assesses the future availability of carried forward losses and other tax attributes by reference to the jurisdiction-specific rules around the carry forward and utilisation; and it assesses whether it is probable that future taxable profits will be available against which the attribute can be utilised. The reversal of deferred tax liabilities may provide a source of probable future taxable profits but, where these are insufficient, the Group considers the forecast profits of the company or jurisdiction in question as set out in the Group's three-year budget and extrapolates these forward on a risk-weighted basis over what is deemed to be a commercially reasonable look-out period (generally between 10 and 15 years). Risk weighting is considered to take into account risks associated with forecasting outside the Group's detailed planning cycle, such as the loss of contracts or margin, and the potential of longer-term disruption to the business. The Group recognises deferred tax assets in respect of tax attributes to the extent that it is considered they will be utilised within the look-out period. Because of the level of judgement involved, there is the possibility of a material adjustment within the following 12 months (for example due to the gain or loss of a contract with a material impact on profit forecasts).

Profit forecasts used for deferred tax asset recognition are consistent with those used for goodwill impairment testing. They are therefore subject to the same sensitivities as detailed in note 13 but as described above are risk-weighted (and not discounted – discounting is not permitted under IAS 12). In currently loss-making territories, a key assumption is the size of the steady state business, once recovery plans are complete. For example, for every £10 million recurring annual taxable profits forecast in either Spain or Italy, deferred tax assets recognised at the balance sheet date would be increased by between £6 million and £10 million (limited to the extent of the unrecognised asset available, as set out in note 18).

Significant tax losses are available as at 31 March 2021 in respect of Group companies in the UK, Spain, Australia, Italy, France and Norway. Further information in respect of the level of tax losses recognised and unrecognised is set out in note 18.

The carrying value of goodwill

Goodwill is tested annually for impairment, in accordance with IAS 36, Impairment of Assets ('IAS 36'). The impairment assessment is based on assumptions in relation to the cash flows expected to be generated by cash generating units, together with appropriate discounting of the cash flows. The assessment of the carrying value of goodwill is included as a critical accounting estimate given the significance of the remaining carrying value of goodwill and the inherent level of estimation uncertainty required to undertake impairment testing. Note 13 provides information on key assumptions and sensitivity analyses performed.

Significant accounting policies

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

Revenue

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

(a) Performance obligations

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

In assessing whether the performance obligations are separately identifiable, the services are reviewed to determine the extent to which the goods or services within a contract are interrelated and whether they modify other goods or services within a contract. The Group also considers whether the goods and/or services are integrated and represent a combined output for which the customer has contracted.

The integrated output nature of many of the services provided by the Group can result in contracts with one performance obligation.

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

Significant accounting policies (continued)

Revenue (continued)

(b) Determination of contract price

The contract price represents the amount of consideration which the Group expects to receive in exchange for delivering the promised goods or services to the customer. Contracts can include both fixed and variable consideration.

Inclusion of variable consideration in the contract price requires the exercise of judgement in relation to the amount to be received through unpriced contract variations and claims (see section (e) below for further details) and variable elements of existing contracts, such as performance-based penalties and incentives, and gain/pain share arrangements where cost under/over spends are shared with the customer. Elements of variable consideration are estimated at contract inception and at the end of each reporting period to ensure that the contract price is not under or overstated. Any required adjustment is made against the contract price in the period in which the adjustment occurs.

Variable consideration is included in the contract price using either the expected value or the most likely amount depending on whether the variable consideration is a range of potential values or whether the amount of variable consideration to be received is one of two outcomes, respectively. This judgement is made by suitably qualified and experienced personnel based on the contract terms, status of negotiations with customers and historical experience with customers and with similar contracts.

As part of this judgement, variable consideration may be constrained. The Group recognises variable consideration only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised when the uncertainty associated with the variable consideration is subsequently resolved.

(c) Allocation of contract price to performance obligations

Given the bespoke nature of many of the goods and services the Group provides, standalone selling prices are generally not available and, in these circumstances, the Group allocates the contract price to performance obligations based on cost plus margin. This amount would be the standalone selling price of each performance obligation if contracted with a customer separately.

(d) Revenue and profit recognition

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

Revenue recognised over time

Performance obligations are satisfied over time if any of the following criteria are satisfied:

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

Typical performance obligations in the Group's contracts that are recognised over time include the delivery of services (such as maintenance, engineering and training), as the customer simultaneously receives and consumes the benefits of the Group's performance as it performs. Revenue from the design, manufacture and enhancement of bespoke assets is also recognised over time, as the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin.

Where the Group satisfies performance obligations over time, the Group primarily uses the input method to measure satisfaction of each performance obligation based on costs incurred compared to total estimated contract costs. Costs are included in the measurement of progress towards satisfying the performance obligation to the extent that there is a direct relationship between the input and satisfaction of the performance obligation.

Revenue recognised over time is measured in accordance with the appropriate method. Under most of the Group's contracts, the customer pays in accordance with a pre-arranged payment schedule or once milestones have been met. If the value of the goods or services rendered by the Group exceed payments, a contract asset is recognised. If payments exceed the value of the goods or services rendered, a contract liability is recognised. See section (i) for further details on how contract assets and liabilities are recognised.

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

Significant accounting policies (continued)

Revenue (continued)

Revenue recognised at a point in time

If control of the goods or services is not transferred to the customer over time, then revenue is recognised at the point in time that control is transferred to the customer.

Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to receive payment by the Group. As can be seen from note 6, sale of goods at a point in time represents approximately 12% of Group revenues. These revenues are delivered predominantly by the Land sector and include sales of equipment to commercial customers and procurement of consumables on behalf of the Ministry of Defence (MOD). The procurement of consumables for MOD is within the scope of the principal versus agent consideration at paragraph (h) below.

Assessment of contract profitability

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outturn assessments are carried out on a contract-by-contract basis, including consideration of technical and other risks, by suitably qualified and experienced personnel and the assessments of all significant contracts are subject to review and challenge.

Estimating contract revenues can involve judgements around whether the Group will meet performance targets and earn incentives, as well as consideration as to whether it is necessary to constrain variable revenues to meet the highly probable not to significantly reverse test set out in paragraph 56 of IFRS 15. When considering variations, claims and contingencies, the Group analyses various factors including the contractual terms, status of negotiations with the customer and historical experience with that customer and with similar contracts. Estimates of costs include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge and estimation uncertainty is resolved on a contract-by-contract basis as contracts near the end of the project lifecycle.

Any expected loss on a contract is recognised immediately in the income statement.

(e) Contract modifications

Claims and variations

The Group's contracts are often amended for changes in the customers' requirements. Contract modifications can relate to changes in both contract scope and price arising in the ordinary course of delivering contracts, which are referred to as contract variations. Such variations may arise as a result of customer requests or instructions or from requests from the Group in response to matters arising during the delivery of contracts. For example, some contracts include the requirement to conduct surveys and to report on or to recommend additional work as required. We note that some contracts may require the Group to proceed with variations and to agree pricing subsequently. See further detail on accounting for contract modifications below.

Contract modifications can also refer to changes in price only, with no change in scope, where there is a difference of view or dispute in relation to interpretation of contracts. For example, a claim affecting only contract price could be in relation to a change of law clause that would respond to additional costs in relation to delivery of the existing contract scope.

These contract claims and variations are considered to be modifications as referred to in paragraph 18 of IFRS 15.

Accounting for contract modifications

If the performance obligations in a contract modification are deemed to be distinct and the price of the contract increases by an amount that reflects the standalone selling prices for the additional goods or services, the Group accounts for the modification as a separate contract.

If the performance obligations in a contract modification are not distinct, for example if the services provided through the contract modification are highly interrelated with the services in the existing contract, the Group accounts for this as part of the existing contract. A cumulative catch-up adjustment to revenue is recognised to reflect the effect of the contract modification on the transaction price and the Group's measure of progress towards complete satisfaction of the performance obligation.

The Group recognises contract variations, which impact both scope and price, when they are approved in accordance with IFRS 15. The Group's preferred approach is to approve contract modifications by formal contract amendment. However the approval of contract modifications often requires to be at pace and other mechanisms, informed by established customer relationships and local working arrangements, can be used to achieve approval of contract modifications. In approving contract modifications in these circumstances, the Group considers the scope of the contract modification in the context of the contract scope and contract terms. Contract variations where the formal contract amendment has not been received but which are, in management's judgement approved, are accounted for as a contract modification in accordance with IFRS 15 paragraph 18. Revenue from these contract variations is treated as variable consideration and subject to constraint as outlined in section (b) above, until the pricing is agreed.

Contract claims are also considered to be contract modifications in accordance with IFRS 15, and revenue is subject to constraint as outlined in section (b).

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

Significant accounting policies (continued)

Revenue (continued)

Claims and variations which are not deemed to be contract modifications

Claims can also be raised by Babcock against third-party subcontractors or suppliers to the Group. As these do not relate to contracts with customers, but rather relate to contracts with suppliers, they are not accounted for under IFRS 15. The Group's accounting policy is to account for such claims in accordance with the contingent asset guidance per IAS 37. Income in relation to these claims will only be recognised once it is virtually certain.

(f) Costs of obtaining a contract

Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost are recognised as an expense when incurred.

Directly attributable costs to obtain a contract with a customer that the Group would not have incurred if the contract had not been won are recognised as an asset. These costs are capitalised as an asset after the point that it can be reliably expected that a contract will be obtained, which is typically at preferred bidder stage. The costs are capitalised as an asset in capitalised contract costs and amortised to cost of revenue on a systematic basis consistent with the transfer to the customer of the goods and services to which the asset relates, provided that the contract is expected to result in future net cash inflows. These costs are classified as current assets on the basis that the contracts represent the normal trading cycle.

(g) Contract mobilisation costs

Post contract award but pre contract operational start-up mobilisation costs which satisfy the criteria for capitalisation under another standard, such as property, plant and equipment (IAS 16) or intangible assets (IAS 38), are accounted for in accordance with the relevant policies as set out below. Post contract award but pre contract operational start-up mobilisation costs which do not fall within the scope of another standard are recognised under IFRS 15 as an asset in capitalised contract costs where they meet all of the following criteria:

(i) the costs relate directly to a contract or to an anticipated contract that can be specifically identified;

(ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(iii) the costs are expected to be recovered.

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

(h) Principal versus agent considerations

A number of the Group's contracts include promises in relation to procurement activity undertaken on behalf of customers at low or nil margin, sub-contractor arrangements, and other pass-through costs. For such activity, management exercises judgement in the consideration of principal versus agent based on an assessment as to whether the Group controls the relevant goods or services under the performance obligations prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Group has under the contract for the provision of the goods or services, the extent to which the Group is incentivised to fulfil orders on time and within budget, either through gain share arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Group exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the Group then comes to a judgement as to whether it acts as principal or agent on a performance obligation-by-performance obligation basis. Note that any changes in this judgement would not have a material impact on profit.

(i) Contract assets and liabilities

In circumstances where revenue recognised exceeds progress billings the Group presents as an asset the gross amount due from customers as "Amounts due from customers for contract work". Similarly, in circumstances where progress billings exceed revenue recognised, the Group presents as a liability the gross amount due to customers as "Amounts due to customers for contract work".

Accrued income and deferred income relate to contracts where the right to consideration is conditional on both the passage of time and satisfaction of performance obligations. These are classified separately from "Amounts due from customers for contract work" and "Amounts due to customers for contract work" as progress is measured using less judgemental measures than the "cost to cost" approach, such as time-based measures. Accrued income and deferred income typically arise where the timing of the related billing cycle differs to satisfaction of the performance obligation.

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

Significant accounting policies (continued)

Revenue (continued)

(j) Significant financing components

The Group accounts for a significant financing component on contracts where the timing of cash receipts differs significantly from revenue recognition. The majority of the Group's contracts do not include significant financing components, however on contracts which do have a significant financing component the Group recognises an interest income or expense and the transaction price is adjusted accordingly.

If, at contract inception, the Group expects that the period between transfer of the promised goods or services to a customer and receipt of consideration from the customer will be one year or less, the Group applies the practical expedient under IFRS 15 and does not adjust the amount of consideration for a significant financing component.

Underlying financial information and exceptional items

Definitions and a description of the use of the underlying performance measures can be found in note 3 on page 196.

Transactions with non-controlling interest

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

Provisions

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

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

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

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

A provision for the contractual maintenance, overhaul and repair requirements of aircraft and specific aircraft components arising from return condition obligations in aircraft lease contracts is recognised as the obligation to perform contractual maintenance arises with each hour flown. Where lease contracts contain contractual penalties in the event that the Group returns leased aircraft in a condition that does not meet the contractual return condition obligation, the associated provision is measured at the lower of the restoration cost and the detriment penalty in the lease. When maintenance of a leased aircraft component is performed, if the component's remaining flying hours are greater than the return condition outlined in the lease contract then a leasehold improvement asset is recognised in proportion to the excess flying hours above the contractual return condition. Maintenance provisions are not recognised in respect of aircraft components which are maintained under Power By the Hour maintenance arrangements, instead the associated payments to the maintenance provider are expensed as incurred. Any additional payments made to or received from maintenance providers at the conclusion of Power By the Hour maintenance arrangements are recognised as an expense or as income at the time at which they are incurred or received.

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

Significant accounting policies (continued)

Goodwill and intangible assets

(a) Goodwill

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets, the difference is treated as purchased goodwill and capitalised. Goodwill is monitored at operating segment level and goodwill is allocated to the operating segment expected to benefit from the business combination's synergies. The Group currently has five operating segments: Marine, Land, Aviation, Nuclear and Africa.

When the fair value of the consideration for an acquired undertaking is less than the fair value of its separable net assets, the difference is taken directly to the income statement.

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

Goodwill is reviewed for impairment by assessing the recoverable amount of operating segments by reference to value-in-use calculations or fair value less cost to dispose in relation to certain businesses which the Group plans to dispose. Goodwill impairments are not subsequently reversed. See note 13 for further information on goodwill impairment reviews.

(b) Acquired intangibles

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

The carrying value of the contractual element is amortised straight-line over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation periods, reflecting the lengths of the various contracts, are mainly in the range one year to five years, with a minority of contracts and hence amortisation periods, up to 15 years.

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

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

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

(c) Research and development

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

(d) Computer software

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

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

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

Significant accounting policies (continued)

Property, plant and equipment (PPE)

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items after the deduction of trade discounts and rebates.

Major strategic aircraft spares are classified within property, plant and equipment. Aircraft assets, including spares, are disaggregated into separate components where the components have differing useful lives with the value of each rotable component being measured at the cost of replacement or overhaul of the component and the remaining value of the asset being attributed to the airframe component. Depreciation is provided on a straight-line basis, or in the case of certain aircraft components on an hours flown basis, to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each financial year end) at the following annual rates:

Freehold property	2.0% to 8.0%
Leasehold property	Lower of useful economic life or lease term
Plant and equipment	6.6% to 33.3%
Aircraft airframes	3.33%

Subsequent expenditure on the replacement or overhaul of aircraft components is capitalised with the carrying value of the part replaced being written off. Subsequent expenditure on maintenance which enhances the performance of aircraft airframes is capitalised whilst expenditure on replacing elements of aircraft airframes is expensed. Components of owned aircraft which are maintained under Power By the Hour maintenance arrangements are not depreciated with the associated payments to the maintenance provider instead being expensed as incurred, as the residual value of the asset is deemed to be equivalent to the cost of the asset. Any additional payments made to or received from maintenance providers at the conclusion of Power By the Hour maintenance arrangements are recognised as an expense or as income at the time at which they are incurred or received.

Impairment of non-current assets

Goodwill is reviewed for impairment at least annually. For all other non-financial non-current assets (including acquired intangible assets, capitalised development costs, software assets, property, plant and equipment and right of use assets) the Group performs impairment testing where indicators of impairment are identified. Impairment testing is performed at the individual asset level. Where an asset does not generate cash flows that are separately identifiable from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal, and value-in-use. When the recoverable amount is less than the carrying amount, an impairment loss is recognised immediately in the Group income statement.

Where an impairment loss on other non-financial non-current assets subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised in prior years. Goodwill impairments are not subsequently reversed.

Net debt

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

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

Significant accounting policies (continued)

Leases

The Group as lessee

For all leases in which the Group is a lessee (other than those meeting the criteria detailed below), the Group recognises a right of use asset and corresponding lease liability at commencement of the lease.

The lease liability is the present value of future lease payments discounted at the rate implicit in the lease, if available, or the applicable incremental borrowing rate. The incremental borrowing rate is determined at lease inception based on a number of factors including asset type, lease currency and lease term. Lease payments include fixed payments and variable lease payments dependent on an index or rate, initially measured using the index or rate at the commencement date. The lease term reflects any extension or termination options that the Group is reasonably certain to exercise.

The lease liability is subsequently measured at amortised cost using the effective interest rate method, with interest on the lease liability being recognised as a finance expense in the income statement. The lease liability is remeasured, with a corresponding adjustment to the right of use asset, if there is a change in future lease payments, for example resulting from a rent review, change in a rate/index or change in the Group's assessment of whether it is reasonably certain to exercise an extension, termination or purchase option.

The right of use asset is initially recorded at cost, being equal to the lease liability, adjusted for any initial direct costs, lease payments made prior to commencement date, lease incentives received and any dilapidation costs. Depreciation of right of use assets is recognised as an expense in the income statement on a straight-line basis over the shorter of the asset's useful life or expected term of the lease.

Right of use assets arising from sale and leaseback transactions are measured at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. Gains arising on sale and leaseback transactions are recognised to the extent that they relate to the rights transferred to the buyer-lessor whilst losses arising on sale and leaseback transactions are recognised in full.

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

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

The Group as lessor

As a lessor, the Group classifies lessor arrangements as finance or operating leases. Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. All lessor arrangements in the Group meet the criteria for a finance lease.

Amounts due from lessees under a finance lease are held on the statement of financial position as a financial asset at an amount equal to the Group's net investment in the lease. The finance lease payments received are treated as finance income and a repayment of principal including initial direct costs. Finance income is allocated over the lease term, with the gross receivable being reviewed for impairment on a regular basis.

Inventory

Inventory is valued at the lower of cost and net realisable value, being the estimated selling price of the assets in the ordinary course of business less estimated costs of completion and costs of sale. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. The Group does not recognise contingent liabilities. See note 34 for details of contingent liabilities.

Cash and cash equivalents

Group cash and cash equivalents consist of cash at bank and cash in hand, together with short-term deposits with an original maturity of three months or less and money market funds.

Government grants

Government grants received are recognised in the income statement so as to match them with the related expenses that they are intended to compensate. Where grants are received in advance of the related expenses, they are initially recognised as liabilities within trade payables and other liabilities and released to match the related expenditure.

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

Significant accounting policies (continued)

Taxation

(a) Current income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(b) Deferred income tax

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax asset recognition can involve critical accounting estimates. The Group's approach to deferred tax asset recognition is therefore set out in greater detail on page 181.

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

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

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

Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as part of a cashflow hedge or a net investment of a foreign operation when the amounts are recognised in the hedge or translation reserve, respectively.

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

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

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

Significant accounting policies (continued)

Finance costs

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

Employee benefits

(a) Pension obligations

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

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

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

(b) Share-based compensation

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

The shares purchased by the Group's Employee Stock Ownership Plan (ESOP) trusts are recognised as a deduction to equity. Dividends paid on these shares are accounted for as a deduction to equity.

(c) Holiday pay

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

Financial instruments

(a) Financial assets and liabilities at amortised cost

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

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

(b) Derivative financial instruments

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

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

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

Significant accounting policies (continued)

Financial instruments (continued)

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

Fair value measurement

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the year-end date. Fair value measurements are used on a recurring basis except where used in the acquisition of assets and liabilities through a business combination.

The fair values of derivative financial instruments are determined by the use of valuation techniques based on assumptions that are supported by observable market prices or rates. The fair values of non-financial assets and liabilities are based on observable market prices or rates.

The carrying values of financial assets and liabilities which are not held at fair value in the Group balance sheet are assumed to approximate to fair value due to their short-term nature, with the exception of fixed rate bonds.

There have been no changes to the valuation techniques used during the year.

Debt factoring

The Group engages in factoring of trade receivables in relation to certain non-UK operations of its Aviation sector as part of its working capital management arrangements. Under these arrangements, the Group transfers the rights to receive factored receivables to the factor in exchange for cash and is prevented from selling or pledging the receivables. The Group does not retain late payment or credit risk, and therefore trade receivables are not recognised under the applicable contracts. Any cash received from customers under these contracts is received as agent and transferred directly to the counterparty.

Dividends

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

Identification of prior year errors

The contract profitability and balance sheet review identified a number of prior year errors. The results of the Group have been restated where practicable by retrospectively restating the Group's prior period results for the affected periods. Any errors identified relating to reporting periods before 1 April 2019 have been corrected by cumulatively restating the impacted balance sheet line item, including retained earnings, at 1 April 2019.

Changes in accounting policies

Management implemented one change in accounting policy during the year ended 31 March 2021. See note 4 for further details.

Change in presentation

The Group changed the presentation of the Group income statement to present share of results of joint ventures and associates below operating profit, and to exclude underlying operating profit from the Group income statement. These changes were made in order to better reflect the way in which management reviews the core underlying performance of the business. The total share of results of joint ventures and associates is £13.1 million loss (2020: £58.6 million profit), due to adjustments to share of results of joint ventures and associates identified through the contract profitability and balance sheet review of £37.1 million during the year ended 31 March 2021 (see note 17 for further details).

2. Financial risk management

Management of capital

The Group's capital structure is defined as equity plus net debt and is overseen by the Board through the Group Finance Committee. The Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required.

A number of ratios are used to monitor and measure capital structure and performance, including: Net debt to EBITDA, ROIC and interest cover. Net debt to EBITDA and Interest cover are the debt covenant ratios associated with the Group's £775 million revolving credit facility. The calculation and consideration of these ratios, and the Group's ROIC, are set out in the Financial Review on page 28. Net debt to EBITDA and ROIC are also key performance indicators of the Group as set out on page 29.

Financial risk management

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

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

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

The Group's treasury policies in respect of currency risk, interest rate risk, liquidity risk, and credit risk are outlined below.

Currency risk

The functional currency of Babcock International Group PLC and its UK subsidiaries is GBP. The presentation currency of the Group is GBP. The Group has exposure primarily to EUR and ZAR and some exposure to AUD, CAD, NOK and SEK.

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

The Group only enters into foreign currency swaps and forwards where it has a high level of confidence of the hedged item occurring. Both the treasury department and the business sectors have responsibility for monitoring compliance with the treasury policies and guidelines.

The EUR exposure arises as a result of the activities of the Babcock Mission Critical Services business in Europe, where both translational and transactional exposures exist. EUR 550 million of Euro bonds retained as a hedge against these businesses was swapped into GBP post 31 March 2021. The ZAR exposure arises from the activities of Babcock's subsidiaries in South Africa where both translational and transactional exposures exist. The increasing AUD, CAD, NOK and SEK exposure arises from the activities of Babcock's subsidiaries in those countries where both transactional and translational exposures exist.

See note 25 for further detail.

The Group's risk management objective, policy and performance are as follows:

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

2. Financial risk management (continued)

Currency risk (continued)

The following table demonstrates the effect on profit before tax for reasonably possible changes in EUR and ZAR exchange rates.

	Change in exchange rate	Effect on profit before tax £m
EUR	5%	9.3
ZAR	5%	1.0

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

Interest rate risk is managed through the maintenance of a mixture of fixed and floating rate debt and interest rate swaps, each being reviewed on a regular basis to ensure the appropriate mix is maintained. See note 23 for further detail.

The Group's risk management objective, policy and performance are as follows:

Objective	To manage exposure to interest rate fluctuations on borrowings by varying the proportion of fixed rate debt relative to floating rate debt to reflect the underlying nature of its commitments and obligations. As a result, the Group does not maintain a specific set proportion of fixed versus floating debt, but monitors the mix to ensure that it is compatible with its business requirements and capital structure.
Policy	Interest rate hedging and the monitoring of the mix between fixed and floating rates are the responsibility of the treasury department, and are subject to the policy and guidelines set by the Board.
Performance	As at 31 March 2021, the Group had 70% fixed rate debt (2020: 60%) and 30% floating rate debt (2020: 40%) based on gross debt including derivatives of £2,340.0 million (2020: £3,126.8 million). The percentages for the prior year included the fully drawn down revolving credit facility which if excluded would have resulted in 81% fixed rate debt and 19% floating rate debt. For further information see note 23.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Change in interest rate	Effect on profit before tax £m
GBP	0.5%	2.0
EUR	0.5%	1.2
ZAR	0.5%	0.1

Liquidity risk

Liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining cash and/or availability under committed credit lines (see note 23).

Each of the sectors in the Group provides regular cash forecasts for liquidity planning purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group, and to ensure that there is sufficient liquidity to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The Group utilises debt factoring in support of the non-UK operations of its Aviation sector as part of its working capital management arrangements. In addition, supply chain financing arrangements were used by the Aviation sector during the year. These facilities are classified as debt and their use reduced significantly during the year. The Group plans to phase out the use of these arrangements.

2. Financial risk management (continued)

Liquidity risk (continued)

The Group's risk management objective, policy and performance are as follows:

Objective	With debt as a key component of available capital, the Group seeks to ensure that there is an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.
Policy	All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required. It remains the Group's policy to ensure the business is prudently funded and that sufficient liquidity headroom is maintained on its facilities.
Performance	The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective. The Group's main corporate debt facilities include: a £775 million Revolving Credit Facility maturing in August 2025, a new £300 million Revolving Credit Facility entered into in May 2021 and maturing in May 2024, a EUR 550 million Eurobond maturing in October 2022, a £300 million 10-year GBP bond maturing in October 2026 and a EUR 550 million Eurobond maturing in September 2027. These borrowing and debt facilities provide the Group with total available committed banking facilities and loan notes of £2.4 billion and sufficient sources of liquidity and headroom to meet the Group's ongoing commitments. For further information see note 23.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 March 2021					
Bank and other borrowings*	**383.7**	**476.4**	**15.6**	**826.8**	**1,702.5**
Derivative financial instruments	**(5.9)**	**(6.2)**	**(1.6)**	**(38.8)**	**(52.5)**
Lease liabilities	**156.0**	**136.1**	**282.7**	**110.4**	**685.2**
Trade and other payables**	**965.7**	**1.3**	**0.5**	**0.1**	**967.6**
At 31 March 2020 (restated)					
Bank and other borrowings*	987.9	0.4	1,260.0	789.6	3,037.9
Derivative financial instruments	113.1	8.7	(6.2)	(23.4)	92.2
Lease liabilities	161.8	137.9	308.5	149.1	757.3
Trade and other payables**	962.1	1.0	0.7	0.4	964.2

* Includes fixed rate committed interest.

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

The derivative financial instruments disclosed in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts:

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 March 2021					
Forward derivative contracts – hedges:					
• Outflow	**347.5**	**203.3**	**145.9**	**501.5**	**1,198.2**
• Inflow	**341.7**	**197.2**	**144.6**	**476.8**	**1,160.3**
Net undiscounted cash flows outflows	**(5.8)**	**(6.1)**	**(1.3)**	**(24.7)**	**(37.9)**
At 31 March 2020					
Forward derivative contracts – hedges:					
• Outflow	809.4	147.3	91.9	494.9	1,543.5
• Inflow	894.8	156.2	85.9	488.9	1,625.8
Net undiscounted cash flows outflows	**85.4**	**8.9**	**(6.0)**	**(6.0)**	**82.3**

2. Financial risk management (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations to the Group, which would result in a loss for the Group.

Credit risk arises from trade and other receivables, cash and cash equivalents, investments and derivative financial instruments.

Trade and other receivables

The Group's customers are mainly government, government-backed institutions or blue chip corporations, however due to the nature of the business, there is a degree of concentration of risk due to the level of activity with individual customers. The Group's assessment is that credit risk in relation to customers or subcontractors to governments is limited as their probability of default is considered to be extremely low. The provision for expected credit losses for receivables from government and subcontractor to government customers is therefore considered immaterial in the context of the receivables balance. The Group manages credit risk in relation to trade and other receivables for all non-government commercial customers through various mitigating controls including credit checks, credit limits and ongoing monitoring. Expected credit losses are assessed for all non-government customers, however this is not considered to be material to the financial statements.

For trade receivables, contract receivables, amounts due from equity accounted investments and finance lease receivables, the Group measures a provision for expected credit losses at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Group considers that receivables more than 120 days overdue are at increased risk of default based on historical experience and recognises a provision of 100% against all such receivables unless there is evidence of recoverability at the individual receivable level.

Cash and cash equivalents and derivative financial instruments

The Group utilises approved investment-grade counterparties to carry out treasury transactions, including investments of cash and cash equivalents; with counterparty bank credit risk being monitored closely on a systematic and ongoing basis. A credit limit is allocated to each institution taking account of its market capitalisation and credit rating; and as such credit risk on these counterparties is not considered to be material to the financial statements.

The Group's risk management objective, policy and performance are as follows:

Objective	To ensure the Group continues to operate with an acceptable level of credit risk associated with its operating activities, such as customer trade receivables, and financial activities, including cash deposits and financial instruments.
Policy	Credit risk associated with the Group's predominately government, government-backed institutions or blue chip corporations is considered to be extremely low. Credit checks are performed on non-government commercial customers and appropriate credit limits are set and regularly reviewed. Financial transactions are carried out with approved investment grade counterparties with credit limits set according to the respective financial institution's credit rating. Counterparty bank credit risk is closely monitored on a systematic and ongoing basis.
Performance	Expected credit loss on trade receivable portfolio / provisions of £14.0 million. Further details are included in notes 20 and 26. Maximum credit risk exposure from financial assets is £1,639.6 million (note 24).

3. Adjustments between statutory and underlying information

Definition of underlying measures and exceptional items

The Group provides alternative performance measures, including underlying operating profit, to enable users to better understand the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. They are used by management to assess operating performance and as a basis for forecasting and decision-making and are understood to be used by investors in analysing business performance.

The Group's alternative performance measures are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies and they are not intended to be a substitute for, or superior to, measures defined under IFRS.

The Group revised its definition of underlying performance measures in the year, as detailed in this note.

Underlying operating profit

Underlying operating profit excludes certain Specific Adjusting Items. Transactions such as these may happen regularly and could be lumpy and may be profits or losses. As such they may distort the reporting of underlying business performance measures if they are not adjusted for. Specific Adjusting Items include:

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

Income statement including underlying results

		2021			2020 (restated)		
	Note	**Underlying £m**	**Specific Adjusting Items £m**	**Statutory £m**	Underlying £m	Specific Adjusting Items £m	Statutory £m
Revenue	6	**4,182.7**	**–**	**4,182.7**	4,428.5	–	4,428.5
Operating (loss)/profit	6, 7	**(27.6)**	**(1,615.4)**	**(1,643.0)**	377.6	(453.2)	(75.6)
Share of results of joint ventures and associates	17	**(13.1)**	**–**	**(13.1)**	58.6	–	58.6
Investment income	8	**0.9**	**–**	**0.9**	1.1	–	1.1
Net finance costs	8	**(62.1)**	**–**	**(62.1)**	(73.0)	–	(73.0)
(Loss)/profit before tax		**(101.9)**	**(1,615.4)**	**(1,717.3)**	364.3	(453.2)	(88.9)
Income tax benefit/(expense)	10	**(18.4)**	**33.7**	**15.3**	(67.4)	40.5	(26.9)
(Loss)/profit after tax for the year		**(120.3)**	**(1,581.7)**	**(1,702.0)**	296.9	(412.7)	(115.8)

Included in the Specific Adjusting Items column of the table above is £1,502.1 million relating to the contract profitability and balance sheet review. Further details are included in note 4.

3. Adjustments between statutory and underlying information (continued)

Earnings per share including underlying measures

	Note	2021 Underlying £m	2021 Adjusting items £m	2021 Statutory £m	2020 (restated) Underlying £m	2020 (restated) Adjusting items £m	2020 (restated) Statutory £m
(Loss)/profit after tax for the year		**(120.3)**	**(1,581.7)**	**(1,702.0)**	296.9	(412.7)	(115.8)
Amount attributable to owners of the parent		**(120.3)**	**(1,581.7)**	**(1,702.0)**	294.9	(412.7)	(117.8)
Amount attributable to non-controlling interests		**–**	**–**	**–**	2.0		2.0
Weighted average number of shares (m)		**505.0**		**505.0**	505.3		505.3
Effect of dilutive securities (m)		**4.0**		**4.0**	0.9		0.9
Diluted weighted average number of shares (m)		**509.0**		**509.0**	506.2		506.2
Basic EPS		**(23.8)p**		**(337.0)p**	58.4p		(23.3)p
Diluted EPS		**(23.8)p**		**(337.0)p**	58.3p		(23.3)p

Details of Specific Adjusting Items

The impact of Specific Adjusting Items is set out below:

	Note	2021 £m	2020 £m
Amortisation of acquired intangibles		**(40.2)**	(67.6)
Business acquisition, merger and divestment related items		**(49.7)**	74.7
Gains, losses and costs directly arising from withdrawal from a specific market or geography		**(11.1)**	(20.5)
Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes		**(8.9)**	–
Restructuring		**(8.4)**	(50.9)
Exceptional items		**(1,497.1)**	(388.9)
		(1,615.4)	(453.2)
Income tax benefit			
Amortisation of acquired intangibles		**8.2**	14.5
Gains, losses and costs directly arising from withdrawal from a specific market or geography		**1.0**	–
Profit or loss from amendment, curtailment, settlement or equalisation of group pension schemes		**1.7**	–
Restructuring		**0.5**	9.7
Exceptional tax items and tax on exceptional items		**22.3**	16.3
		33.7	40.5

3. Adjustments between statutory and underlying information (continued)

Explanation of Specific Adjusting Items

Amortisation of acquired intangibles

Underlying operating profit excludes the amortisation of acquired intangibles. This item is excluded from underlying results as it arises as a result of purchase price allocations on business combinations, and is a non-cash item which does not change each year dependent on the performance of the business. It is therefore not considered to represent the underlying activity of the Group. Intangible assets arising as a result of the purchase price allocation on business combinations include customer lists, technology-based assets, order book and trade names. Amortisation of internally generated intangible assets is included within underlying operating profit.

Business acquisition, merger and divestment related items

Transaction related costs and gains or losses on acquisitions, mergers and divestments of businesses are excluded from underlying operating profit as business combinations and divestments are not considered to result from underlying business performance.

The total net loss relating to business acquisition, merger and divestment related items was £49.7 million, consisting of a £38.2 million loss on disposal of the Group's share in the Holdfast joint venture and losses arising on disposal of subsidiary undertakings of £0.6 million for Cavendish Nuclear Manufacturing Limited and £10.9 million for Conbras Servicos Tecnicos Supporte Ltda. The prior year included a total net gain of £61.3 million, consisting of a £74.7 million gain on the disposal of Context Information Security Limited partially offset by additional costs from exits in the previous financial year and the costs of disposing of areas of the Group's nuclear manufacturing business.

Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography

The Group ceased its Airport baggage handling contract in the year, incurring costs of £4.2 million. Further costs were incurred in relation to exits in the previous financial year from the oil and gas business in Congo (£3.6 million), the overseas Powerlines business (£1.4 million) and certain Rail related contracts (£1.9 million).

In the prior year the Group incurred costs of £7.1 million in relation to the exits of its oil and gas businesses in Ghana and Congo, £3.4 million in relation to the overseas Powerlines business and £3.0 million in relation to the exist of its Nuclear manufacturing business.

Restructuring

The Group continued to simplify the structure of the Aviation business and incurred a restructuring charge of £9.3 million (2020: £26.5 million). This was offset by the release of £0.9 million of unused provision from prior year restructuring costs in the Nuclear and Land sectors.

Other restructuring in the prior year of £24.4 million relates to the Group's Civil Nuclear and Rail businesses and includes substantial redundancy costs. £16.5 million was incurred in reducing the cost base in Civil Nuclear following the end of the Magnox contract and in response to the ongoing trading environment in the UK.

Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes.

The Group incurred a curtailment charge of £7.5 million in relation to the closure of the Rosyth defined benefit pension scheme to future accrual. A charge of £1.4 million was incurred following a court ruling in November 2020 regarding equalisation of pension rights.

Exceptional items

See exceptional items section on page 202 for further detail.

In the prior year, business acquisition and divestment related items and restructuring charges were included as exceptional items (previously referred to as 'Exits and disposals'). These remain as Specific Adjusting Items but are no longer included as exceptional items in order to provide greater clarity and consistency to the users of the financial statements.

Amendments to underlying definitions for the year ended 31 March 2021

For the year ended 31 March 2021 management has revised the Group's definition of underlying revenue and underlying operating profit as follows.

In prior years an underlying revenue measure was provided which included the Group's share of revenue from investments in equity accounted joint ventures and associates. This measure is no longer provided as the approach adopted by management in reviewing the operating performance of the business is more closely aligned with the statutory measure of revenue.

The Group's definition of underlying operating profit no longer includes the Group's share of results from equity accounted joint ventures and associates. This more closely aligns with the approach adopted by management in reviewing the operational performance of the business.

3. Adjustments between statutory and underlying information (continued)

Reconciliation to prior year measures

Underlying income statement measures for the year ended 31 March 2021 that would have been presented under the previous underlying measures definition

	Note	Revenue £m	Underlying operating loss £m	Share of results of joint ventures and associates £m	Investment income £m	Net finance costs £m	Loss before tax £m	Income tax expense £m	Loss after tax £m
Underlying measures									
Previous definition		**4,433.2**	**(4.9)**	**–**	**–**	**(84.9)**	**(89.8)**	**(19.1)**	**(108.9)**
Reclassification of IFRIC 12 investment income		**–**	**(0.9)**	**–**	**0.9**	**–**	**–**	**–**	**–**
Share of joint venture and associates revenue		**(250.5)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Share of joint venture and associates operating profit		**–**	**4.0**	**(4.0)**	**–**	**–**	**–**	**–**	**–**
Share of joint venture and associates investment income		**–**	**(25.8)**	**25.8**	**–**	**–**	**–**	**–**	**–**
Share of joint venture and associates amortisation of acquired intangible assets		**–**	**–**	**(5.8)**	**–**	**–**	**(5.8)**		**(5.8)**
Share of joint venture and associates finance costs		**–**	**–**	**(22.8)**	**–**	**22.8**	**–**	**–**	**–**
Share of joint venture and associates exceptional items		**–**	**–**	**(5.6)**	**–**	**–**	**(5.6)**	**–**	**(5.6)**
Share of joint venture and associates taxation		**–**	**–**	**(0.7)**	**–**	**–**	**(0.7)**	**0.7**	**–**
Revised definition		**4,182.7**	**(27.6)**	**(13.1)**	**0.9**	**(62.1)**	**(101.9)**	**(18.4)**	**(120.3)**

Comparison of the Income Statement for the year ended 31 March 2021 to the results that would have been provided under the previous definition

	Note	2021 Underlying £m	2021 Specific Adjusting Items £m	2021 Statutory £m	2021 Underlying (previous definition) £m	2021 Underlying Adjustments £m	2021 Statutory £m
Revenue	6	**4,182.7**	**–**	**4,182.7**	4,433.2	(250.5)	4,182.7
Operating (loss)	6,7	**(27.6)**	**(1,615.4)**	**(1,643.0)**	(4.9)	(1,638.1)	(1,643.0)
Share of results of joint ventures and associates		**(13.1)**	**–**	**(13.1)**	–	(13.1)	(13.1)
Investment income	8	**0.9**	**–**	**0.9**	–	0.9	0.9
Net finance costs	8	**(62.1)**	**–**	**(62.1)**	(84.9)	22.8	(62.1)
Loss before tax		**(101.9)**	**(1,615.4)**	**(1,717.3)**	(89.8)	(1,627.5)	(1,717.3)
Income tax benefit/(expense)	10	**(18.4)**	**33.7**	**15.3**	(19.1)	34.4	15.3
Loss after tax for the year		**(120.3)**	**(1,581.7)**	**(1,702.0)**	(108.9)	(1,593.1)	(1,702.0)

3. Adjustments between statutory and underlying information (continued)

Earnings per share

	Note	2021 Underlying £m	2021 Specific Adjusting Items £m	2021 Statutory £m	2021 Underlying (previous definition) £m	2021 Underlying Adjustments £m	2021 Statutory £m
Loss after tax for the year		**(120.3)**	**(1,581.7)**	**(1,702.0)**	(108.9)	(1,593.1)	(1,702.0)
Amount attributable to owners of the parent		**(120.3)**	**(1,581.7)**	**(1,702.0)**	(108.9)	(1,593.1)	(1,702.0)
Amount attributable to non-controlling interests		**–**	**–**	**–**	–	–	–
Weighted average number of shares (m)		**505.0**		**505.0**	505.0		505.0
Effect of dilutive securities (m)		**4.0**		**4.0**	4.0		4.0
Diluted weighted average number of shares (m)		**509.0**		**509.0**	509.0		509.0
Basic EPS		**(23.8)p**		**(337.0)p**	(21.4)p		(337.0)p
Diluted EPS		**(23.8)p**		**(337.0)p**	(21.4)p		(337.0)p

Underlying income statement measures for the year ended 31 March 2020 (restated) that would have been presented under the previous underlying measures definition

	Note	Revenue £m	Underlying operating profit £m	Share of results of joint ventures and associates £m	Investment income £m	Net finance costs £m	Profit before tax £m	Income tax expense £m	Profit after tax £m
Underlying measures									
Previous definition		4,850.7	484.3	–	–	(95.8)	388.5	(83.7)	304.8
Reclassification of IFRIC 12 investment income		–	(1.1)	–	1.1	–	–	–	–
Share of joint venture and associate revenue		(422.2)	–	–	–	–	–	–	–
Share of joint venture and associate operating profit		–	(79.7)	79.7	–	–	–	–	–
Share of joint venture and associate investment income		–	(25.9)	25.9	–	–	–	–	–
Share of joint venture and associate amortisation of acquired intangible assets		–	–	(5.8)	–	–	(5.8)	–	(5.8)
Share of joint venture and associate finance costs		–	–	(22.8)	–	22.8	–	–	–
Share of joint venture and associate exceptional items		–	–	(2.1)	–	–	(2.1)	–	(2.1)
Share of joint venture and associate taxation		–	–	(16.3)	–	–	(16.3)	16.3	–
Revised definition		4,428.5	377.6	58.6	1.1	(73.0)	364.3	(67.4)	296.9

The results for the year ended 31 March 2020 have been restated due to errors identified and a change in accounting policy. Further details are set out in note 5.

3. Adjustments between statutory and underlying information (continued)

Comparison of the Income Statement for the year ended 31 March 2020 to the results that would have been presented under the previous definition

	Note	2020 Underlying (restated) £m	2020 Specific Adjusting Items (restated) £m	2020 Statutory (restated) £m	2020 Underlying (previous definition) (restated) £m	2020 Underlying Adjustments (restated) £m	2020 Statutory (restated) £m
Revenue	6	**4,428.5**	**–**	**4,428.5**	4,850.7	(422.2)	4,428.5
Operating (loss)	6,7	**377.6**	**(453.2)**	**(75.6)**	484.3	(559.9)	(75.6)
Income from joint ventures and associates	17	**58.6**	**–**	**58.6**	–	58.6	58.6
Investment income		**1.1**	**–**	**1.1**	–	1.1	1.1
Net finance costs	8	**(73.0)**	**–**	**(73.0)**	(95.8)	22.8	(73.0)
Profit/(loss) before tax		**364.3**	**(453.2)**	**(88.9)**	388.5	(477.4)	(88.9)
Income tax expense	10	**(67.4)**	**40.5**	**(26.9)**	(83.7)	56.8	(26.9)
Profit/(loss) after tax for the year		**296.9**	**(412.7)**	**(115.8)**	304.8	(420.6)	(115.8)

Earnings per share

	Note	2020 Underlying (restated) £m	2020 Specific Adjusting Items (restated) £m	2020 Statutory (restated) £m	2020 Underlying (restated) £m	2020 Underlying adjustments (restated) £m	2020 Statutory (restated) £m
Profit/(loss after) tax for the year		**296.9**	**(412.7)**	**(115.8)**	304.8	(420.6)	(115.8)
Amount attributable to owners of the parent		**294.9**	**(412.7)**	**(117.8)**	302.8	(420.6)	(117.8)
Amount attributable to non-controlling interests		**2.0**		**2.0**	2.0		2.0
Weighted average number of shares (m)		**505.3**		**505.3**	505.3		505.3
Effect of dilutive securities (m)		**0.9**		**0.9**	0.9		0.9
Diluted weighted average number of shares (m)		**506.2**		**506.2**	506.2		506.2
Basic EPS		**58.4p**		**(23.3)p**	59.9p		(23.3)p
Diluted EPS		**58.3p**		**(23.3)p**	59.8p		(23.3)p

3. Adjustments between statutory and underlying information (continued)

Exceptional items

Exceptional items are those items which are significant, non-recurring and outside the normal operating practice of the Group.

	Note	2021 £m	2020 (restated) £m
Operating costs			
Impairment of goodwill		**1,243.2**	278.4
Impairment of acquired intangibles		**56.4**	–
Impairment of internally generated intangible assets		**32.7**	–
Impairment of property, plant and equipment and aircraft fleet rationalisation		**142.6**	23.5
Impairment of right of use assets		**46.4**	14.2
Onerous contracts		**–**	17.0
Italy fine and related costs		**(24.2)**	48.5
Other		**–**	7.3
Exceptional items – Group		**1,497.1**	388.9
Exceptional tax items and tax on exceptional items		**(22.3)**	(16.3)
Exceptional items – net of tax		**1,474.8**	372.6

Explanation of exceptional items

Exceptional items include the results of the annual goodwill impairment test and other adjustments arising out of the contract profitability and balance sheet review. The contract profitability and balance sheet review includes the results of a major aircraft fleet rationalisation programme which resulted in asset impairments and crystallisation of losses on disposal of surplus aircraft.

Impairment of goodwill

The current year impairment test results in an impairment of the Land operating segment goodwill of £425.8 million, the Aviation operating segment goodwill of £808.5 million and the goodwill of £8.9 million allocated to the Aviation oil and gas business CGU. These impairments reflect significant changes in estimates, informed by consideration during the second half of the year ended 31 March 2021, of actual business performance of the Group during the current year and related assessments of future performance of the businesses. Future business performance was informed by the strategy and contract profitability and balance sheet reviews instigated by the Group's new executive management and the Group's budget addressing the years ending 31 March 2022, 31 March 2023 and 31 March 2024.

The Group combines the Africa and Land operating segments into a single Land reportable segment and, in the prior year, the goodwill impairment test was carried out at the reportable segment level rather than at the operating segment level as required by IAS 36. This error was compounded by an administrative error in the calculation of the value-in-use of the Land operating segment and the impact of both errors was an overstatement of Land value-in-use by £886 million.

In addition, the correction of a number of prior period errors in the year ended 31 March 2020, in relation to other financial statement areas, reduced the capital employed used to complete the March 2020 goodwill impairment test. A reduction in capital employed of £239.2 million, in relation to the Aviation operating segment, resulted in the restatement of the Aviation operating segment impairment charge for the year ended 31 March 2020 from £395.0 million, which reflected deterioration in the oil and gas market conditions, to £155.8 million. A reduction in capital employed of £5.1 million, in relation to the Land operating segment and the impact of the overstatement of value-in-use by £886 million noted above, resulted in a Land operating segment impairment charge of £122.6 million in the year ended 31 March 2020.

Impairment of acquired intangibles

The Land operating segment previously recognised an acquired intangible in relation to the DSG contract acquisition in 2015. Following publication of the Integrated Spending Review and reassessment of variable revenues under the contract, an impairment assessment under IAS 36 resulted in the impairment of this asset.

Impairment of internally generated intangible assets

Impairment charges of £32.7 million were recorded on mainly software assets. Further details are set out in note 3 and note 14.

Impairment of property, plant and equipment and aircraft fleet rationalisation

An impairment charge of £113.3 million was recorded on property, plant and equipment. This charge included the results of a major aircraft fleet rationalisation programme which resulted in a refreshed fleet strategy and the identification of surplus aircraft. Impairments were recorded on surplus aircraft and as the result of value-in-use tests. Losses on disposal were incurred on aircraft disposed of during the year. The prior year charge related to impairments of property, plant and equipment used in the Group's Aviation oil and gas business and reflected the prevailing market conditions. Further details are set out in note 15.

3. Adjustments between statutory and underlying information (continued)

Exceptional items (continued)

Impairment of right of use assets

Following a review of carrying amounts, a total impairment charge of £46.4 million was recorded in relation to the Group's right of use assets. This included impairments of aircraft supporting oil and gas and emergency services contracts and the impairment of assets directly attributable to the Group's DSG contract. The impairment in the prior year related to aircraft supporting oil and gas market contracts. Further details are set out in note 16.

Onerous contracts

The prior year charge relates to onerous contracts supporting the Aviation oil and gas market. As disclosed in note 4, the Group identified onerous contracts during the year ended 31 March 2021. However, the onerous contracts identified are not considered to meet the criteria for exceptional items (being items that are significant, non-recurring and outside the normal operating practice of the Group) and are therefore not considered further here. We have assessed that onerous contracts identified in the year ended 31 March 2020 meet the criteria for classification as exceptional under the policy in place for the current year.

Italy fine

In the year ended 31 March 2020, the Lazio Regional Administrative Court confirmed a €51 million fine issued by the Italian Competition Authority to our subsidiary, Babcock Mission Critical Services Italia SpA (BMCS Italia), for certain anti-trust violations. As a result, the Group recognised a provision of £46.4 million. During the year, BMCS Italia appealed the decision of the Court to the Italian Council of State. In July 2021, the Council, whilst upholding the decision of the Court on the facts, annulled the fine, though allowing the Authority leave to re-calculate it. We expect the Authority to decide on the recalculation of the fine over the next few months. Taking into account the guidance given by the Council to the Authority on the recalculation, we further expect the Authority to reduce the fine. As a result, we have reduced the provision to £20 million, being management's best estimate of the Group's obligation based on an interpretation of the Council's guidance. We have not received any indication from the Authority as to how it will choose to interpret the Council's guidance.

Other

Other charges in the prior year include costs arising from the Group's Brexit-related restructure.

4. Contract and balance sheet review

As announced in January 2021, the Group performed a review of the profitability of its contract portfolio and the carrying values of assets and liabilities on the balance sheet. The review was carried out by management using the expertise and resource of an independent accounting firm. The initial year-end financial close occurred in early April before completion of the contract profitability and balance sheet review. On 13 April 2021 the Group announced the initial headline unaudited results for the year ended 31 March 2021 before the impact of contract profitability and balance sheet review, along with an early estimate of the findings. The annual goodwill impairment test, required by IAS 36, was included within the scope of the contract profitability and balance sheet review.

The contract profitability and balance sheet scope covered over 100 contracts, representing c.£2.6 billion of annual revenues. The selected contracts received differing levels of review depending upon their perceived risk. Those contracts deemed high risk had a full review of their status, underpinning assumptions and risks and dependencies. Those deemed medium risk had a specific scope review with work targeted at any specific areas of concern, and those deemed low risk had a review with the project manager to gain an understanding of the contract and assess whether any specific scope work should be performed. The balance sheet reviews covered all main balance sheet captions for all sectors, again prioritising balances on a risk basis. As the reviews progressed, more work was performed on contracts where findings raised issues that had not been considered in the initial scoping reviews.

More than 100 accounting adjustments totalling £2.0 billion (post-tax effect on retained earnings) resulted from the contract profitability and balance sheet review, consisting of:

- Cumulative restatement at 1 April 2019 of £308.1 million (being £45.3 million relating to a change in accounting policy and correction of prior year errors of £262.8 million).
- Cumulative restatement at 31 March 2020 of £230.7 million (being £59.8 million relating to a change in accounting policy and correction of prior year errors of £170.9 million).
- Changes recorded within the current financial year of £1,813.7 million, the vast majority of which are change in estimates.

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

Prior year restatements

There are a number of prior year errors that have been recognised. Adjustments were denoted as errors, rather than changes in estimates, when it was identified that assumptions or methodologies were used which the Group should have known at the time were incorrect. One accounting policy has also been changed to better represent certain maintenance arrangements in the Aviation sector, and the errors and the policy change result in prior year restatements. Prior year restatements arising on or before 31 March 2019 were recorded in the 1 April 2019 opening balance sheet in these financial statements, with the continuing impact of these errors and other errors arising in the year ended 31 March 2020 being recorded in the income statement for the year ended 31 March 2020. Further details are set out in note 5.

The impacts of the contract profitability and balance sheet review adjustments on the income statement, including the results of the annual goodwill impairment test, are summarised as follows:

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

4. Contract and balance sheet review (continued)

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

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

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

Revenue

These adjustments have two components within them. Firstly is a correction of an error where revenue had been recognised on a contract the terms of which had been varied in February 2020. The effect of the contract change is that the Group is deemed an agent of the customer, not a principal and therefore the revenue should not be recognised. As a result of identifying this error, £71.8 million of revenue initially recognised in the year ended 31 March 2021 was reversed together with £11.6 million of revenue in relation to the year ended 31 March 2020. The second component of revenue adjustments reflects reassessments of the progress and profitability of a number of contracts across the Group.

Impairment of goodwill and acquired intangible assets

In the current year, goodwill was impaired by £1,243.2 million and acquired intangible assets were impaired by £56.4 million. As detailed in note 13, the impairments of the Land and Aviation sectors' goodwill of £425.8 million and £817.4 million respectively were largely as a result of reduced forecasts of future cash flows and an increase in the discount rate used to discount them.

Contract profitability and balance sheet review adjustments of £64.8 million were also recorded to allocate the goodwill that should have been allocated to the Holdfast disposal (June 2020) and to correct the allocation of goodwill to the Conbras disposal (October 2020 and provided in the first half of the financial year). Further, £56.4 million was impaired in relation to the DSG contract acquired intangible as its carrying value could no longer be justified following the reassessment of the contract profitability. Partially offsetting this is the reversal of amortisation of £15.0 million in relation to the oil and gas business acquired intangible reflecting management's judgement to dispose of this intangible at 1 April 2019 as a result of a reassessment of its useful economic life. This has been classified as a prior year error.

Previously a goodwill impairment of £395.0 million was recorded in the year ended 31 March 2020 against the Aviation sector goodwill. The credit of £130.5 million in the year ended 31 March 2020 is a reduction to that impairment and is the result of three prior year errors. Firstly, credits of £239.2 million and £5.1 million reflect the cumulative amount of prior year errors in relation to the capital employed in the Aviation and Land operating segments respectively, and therefore reduce the amount that should have been impaired in the year ended 31 March 2020. Secondly, calculation errors in the impairment test of Land goodwill in the year ended 31 March 2020 result in a charge of £127.7 million and, thirdly, a credit of £13.9 million reflects reduced intangible amortisation in relation to the oil and gas business following the derecognition of the intangible asset at 1 April 2019.

Impairment of other non-current assets:

The adjustments within underlying operating profit in the year ended 31 March 2021 largely relate to the write off of a loan to one of our joint ventures which is no longer deemed recoverable. The £32.7 million within the year ended 31 March 2021 Specific Adjusting Items is largely due to the impairment of internally generated intangibles, mainly computer software.

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

Impairments of £156.9 million largely relate to fleet values in the Aviation sector where aircraft carrying values are no longer expected to be recovered through use or sale. Also included are impairments of leasehold property of £12 million and plant and equipment of £11 million. The prior year error of £21.6 million within underlying profit is all from the Aviation sector and relates to the expensing of previously capitalised maintenance and the reversal of aircraft vendor credit notes previously recognised within profit. Further details are set out in note 5.

Impairment/write down of current assets:

This covers the reassessment of several contract profitability margins and the recoverability of many trade and other receivables (including contract assets and accrued income) as well as an increase in obsolescence provisions for inventory. This is the summation of many contract reassessments across the group with £62.0 million in Aviation, £36.6 million in Land, £21.8 million in Marine and £20.6 million in Nuclear. The prior year error of £19.5 million relates to Aviation and corrects the capitalisation of mobilisation and other costs as well as revenue milestones recognised for an aircraft the Group did not take delivery of.

4. Contract and balance sheet review (continued)

Introduction of/increase to liabilities:

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

Share of income from joint ventures and associates

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

Tax adjustments:

The underlying impact of £7.5 million in the year ended 31 March 2021 relates to the write off of deferred tax assets in Spain of £29.1 million now considered not recoverable within the Group's forecasting horizon, together with a £21.6 million credit, being the recognition of tax deductibility on the DSG contract intangible amortisation now confirmed with HMRC. The prior year error of £12.4 million is the write off of a deferred tax asset incorrectly calculated in the prior year.

Change in accounting policy

During the year, management amended the Group's accounting policy regarding Power By the Hour agreements. At 31 March 2021 this change in policy reduces property, plant and equipment by £65.6 million and trade and other receivables by £3.1 million and increases trade and other payables by £8.1 million. Further information is detailed at note 5.

5. Prior year restatements

The following table summarises the impact of restatements arising from the change in accounting policy and correction of prior year errors on Group net assets and earnings per share.

	31 March 2020		1 April 2019	
	Change in accounting policy	Prior period error	Change in accounting policy	Prior period error
Impact on non-current assets (£m)	(48.7)	(135.7)	(37.2)	(224.8)
Impact on current assets (£m)	(2.8)	445.6	–	549.3
Impact on non-current liabilities (£m)	–	79.2	–	(1.9)
Impact on current liabilities (£m)	(8.3)	(564.5)	(8.1)	(578.2)
Total impact on equity	**(59.8)**	**(175.4)**	**(45.3)**	**(255.6)**
Impact on profit after tax (£m)	(14.6)	92.0	N/A	N/A
Impact on Group earnings per share (basic) (pence)	(2.9)	18.6	N/A	N/A
Impact on Group earnings per share (diluted) (pence)	(2.9)	18.6	N/A	N/A

Detail of prior period errors and change in accounting policy

Through the contract profitability and balance sheet review a number of prior year errors have been identified, in addition to one area where there is a more appropriate alternative accounting policy. Prior year financial statements have been restated for these changes as indicated below.

5. Prior year restatements (continued)

1 April 2019 – Group statement of financial position (extract)

		Change in accounting policy	Correction of errors								
	1 April 2019 (previously published)	(i) Power By the Hour maintenance arrangements	(ii) Maintenance of leased aircraft	(iii) Rotables	(iv) Maintenance of customer aircraft	(v) Mobilisation costs	(vi) Credit notes	(vii) Deferred tax	(viii) Balance sheet reclassification	(x) Other	1 April 2019 (restated)
Assets											
Non-current assets											
Other intangible assets	**448.9**	–	–	–	–	–	–	–	–	(59.9)	389.0
Property, plant and equipment	**1,014.3**	(37.2)	(26.5)	(25.8)	(25.1)	(0.8)	(2.4)	–	0.7	(23.5)	873.7
Right of use assets	**592.7**	–	–	–	–	–	(35.3)	–	66.1	–	623.5
Investments in joint ventures and associates	**153.2**	–	–	–	–	–	–	–	–	8.9	162.1
Deferred tax asset	**155.9**	–	–	–	–	–	–	(8.8)	(92.4)	–	54.7
Total non-current assets*	**5,327.9**	(37.2)	(26.5)	(25.8)	(25.1)	(0.8)	(37.7)	(8.8)	(25.6)	(74.5)	5,065.9
Current assets											
Inventories	**196.5**	–	–	–	–	–	–	–	–	(1.8)	194.7
Trade and other receivables	**916.6**	–	–	–	–	(18.6)	–	–	9.5	(38.7)	868.8
Income tax receivable	**11.1**	–	–	–	–	–	–	–	26.2	3.2	40.5
Cash and cash equivalents	**275.2**	–	–	–	–	–	–	–	569.5	–	844.7
Total current assets*	**1,447.4**	–	–	–	–	(18.6)	–	–	605.2	(37.3)	1,996.7
Liabilities											
Non-current liabilities											
Bank and other borrowings	**(1,357.6)**	–	–	–	–	–	–	–	(79.6)	–	(1,437.2)
Deferred tax liabilities	**(103.2)**	–	–	–	–	–	–	11.5	66.2	–	(25.5)
Total non-current liabilities*	**(2,294.5)**	–	–	–	–	–	–	11.5	(13.4)	–	(2,296.4)
Current liabilities											
Bank and other borrowings	**(53.9)**	–	–	–	–	–	–	–	(603.4)	–	(657.3)
Trade and other payables	**(1,381.4)**	(8.1)	(2.9)	–	–	–	–	–	37.2	6.4	(1,348.8)
Other financial liabilities	**(4.9)**	–	–	–	–	–	–	–	–	(6.0)	(10.9)
Provisions for other liabilities	**(48.9)**	–	(9.7)	–	–	–	–	–	–	0.2	(58.4)
Total current liabilities*	**(1,618.3)**	(8.1)	(12.6)	–	–	–	–	–	(566.2)	0.6	(2,204.6)
Total impact on statement of financial position	**–**	(45.3)	(39.1)	(25.8)	(25.1)	(19.4)	(37.7)	2.7	–	(111.2)	(300.9)
Other reserves	**692.9**	–	–	–	–	–	–	–	–	7.2	700.1
Retained earnings	**975.8**	(45.3)	(39.1)	(25.8)	(25.1)	(19.4)	(37.7)	2.7	–	(118.4)	667.7
Total equity*	**2,862.5**	(45.3)	(39.1)	(25.8)	(25.1)	(19.4)	(37.7)	2.7	–	(111.2)	2,561.6

* The table above includes only those financial statement line items which have been restated. The total non-current assets, current assets, non-current liabilities, current liabilities and equity do not therefore represent the sum of the line items presented above.

5. Prior year restatements (continued)

31 March 2020 – Group statement of financial position (extract)

		Change in accounting policy	Correction of errors									
	31 March 2020 (previously published)	(i) Power By the Hour maintenance arrangements	(ii) Maintenance of leased aircraft	(iii) Rotables	(iv) Maintenance of customer aircraft	(v) Mobilisation costs	(vi) Credit notes	(vii) Deferred tax	(viii) Balance sheet reclassification	(ix) Goodwill impairment	(x) Other	31 March 2020 (restated)
Assets												
Non-current assets												
Goodwill	**2,171.3**	–	–	–	–	–	–	–	–	116.6	–	**2,287.9**
Other intangible assets	**379.5**	–	–	–	–	–	–	–	–	–	(44.8)	**334.7**
Property, plant and equipment	**951.1**	(48.7)	(30.5)	(30.8)	(28.1)	(0.8)	(2.4)	–	52.3	–	(21.2)	**840.9**
Right of use assets	**638.8**	–	–	–	–	–	(39.7)	–	(6.7)	–	16.6	**609.0**
Investment in joint ventures and associates	**148.0**	–	–	–	–	–	–	–	–	–	13.9	**161.9**
Deferred tax asset	**190.6**	–	–	–	–	–	–	(16.3)	(113.8)	–	–	**60.5**
Total non-current assets*	**4,887.5**	(48.7)	(30.5)	(30.8)	(28.1)	(0.8)	(42.1)	(16.3)	(68.2)	116.6	(35.5)	**4,703.1**
Current assets										–		
Inventories	**193.5**	–	–	–	–	–	–	–	–	–	(1.9)	**191.6**
Trade and other receivables	**930.8**	(2.8)	–	–	–	(30.1)	(0.7)	–	(12.7)	–	(47.1)	**837.4**
Income tax receivable	**13.6**	–	–	–	–	–	–	–	41.0	–	2.6	**57.2**
Cash and cash equivalents	**1,351.4**	–	–	–	–	–	–	–	494.5	–	–	**1,845.9**
Total current assets*	**2,643.2**	(2.8)	–	–	–	(30.1)	(0.7)	–	522.8	–	(46.4)	**3,086.0**
Liabilities												
Non-current liabilities												
Lease liabilities	**(534.8)**	–	–	–	–	–	–	–	–	–	(13.7)	**(548.5)**
Deferred tax liabilities	**(115.2)**	–	–	–	–	–	–	8.7	72.8	–	–	**(33.7)**
Provision for other liabilities	**(30.4)**	–	–	–	–	–	–	–	–	–	(2.3)	**(32.7)**
Total non-current liabilities*	**(2,948.2)**	–	–	–	–	–	–	8.7	72.8	–	(16.0)	**(2,882.7)**
Current liabilities												
Bank and other borrowings	**(400.1)**	–	–	–	–	–	–	–	(587.8)	–	–	**(987.9)**
Lease liabilities	**(138.0)**	–	–	–	–	–	–	–	–	–	(2.9)	**(140.9)**
Trade and other payables	**(1,366.3)**	(8.3)	(2.9)	–	–	–	–	–	60.4	–	15.9	**(1,301.2)**
Income tax payable	**(5.9)**	–	–	–	–	–	–	–	–	–	2.1	**(3.8)**
Other financial liabilities	**(9.0)**	–	–	–	–	–	–	–	–	–	(18.7)	**(27.7)**
Provision for other liabilities	**(113.2)**	–	(13.7)	–	–	–	–	–	–	–	(3.2)	**(130.1)**
Total current liabilities*	**(2,032.5)**	(8.3)	(16.6)	–	–	–	–	–	(527.4)	–	(6.8)	**(2,591.6)**
Total impact on statement of financial position	**–**	(59.8)	(47.1)	(30.8)	(28.1)	(30.9)	(42.8)	(7.6)	–	116.6	(104.7)	**(235.2)**
Other reserves	**647.1**	–	–	–	–	–	–	–	–	–	(4.5)	**642.6**
Retained earnings	**710.8**	(59.8)	(47.1)	(30.8)	(28.1)	(30.9)	(42.8)	(7.6)	–	116.6	(100.2)	**480.1**
Total equity*	**2,550.0**	(59.8)	(47.1)	(30.8)	(28.1)	(30.9)	(42.8)	(7.6)	–	116.6	(104.7)	**2,314.8**

* The table above includes only those financial statement line items which have been restated. The total non-current assets, current assets, non-current liabilities, current liabilities and equity do not therefore represent the sum of the line items presented above.

5. Prior year restatements (continued)

31 March 2020 – Impact on the income statement for the year ended 31 March 2020

		Change in accounting policy	Correction of errors									
	31 March 2020 (previously published)	(i) Power By the Hour maintenance agreements	(ii) Maintenance of leased aircraft	(iii) Rotables	(iv) Maintenance of customer aircraft	(v) Mobilisation costs	(vi) Credit notes	(vii) Deferred tax	(viii) Balance sheet reclassification	(ix) Goodwill impairment	(x) Other	31 March 2020 (restated)
Group income statement												
Revenue	**4,449.5**	–	–	–	–	–	–	–	–	–	(21.0)	**4,428.5**
Cost of revenue	**(3,940.5)**	(13.1)	(6.9)	(4.1)	(2.2)	(12.7)	(3.8)	–	–	–	42.1	**(3,941.2)**
Administration and distribution expenses	**(353.6)**	(1.5)	(1.3)	(0.9)	(0.8)	1.2	(1.3)	–	–	–	(1.0)	**(359.2)**
Goodwill impairment	**(395.0)**	–	–	–	–	–	–	–	–	116.6	–	**(278.4)**
(Loss)/profit from divestments	**74.7**	–	–	–	–	–	–	–	–	–	–	**74.7**
Share of results of joint ventures and associates	**58.6**	–	–	–	–	–	–	–	–	–	–	**58.6**
Finance income	**14.1**	–	–	–	–	–	–	–	–	–	–	**14.1**
Finance costs	**(86.0)**	–	–	–	–	–	–	–	–	–	–	**(86.0)**
Loss before tax	**(178.2)**	(14.6)	(8.2)	(5.0)	(3.0)	(11.5)	(5.1)	–	–	116.6	20.1	**(88.9)**
Income tax expense/benefit	**(15.0)**	–	–	–	–	–	–	(13.4)	–	–	1.5	**(26.9)**
Loss for the period	**(193.2)**	(14.6)	(8.2)	(5.0)	(3.0)	(11.5)	(5.1)	(13.4)	–	116.6	21.6	**(115.8)**
Impact on basic earnings per share	**(38.6)**	(2.9)	(1.6)	(1.0)	(0.6)	(2.3)	(1.0)	(2.7)	–	23.1	4.3	**(23.3)**
Impact on diluted earnings per share	**(38.6)**	(2.9)	(1.6)	(1.0)	(0.6)	(2.3)	(1.0)	(2.7)	–	23.1	4.3	**(23.3)**

The total impact of prior year errors and change in accounting policy on the loss for the year ended 31 March 2020 period is £77.4 million.

5. Prior year restatements (continued)

31 March 2021

The impact of the change in accounting policies on the results for the year ended 31 March 2021 is as follows:

	Change in accounting policy
	(i) Power By the Hour maintenance arrangements
Group statement of financial position (extract)	
Assets	
Non-current assets	
Property, plant and equipment	**(54.5)**
Current assets	
Trade and other receivables	**(3.1)**
Liabilities	
Current assets	
Trade and other payables	**(8.1)**
Equity	**(65.6)**
Retained earnings	**(65.6)**
Group income statement (extract)	
Cost of revenue	**(6.0)**
(Loss) / Profit before tax	**(6.0)**
Income tax	**1.0**
(Loss) / Profit for the period	**(5.0)**
Impact on basic earnings per share	**(1.0)**
Impact on diluted earnings per share	**(1.0)**

Definitions

As set out in note 1, aircraft are considered in two key components for accounting purposes. 'Rotables' are major life-limited parts, such as engines, gearboxes and rotor blades, where value is consumed on a flying hour basis. The 'airframe' represents the remainder of the aircraft, and includes the body and other structural, mechanical and electrical installations necessary for flight. These definitions exclude 'equipment' which is separable from the aircraft and mission specific, such as medical and firefighting installations.

Change in accounting policy

i. Power By the Hour (PBH) agreements

The Group is party to a number of 'Power By the Hour' ('PBH') maintenance arrangements, under which the provider supplies rotable and airframe parts as required in exchange for a fixed price per flying hour. The provider therefore assumes the risk associated with the failure rate of parts.

Certain of these payments have previously been capitalised within property, plant and equipment, while the rotable parts which are subject to the arrangement have been depreciated as a separate component of the aircraft. Depreciation of the PBH payments has commenced as rotable and airframe parts are provided under the arrangement.

Following a review of the terms of these arrangements, a comparison to policies of peer companies (where publicly available) and considering the requirements and application of IAS 16 'Property, Plant and Equipment' ('IAS 16'), it was determined that a more reliable and relevant accounting policy would be to recognise PBH payments in the income statement as incurred, but not to separately depreciate the rotable parts covered by the arrangement. This is more relevant as it reflects the substance of the arrangements, which is to maintain the parts covered at their full potential. It is more reliable in recording an expense in the income statement as there is no depreciation charge, which requires the use of an accounting estimate. The policy is also more prudent as (a) the cost of rotable parts does not change over time with inflation and (b) the elements of the PBH cost which reimburse the risk assumed by the PBH provider and which cover ancillary benefits such as access to the supply chain of the provider are directly expensed rather than initially capitalised.

This change in policy reduces property, plant and equipment and trade and other receivables and increases trade and other payables, reducing retained earnings by £45.3 million at 1 April 2019, £59.8 million at 31 March 2020 and £65.6 million at 31 March 2021. Trade and other receivables and trade and other payables are impacted by this change in policy as amounts were recorded in trade and other receivables and trade and other payables under the previous policy, which was deemed to be inappropriate. The tables above set out the impact on each line item of the statement of financial position and income statement.

5. Prior year restatements (continued)

Correction of errors

ii. Maintenance of leased aircraft

Leased aircraft are typically required to be returned to lessors with rotables in a similar condition to that which existed at the commencement of the lease. Betterment and detriment clauses set out the balancing payments required if these conditions are not met.

The cost of repair and replacement parts which extends the life of rotables has typically been capitalised as a leasehold improvement and depreciated over the term of the lease, resulting in an increasing cost of depreciation towards the end of the lease.

Following a review of lease return conditions and considering the requirements and application of IAS 16, it has been determined that the Group should record a leasehold improvement asset or dilapidation provision which represents the difference between the condition of the rotables at any given point in time and the return condition. This reflects the amount of leasehold improvement which will generate future benefits and the value of the liability to restore parts to the return condition, and results in a more consistent profile of cost recognition over the duration of the lease.

The correction of this error reduces the carrying value of property, plant and equipment by £26.5 million and increases trade and other payables and provisions by £2.9 million and £9.7 million, respectively, at 1 April 2019. There is an increase in operating costs of £8.2 million in the year ended 31 March 2020, resulting in a reduction in property, plant and equipment of £30.5 million and an increase in trade and other payables and provisions of £2.9 million and £13.7 million, respectively, at 31 March 2020.

iii Rotables – maintenance of owned aircraft

Rotables are depreciated as a separate component of the aircraft on the basis of flying hours, as this most appropriately reflects the consumption of economic benefits.

Following a review of balances capitalised as rotables, it was identified that in certain cases the carrying value of parts replaced prior to completion of the expected number of flying hours had not been written off, depreciation rates had not been regularly updated to reflect the latest actual cost of replacement parts and the remaining number of flying hours used for accounting purposes had not been regularly checked for accuracy against contemporaneous technical records. It was also identified that certain parts capitalised related to the airframe rather than rotables and should have been expensed as these represented a replacement rather than enhancement to the aircraft. Detailed exercises were undertaken to assess the remaining life of rotables against technical records, determine the actual cost of parts capitalised and review balances for airframe parts which should not have been capitalised under IAS 16.

The correction of these errors reduces property, plant and equipment by £25.8 million at 1 April 2019. There is a charge to the income statement of £5.0 million for the year ended 31 March 2020, resulting in a reduction in property, plant and equipment of £30.8 million at 31 March 2020.

iv. Rotables – maintenance of customer aircraft

The Group operates a number of aircraft which are provided by customers. The cost of repair and replacement parts which extends the life of rotables has been capitalised within property, plant and equipment and depreciated over the contract term in a manner similar to that applied for leased aircraft.

Following a review of the terms of these customer contracts, it has been determined that these costs should not have been capitalised as they represent the enhancement of a customer asset rather than an asset of the Group and therefore do not meet the recognition requirements of IAS 16.

The correction of this error reduces property, plant and equipment by £25.1 million at 1 April 2019. There is an increase in operating costs of £3.0 million for the year ended 31 March 2020, resulting in a reduction in property, plant and equipment of £28.1 million at 31 March 2020.

v. Mobilisation costs

The Group incurs various costs in mobilising contracts and certain of these costs have been capitalised as contract fulfilment assets. Following a review of all such assets, it has been identified that certain costs did not meet the requirements of IFRS 15 to be capitalised as contract fulfilment assets as there was insufficient evidence that the costs generated or enhanced resources which the Group would use in performing the contract. The key areas related to lease costs, maintenance costs and personnel costs incurred prior to contract commencement or the achievement of full operating capability. A significant proportion of these costs was incurred in mobilising the Group's Air Ambulance contract in Norway, which commenced in July 2019.

The correction of these errors reduces trade and other receivables by £18.6 million and property, plant and equipment by £0.8 million at 1 April 2019. There is an increase in operating costs of £11.5 million for the year ended 31 March 2020, resulting in reductions in trade and other receivables of £30.1 million and property, plant and equipment of £0.8 million at 31 March 2020.

5. Prior year restatements (continued)

Correction of errors (continued)

vi. Credit notes

The Group receives certain credit notes from aircraft manufacturers at the point of placing orders for aircraft, exercisable against the purchase of future parts and services. These credit notes have previously been recognised in the income statement on receipt and recorded within trade and other receivables until used to purchase parts or services, which is typically within a short period.

Following a review of the substance of these credit notes, it has been determined that these represent a discount on the purchase price of the aircraft. In the case of aircraft which are owned by the Group, credit notes should therefore be recognised as a reduction in the cost of aircraft acquired. The majority of aircraft ordered by the Group in recent years have been sold and leased back prior to delivery, typically at the gross purchase price excluding the credit note, resulting in a gain on disposal of the aircraft being recognised in the income statement. The accounting for these sale and leasebacks has been corrected, reversing the gain recognised on disposal and recalculating reduced right of use assets arising from the leasebacks with reference to the discounted purchase price of the aircraft.

In the case of aircraft acquired for customers under an aircraft supply contract, the credit notes should be recognised as a reduction in operating costs.

The correction of these errors results in reductions in right of use assets of £35.3 million and property, plant and equipment of £2.4 million at 1 April 2019. There is an increase in operating costs of £5.1 million for the year ended 31 March 2020, resulting in cumulative decreases in the carrying value of right of use assets of £39.7 million, property, plant and equipment of £2.4 million and trade and other receivables of £0.7 million at 31 March 2020.

vii. Deferred tax

At 31 March 2020 a net deferred tax asset of £71.7 million was recognised in the Aviation operating segment in relation to the Group's Spanish entities. The recognition of this asset was supported by forecasts which showed the Spanish tax group becoming profitable in FY23 with significant further growth beyond this date. However, this analysis did not appropriately take into account restrictions on the utilisation of various tax attributes within Spanish tax law which, when corrected, extend the duration over which the deferred tax asset is expected to be fully utilised to over 20 years. Although the relevant tax attributes can be carried forward indefinitely, it was determined that appropriately risk-weighted profit forecasts (see note 1 "Critical accounting estimates") supported only a portion of the deferred tax asset, reducing the deferred tax asset by £25.5m at 1 April 2019 and £37.9m in total at 31 March 2020. This is partially offset by the tax benefit of other CPBS adjustments which are recognised to the extent it is appropriate to do so in the relevant jurisdiction.

The correction of this error (after the partial offset by the tax benefit of other adjustments) results in a reduction in deferred tax assets of £8.8 million at 1 April 2019 and £16.3 million at 31 March 2020.

As a result of the accelerated amortisation of the acquired intangible in the oil and gas operating segment, there has been a reduction in the deferred tax liability of £11.5 million at 1 April 2019 and £8.7 million at 31 March 2020. Further information is included at 'x. Other errors'.

viii. Balance sheet reclassifications

Supply chain financing

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

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

Cash pool arrangement

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

5. Prior year restatements (continued)

Correction of errors (continued)

viii. Balance sheet reclassifications (continued)

Norway mobilisation

The cost of acquiring an aircraft simulator and certain flight and medical equipment in mobilising the Norway Air Ambulance contract has been capitalised as a contract fulfilment cost. IFRS 15 requires that costs that are within the scope of another Standard shall be accounted for in accordance with those other Standards. These costs are within the scope of IAS 16 and should therefore have been capitalised as property, plant and equipment.

The correction of this error increases property, plant and equipment and reduces trade and other receivables by the same amount, being £12.1 million at 1 April 2019 and £12.7 million at 31 March 2020.

Reclassification of deferred tax asset to income tax receivable

The gross deferred tax asset included amounts that should have been classified as income tax receivable and a reduction in deferred tax liabilities. In addition, deferred tax assets and liabilities have been re-stated in strict accordance with the right-of-set-off rules whereby deferred tax assets and deferred tax liabilities in the same jurisdiction are offset where there is a legally enforceable right to offset corporation tax assets and corporation tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same Taxation Authorities.

Correction of this error reduces the deferred tax asset by £92.4 million, increases income tax receivable by £26.2 million and decreases the deferred tax liability by £66.2 million at 1 April 2019. At 31 March 2020 correction of this error results in a decrease in the deferred tax asset of £113.8 million, an increase to income tax receivable of £41.0 million and a decrease in deferred tax liabilities of £72.8 million.

Reclassification of right of use assets to property, plant and equipment

On transition to IFRS 16, finance leases that were previously recorded as property, plant and equipment were transferred to right of use assets. However, as part of the procedures for the year ended 31 March 2021 it was identified that the reclassification was processed as a movement during the year ended 31 March 2020, as opposed to at 1 April 2019, and the amount reclassified was incorrect. Correction of this error results in a reclassification from property, plant and equipment to right of use assets of £66.1 million at 1 April 2019 and £6.7 million at 31 March 2020.

ix. Goodwill impairment

As a result of the prior year adjustments recorded in the Aviation and Land operating segments, the capital employed used in the goodwill impairment assessment at 31 March 2020 reduced. This resulted in a reduction in the impairment charge of £239.2 million in the Aviation operating segment and a reduction in the impairment charge of £5.1 million in the Land operating segment.

In addition, following a review of the methodology applied in goodwill impairment testing, the Group identified that the assessment had been performed at the reportable segment rather than the operating segment level. The operating segment level is the highest level at which goodwill can be monitored in accordance with IAS 36. In addition, an administrative error was identified in the calculation of the Land operating segment value in use.

The impairment test was re-performed to correct the administrative error and with the cash flows of the Africa and Land operating segments assessed separately. This resulted in an impairment of goodwill allocated to the Land operating segment of £127.7 million at 31 March 2020. No impairment was required at 1 April 2019 as re-performance of impairment analysis at that date identified sufficient headroom between the recoverable amount and the carrying value of relevant assets. Further details are included in note 13.

x. Other errors

A number of other errors have been identified as set out below.

Other intangible assets

Balances were identified relating to IT assets capitalised under IAS 38 – Intangible Assets which are no longer used by the business, and should therefore have been written off in previous years. The correction of this error reduces intangible assets by £2.0 million at 1 April 2019. There is a reduction in operating costs of £0.7 million for the year ended 31 March 2020, resulting in a reduction in intangible assets of £1.3 million at 31 March 2020.

Through the goodwill impairment analysis for the oil and gas operating segment it was identified that the carrying value of the operating segment was less than the recoverable value. Management reviewed the acquired intangible asset included in this operating segment and determined that the customer relationships included in the intangible asset were no longer part of the customer base, and were not part of the customer base at 1 April 2019. The useful expected life of the acquired intangible asset has therefore been revised and the intangible asset has been disposed of at 1 April 2019. This has resulted in an adjustment to acquired intangible assets of £57.9 million at 1 April 2019 and £43.5 million at 31 March 2020. The amortisation of the intangible asset for the year ended 31 March 2020 has been reversed, resulting in a reduction in operating costs of £13.9 million.

5. Prior year restatements (continued)

Correction of errors (continued)

x. Other errors (continued)

Property, plant and equipment

Capitalised maintenance costs were identified in relation to aircraft which had been sold or returned to lessors, or where the underlying customer contract had been completed. The correction of this error reduces property, plant and equipment by £6.5 million at 1 April 2019. There is a reduction in operating costs of £0.8 million in the year ended 31 March 2020, resulting in a reduction in property, plant and equipment of £5.7 million at 31 March 2020.

A number of errors were identified where an inappropriate useful life was assigned to aircraft and capitalised maintenance, due to incorrect application of the Group's depreciation policy. The correction of these errors reduces property, plant and equipment by £5.2 million at 1 April 2019. There is a £0.3 million reduction in operating costs in the year end 31 March 2020, resulting in a reduction in property, plant and equipment of £4.9 million at 31 March 2020.

It was identified that a number of aircraft impairments recorded in local statutory financial statements had not been reflected in the consolidated Group financial statements. The inconsistency in carrying values arising from the fair value exercise performed for the consolidated Group financial statements following a business combination was a contributory factor in the failure to reflect the changes in those financial statements. The correction of these errors reduces property, plant and equipment by £3.9 million at 1 April 2019. There is a £0.2 million reduction in operating costs in the year ended 31 March 2020, resulting in a reduction in property, plant and equipment of £3.7 million at 31 March 2020.

It was identified that the cost of constructing a customer hangar on land leased by the Group was being depreciated beyond the term of the customer contract and the fixed end date of the lease, both of which have passed. The correction of this error reduces property, plant and equipment by £1.3 million at 1 April 2019 and 31 March 2020.

A capitalised aircraft pre-delivery payment was found to have been utilised in the purchase of goods or services and should therefore have been be written off. The correction of this error reduces property, plant and equipment by £1.1 million at 1 April 2019 and 31 March 2020.

Management has also identified maintenance costs which should not have been capitalised, resulting in an adjustment to property, plant and equipment by £1.4 million at 1 April 2019 and 31 March 2020.

Additionally, it has been identified that certain elements capitalised under the PBH arrangements were not suitable for capitalisation under the previous accounting policy or the updated accounting policy. Correction of this error has resulted in a reduction of property, plant and equipment of £4.1 million at 1 April 2019 and 3.1 million at 31 March 2020.

Right of use assets and lease liabilities

Following a review of the lease population it was identified that right of use assets and lease liabilities were understated at 31 March 2020. This was in part due to a system generated error where previously added leases were deleted from the lease management system and in part due to replacement leases not being identified and communicated to finance teams. Correction of this error has resulted in an increase in right of use assets by £16.6 million, an increase in non-current lease liabilities by £13.7 million and an increase in current lease liabilities by £2.9 million at 31 March 2020.

Inventories

Following a review of the segregation of inventories into those owned by the Group and by customers, it was identified that certain items recognised within inventories were owned by customers of the Group and should not therefore be recorded under IAS 2, 'Inventories'. The correction of this error results in a reduction to inventories of £1.8 million at 1 April 2019. There is an increase in operating costs of £0.1 million for the year ended 31 March 2020, resulting in a reduction in inventories of £1.9 million at 31 March 2020.

Trade and other receivables

Two instances were identified where reductions in lease costs in future periods were recognised in the income statement when agreed, with an asset recognised within trade and other receivables and subsequently amortised, rather than in the future periods to which the reductions related. The correction of these errors results in a reduction in trade and other receivables of £8.7 million at 1 April 2019. There is a decrease in operating costs of £2.9 million for the year ended 31 March 2020, resulting in a decrease in trade and other receivables of £5.8 million at 31 March 2020.

Following a review of the accounting for certain tax payments made by a Group entity on behalf of other Group entities, a number of inconsistencies were identified between inter-company receivables and payables. The correction of these errors decreases trade and other receivables and retained earnings by £11.5 million at 1 April 2019. There is a reduction in operating costs of £0.1 million for the year ended 31 March 2020, resulting in a reduction in trade and other receivables of £11.4 million at 31 March 2020.

It was identified that amounts due from customers for contract work were not recoverable, as the rates included in this balance were disputed by the customer. The correction of this error results in a reduction in trade and other receivables of £8.2 million at 1 April 2019. There is a reduction in revenue of £0.3 million for the year ended 31 March 2020, resulting in a reduction in trade and other receivables of £8.5 million at 31 March 2020.

5. Prior year restatements (continued)

Correction of errors (continued)

x. Other errors (continued)

Trade and other receivables (continued)

An error has been identified relating to a pain/gain share agreement, in which a reduction in revenue was incorrectly recorded as an expense. The correction of this error results in a reduction in trade and other receivables of £1.8 million and trade and other payables of £1.0 million at 1 April 2019. Correction of this error at 31 March 2020 results in a reduction in trade and other receivables of £3.3 million and trade and other payables of £2.6 million. There is a reduction in revenue of £1.5 million and a reduction in operating costs of £1.6 million for the year ended 31 March 2020.

It was identified that the Group was not entitled to certain revenue recognised on the achievement of milestones relating to the provision of aircraft. The correction of this error decreases revenue by £8.3 million and operating costs by £7.3 million in the year ended 31 March 2020, resulting in reductions in amounts due from customer for contract work of £8.3 million and trade and other payables of £7.3 million at 31 March 2020.

It was identified that certain receivables should not have been considered to be recoverable. The correction of this error decreases trade and other receivables by £0.8 million at 1 April 2019. Further receivables which should not have been considered to be recoverable were identified in the year ended 31 March 2020, resulting in an increase in operating costs for that year and a reduction in trade and other receivables of £2.1 million at 31 March 2020.

A number of warranty claims from original equipment manufacturers were identified relating to 2015 which should have been provided for in accordance with the Group's accounting policies. The correction of this error decreases trade and other receivables by £2.6 million at 1 April 2019 and 31 March 2020, with a corresponding decrease in income tax payable of £0.8 million.

Additionally, management has identified capitalised bid costs that do not meet the criteria for capitalisation under IFRS 15. Correction of this error results in a decrease in capitalised bid costs of £5.1 million at 1 April 2019 and 31 March 2020.

Trade and other payables

As mentioned under trade and other receivables above, correction of the error related to milestone revenue recognition decreases operating costs by £7.3 million for the year ended 31 March 2020 and trade and other payables by £7.3 million at 31 March 2020.

As mentioned under trade and other receivables above, correction of the error related to a pain/gain share agreement decreases trade and other payables by £1.0 million at 1 April 2019. There is a decrease in the operating costs by £1.6 million for the year ended 31 March 2020, decreasing trade and other payables by £2.6 million at 31 March 2020.

A number of inconsistencies were identified between inter-company receivables and payables. The correction of these errors decreases trade and other payables and increases retained earnings by £8.2 million at 1 April 2019 and 31 March 2020.

It was identified that a liability recorded during year ended 31 March 2020 was not supportable at the year end. The correction of this error decreases operating costs for the year ended 31 March 2020 by £1.1 million and decreases trade and other payables by the same amount at 31 March 2020.

It was identified that a customer had been mischarged by £3.3 million due to an incorrect margin being applied to the costs incurred by the Group. The correction of this error increases trade and other payables by £2.8 million at 1 April 2019. There is an increase in operating costs of £0.5 million for the year ended 31 March 2020, resulting in an increase in trade and other payables of £3.3 million at 31 March 2020.

Provisions for other liabilities

In March 2020, significant damage was sustained to the main ballast tank on a vessel undergoing work by the Group. Although the Group maintains insurance against this type of damage, a proportion of the costs were not covered by this insurance. Correction of this error has resulted in an increase to non-current provisions of £2.3 million and current provisions of £3.2 million.

Taxation

The cumulative tax benefit of these other errors increases deferred tax assets, see vii "deferred tax", or increases income tax receivable/decreases income tax payable by £3.2m as at 1 April 2019 and £4.7m as at 31 March 2020. A tax benefit is not available for the full cumulative expense recorded in each year, as some items are not deductible for tax purposes or arise in territories in which additional deferred tax assets cannot be recognised.

5. Prior year restatements (continued)

Correction of errors (continued)

x. Other errors (continued)

Other financial assets and liabilities (hedging)

Following a review of the Group's foreign currency hedging arrangements in relation to aircraft leases in Norway, it was identified that insufficient contemporaneous documentation was recorded in order to designate part of the arrangement as a hedge for accounting purposes. The correction of this error results in an increase in other financial liabilities of £6.0 million and a decrease in other reserves of £1.7 million at 1 April 2019. There is a decrease in operating costs for the year ended 31 March 2020 of £3.1 million, with a cumulative increase in other financial liabilities of £18.7 million and a decrease in other reserves of £15.8 million. There is a decrease in other comprehensive income of £13.5 million for the year ended 31 March 2020.

Investments in joint ventures and associates

The Group has an equity accounted investment in AirTanker Holdings Limited. It has been identified that this investment became a deficit during the year ended 31 March 2019 as a result of movements in the valuation of derivatives held by the company, and that the Group's investment in joint ventures and associates balance at 1 April 2019 and 31 March 2020 included this negative balance. However, as the Group has not taken on any commitment to fund AirTanker Holdings Limited's liabilities, in accordance with IAS 28 'Investments in Associates and Joint Ventures' the Group should have ceased decreasing the related investment balance once it became negative.

The correction of this error results in an increase in investments in joint ventures and associates of £8.9 million and an increase in other reserves of the same amount at 1 April 2019. There is an increase in other comprehensive income of £5.0 million for the year ending 31 March 2020, relating to movement on the derivatives held by the investment, resulting in an increase in investments in joint ventures and associates of £13.9 million and an increase in other reserves of the same amount at 31 March 2020.

Revenue and cost of revenue items not impacting the statement of financial position

An overstatement of revenue and cost of revenue has been identified in relation to pass-through revenue on the Phoenix contract in the year ended 31 March 2020. The Group had previously concluded that it acted as principal in the arrangement. It was determined that a contract amendment in February 2020 represented a contract modification under IFRS 15, following which the Group has been acting as an agent. The correction of this error results in a decrease in revenue and cost of revenue of £11.6 million in the year ended 31 March 2020. There was no impact to reported profit as a result of this adjustment.

5. Prior year restatements (continued)

Impact of prior period restatements on the cash flow statement

The prior year restatements described above have had the following impact on the cash flow statement for the year ended 31 March 2020, due to restatement of the statement of financial position and income statement:

	31 March 2020 (previously published) £m	Impact of prior year errors £m	31 March 2020 (restated) £m
Cash flows from operating activities			
Loss for the year	(193.2)	77.4	(115.8)
Income tax (credit)/expense	15.0	11.9	26.9
Depreciation and impairment of property, plant and equipment	94.2	(2.9)	91.3
Depreciation and impairment of right of use assets	143.6	(6.1)	137.5
Amortisation and impairment of intangible assets	96.5	(14.6)	81.9
Goodwill impairment	395.0	(116.6)	278.4
Investment income	1.1	(1.1)	–
Net derivative fair value movement through profit or loss	–	(3.1)	(3.1)
Loss on disposal of property, plant and equipment	3.3	0.6	3.9
Loss on disposal of intangible assets	0.2	(0.1)	0.1
Cash generated from operations before movement in working capital and retirement benefit payments*	497.2	(54.6)	442.6
Decrease in receivables	(8.4)	48.4	40.0
Increase in payables	7.4	(32.1)	(24.7)
Increase in provisions	62.4	9.4	71.8
Cash generated from operations*	474.2	(28.9)	445.3
Interest received	13.5	(0.2)	13.3
Net cash flows from operating activities*	330.4	(29.1)	301.3
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment	30.1	46.4	76.5
Purchases of property, plant and equipment	(145.5)	(45.8)	(191.3)
Purchases of intangible assets	(29.1)	0.1	(29.0)
Vehicle leasing principal repayments	–	49.9	49.9
Investment in joint ventures	–	(0.3)	(0.3)
Loan movements in joint ventures and associates	(6.4)	1.6	(4.8)
Net cash flows from investing activities*	2.7	51.9	54.6
Cash flows from financing activities			
Proceeds above market value on sale and leaseback of property, plant and equipment	–	8.3	8.3
Lease assets issued and repaid	19.9	(19.9)	–
Bank loans repaid	(140.0)	(113.5)	(253.5)
Loans raised and facilities drawn down	1,202.4	102.3	1,304.7
Net cash flows from financing activities*	750.5	(22.8)	727.7

* The table above includes only those financial statement line items which have been restated. The total cash generated from operations, investing activities and financing activities do not therefore represent the sum of the line items presented above.

As part of the cash flow restatement the Group now presents Vehicle leasing principal repayments in Investing activities (previously in Financing activities) and presents. Proceeds above market value on sale and leaseback of property, plant and equipment is presented in Financing activities (previously in Investing activities). Furthermore, Vehicle leasing principal repayments and Purchases of property, plant and equipment have been restated as in the prior year the Group presented certain lessor activities on a net basis. These are now presented on a gross basis.

6. Segmental information

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

Marine – design, build and through-life support of naval ships, equipment and marine infrastructure in the UK and internationally.

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

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

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

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

The table below presents the underlying results for each reportable segment in accordance with the change in definition of underlying revenue and underlying operating profit, as set out in note 3, and reconciles the underlying profit/(loss) to the statutory profit/(loss) before tax.

Year ended 31 March 2021	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	**1,242.3**	**975.9**	**1,110.1**	**854.4**	**–**	**4,182.7**
Underlying operating profit/(loss)	**56.3**	**63.9**	**(17.4)**	**(130.4)**	**–**	**(27.6)**
Specific Adjusting Items						
Amortisation of acquired intangibles	**(0.8)**	**–**	**(16.0)**	**(23.4)**	**–**	**(40.2)**
Business acquisition, merger and divestment related items	**–**	**(0.6)**	**(49.1)**	**–**	**–**	**(49.7)**
Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography	**–**	**–**	**(7.5)**	**(3.6)**	**–**	**(11.1)**
Restructuring costs	**–**	**0.7**	**0.2**	**(9.3)**	**–**	**(8.4)**
Profit or loss from amendment, curtailment, settlement or equalisation of group pension schemes	**(7.5)**	**–**	**–**	**–**	**(1.4)**	**(8.9)**
Exceptional items	**(4.2)**	**(5.8)**	**(516.7)**	**(970.4)**	**–**	**(1,497.1)**
Operating profit/(loss)	**43.8**	**58.2**	**(606.5)**	**(1,137.1)**	**(1.4)**	**(1,643.0)**
Share of results of joint ventures and associates	**3.1**	**(15.0)**	**5.1**	**(6.3)**	**–**	**(13.1)**
Investment income	**–**	**–**	**0.9**	**–**	**–**	**0.9**
Net finance costs	**–**	**–**	**–**	**–**	**(62.1)**	**(62.1)**
Profit/(loss) before tax	**46.9**	**43.2**	**(600.5)**	**(1,143.4)**	**(63.5)**	**(1,717.3)**

Contract profitability and balance sheet review

The contract profitability and balance sheet review impacted the profit/(loss) before tax in Aviation by £1,190.3 million, Land by £770.2 million, Marine by £46.9 million, Nuclear by £35.5 million and unallocated by £84.6 million. Unallocated charges predominantly relate to deferred tax movements.

Note 4 sets out details of the contract profitability and balance sheet review.

6. Segmental information (continued)

The table below presents the underlying results for each reportable segment in accordance with the change in definition of underlying revenue and underlying operating profit, as set out in note 3, and reconciles the underlying profit/(loss) to the statutory profit/(loss) before tax.

Year ended 31 March 2020 (restated*)	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	1,163.6	896.9	1,522.5	845.5	–	4,428.5
Underlying operating profit/(loss)	134.4	113.3	98.1	31.8	–	377.6
Specific Adjusting Items						
Acquired intangible amortisation	(5.3)	(0.4)	(35.8)	(26.1)	–	(67.6)
Business acquisition, merger and divestment related items	74.7	–	–	–	–	74.7
Gains, losses and costs directly arising from the group's withdrawal from a specific market or geography	(2.1)	(3.0)	(6.5)	(8.9)	–	(20.5)
Restructuring costs	–	(16.5)	(7.7)	(26.7)	–	(50.9)
Exceptional items		–	(122.6)	(266.3)	–	(388.9)
Operating profit/(loss)	201.7	93.4	(74.5)	(296.2)	–	(75.6)
Share of results of joint ventures and associates	1.7	7.6	24.7	24.6	–	58.6
Investment income	0.2	–	0.9	–	–	1.1
Net finance costs	–	–	–	–	(73.0)	(73.0)
Profit/(loss) before tax	203.6	101.0	(48.9)	(271.6)	(73.0)	(88.9)

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

The table below presents the underlying results for each reportable segment under the previous basis for determining underlying information (which included share of joint venture revenue and profits in underlying) and reconciles the underlying revenue and underlying profit/(loss) to the statutory revenue and profit/(loss) before tax.

Year ended 31 March 2021 (previous basis)	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,301.9	1,036.7	1,131.7	962.9	–	4,433.2
Less share of joint ventures and associates revenue	(59.6)	(60.8)	(21.6)	(108.5)	–	(250.5)
Revenue	1,242.3	975.9	1,110.1	854.4	–	4,182.7
Underlying operating profit/(loss) including share of results of joint ventures and associates	61.2	48.0	(3.3)	(110.8)	–	(4.9)
Exceptional items	(11.7)	(5.7)	(573.1)	(983.3)	(1.4)	(1,575.2)
Acquired intangible amortisation	(0.8)	–	(16.0)	(23.4)	–	(40.2)
IFRIC 12 investment income	–	–	(0.9)	–	–	(0.9)
Share of operating profit – joint ventures and associates	(4.9)	15.9	(11.8)	4.8	–	4.0
Share of IFRIC 12 investment income – joint ventures and associates	–	–	(1.4)	(24.4)	–	(25.8)
Operating profit/(loss)	43.8	58.2	(606.5)	(1,137.1)	(1.4)	(1,643.0)
Share of results of joint ventures and associates	3.1	(15.0)	5.1	(6.3)	–	(13.1)
IFRIC 12 investment income	–	–	0.9	–	–	0.9
Net finance costs	–	–	–	–	(62.1)	(62.1)
Profit/(loss) before tax	46.9	43.2	(600.5)	(1,143.4)	(63.5)	(1,717.3)

6. Segmental information (continued)

The table below presents the underlying results for each reportable segment under the previous basis for determining underlying information (which included share of joint venture revenue and profits in underlying) and reconciles the underlying revenue and underlying (loss)/profit to the statutory revenue and (loss)/profit before tax.

Year ended 31 March 2020 (previous basis restated*)	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,206.7	1,109.4	1,541.4	993.2	–	4,850.7
Less share of joint ventures and associates revenue	(43.1)	(212.5)	(18.9)	(147.7)	–	(422.2)
Revenue	1,163.6	896.9	1,522.5	845.5	–	4,428.5
Underlying operating profit/(loss) before share of results of joint ventures and associates	137.9	125.5	132.4	88.5	–	484.3
Exceptional items	72.6	(19.5)	(136.8)	(301.9)	–	(385.6)
Acquired intangible amortisation	(5.3)	(0.4)	(35.8)	(26.1)	–	(67.6)
Investment income	(0.2)	–	(0.9)	–	–	(1.1)
Share of operating profit – joint ventures and associates	(3.3)	(12.2)	(32.0)	(32.2)	–	(79.7)
Share of IFRIC 12 investment income – joint ventures and associates	–	–	(1.4)	(24.5)	–	(25.9)
Operating profit/(loss)	201.7	93.4	(74.5)	(296.2)	–	(75.6)
Share of results of joint ventures and associates	1.7	7.6	24.7	24.6	–	58.6
IFRIC 12 investment income	0.2	–	0.9	–	–	1.1
Net finance costs	–	–	–	–	(73.0)	(73.0)
Profit/(loss) before tax	203.6	101.0	(48.9)	(271.6)	(73.0)	(88.9)

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

Intersegment reportable revenue is immaterial.

Revenues of £2.1 billion (2020: £2.1 billion) are derived from a single external customer. These revenues are attributable across all reportable segments.

The reportable segment assets and liabilities at 31 March 2021 and 31 March 2020 and capital expenditure and lease principal payments for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure		Lease payments	
	2021 £m	2020 (restated*) £m	**2021 £m**	2020 (restated*) £m	**2021 £m**	2020 (restated*) £m	**2021 £m**	2020 £m
Marine	**770.4**	723.7	**380.6**	420.9	**45.2**	30.6	**8.9**	9.1
Nuclear	**529.6**	544.7	**227.7**	168.6	**32.5**	23.5	**4.2**	3.7
Land	**718.2**	1,473.4	**475.6**	462.2	**13.9**	19.9	**18.1**	17.7
Aviation	**1,392.5**	2,604.4	**461.7**	446.2	**62.2**	110.0	**107.1**	143.0
Unallocated	**1,217.9**	2,442.9	**2,839.6**	3,976.4	**12.1**	6.3	**2.3**	1.5
Group total	**4,628.6**	7,789.1	**4,385.2**	5,474.3	**165.9**	190.3	**140.6**	175.0

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

Capital expenditure represents additions to property, plant and equipment and intangible assets. Proceeds from the sale of assets totalled £32.2 million (2020: £76.5 million) and are predominantly in the Aviation sector. See note 22 relating to the treatment of amounts payable in respect of capital expenditure.

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

The segmental analysis of joint ventures and associates is detailed in note 17.

6. Segmental information (continued)

The segmental depreciation on property, plant and equipment, right of use assets and amortisation of intangible assets for the years ended 31 March 2021 and 31 March 2020 is as follows:

	Depreciation of property, plant and equipment		Depreciation of right of use assets		Amortisation of intangible assets	
	2021 £m	2020 (restated*) £m	**2021 £m**	2020 (restated*) £m	**2021 £m**	2020 (restated*) £m
Marine	**8.3**	8.0	**9.0**	9.9	**5.6**	10.0
Nuclear	**22.8**	26.4	**4.6**	3.7	**0.4**	0.7
Land	**8.1**	8.8	**17.1**	13.9	**20.6**	37.5
Aviation	**41.6**	27.3	**100.6**	83.7	**24.2**	26.6
Unallocated	**5.8**	6.2	**2.1**	1.8	**8.3**	7.1
Group total	**86.6**	76.7	**133.4**	113.0	**59.1**	81.9

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

The segmental impairment on property, plant and equipment, right of use assets and intangible assets for the years ended 31 March 2021 and 31 March 2020 is as follows:

	Impairment of property, plant and equipment		Impairment of right of use assets		Impairment of intangible assets	
	2021 £m	2020 (restated*) £m	**2021 £m**	2020 (restated*) £m	**2021 £m**	2020 (restated*) £m
Marine	**–**	–	**–**	–	**0.6**	–
Nuclear	**2.4**	0.2	**0.7**	–	**–**	–
Land	**7.9**	–	**9.1**	–	**14.1**	–
Aviation	**103.0**	14.4	**36.6**	14.2	**8.0**	–
Unallocated	**–**	–	**–**	–	**10.0**	–
Group total	**113.3**	14.6	**46.4**	14.2	**32.7**	–

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

The geographic analysis for non-current assets by location of those assets for the years ended 31 March 2021 and 31 March 2020 is as follows:

	2021 £m	2020 (restated*) £m
United Kingdom	**1,164.5**	2,479.8
Rest of Europe	**1,034.7**	1,490.7
Africa	**56.9**	47.5
North America	**25.2**	25.6
Australasia	**242.4**	199.4
Rest of World	**2.9**	40.0
Non-current segment assets	**2,526.6**	4,283.0
Retirement benefits	**40.8**	325.3
IFRIC 12 financial assets	**11.2**	12.8
Other financial assets	**17.2**	21.5
Tax	**141.3**	60.5
Total non-current assets	**2,737.1**	4,703.1

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

6. Segmental information (continued)

The geographic analysis of revenue by origin of customer for the years ended 31 March 2021 and 31 March 2020 is as follows:

	Revenue	
Geographic analysis	**2021 £m**	2020 (restated*) £m
United Kingdom	**2,805.8**	2,986.8
Rest of Europe	**515.5**	501.2
Africa	**269.6**	358.0
North America	**161.6**	195.0
Australasia	**224.0**	198.5
Rest of World	**206.2**	189.0
Group total	**4,182.7**	4,428.5

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

The analysis of revenue for the years ended 31 March 2021 and 31 March 2020 is as follows:

	2021 £m	2020 (restated*) £m
Sale of goods – transferred at a point in time	**484.3**	585.9
Sale of goods – transferred over time	**175.7**	105.5
Sale of goods	**660.0**	691.4
Provision of services – transferred over time	**3,518.2**	3,731.0
Rental income	**4.5**	6.1
Revenue	**4,182.7**	4,428.5

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

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

7. Operating (loss)/profit for the year

The following items have been included in arriving at operating (loss)/profit for the year:

	2021 £m	2020 (restated**) £m
Employee costs (note 9)	**1,615.9**	1,605.6
Inventories		
• Cost of inventories recognised as an expense	**406.5**	428.3
Depreciation of property, plant and equipment (PPE) (note 15)	**86.6**	76.7
Depreciation of right of use assets (note 16)	**133.4**	123.3
Amortisation of intangible assets (note 14)		
• Acquired intangibles	**40.2**	67.6
• Other	**18.9**	14.3
	59.1	81.9
Impairment of goodwill (note 13)	**1,243.2**	278.4
Impairment of intangible assets (note 14) *	**89.1**	–
Impairment of property, plant and equipment (PPE) (note 15) *	**113.3**	14.6
Impairment of right of use assets (note 16) *	**46.4**	14.2
Loss on disposal of property, plant and equipment	**26.4**	3.9
Loss on disposal of intangible assets	**–**	0.1
Research and development	**1.1**	0.2
Net foreign exchange loss/(gain)	**7.8**	(12.7)
Loss on derivative instruments at fair value through profit or loss	**6.9**	–
Gain on derivative instruments at fair value through profit or loss	**–**	(3.1)

* Included in cost of revenue in the income statement.

** The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

Services provided by the Group's auditor and network firms

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

	2021 £m	2020 £m
Audit fees:		
Fees payable to the parent auditor and its associates for the audit of the parent company's individual and consolidated financial statements	**2.3**	0.9
Fees payable to the parent auditor and its associates in respect of the audit of the Company's subsidiaries	**3.7**	2.2
Fees for other services:		
Other non-audit services	**–**	0.1
Total fees paid to the Group's auditor and network firms	**6.0**	3.2

8. Net finance costs

	2021 £m	2020 (restated*) £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	**50.0**	48.6
Lease interest	**23.5**	28.2
Amortisation of issue costs of bank loan	**1.4**	2.1
Retirement benefit interest	**–**	0.1
Other	**2.9**	7.0
Total finance costs	**77.8**	86.0
Finance income		
Bank deposits, loans and leases	**11.7**	13.0
IFRIC 12 Investment income	**0.9**	1.1
Retirement benefit interest	**4.0**	–
Total finance income	**16.6**	14.1
Net finance costs	**61.2**	71.9

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

9. Employee costs

	2021 £m	2020 £m
Wages and salaries	**1,312.4**	1,323.6
Social security costs	**164.1**	156.0
Share-based payments (note 28)	**4.2**	2.9
Pension costs – defined contribution plans (note 29)	**90.9**	85.7
Pension charges – defined benefit plans (note 29)	**44.3**	37.4
	1,615.9	1,605.6

The average monthly number of people employed by the Group was:

	2021 Number	2020 Number
Operations	**28,569**	30,116
Administration and management	**3,840**	4,104
	32,409	34,220

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

Key management compensation

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

	2021 £m	2020 £m
Salaries	**6.7**	8.2
Share-based payments	**0.2**	0.6
	6.9	8.8

10. Income tax expense

	Total	
	2021 £m	2020 (restated*) £m
Analysis of tax (benefit)/charge in the year		
Current tax		
• UK current year (benefit)/charge	**(8.9)**	19.2
• UK prior year (benefit)	**(6.4)**	–
• Overseas current year charge	**12.8**	17.9
	(2.5)	37.1
Deferred tax		
• UK current year (benefit)	**(41.3)**	6.0
• UK prior year charge	**8.5**	–
• Overseas current year charge/(benefit)	**20.2**	(15.0)
• Impact of changes in tax rates	**(0.2)**	(1.2)
	(12.8)	(10.2)
Total income tax (benefit)/expense	**(15.3)**	26.9

* The results for 31 March 2020 have been restated due to correction of errors and a change in accounting policy. Further details are set out in note 5.

The tax for the year is higher (2020: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2021 £m	2020 (restated) £m
Loss before tax	**(1,717.3)**	(88.9)
Loss on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2020: 19%)	**(326.3)**	(16.9)
Effects of:		
Expenses not deductible for tax purposes	**3.2**	0.9
Non-deductible write-off of goodwill	**236.2**	52.9
Re-measurement of deferred tax in respect of statutory rate changes	**(0.2)**	(1.2)
Difference in respect of share of results of joint ventures and associates' results	**2.5**	(14.1)
Prior year adjustments	**2.1**	–
Differences in respect of foreign rates and UK consortium relief rates	**2.2**	(5.3)
Unrecognised deferred tax movements	**83.4**	15.6
Non-taxable profits on disposals and non-deductible losses on disposals	**9.4**	(14.2)
Adjustments as a result of concluded enquiries with tax authorities	**(21.6)**	–
Other	**(6.2)**	9.2
Total income tax (benefit)/expense	**(15.3)**	26.9

Further information on exceptional items and tax on exceptional items is detailed in note 3.

During the period, the Group has progressed discussions with the UK tax authorities ("HMRC") regarding the deductibility of certain acquisition costs. Having reached agreement, a tax credit of £21.6m has been recognised in the current year (period ended 31 March 2020: £nil).

In the prior year, the decrease in the UK rate of corporation tax from 19% to 17% was cancelled, resulting in a tax credit of £1.2m. On 24 May 2021, the Finance Act 2021 was substantively enacted, increasing the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. As the increase of the rate to 25% had not been substantively enacted at the Balance Sheet date, its effects are not included in these Financial Statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the Balance Sheet date, would have been to increase deferred tax assets by approximately £20 million.

The European Commission decided in 2019 that certain aspects of the UK Finance Company Partial Exemption ("FCPE") rules constituted partial State Aid. However, HMRC have confirmed that the Group did not benefit from those provisions and therefore faces no liability in respect of this judgement.

Disposals of subsidiaries, businesses and joint ventures are generally exempt from tax (whether the disposal is at a gain or at a loss) under local tax legislation (for example the UK's Substantial Shareholding Exemption).

11. Dividends

	2021 £m	2020 £m
Final dividend for the year ended 31 March 2020 of nil (2019: 22.9p) per 60p share	**–**	115.7
Interim dividend for the year ended 31 March 2021 of nil (2020: 7.2p) per 60p share	**–**	36.4
	–	152.1

12. (Loss) per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year excluding those held in the Babcock Employee Share Trust. Where there is a loss arising the effect of potentially dilutive ordinary shares is anti-dilutive.

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

Number of shares

	2021 Number	2020 Number
Weighted average number of ordinary shares for the purpose of basic EPS	**504,993,024**	505,284,584
Effect of dilutive potential ordinary shares: share options	**3,998,687**	872,749
Weighted average number of ordinary shares for the purpose of diluted EPS	**508,991,711**	506,157,333

Earnings

	2021			2020 (restated)		
	(Loss)/earnings from continuing operations £m	Basic per share Pence	Diluted per share Pence	(Loss)/earnings from continuing operations £m	Basic per share Pence	Diluted per share Pence
Loss for the year	**(1,702.0)**	**(337.0)**	**(337.0)**	(117.8)	(23.3)	(23.3)
Add back:						
Specific Adjusting Items, net of tax (note 3)	**1,581.7**	**313.2**	**313.2**	412.7	81.7	81.6
Earnings before Specific Adjusting Items	**(120.3)**	**(23.8)**	**(23.8)**	294.9	58.4	58.3

13. Goodwill

	2021 £m	2020 (restated) £m
Cost		
At 1 April	**2,571.1**	2,589.0
On disposal of subsidiaries (note 32)	**(72.6)**	(20.6)
Exchange adjustments	**(11.2)**	2.7
At 31 March	**2,487.3**	2,571.1
Accumulated impairment		
At 1 April	**283.2**	4.8
On disposal of subsidiaries (note 32)	**–**	–
Impairment	**1,243.2**	278.4
Exchange adjustments	**4.6**	–
At 31 March	**1,531.0**	283.2
Net book value at 31 March	**956.3**	2,287.9

13. Goodwill (continued)

Goodwill is allocated to the operating segments as set out in the table below:

	2021 £m	2020 (restated) £m
Marine	**339.2**	341.7
Nuclear	**233.1**	233.1
Land	**262.7**	762.5
Aviation	**119.3**	948.6
Africa	**2.0**	2.0
	956.3	2,287.9

During the year, goodwill was tested for impairment in accordance with IAS 36. This impairment analysis is performed on an annual basis as outlined in the Group's accounting policies. The Group monitors goodwill at operating segment level, other than in relation to the establishment of a separate CGU during the year for the Group's Aviation oil and gas business, to which goodwill was allocated, reflecting the conditional sale and purchase agreement signed pre 31 March 2021 in relation to that business. The Group considered the potential disposal in the context of the held for sale criteria set out in IFRS 5 and assessed that the business should not be classified as held for sale.

The goodwill allocated to the Africa operating segment is immaterial and the Directors do not consider there to be any reasonably possible changes in estimates that would result in impairment of this goodwill. No further disclosures are provided in relation to the Africa operating segment.

Prior year errors

The Group combines the Africa and Land operating segments into a single Land reportable segment and, in the prior year, the goodwill impairment test was carried out at the reportable segment level rather than at the operating segment level as required by IAS 36. This error was compounded by an administrative error in the calculation of the value-in-use of the Land operating segment and the impact of both errors was an overstatement of Land value-in-use by £886 million.

In addition, the correction of a number of prior period errors relating to the year ended 31 March 2020, in relation to other financial statement areas, reduced the capital employed used to complete the March 2020 goodwill impairment test. A reduction in capital employed of £239.2 million, in relation to the Aviation operating segment, resulted in the restatement of the Aviation operating segment impairment charge from £395.0 million to £155.8 million for the year ended 31 March 2020. A reduction in capital employed of £5.1 million, as a result of the correction of prior year errors discussed in Note 5 and the impact of the overstatement of value-in-use by £886 million noted above, resulted in a Land operating segment impairment charge of £122.6 million for the year ended 31 March 2020.

No impairment was required at 1 April 2019 as re-performance of impairment analysis at that date identified sufficient headroom between the recoverable amount and the capital employed.

Results of goodwill impairment test

The current year impairment test results in an impairment of the Land operating segment goodwill of £425.8 million, the Aviation operating segment goodwill of £808.5 million and the goodwill of £8.9 million allocated to the Aviation oil and gas business CGU. These impairments reflect significant changes in estimates informed by consideration during H2 of actual business performance of the Group during the current year and related assessments of future performance of the businesses. Future business performance was informed by the strategy and contract profitability and balance sheet reviews instigated by the Group's new executive management and completion of the Group's budget addressing the years ending 31 March 2022, 31 March 2023 and 31 March 2024.

Value-in-use calculations

The recoverable amount of the Group's goodwill was assessed by reference to value-in-use calculations. The value-in-use calculations are derived from risk-adjusted cash flows from the Group's three-year budget and nominal growth rates between 2.0% and 3.0% were used to establish cash flows for two further years. Terminal value assessments are included based on year five and an estimated long-term nominal growth rate of 2.0% (2020: 2.0%). The process by which the Group's budget is prepared, reviewed and approved benefits from historical experience, visibility of long–term work programmes in relation to work undertaken for the UK Government, available government spending information (both UK and overseas), the Group's contract backlog, bid pipeline and the Group's tracking pipeline which monitors opportunities prior to release of tenders. The budget process includes consideration of risks and opportunities at contract and business level and considered matters such as COVID-19 and climate change. The value in use calculations do not include the anticipated benefits of the Group's revised operating model or the implementation costs of this project reflecting that the Group was not committed to the project at 31 March 2021.

13. Goodwill (continued)

Key assumptions

The Group updated the impairment test in the current year to incorporate changes to the model and discount rates following transition to IFRS 16. Pre-tax discount rates, derived from the Group's post tax weighted average cost of capital in the range 7.4% to 8.4% (2020: 7.8% to 8.2%) and adjusted for the gearing impact of lease liabilities were used to discount the estimated risk-adjusted cash flows. In consideration of specific risk factors associated with the Aviation operating segment, the pre-tax discount rate includes a premium of 0.9% (2020: 0.9%), to determine the value-in-use of this CGU. The gearing impact of lease liabilities impacts the Aviation segment most significantly and aligns the Aviation operating segment discount rate, inclusive of the risk premium, with the discount rates of the other operating segments.

The long-term growth rates and discount rates for the Group's operating segments are as follows:

	2021				2020			
	Aviation	**Land**	**Marine**	**Nuclear**	Aviation	Land	Marine	Nuclear
Pre-tax discount rate	**10.9**	**10.9**	**10.9**	**10.9**	10.9	10.0	10.0	10.0
Post-tax discount rate	**8.2**	**8.2**	**8.2**	**8.2**	8.9	8.2	8.2	8.2
Long-term growth rate	**2.0**	**2.0**	**2.0**	**2.0**	2.0	2.0	2.0	2.0

Expected future cash flows used in discounted cash flow models are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, such as demand for the Group's services, together with economic factors such as estimates of costs of revenue and future capital expenditure requirements. Where discounted cash flow models based on management's assumptions are used, the resulting fair value measurements are considered to be at level 3 in the fair value hierarchy, as defined in IFRS 13, 'Fair Value Measurement', as they depend to a significant extent on unobservable valuation inputs.

Key assumptions in relation to future cash flows included in the value-in-use models are set out below:

Operating segment	Key future cash flow assumption
Marine	Continuing delivery of work programmes with the UK Ministry of Defence, including the design and build of Type 31 frigates. Retention, through successful rebid, of the Group's long-term submarine support role in Canada.
Nuclear	Continuing delivery of naval nuclear services to the UK Ministry of Defence under long-term contracts. Continuing delivery of opportunities in the UK civil nuclear decommissioning programme together with maintenance of ongoing spend in provision of nuclear engineering services to operational power stations.
Land	Continuing demand for equipment support and training from both military and civil customers, noting that significant elements of equipment support and training are the subject of long-term contracts, not all of which have been assumed to renew. Maintenance of existing positions in Emergency Services, including successful rebid of one significant contract.
Aviation	Continuing delivery of long-term contracts with the UK Ministry of Defence and maintenance of existing positions in aerial emergency services and firefighting worldwide where the Group has a number of leadership positions. Delivery of cost savings through an embedded performance improvement programme.

Sensitivity

The goodwill allocated to Marine and Nuclear results in both operating segments having significant headroom. It would require a long-term growth of nil combined with discount rates of 86.7% and 22.8%, respectively, to reduce the headroom in Marine and Nuclear to £nil. The Directors do not consider these to be plausible assumptions and, in addition, do not consider that any reasonably possible changes to the cash flow assumptions would reduce the recoverable amount to its carrying value.

13. Goodwill (continued)

The impairments of £817.4 million and £425.8 million in relation to the Aviation and Land operating segments respectively eliminate the headroom for these operating segments at 31 March 2021. Accordingly, reasonably possible changes in estimates could give rise to a material impairment in the following year. The Group carried out sensitivity analyses on the reasonably possible changes in the discount rate and long-term growth rate used in the value-in-use models for each of the operating segments. The increase in impairment that would result from a change in the discount rate and long-term growth rate are set out in the table below:

	2021	
£m	Aviation	Land
Pre-tax discount rate		
Increase of 100bps	**46.8**	**26.8**
Long-term growth rate		
Decrease of 50bps	**16.8**	**9.8**

The Directors consider that a key cash flow assumption in the calculation of the value in use of the Aviation operating segment is delivery of forecast cost savings. A reduction of £5 million in annual operating profits, as a result of failure to deliver forecast cost savings from the year ending 31 March 2023, is considered plausible and would result in a reduction of £51 million in Aviation operating segment value in use. Key assumptions in relation to the Land operating segment include the retention of existing business, not all of which have been assumed to renew. A reduction in annual operating profit of £5 million is considered to be plausible from the year ending 31 March 2025 and would result in a reduction in Land operating segment value in use of £43 million.

14. Other intangible assets

	Acquired intangibles – relationships £m	Acquired intangibles – brands £m	Acquired intangibles – total £m	Internally generated software development costs and licences £m	Internally generated development costs and other £m	Total £m
Cost						
At 1 April 2020	**1,042.9**	**–**	**1,042.9**	**187.1**	**26.8**	**1,256.8**
On disposal of subsidiaries and joint ventures (note 32)	**(5.2)**	**–**	**(5.2)**	**(0.1)**	**–**	**(5.3)**
Additions	**–**	**–**	**–**	**11.0**	**7.0**	**18.0**
Reclassification from property, plant and equipment	**–**	**–**	**–**	**–**	**1.3**	**1.3**
Disposals at cost	**–**	**–**	**–**	**(6.0)**	**(8.4)**	**(14.4)**
Exchange adjustments	**(6.2)**	**–**	**(6.2)**	**0.1**	**(0.6)**	**(6.7)**
At 31 March 2021	**1,031.5**	**–**	**1,031.5**	**192.1**	**26.1**	**1,249.7**
Accumulated amortisation and impairment						
At 1 April 2020 as restated	**840.3**	**–**	**840.3**	**79.8**	**2.0**	**922.1**
On disposal of subsidiaries and joint ventures (note 32)	**(5.2)**	**–**	**(5.2)**	**(0.1)**	**–**	**(5.3)**
Amortisation charge	**40.2**	**–**	**40.2**	**17.9**	**1.0**	**59.1**
Impairment (note 3)	**56.4**	**–**	**56.4**	**24.0**	**8.7**	**89.1**
Reclassification from property, plant and equipment	**–**	**–**	**–**		**1.3**	**1.3**
Disposals	**–**	**–**	**–**	**(6.0)**	**(8.4)**	**(14.4)**
Exchange adjustments	**(4.2)**	**–**	**(4.2)**	**0.1**	**(0.1)**	**(4.2)**
At 31 March 2021	**927.5**	**–**	**927.5**	**115.7**	**4.5**	**1,047.7**
Net book value at 31 March 2021	**104.0**	**–**	**104.0**	**76.4**	**21.6**	**202.0**
Cost						
At 1 April 2019 as previously stated	1,169.5	23.7	1,193.2	172.0	18.6	1,383.8
Prior year adjustment (note 5)	(121.9)	–	(121.9)	–	–	(121.9)
At 1 April 2019 restated	1,047.6	23.7	1,071.3	172.0	18.6	1,261.9
On disposal of subsidiaries (note 32)	(7.0)	(6.4)	(13.4)	(1.7)	–	(15.1)
Additions	–	–	–	21.6	7.8	29.4
Disposals at cost	–	(17.4)	(17.4)	(4.5)	–	(21.9)
Exchange adjustments	2.3	0.1	2.4	(0.3)	0.4	2.5
At 31 March 2020	1,042.9	–	1,042.9	187.1	26.8	1,256.8
Accumulated amortisation and impairment						
At 1 April 2019 as previously stated	843.3	20.2	863.5	70.1	1.3	934.9
Prior year adjustment (note 5)	(64.0)	–	(64.0)	2.0	–	(62.0)
At 1 April 2019 restated	779.3	20.2	799.5	72.1	1.3	872.9
On disposal of subsidiaries (note 32)	(5.8)	(4.1)	(9.9)	(1.2)	–	(11.1)
Amortisation charge	66.5	1.1	67.6	13.5	0.8	81.9
Disposals	–	(17.4)	(17.4)	(4.4)	–	(21.8)
Exchange adjustments	0.3	0.2	0.5	(0.2)	(0.1)	0.2
At 31 March 2020	840.3	–	840.3	79.8	2.0	922.1
Net book value at 31 March 2020	202.6	–	202.6	107.3	24.8	334.7

Acquired intangible amortisation charges for the year are recorded through cost of revenue.

Details of the prior year restatement are provided in note 5.

14. Other intangible assets (continued)

The Group holds intangible software assets in respect of its SAP enterprise resource planning system. Management reassessed the implementation plan during the year ended 31 March 2021 and determined not to progress a number of previously planned implementations of the software. The Group determined that the recoverable amounts, based upon value in use of the software intangible asset relating to these business units is £nil and an impairment charge of £10.0 million was recognised in relation to these business units.

The Land operating segment recognises a software asset relating to user interfaces for vehicle bookings that was developed for use on the Phoenix contract. Following changes in estimates of the Phoenix contract and the wider usage of the software; the recoverable amount has been determined to be £0.4 million based upon a value in use calculation resulting in an impairment charge of £4.9 million.

The Land operating segment also previously recognised an acquired intangible in relation to the purchase of the DSG relationship in 2015 and capitalised a software asset relating the implementation of the Group's Global ERP system in DSG. Following reassessment of variable revenues under the contract following publication of the Integrated Spending Review, and removal of targeted future cost savings under the contract in line with an assessment under IAS 36, both of these assets were fully impaired with impairments of £56.4 million and £9.1 million respectively.

In the Aviation operating segment, costs were capitalised in relation to a partially funded contract to develop drone technology, which is nearing completion. An assessment based on the latest business plan resulted in an impairment of £7.2 million. An indefinite life technology-based intangible asset of £1.5 million has also been fully impaired following an assessment of latest business plans.

15. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2020 as restated	**125.2**	**32.0**	**605.7**	**533.8**	**88.5**	**1,385.2**
On disposal of subsidiaries (note 32)	**–**	**–**	**(1.7)**	**–**	**–**	**(1.7)**
Additions	**20.6**	**1.2**	**73.0**	**36.3**	**24.4**	**155.5**
Disposals	**(3.3)**	**(0.4)**	**(79.5)**	**(210.7)**	**(4.9)**	**(298.8)**
Reclassification	**16.9**	**(17.0)**	**0.1**	**11.1**	**(11.1)**	**–**
Reclassification to intangible assets	**–**	**–**	**(1.3)**	**–**	**–**	**(1.3)**
Capitalised borrowing costs	**0.1**	**–**	**1.4**	**–**	**–**	**1.5**
Exchange adjustments	**(0.3)**	**–**	**3.7**	**(8.1)**	**(3.6)**	**(8.3)**
At 31 March 2021	**159.2**	**15.8**	**601.4**	**362.4**	**93.3**	**1,232.1**
Accumulated depreciation						
At 1 April 2020 as restated	**66.6**	**9.5**	**390.7**	**77.5**	**–**	**544.3**
On disposal of subsidiaries (note 32)	**–**	**–**	**(0.9)**	**–**	**–**	**(0.9)**
Charge for the year	**5.0**	**1.0**	**46.7**	**33.9**	**–**	**86.6**
Impairment (note 3)	**0.3**	**2.5**	**9.2**	**99.3**	**2.0**	**113.3**
Disposals	**(2.9)**	**(0.4)**	**(70.9)**	**(165.0)**	**–**	**(239.2)**
Reclassification	**0.7**	**(1.7)**	**0.2**	**0.8**	**–**	**–**
Reclassification to intangible assets	**–**	**–**	**(1.3)**	**–**	**–**	**(1.3)**
Exchange adjustments	**(0.2)**	**–**	**(0.6)**	**(1.1)**	**(0.3)**	**(2.2)**
At 31 March 2021	**69.5**	**10.9**	**373.1**	**45.4**	**1.7**	**500.6**
Net book value at 31 March 2021	**89.7**	**4.9**	**228.3**	**317.0**	**91.6**	**731.5**
Cost						
At 1 April 2019 as previously stated	125.1	38.0	615.2	644.3	113.5	1,536.1
Prior year adjustment (note 5)	–	–	4.4	(83.7)	22.1	(57.2)
Transfer of leased assets to right of use assets	–	–	(44.0)	(46.8)	–	(90.8)
At 1 April 2019 restated	125.1	38.0	575.6	513.8	135.6	1,388.1
On disposal of subsidiaries (note 32)	–	–	(3.8)	–	–	(3.8)
Additions	1.3	0.2	55.6	47.3	41.8	146.2
Disposals	(1.3)	(6.2)	(14.2)	(111.6)	(9.1)	(142.4)
Reclassification	–	–	0.6	80.9	(81.5)	–
Capitalised borrowing costs	–	–	1.4	–	–	1.4
Exchange adjustments	0.1	–	(9.5)	3.4	1.7	(4.3)
At 31 March 2020	125.2	32.0	605.7	533.8	88.5	1,385.2
Accumulated depreciation						
At 1 April 2019 as previously stated	60.4	9.8	354.5	97.1	–	521.8
Prior year adjustment (note 5)	1.8	–	20.3	(4.8)	–	17.3
Transfer of leased assets to right of use assets	–	–	(17.1)	(7.6)	–	(24.7)
At 1 April 2019 restated	62.2	9.8	357.7	84.7	–	514.4
On disposal of subsidiaries (note 32)	–	–	(2.2)	–	–	(2.2)
Charge for the year	5.0	1.8	50.9	19.0	–	76.7
Impairment	–	–	0.2	14.4	–	14.6
Disposals	(0.7)	(2.1)	(13.1)	(37.8)	–	(53.7)
Exchange adjustments	0.1	–	(2.8)	(2.8)	–	(5.5)
At 31 March 2020	66.6	9.5	390.7	77.5	–	544.3
Net book value at 31 March 2020	58.6	22.5	215.0	456.3	88.5	840.9

A capitalisation rate of 4% (2020: 3%) was used to determine the amount of borrowing costs eligible for capitalisation.

15. Property, plant and equipment (continued)

Following changes in senior management, a comprehensive performance improvement and restructuring programme was implemented during the year ended 31 March 2021 across the Aviation operating segment. This included a rationalisation of aircraft types and review of fleet strategy, taking account of changes in market conditions including those resulting from COVID-19 and Brexit. A number of impairment indicators were identified as a result, and impairment tests performed in accordance with IAS 36 have resulted in an impairment charge of £70.2 million across the UK and continental Europe, based on fair value less costs to dispose of £70.5 million. The fair value assessment was based on recent offers received, current market prices for assets and information received from brokers, representing Level 2 information in the fair value hierarchy.

In addition the Group recorded a £15.1 million impairment in Australia, reflecting its intention to dispose of 11 owned aircraft following completion of the associated customer contracts. The fair value less costs to dispose is assessed at £14.3 million in line with the approach set out above. There has also been an impairment of £11.7 million of the Group's fleet of six AS332 L2 Super Puma helicopters, which follows a previous impairment related to the grounding of the aircraft following a number of accidents. Following investigations, the aircraft are no longer grounded but have been repurposed from passenger transportation to firefighting. The recoverable amount of £5.7 million was assessed on a value-in-use basis, reflecting rates achievable when repositioned for firefighting.

In the Land operating segment, £5.3 million of PPE was impaired following an assessment of this PPE as directly attributable to the Group's DSG contract, the impairment indicator being reassessed DSG contract profitability. The impairment test reassessed variable revenues under the contract following publication of the Integrated Spending Review and removed targeted future cost savings in line with an assessment under IAS 36.

16. Leases

Group as a lessee

Lease liabilities represent rentals payable by the Group for certain operational, distribution and office properties and other assets such as aircraft. The leases have varying terms, purchase options, escalation clauses and renewal rights.

Right of use assets

	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Total £m
Cost				
At 1 April 2020 as restated	**148.2**	**70.6**	**549.4**	**768.2**
Additions	**18.2**	**8.0**	**65.5**	**91.7**
Disposals	**(15.3)**	**(6.5)**	**(33.5)**	**(55.3)**
Exchange adjustments	**1.8**	**–**	**7.6**	**9.4**
At 31 March 2021	**152.9**	**72.1**	**589.0**	**814.0**
Accumulated depreciation				
At 1 April 2020 as restated	**26.4**	**30.1**	**102.7**	**159.2**
Charge for the year	**27.7**	**12.6**	**93.1**	**133.4**
Impairment (see note 3)	**7.3**	**4.4**	**34.7**	**46.4**
Disposals	**(10.7)**	**(4.8)**	**(30.4)**	**(45.9)**
Exchange adjustments	**0.4**	**(0.1)**	**(0.6)**	**(0.3)**
At 31 March 2021	**51.1**	**42.2**	**199.5**	**292.8**
Net book value at 31 March 2021	**101.8**	**29.9**	**389.5**	**521.2**

	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Total £m
Cost				
On transition to IFRS 16 – 1 April 2019 as previously stated	111.3	15.4	466.0	592.7
Prior year adjustment	–	–	(35.3)	(35.3)
Reclassification from property, plant and equipment	–	44.0	46.8	90.8
On transition to IFRS 16 restated	111.3	59.4	477.5	648.2
On disposal of subsidiaries (note 32)	(2.3)	–	–	(2.3)
Additions	42.4	11.2	81.8	135.4
Exchange adjustments	(3.2)	–	(9.9)	(13.1)
At 31 March 2020	148.2	70.6	549.4	768.2
Accumulated depreciation				
Reclassification from property, plant and equipment	–	17.1	7.6	24.7
Charge for the year	27.3	13.1	82.9	123.3
Impairment (see note 3)	–	–	14.2	14.2
Exchange adjustments	(0.9)	(0.1)	(2.0)	(3.0)
At 31 March 2020	26.4	30.1	102.7	159.2
Net book value at 31 March 2020	121.8	40.5	446.7	609.0
Net book value on transition to IFRS 16 – 1 April 2019 as previously stated	111.3	42.5	511.7	665.5
Net book value on transition to IFRS 16 – 1 April 2019 as restated	111.3	42.3	469.9	623.5

16. Leases (continued)

Prior to the adoption of IFRS 16, the Group determined the Jadestone contract, delivered by the Aviation operating segment, to be onerous in accordance with IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' ('IAS 37'). On adoption of IFRS 16, an impairment test was performed on the right of use assets associated with the contract, which resulted in an impairment. Further impairment indicators were identified in the year ended 31 March 2021 through customer interactions and feedback on tender submissions, resulting in an additional impairment of £12.5 million in the value of the S-92 fleet.

During the year, a Helicopter Emergency Medical Services (HEMS) bid programme in France provided the Aviation operating segment with new information on the customer's requirements. The change in expected use of the associated leased aircraft resulted in an impairment of £6.5 million. Cancellation of customer contracts resulted in the full impairment of right of use assets of £2.1 million in the UK and £2.0 million in Italy. In addition, a £11.9 million impairment followed re-assessment of the profitability of the Sasemar contract and a £1.9 million impairment followed re-assessment of the profitability of a UK HEMS contract.

In the Land operating segment, £9.1 million of ROU assets were impaired following an assessment of these assets as directly attributable to the DSG contract, the impairment indicator being reassessed DSG contract profitability. The impairment test reassessed variable revenues under the contract following publication of the Integrated Spending Review and removed targeted future cost savings in line with an assessment under IAS 36.

Lease liabilities

The following tables show the discounted Group lease liabilities and a reconciliation of opening to closing lease liabilities:

	Total £m
Cost	
At 1 April 2020	**689.4**
Additions	**91.7**
Disposals	**(9.4)**
Exchange adjustments	**(18.8)**
Lease interest	**23.5**
Lease repayments	**(164.1)**
At 31 March 2021	**612.3**
Non-current lease liabilities	**486.2**
Current lease liabilities	**126.1**
At 31 March 2021	**612.3**

At 1 April 2019	65.8
On transition to IFRS 16 – 1 April 2019	640.8
Additions	144.7
Disposal of subsidiary undertaking	(3.1)
Exchange adjustments	16.2
Lease interest	28.2
Lease repayments	(203.2)
At 31 March 2020	689.4
Non-current lease liabilities	548.5
Current lease liabilities	140.9
At 31 March 2020	689.4

See note 2 for a maturity analysis of the contractual undiscounted lease payments

Amounts recognised in the Group income statement

	2021 £m	2020 £m
Interest on lease liabilities	**23.5**	28.2

Amounts recognised in the Group cash flow statement

	2021 £m	2020 £m
Total cash outflow for principal element of leases	**141.3**	175.0

Group as a lessor

The Group is the lessor in an arrangement for the lease of vehicles and sub-lease of leased properties. These are solely finance lease arrangements.

16. Leases (continued)

Amounts recognised in the Group income statement

	2021 £m	2020 £m
Finance lease – interest income	**1.8**	2.6

Finance lease payments receivable

	2021 £m	2020 £m
Within one year	**26.7**	31.7
Greater than one year but less than two years	**7.9**	6.9
Greater than two years but less than three years	**4.7**	–
Greater than three years but less than four years	**0.4**	–
Greater than four years but less than five years	**–**	–
Greater than five years	**–**	–
Total undiscounted finance lease payments receivable	**39.7**	38.6
Impact of discounting	**(0.2)**	–
Finance lease receivable (net investment in the lease)	**39.5**	38.6

17. Investment in and loans to joint ventures and associates

The Group's principal joint ventures and associates are:

	Nature of relationship	Year end	Business activity	% interest held (2021)	% interest held (2020)	Country of incorporation	Principal area of operation
Holdfast Training Services Limited	Joint venture	31 Mar	Provision of training services	–	74.0%	United Kingdom	United Kingdom
ALC (Superholdco) Limited	Joint venture	30 Jun	Vehicle support services for the MoD	50.0%	50.0%	United Kingdom	United Kingdom
AirTanker Holdings Limited	Associate	31 Dec	Provision and management of aircraft	15.4%	13.3%	United Kingdom	United Kingdom
AirTanker Services Limited	Associate	31 Dec	Provision of air-to-air refuelling	23.5%	22.3%	United Kingdom	United Kingdom
Ascent Flight Training (Holdings) Limited	Joint venture	31 Mar	Provision of training services	50.0%	50.0%	United Kingdom	United Kingdom
Naval Ship Management (Australia) Pty Limited	Joint venture	31 Mar	Provision of repair, engineering and maintenance services	50.0%	50.0%	Australia	Australia
Cavendish Dounreay Partnership Limited	Joint venture	31 Mar	Provision of decommissioning services	50.0%	50.0%	United Kingdom	United Kingdom
Cavendish Fluor Partnership Limited	Joint venture	31 Mar	Holding company for the Group's investment in Magnox Limited	65.0%	65.0%	United Kingdom	United Kingdom

During the year the Group increased its shareholding in Airtanker Limited and Airtanker Services Limited for total consideration of £8.8 million.

The Group disposed of its share in Holdfast Training Services Limited for total consideration of £85.0 million (note 32).

Accounting judgements in classification of joint ventures and associates

The Group has determined that it has joint control of AirTanker Services Limited and Cavendish Fluor Partnership Limited, as unanimous decision-making is required over the key decisions which drive the relevant activities of the businesses. The Group has the right to net assets of each of these joint arrangements, rather than separate rights and obligations to the assets and liabilities of the joint arrangement respectively, and they are therefore classified as equity accounted joint ventures.

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

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

Summarised financial information for joint ventures and associates

The summarised financial information below reflects the amounts presented in the financial statements of the relevant joint ventures and associates, and not the Group's share of those amounts. These amounts have been adjusted to conform to the Group's accounting policies where required. The summarised financial information has been aggregated in order to provide useful information to users without excessive detail. Joint ventures that are not considered material to the Group are not shown below.

2021 (£m)	Ascent Flight Training (Holdings) Limited	AirTanker Limited	AirTanker Services Limited	ALC (Superholdco) Limited	Cavendish Dounreay Partnership Limited	Naval Ship Management (Australia) Pty Limited
Summarised income statement						
Revenue	155.1	131.0	144.6	43.2	134.7	140.1
Depreciation and amortisation	–	(34.2)	(3.3)	–	–	–
Interest income	7.7	144.4	–	2.8	–	–
Interest expense	(7.2)	(137.2)	(0.2)	(0.3)	–	(0.2)
Income tax (expense) / benefit	(2.9)	–	–	(4.6)	1.9	(3.1)
Profit / (loss) from continuing operations	15.3	39.3	5.7	25.6	(29.9)	7.3
Other comprehensive income/(expense)	–	143.9	–	–	–	–
Total comprehensive income/(loss)	15.3	183.2	5.7	25.6	(29.9)	7.3
Summarised balance sheet						
Non-current assets	94.2	2,314.7	41.8	0.9	–	1.5
Current assets (excluding cash and cash equivalents)	75.2	357.3	91.0	46.4	15.7	27.3
Cash and cash equivalents	25.5	63.0	64.3	1.1	0.6	5.2
Non-current financial liabilities (excluding trade and other payables and provisions)	(113.3)	(2,631.8)	(9.9)	(10.0)	–	(0.5)
Current financial liabilities (excluding trade and other payables and provisions)	(3.5)	(58.5)	–	(1.0)	(0.8)	(0.5)
Current trade and other payables and provisions	(35.4)	(46.9)	(93.6)	(6.0)	–	(27.9)
Net assets / liabilities	42.7	(2.2)	93.6	31.4	15.5	5.1
Ownership	50.0%	15.4%	23.5%	50.0%	50.0%	50.0%
Carrying value of investment at 31 March 2021	21.4	–	22.0	15.7	7.7	2.5
Carrying value of investment at 31 March 2020	22.3	–	34.2	20.7	22.6	1.4

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

Reconciliation to carrying amounts

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2021 £m	2020 (restated) £m	**2021 £m**	2020 £m	**2021 £m**	2020 (restated) £m
At 1 April	**161.9**	153.2	**48.6**	42.5	**210.5**	195.7
Prior year adjustment	**–**	8.9	**–**	–	**–**	8.9
At 1 April restated	**161.9**	162.1	**48.6**	42.5	**210.5**	204.6
Disposal of joint ventures and associates (note 32)	**(53.2)**	–	**–**	–	**(53.2)**	–
Loans repaid by joint ventures and associates	**–**	–	**(4.2)**	(0.7)	**(4.2)**	(0.7)
Increase in loans to joint ventures and associates	**–**	–	**3.9**	5.5	**3.9**	**–**
Impairment of JV loans	**–**	–	**(7.0)**	–	**(7.0)**	–
Investment in joint ventures and associates	**8.8**	0.3	**–**	–	**8.8**	5.8
Share of profits/(losses)	**(13.1)**	58.6	**–**	–	**(13.1)**	58.6
Interest accrued and capitalised	**–**	–	**3.1**	3.8	**3.1**	3.8
Interest received	**–**	–	**(2.3)**	(2.5)	**(2.3)**	(2.5)
Dividends received	**(36.8)**	(52.0)	**–**	–	**(36.8)**	(52.0)
Fair value adjustment of derivatives	**7.0**	(9.4)	**–**	–	**7.0**	(9.4)
Tax on fair value adjustment of derivatives	**(1.4)**	2.3	**–**	–	**(1.4)**	2.3
Foreign exchange	**0.3**	–	**–**	–	**0.3**	–
At 31 March	**73.5**	161.9	**42.1**	48.6	**115.6**	210.5

The share of results of joint ventures and associates (loss) reported of £13.1 million is due to a £37.1 million reduction to share of results of joint ventures and associates identified through the contract profitability and balance sheet review in the year ended 31 March 2021.

The total investments in joint ventures and associates is attributable to the following reportable segments:

	2021 £m	2020 £m
Marine	**6.5**	5.8
Nuclear	**9.6**	25.6
Land	**13.1**	90.6
Aviation	**86.4**	88.5
Net book value	**115.6**	210.5

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed. The Group does not have any commitments that have been made to the joint ventures or associates and not recognised at the reporting date.

Joint arrangements are shown as joint ventures as the Group has the right to net assets of the joint arrangement rather than separate rights and obligations to the assets and liabilities of the joint arrangement respectively. Holdfast Training Services Limited and Cavendish Fluor Partnership Limited had other comprehensive income of £nil in the year (2020: £nil).

There are no significant restrictions on the ability of joint ventures and associates to transfer funds to the owners, other than those imposed by the Companies Act 2006 or equivalent local regulations.

Income from joint ventures and associates – AirTanker Ltd, AirTanker Services Ltd and Ascent Flight Training (Holdings) Ltd

The Group holds a 15.4% (2020: 13.3%) share in AirTanker Limited ('ATL') and a 23.5% (2020: 22.3%) share in AirTanker Services Limited ('ATSL'). The Group accounts for its interest in the joint ventures and associates based on financial information, and has previously made certain adjustments to this information to recognise revenue over time and reflect the Group's view of certain cost assumptions, including the residual value of assets. The Group revised these estimates and assumptions during the year, resulting in a reduction in the share of results of joint ventures and associates and investment in joint ventures and associates (ATL: £5.0 million, ATSL: £15.1 million).

Ascent Flight Training (Holdings) Limited ('Ascent') is a 50.0% owned joint venture. During the year management revised certain previous assumptions over the contract outturn, resulting in a reduction in share of results of joint ventures and associates and investment in joint ventures and associates of £2.9 million.

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

Income from joint ventures and associates – Cavendish Dounreay Partnership Limited

Cavendish Dounreay Partnership Limited ('CDP'), is a 50.0% owned joint venture, within the Nuclear operating segment, which owned the site licence company Dounreay Site Restoration Limited ('DSRL'). CDP operated under a parent body agreement (PBO) to the Nuclear Decommissioning Authority ('NDA'). Following notification from the NDA of the proposed termination of the PBO, the controlling 'A' shareholding in DSRL was transferred to the NDA on 31 March 2021. CDP maintains a 'B' share, which entitles it to profit earned, but yet to be agreed and distributed, up until 31 March 2021.

The recoverability of the investment in CDP was reassessed following the change in ownership of DSRL. The amount of profit due to CDP is judgemental as it is reliant on DSRL reaching an agreed settlement with the NDA. A reduction in the share of results of joint ventures and associates and investment in joint ventures and associates of £10.9m was booked to reflect the Group's latest assessment of the outcome of the settlement with the NDA.

Income from joint ventures and associates – ABC Electrification Ltd

Babcock is a one-third shareholder, in the Land operating segment, in the ABC Electrification Ltd ('ABC') joint venture which performed services under contracts with Network Rail ('NWR'). These contracts were completed several years ago and there is no further work being performed. Following developments during the year, the Group reassessed the range of possible outcomes on contracts subject to final agreement, and as a result reflected a reduction in the share of results of joint ventures and associates and investment in joint ventures and associates of £3.9 million to record the latest view of the contract outcomes. In addition, loans receivable from the JV of £7.0 million were impaired.

18. Deferred tax

	2021 £m	2020 (restated) £m
Deferred tax asset	**141.3**	60.5
Deferred tax liability	**(7.7)**	(33.7)
	133.6	26.8

18. Deferred tax (continued)

The movements in deferred tax assets and liabilities during the year are shown below. Deferred tax assets and deferred tax liabilities have been offset if, and only if, there is a legally enforceable right in that jurisdiction to set off corporation tax assets and corporation tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same Taxation Authorities:

	Tangible assets £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
At 1 April 2020	**1.9**	**(27.7)**	**71.6**	**(19.0)**	**26.8**
Income statement credit/(debit)	**(13.5)**	**(12.7)**	**31.5**	**7.3**	**12.6**
Tax credit/(debit) to equity	**–**	**96.3**	**–**	**(2.2)**	**94.1**
Disposal of subsidiary	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Effect of changes in tax rates					
• Income statement	**–**	**–**	**0.2**	**–**	**0.2**
Exchange differences	**–**	**–**	**–**	**–**	**–**
At 31 March 2021	**(11.6)**	**55.9**	**103.3**	**(14.0)**	**133.6**
At 1 April 2019 as previously stated	2.4	4.7	72.2	(26.6)	52.7
Prior year adjustment	–	–	(8.8)	(14.7)	(23.5)
At 1 April 2019 restated	2.4	4.7	63.4	(41.3)	29.2
Income statement credit/(debit) (restated)	–	(12.8)	8.1	13.7	9.0
Tax credit/(debit) to equity	–	(20.2)	–	7.6	(12.6)
Disposal of subsidiary	–	–	–	0.6	0.6
Effect of changes in tax rates					
• Income statement	(0.5)	–	0.1	1.6	1.2
• Equity	–	0.6	–	0.3	0.9
Exchange differences	–	–	–	(1.5)	(1.5)
At 31 March 2020	1.9	(27.7)	71.6	(19.0)	26.8

The deferred tax assets and liabilities at 31 March 2020 have been restated due to errors identified in prior periods. Further detail is included in note 5.

The net deferred tax assets of £133.6 million (2020: £26.8 million) include deferred tax assets of £32.9 million (2020: £60.5 million) and deferred tax liabilities of £7.7 million (2020: £18.0 million) in respect of the Group's non-UK operations.

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because the Directors believe that it is probable that these assets will be recovered. The recognition of deferred tax assets in respect of losses can be subjective. The Group's approach to the recognition of deferred tax assets in respect of losses, including how the Group assesses future profitability for recognition purposes, is set out in detail in note 1 to the Accounts. Due to the CPBS review, substantially all territories for which deferred tax assets in respect of losses are recognised made an accounting loss in the current year. However, these costs are not expected to be recurring and their recovery is expected as set out in detail in note 1. The losses can be carried forward indefinitely and have no expiry date.

The deferred tax asset in respect of tax losses includes £nil (31 March 2020: £31.7m) in respect of financial expenses carried forward.

The net deferred tax liability in respect of "Other" includes a liability in respect of acquired intangible assets of £25.5m (31 March 2020: £46.7m), with the movement between periods having been posted to the income statement.

No deferred tax has been recognised in respect of temporary differences associated with investments in subsidiaries, branches, associates and interest in joint ventures and joint operations where the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate amount of temporary differences associated with such investments in subsidiaries, branches, associates and interests in joint ventures and joint operations is represented by the contribution of those investments to the Group's retained earnings and amounted to £47.0 million (2020: £40.0 million).

At the statement of financial position date, deferred tax assets of £103.3 million (2020: £71.6 million) have been recognised in respect of unused tax losses available for carry forward. No deferred tax asset has been recognised in respect of further unutilised tax losses carried forward (excluding capital losses) of £754.1 million (2020: £383.7 million). These amounts include trading losses of £559.3 million (2020: £325.6 million) and financial expenses carried forward of £194.8 million (2020: £58.1 million). In addition to these amounts, UK capital losses of £92.0 million (2020: £92.0 million) are being carried forward, with no deferred tax asset having been recognised. Where a deferred tax asset has not been recognised in respect of these losses and financial expenses, this is because management considers that those jurisdictions are not likely to generate sufficient taxable income of the appropriate type in the foreseeable future (see note 1). The amounts shown can be carried forward indefinitely.

19. Inventories

	2021 £m	2020 (restated) £m
Raw materials and spares	**79.2**	109.9
Work-in-progress	**7.2**	6.1
Finished goods and goods for resale	**76.0**	75.6
Total	**162.4**	191.6

Write-downs of inventories amounted to £28.6 million (2020: £6.9 million) inclusive of the amounts described below. These were recognised as an expense during the year ended 31 March 2021 and included in cost of revenue in the income statement.

Through the contract profitability and balance sheet review, a comprehensive performance improvement and restructuring programme was implemented during the year across the Aviation operating segment. This included a rationalisation of aircraft types and review of fleet strategy, taking account of changes in market conditions including those resulting from COVID-19 and Brexit. The future strategy affects the Group's expected use of inventory and the calculation of net realisable value has been reassessed to reflect this, resulting in an impairment of £20.6 million.

The Group reversed £5.0 million (2020: £1.4 million) of a previous inventory write-down, as the relevant inventory items were disposed of. The amount reversed has been included in cost of revenue in the income statement.

In DSG the required inventory provision was reassessed and increased by £5.5 million based on the latest information including consideration of a lower usage of inventory due to the impacts of COVID-19.

20. Trade and other receivables

	2021 £m	2020 (restated) £m
Current assets		
Trade receivables	**281.1**	281.0
Less: provision for impairment of receivables	**(14.0)**	(8.1)
Trade receivables – net	**267.1**	272.9
Amounts due from customers for contract work	**201.7**	223.0
Accrued income	**76.9**	107.8
Capitalised contract costs	**32.3**	31.8
Contract assets	**310.9**	362.6
Retentions	**8.0**	8.1
Amounts due from related parties (note 36)	**4.4**	2.9
Other debtors	**83.8**	108.5
Prepayments	**66.8**	82.4
	741.0	837.4

Trade and other receivables are stated at amortised cost.

The Group reassessed the forecast profit margins of a number of contracts included within the scope of the contract profitability and balance sheet review. The assessments were made based on the findings from detailed contract reviews, facilitated by an external accountancy firm. The reviews considered matters such as forecast costs to complete, including the achievability of forecast cost savings, and the recognition of contract modifications including the potential requirement to constrain variable revenue. This resulted in a reduction in margin and a reduction in amounts due from customers for contract work totalling £97.5 million. Of this amount, £27.8 million relates to the DSG contract, which resulted from the reassessment of variable revenues following publication of the Integrated Spending Review and reassessment of cost savings achievable under the contract reflecting delays in implementation of efficiency programmes as a result of COVID-19. The DSG reassessment also resulted in the impairment of £6.4 million of capitalised contract costs.

The Group recognises that there is an inherent element of estimation uncertainty and judgement involved in assessing contract profitability, as disclosed in note 1, and considers that it has taken a best estimate view of contract outcomes based on the information currently available.

This reassessment of contract margin has also resulted in the increase in contract liabilities and recognition of certain onerous contract provisions; see notes 22 and 26, respectively, for further detail.

20. Trade and other receivables (continued)

The Group reviewed the recoverability of its trade and other receivables, resulting in a charge to the income statement of £51.7 million. A number of recoverability estimates have been reassessed and expected credit losses recorded following consideration of the latest facts and circumstances, resolution of certain disputed matters and an assessment of the merits of pursuing certain others, particularly in relation to less significant matters.

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

	Amounts due from customers for contract work £m	Accrued income £m	Capitalised contract costs £m	Contract assets £m
31 March 2020	**223.0**	**107.8**	**31.8**	**362.6**
Disposal of subsidiary undertaking	**(0.6)**	**(3.4)**	**–**	**(4.0)**
Transfers from contract assets recognised at the beginning of the year to receivables	**(204.5)**	**(96.5)**	**–**	**(301.0)**
Increase due to work done not transferred from contract assets	**191.7**	**70.3**	**–**	**262.0**
Amounts capitalised	**–**	**–**	**25.6**	**25.6**
Amortisation of contract assets	**–**	**–**	**(11.2)**	**(11.2)**
Write down of contract assets	**(6.9)**	**–**	**(15.5)**	**(22.4)**
Exchange adjustment	**(1.0)**	**(1.3)**	**1.6**	**(0.7)**
31 March 2021	**201.7**	**76.9**	**32.3**	**310.9**
31 March 2019 as previously stated	266.0	133.2	62.9	462.1
Prior year adjustment (note 5)	(9.3)	(0.9)	(37.0)	(47.2)
31 March 2019 restated	256.7	132.3	25.9	414.9
Transfers from contract assets recognised at the beginning of the year to receivables	(240.1)	(117.6)	–	(357.7)
Increase due to work done not transferred from contract assets	222.2	105.7	–	327.9
Amounts capitalised	–	–	39.4	39.4
Amortisation of contract assets	–	–	(9.9)	(9.9)
Write down of contract assets	(14.2)	(10.7)	(15.4)	(40.3)
Other	–	(2.2)	(5.3)	(7.5)
Exchange adjustment	(1.6)	0.3	(2.9)	(4.2)
31 March 2020	223.0	107.8	31.8	362.6

No material revenue was recognised in 2021 from performance obligations satisfied in previous years, arising from changes in stage of completion, or transaction price allocation (2020: No material revenue).

Within the Group's contract backlog, £8.7 billion (2020: £9.6 billion) represents the transaction price allocated to unsatisfied or partially satisfied performance obligations. Management expects that 26.0% (2020: 26.0%) of the transaction price allocated to unsatisfied performance obligations as at 31 March 2021 will be recognised as revenue during the next reporting period. A further 47% (2020: 41%) of the transaction price allocated to unsatisfied performance obligations is expected to be recognised as revenue in years two to five after 31 March 2021. In addition there are £6.0 billion (2020: £5.4 billion) of orders where pricing is still to be finalised and £2.0 billion (2020: £2.7 billion) of orders within joint ventures and associates.

20. Trade and other receivables (continued)

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

	2021 £m	2020 (restated) £m
Balance at 1 April	**(8.1)**	(6.0)
Provision for receivables impairment	**(7.6)**	(4.7)
Receivables written off during the year as uncollectable	**0.2**	1.1
Unused amounts reversed	**1.0**	1.0
Exchange differences	**0.5**	0.5
Balance at 31 March	**(14.0)**	(8.1)

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

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

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

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

21. Cash and cash equivalents

	2021 £m	2020 (restated) £m
Cash at bank and in hand	**610.5**	783.4
Short-term bank deposits	**294.3**	1,062.5
	904.8	1,845.9

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

	2021		2020 (restated)	
	Total £m	Floating rate £m	Total £m	Floating rate £m
Currency				
Sterling	**734.0**	**734.0**	1,676.0	1,676.0
Euro	**52.7**	**52.7**	42.6	42.6
US Dollar	**28.3**	**28.3**	15.1	15.1
South African Rand	**39.9**	**39.9**	54.0	54.0
Canadian Dollar	**16.5**	**16.5**	21.0	21.0
Omani Rial	**4.9**	**4.9**	4.9	4.9
Australian Dollar	**9.4**	**9.4**	13.1	13.1
Norwegian Krone	**3.1**	**3.1**	4.4	4.4
Swedish Krona	**3.7**	**3.7**	4.5	4.5
New Zealand Dollar	**3.1**	**3.1**	9.8	9.8
Other currencies	**9.2**	**9.2**	0.5	0.5
	904.8	**904.8**	1,845.9	1,845.9

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

At 31 March 2021, amounts of £294.3 million were held in money market funds. These are measured at fair value through profit and loss.

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

22. Trade and other payables

	2021 £m	2020 (restated) £m
Current liabilities		
Amounts due to customers for contract work	**333.1**	210.4
Deferred income	**63.4**	32.8
Contract liabilities	**396.5**	243.2
Trade creditors	**410.6**	435.5
Amounts due to related parties (note 36)	**0.4**	0.7
Other creditors	**37.4**	37.8
Other taxes and social security	**144.5**	102.8
Accruals	**517.3**	481.2
	1,506.7	1,301.2
Non-current liabilities		
Other creditors	**1.9**	2.1

Included in creditors is £19.1 million (2020: £22.1 million) relating to capital expenditure which has therefore not been included in working capital movements within the cash flow statement.

As part of the contract profitability and balance sheet review, management has reassessed the liabilities of the Group, including the measurement of accruals. This assessment has been made based on the findings from the detailed, risk based review of the Group's contracts and sector balance sheets and has resulted in an increase in liabilities and a charge to the income statement of £52.7 million.

Of this amount, £32.0 million relates to the DSG contract, which resulted from the reassessment of variable revenues following publication of the Integrated Spending Review and reassessment of cost savings achievable under the contract reflecting delays in implementation of efficiency programmes as a result of COVID-19.

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

	Amounts due to customers for contract work £m	Deferred income £m	Contract liabilities £m
31 March 2020	**210.4**	**32.8**	**243.2**
Revenue recognised that was included in the contract liability balance at the beginning of the year	**(135.0)**	**(28.5)**	**(163.5)**
Increase due to cash received, excluding amounts recognised as revenue	**259.0**	**59.1**	**318.1**
Disposal of subsidiary undertaking	**(0.5)**	**–**	**(0.5)**
Exchange adjustment	**(0.8)**	**–**	**(0.8)**
31 March 2021	**333.1**	**63.4**	**396.5**
31 March 2019	195.3	40.0	235.3
Revenue recognised that was included in the contract liability balance at the beginning of the year	(141.9)	(38.5)	(180.4)
Increase due to cash received, excluding amounts recognised as revenue	159.4	33.9	193.3
Disposal	–	(1.2)	(1.2)
Exchange adjustment	(2.4)	(1.4)	(3.8)
31 March 2020	210.4	32.8	243.2

23. Bank and other borrowings

	2021 £m	2020 (restated) £m
Current liabilities		
Bank loans and overdrafts due within one year or on demand		
Secured	**0.2**	0.3
Unsecured	**383.5**	987.6
	383.7	987.9
Lease obligations*	**126.1**	140.9
	509.8	1,128.8
Non-current liabilities		
Bank and other borrowings		
Secured	**18.5**	17.5
Unsecured	**1,300.3**	2,032.5
	1,318.8	2,050.0
Lease obligations*	**486.2**	548.5
	1,805.0	2,598.5

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

The Group has £3.9 million of secured debt in the Land operating segment that is secured against a property owned by the Group and £14.6 million of debt that is secured against contracts with customers, which will cede to the bank in the event of default.

The Group has entered into interest rate and currency swaps, details of which are included in note 25.

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

	2021		
Currency	**Total £m**	**Floating rate £m**	**Fixed rate £m**
Sterling	**851.8**	**399.4**	**452.4**
Euro	**1,248.9**	**245.7**	**1,003.2**
US Dollar*	**123.9**	**18.8**	**105.1**
South African Rand	**23.0**	**14.8**	**8.2**
Canadian Dollar	**8.5**	**–**	**8.5**
Australian Dollar	**36.7**	**–**	**36.7**
Norwegian Krone	**0.7**	**–**	**0.7**
Swedish Krona	**18.5**	**–**	**18.5**
New Zealand Dollar	**0.8**	**–**	**0.8**
South Korean Won	**1.5**	**–**	**1.5**
Danish Krone	**0.5**	**–**	**0.5**
	2,314.8	**678.7**	**1,636.1**

23. Bank and other borrowings (continued)

Currency	2020 (restated) Total £m	Floating rate £m	Fixed rate £m
Sterling	1,800.4	1,238.6	561.8
Euro*	1,298.3	256.8	1,041.5
US Dollar*	528.2	251.0	277.2
South African Rand	23.1	15.6	7.5
Canadian Dollar	10.2	–	10.2
Australian Dollar	37.1	–	37.1
Norwegian Krone	1.4	–	1.4
Swedish Krona	20.8	–	20.8
Brazilian Real	5.8	5.8	–
South Korean Won	2.0	–	2.0
	3,727.3	1,767.8	1,959.5

* USDnil million (2020: USD500 million) has been swapped into Sterling, with USDnil million (2020: USD300 million) equivalent into floating rates and USDnil million (2020: USD200 million) equivalent into fixed rate. This is included in the US Dollar amount above.
EUR550 million (2020: €550 million) has been swapped into Sterling, with €275 million (2020: €275 million) equivalent into floating rates and EUR275 million (2020: €275 million) equivalent into fixed rates. This is included in the Euro amount above.

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

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

The exposure of the Group to interest rate changes when borrowings re-price is as follows, including in the prior year £775 million of fully drawn RCF facility.

Total borrowings	1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £m
As at 31 March 2021	**830.9**	**586.4**	**245.0**	**652.5**	**2,314.8**
As at 31 March 2020	2,057.6	208.7	775.0	686.0	3,727.3

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

	2021 %	2020 %
UK bank overdraft	**1.1**	1.1
UK bank borrowings	**0.6**	0.5
US private placement – fixed	**–**	6.0
US private placement – floating	**–**	2.8
8 year Eurobond September 2027– fixed	**2.9**	2.9
8 year Eurobond September 2027 – floating	**2.4**	2.8
8 year Eurobond October 2022	**1.8**	1.8
£300 million bond	**1.9**	1.9
Other borrowings	**4.8 – 6.4**	4.8 – 8.9
Leases obligations	**0.0 – 11.8**	0.4 – 12.6

Repayment details

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

	2021 Loans and overdrafts £m	2021 Lease obligations £m	2020 Loans and overdrafts £m	2020 Lease obligations £m
Within one year	**383.7**	**126.1**	987.9	140.9
Between one and two years	**476.4**	**120.1**	0.4	117.3
Between two and three years	**15.0**	**91.4**	487.4	105.4
Between three and four years	**0.3**	**96.6**	13.1	106.8
Between four and five years	**0.3**	**61.9**	759.5	78.3
Greater than five years	**826.8**	**116.2**	789.6	140.7
	1,702.5	**612.3**	3,037.9	689.4

In addition to the lease obligations above, the Group paid £45.3 million (2020: £44.3 million) under the Phoenix contract where the leases are directly on behalf of and benefit to the customer.

23. Bank and other borrowings (continued)

Borrowing facilities

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

	2021 £m	2020 £m
Expiring in less than one year	**3.0**	3.5
Expiring in more than one year but not more than five years	**783.5**	77.6
	786.5	81.1

Bank loans include £25.1 million (2020: £93.2 million) that suppliers have chosen to early-fund under supplier financing arrangements, under which the suppliers can elect to receive a discounted early payment from the partner bank rather than being paid in line with the agreed payment terms. The total supplier financing facility available to the Group is £230 million at 31 March 2021. The typical factoring fee is 0.9% – 1.5% and the Group has payment terms with the partner banks of 120-360 days. If the option is taken the Group's liability is assigned by the supplier to be due to the partner bank rather than the supplier. The value of the liability payable by the Group remains unchanged. The Group assesses the terms and conditions of the arrangement to determine whether the arrangement should be classified as trade payables or debt. Refer to accounting policies for further information.

Various inter-bank offer rates (IBOR) are expected to be replaced by alternative risk-free rates by the end of 2021 as part of the IBOR reform. The Group is managing the transition to alternative risk-free rates with respect to its hedging arrangements and any future transactions in the financial market.

24. Financial instruments

Other financial assets and liabilities within the balance sheet comprise of:

	2021 £m	2020 (restated) £m
Non-current assets		
Leases granted	**12.9**	6.9
Derivative financial instruments (note 25)	**4.3**	14.6
	17.2	21.5
Current assets		
Leases granted	**26.7**	31.7
Derivative financial instruments (note 25)	**8.2**	122.2
	34.9	153.9
Non-current liabilities		
Derivative financial instruments (note 25)	**51.1**	35.6
Current liabilities		
Derivative financial instruments (note 25)	**13.9**	27.7

In South Africa the Group operates its own finance company to facilitate the sale of DAF vehicles. It obtains external borrowings and sells vehicles on leases to external customers. At the year end the present value of the minimum lease receivable amounted to £33.0 million (2020: £22.3 million), these were split as £20.2 million (2020: £15.4 million) due within one year and £12.8 million (2020: £6.9 million) between one and five years.

24. Financial instruments (continued)

The Group's financial assets and financial liabilities are classified as follows:

2021 (£m)	Note	At amortised cost	Fair value through profit or loss	Fair value hedges	Cash flow hedges	Total carrying amount	Fair value
Financial assets							
Trade and other receivables	20*	**641.9**	**–**	**–**	**–**	**641.9**	**641.9**
Loans to joint ventures and associates	17	**42.1**	**–**	**–**	**–**	**42.1**	**42.1**
Cash and cash equivalents	21,31	**904.8**	**–**	**–**	**–**	**904.8**	**904.8**
Leases granted	16	**39.5**	**–**	**–**	**–**	**39.5**	**39.5**
IFRIC 12 financial assets		**11.2**	**–**	**–**	**–**	**11.2**	**11.2**
Financial liabilities							
Bank and other borrowings	23	**(1,702.5)**	**–**	**–**	**–**	**(1,702.5)**	**(1,771.4)**
Trade payables	22	**(410.6)**	**–**	**–**	**–**	**(410.6)**	**(410.6)**
Accruals and other payables	22**	**(556.6)**	**–**	**–**	**–**	**(556.6)**	**(556.6)**
Lease liabilities	16	**(612.3)**	**–**	**–**	**–**	**(612.3)**	**(612.3)**
Derivative contracts							
Hedged contracts		**–**		**(25.2)**	**(22.2)**	**(47.4)**	**(47.4)**
Non-hedged contracts		**–**	**(5.1)**	**–**	**–**	**(5.1)**	**(5.1)**
Net assets / (liabilities)		**(1,642.5)**	**(5.1)**	**(25.2)**	**(22.2)**	**(1,695.0)**	**(1,763.9)**

2020 (£m)	Note	At amortised cost	Fair value through profit or loss	Fair value hedges	Cash flow hedges	Total carrying amount	Fair value
Financial assets							
Trade and other receivables	20*	723.2	–	–	–	723.2	723.2
Loans to joint ventures and associates	17	48.6	–	–	–	48.6	48.6
Cash and cash equivalents	21,31	1,845.9	–	–	–	1,845.9	1,845.9
Leases granted	16	38.6	–	–	–	38.6	38.6
IFRIC 12 financial assets		12.8	-	-	-	12.8	12.8
Financial liabilities							
Bank and other borrowings	23	(3,710.8)	–	–	–	(3,710.8)	(3,808.8)
Trade payables	22	(435.5)	–	–	–	(435.5)	(435.5)
Accruals and other payables	22**	(521.1)	–	–	–	(521.1)	(521.1)
Lease liabilities	16	(672.8)	–	–	–	(672.8)	(672.8)
Derivative contracts							
Hedged contracts		–	–	89.4	(15.9)	73.5	73.5
Non-hedged contracts		–	2.9	–	–	2.9	2.9
Net assets / (liabilities)		(2,671.1)	2.9	89.4	(15.9)	(2,594.7)	(2,692.7)

* Trade and other receivables excludes prepayments and capitalised contract costs as these are not classed as financial instruments.

** Accruals and other payables excludes deferred income, other taxes and social security and contract liabilities as these are not classed as financial instruments.

24. Financial instruments (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 March 2021 and 31 March 2020, by level of fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

	Level 1	Level 2	Level 3	Total
Derivative contracts	–	**(52.5)**	–	**(52.5)**

During the financial year, there were no transfers (2020: no transfers) between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements (2020: no transfers).

25. Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	2021 £m	2020 £m
Non-current assets		
Other currency hedges – hedged	**4.3**	11.7
Other currency hedges – non-hedged	**–**	2.9
Current assets		
US private placement – derivative	**–**	95.5
US private placement – interest rate swaps	**–**	9.2
Other currency hedges – hedged	**7.8**	17.5
Other currency hedges – non-hedged	**0.4**	–
Non-current liabilities		
8 year Eurobond September 2027 – derivative	**25.2**	6.1
8 year Eurobond September 2027 – interest rate swaps	**14.1**	17.0
Interest rate hedge	**0.6**	0.8
Other currency hedges – hedged	**5.7**	11.7
Other currency hedges – non-hedged	**5.5**	–
Current liabilities		
Interest rate hedge	**0.1**	0.1
Other currency hedge	**13.8**	27.6

The Group enters into forward foreign currency contracts and cross currency interest rate swaps to hedge the currency exposures that arise on sales, purchases, deposits, borrowings and leasing arrangements denominated in foreign currencies as the transactions occur. There is no material ineffectiveness on any of the Group's hedging activities. Where derivatives do not meet the hedge accounting criteria, they are accounted for at fair value through profit or loss.

The Group's policy regarding classification of derivatives is set out in note 1.

Held for trading contracts are economic hedges and are not hedge accounted.

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

Fair value hedges

The Group maintains interest rate and cross-currency swap contracts as fair value hedges of the interest rate and currency risk on fixed-rate debt issued by the Group.

These derivative contracts receive a fixed rate of interest and pay a variable interest rate. These are formally designated in fair value hedging relationships and are used to hedge the exposure to changes in the fair value of debt which has been issued by the Group at fixed rates.

25. Derivative financial instruments (continued)

The Group held the following interest rate hedges at 31 March 2021:

	Amount £m	Fixed payable %	Floating receivable %	Maturity
Hedged				
Interest rate swap	**3.9**	**4.745**	**6 month LIBOR**	**31/03/2029**

	Amount EURm	Amount at swapped rates £m	Swap %	Maturity
Hedged – EURO				
Cross currency and interest rate swap	**275.0**	**246.7**	**Fixed 1.375% EUR to fixed 2.931% GBP**	**13/09/2027**
Cross currency and interest rate swap	**275.0**	**246.7**	**Fixed 1.375% EUR to floating 3-month LIBOR + margin GBP**	**13/09/2027**
Total cross currency and interest rate swap – EURO	**550.0**	**493.4**		

Cash flow hedges

The Group is exposed to transactional foreign currency risk and cross currency interest rate swaps to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group entities.

The Group uses forward contracts to hedge the foreign currency cost of future purchases of goods to be consumed in operations, future income to be received and debt payments to be made, and designates the spot element of these contracts to hedge the foreign currency risk.

Under the Group's hedging policy, the terms of the forward contracts are arranged to align with the expected timing and amounts of the hedged items. The foreign currency forwards are denominated in the same currency as the hedged item, such as future sales and purchases, when the timing of the hedged items can be estimated with reasonable certainty. There is an economic relationship between the hedged item and the hedging instrument as the terms of the forward contracts match the terms of the hedged item. The Group determines that the hedging arrangements meet the criteria for a cash flow hedge if the hedging relationship is at a ratio of 0.8-1.25:1, as this is consistent with the Group's risk management.

See the Group's statement of changes in equity for reconciliation of movements in the cash flow hedge reserve. Of the movement in hedging reserve: (£6.2) million relates to interest rate swaps (2020: (£6.9) million), £3.3 million relates to foreign exchange arrangements (2020: £1.7 million), £5.6 million relates to other comprehensive income from joint ventures and mark to market adjustments on joint ventures hedging arrangements (2020: (£4.5) million) and £27.9 million relates to the Group's leasing arrangements (2020: (£23.8) million). Offset by (£4.6) million deferred tax impact (2020: £2.5 million).

Full details of the Group's financial instrument accounting policies and risk management strategies, objectives and policies are set out in the accounting policies in note 1 and in note 2, financial risk management.

26. Provisions for other liabilities

	Insurance provisions (a) £m	Contract/ warranty (b) £m	Employee benefits and business reorganisation costs (c) £m	Italian anti-trust fine (d) £m	Property and other (e) £m	Expected credit losses £m	Total provisions £m
At 31 March 2020 as previously stated	**0.6**	**17.3**	**60.9**	**47.3**	**17.1**	**0.4**	**143.6**
Prior year adjustment	**–**	**17.2**	**–**	**–**	**2.0**	**–**	**19.2**
At 31 March 2020 restated	**0.6**	**34.5**	**60.9**	**47.3**	**19.1**	**0.4**	**162.8**
On disposal of subsidiaries (note 32)	**–**	**–**	**–**	**–**	**(2.5)**	**–**	**(2.5)**
Transfer	**–**	**–**	**0.7**	**–**	**(0.7)**	**–**	**–**
Net charge/ (release) to income statement	**0.1**	**43.4**	**15.2**	**(24.2)**	**9.0**	**–**	**43.5**
Utilised in year	**–**	**(10.1)**	**(41.9)**	**(1.5)**	**(3.5)**	**–**	**(57.0)**
Unwinding of discount	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Foreign exchange	**–**	**(0.7)**	**0.9**	**(1.6)**	**0.1**	**–**	**(1.3)**
At 31 March 2021	**0.7**	**67.1**	**35.8**	**20.0**	**21.5**	**0.4**	**145.5**

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

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

(c) The employee benefits and reorganisation costs arise mainly in relation to restructuring (see note 3), acquired businesses, personnel-related costs and payroll taxes.

(d) For further details of the provision in relation to the possible Italian anti-trust fine see note 3.

(e) Property and other provisions primarily relate to dilapidation costs and contractual obligations in respect of infrastructure.

As part of the contract profitability and balance sheet review onerous contract provisions were recognised, as well as a reduction in amounts due from customers for contract work, see note 20. There is inherent estimation uncertainty and judgement in assessing profitability outcomes in the future, with a potentially broad range of outcomes. Onerous contract provisions recognised include:

- £21.2 million in relation to three Helicopter Emergency Medical Services (HEMS) contracts secured during the year with minimum terms of up to 10 years. The pricing of these contracts had regard to future strategic considerations, with profitability dependent on future volumes. A further £8.2 million provisions were made in HEMS contracts following reassessment of future costs.
- £4.1 million in relation to a military maintenance contract following a reassessment of assumptions relating to forecast flying hours and indexation.

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

	2021 £m	2020 (restated) £m
Current	**71.8**	130.1
Non-current	**73.7**	32.7
	145.5	162.8

Included within provisions is £8 million (2020: £5 million) expected to be utilised over approximately 10 years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

27. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2020 and 31 March 2021	**505,596,597**	**303.4**
Allotted, issued and fully paid		
At 1 April 2019 and 31 March 2020	505,596,597	303.4

Potential issues of ordinary shares

The table below shows options and conditional share awards existing over the Company's shares as at 31 March 2021 that are capable of being met on exercise or vesting by the issue of new shares. They represent outstanding awards granted under the Company's executive share plans. The awards were granted directly by the Company and satisfied by the Trustees of the Babcock Employee Share Trust (BEST) – a total of 10,438,350 shares (2020: 9,526,628 shares). The Company decides from time to time whether to satisfy the awards by way of a fresh issue of shares (either to the award holder or to the employee share trust) or by way of financing the employee share trusts to purchase already issued shares in the market. This decision is made according to available headroom within the dilution limits contained in the relevant share plan rules and what the Directors consider to be in the best interest of the Company at the time.

Grant date	Type	Exercise period	2021 Number	2020 Number
15 June 2016	PSP[1]	15/06/2019 – 15/06/2020	–	17,279
15 June 2016	DBMP[2]	15/06/2019 – 15/06/2020	–	4,733
14 June 2017	DBP[4]	14/06/2019 – 14/06/2020	–	8,866
14 June 2017	DBP[5]	14/06/2020 – 14/06/2021	**12,439**	179,263
14 June 2017	PSP[1]	14/06/2020 – 14/06/2021	–	1,358,599
14 June 2017	PSP[1]	14/06/2022 – 14/06/2023	–	839,723
13 June 2018	DBP[4]	13/06/2020 – 13/06/2021	**18,092**	78,746
13 June 2018	DBP[5]	13/06/2021 – 13/06/2022	**187,433**	187,433
13 June 2018	PSP[1]	13/06/2021 – 13/06/2022	**1,311,264**	1,398,259
13 June 2018	PSP[1]	13/06/2023 – 13/06/2024	**758,280**	860,157
13 June 2019	DBP[4]	13/06/2021 – 13/06/2022	**83,466**	83,466
13 June 2019	DBP[5]	13/06/2022 – 13/06/2023	**313,909**	313,909
13 June 2019	PSP[1]	13/06/2022 – 13/06/2023	**2,545,970**	2,825,524
13 June 2019	PSP[1]	13/06/2024 – 13/06/2025	**1,134,950**	1,370,671
3 August 2020	DBP[3]	3/08/2022 – 3/08/2023	**146,306**	–
3 August 2020	DBP[3]	3/08/2023 – 3/08/2024	**118,320**	–
13 August 2020	DBP[3]	13/08/2022 – 13/08/2023	**8,474**	–
13 August 2020	DBP[3]	13/08/2023 – 13/08/2024	**192,096**	–
1 December 2020	PSP[1]	1/12/2025 – 1/12/2026	**1,667,742**	–
1 December 2020	PSP[1]	1/12/2023 – 1/12/2024	**1,939,609**	–
			10,438,350	9,526,628

Options granted to Directors are summarised in the Remuneration report on pages 132 to 153 and are included in the outstanding options set out above.

1. 2009 Performance Share Plan ('PSP').
2. 2012 Deferred Bonus Matching Plan ('DBMP').
3. Deferred Bonus Plan ('DBP').
4. DBP – Award issued without matching shares, has two-year vesting period.
5. DBP – Award issued without matching shares, has three-year vesting period.

27. Share capital (continued)

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

	2021		2020	
	Shares newly issued by the Company	**Shares bought in the market**	Shares newly issued by the Company	Shares bought in the market
BEST	**–**	**661,463**	–	221,320
Total	**–**	**661,463**	–	221,320

A reconciliation of PSP and DBMP movements is shown below:

	2021	2020
	Number '000	Number '000
Outstanding at 1 April	**9,527**	7,748
Granted	**4,593**	4,797
Exercised	**(258)**	(654)
Forfeited/lapsed	**(3,424)**	(2,364)
Outstanding at 31 March	**10,438**	9,527
Exercisable at 31 March	**31**	31

The weighted average share price for awards exercised during the year was 301.8p per share (2020: 497.7p per share).

During the year 697,886 ordinary shares (2020: 635,326 shares) were acquired or subscribed for through the Babcock Employee Share Trust ('the Trust'). The Trust holds shares to be used towards satisfying awards made under the Company's employee share schemes. During the year ended 31 March 2021, 257,743 shares (2020: 653,868 shares) were disposed of by the Trust resulting from options exercised. At 31 March 2021, the Trust held a total of 661,463 ordinary shares (2020: 221,320 ordinary shares) at a total market value of £1,512,104 (2020: £848,098) representing 0.13% (2020: 0.04%) of the issued share capital at that date. The Company did not pay dividends to the Babcock Employee Share Trust during the year. The Company meets the operating expenses of the Trust.

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

28. Share-based payments

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

During the year the total charge relating to employee share-based payment plans was £4.2 million (2020: £2.9 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £3.3 million (2020: £2.4 million).

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

DBMP, PSP and DBP[1]

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – non-market conditions %	Fair value per option – TSR Pence	Fair value per option – non-market conditions Pence	Correlation %	Grant or modification date
2020 PSP	695,458	350.0	19.0%	6.0	100.0%	–	305.2	55.0%	01/12/20
2020 PSP	2,091,247	350.0	19.0%	4.0	100.0%	–	350.0	55.0%	01/12/20
2020 PSP	1,341,477	350.0	19.0%	6.0	100.0%	137.9	305.2	55.0%	01/12/20
2020 DBP	118,320	289.0	19.0%	4.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	146,306	289.0	19.0%	3.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	192,096	284.2	19.0%	4.0	100.0%	–	284.2	55.0%	13/08/20
2020 DBP	8,474	284.2	19.0%	3.0	100.0%	–	284.2	55.0%	13/08/20
2019 PSP	1,370,671	472.8	11.0%	6.0	–	70.9	472.8	45.0%	13/06/19
2019 PSP	3,019,033	472.8	11.0%	4.0	–	70.9	472.8	45.0%	13/06/19
2019 DBP	313,909	472.8	11.0%	4.0	100.0%	–	472.8	45.0%	13/06/19
2019 DBP	93,430	472.8	11.0%	3.0	100.0%	–	472.8	45.0%	13/06/19
2018 PSP	860,157	856.0	14.0%	6.0	–	370.9	856.0	56.0%	13/06/18
2018 PSP	1,699,323	856.0	14.0%	4.0	–	370.9	856.0	56.0%	13/06/18
2018 DBP	187,433	856.0	14.0%	4.0	100.0%	–	856.0	56.0%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100.0%	–	856.0	56.0%	13/06/18
2017 PSP	902,424	905.5	15.0%	6.0	–	131.2	905.5	46.0%	14/06/17
2017 PSP	1,769,338	905.5	15.0%	4.0	–	131.2	905.5	46.0%	14/06/17
2017 DBP	186,949	905.5	15.0%	4.0	100.0%	–	905.5	46.0%	14/06/17
2017 DBP	103,246	905.5	15.0%	3.0	100.0%	–	905.5	46.0%	14/06/17

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

PSP awards for 2017 to 2019 are split evenly between the performance criteria of TSR, EPS and ROCE.

For PSP awards made in December 2020, 2,786,705 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 1,341,477 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

There are no performance conditions attached to the DBP.

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

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 180,175 matching shares (2020: 104,756 matching shares) at a cost of £0.5 million (2020: £0.5 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year 5,000 matching shares were purchased on the open market (2020: 1,000 matching shares) and 1,193 matching shares vested (2020: 713 matching shares) leaving a balance of 5,012 matching shares (2020: 1,205 matching shares).

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

29. Retirement benefits and liabilities

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	2021 £m	2020 £m
Defined contribution schemes	**90.9**	85.7

Defined benefit schemes

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

	2021 £m	2020 £m
Retirement benefits – funds in surplus	**40.8**	325.3
Retirement benefits – funds in deficit	**(333.9)**	(180.1)
	(293.1)	145.2

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

The key risks in all of the defined benefit schemes relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases, and the discount rate used to value the liabilities. The Principal schemes have mitigated some of these risks by (i) taking out longevity swaps in respect of pensioners and their spouses at the time; (ii) through investment strategies which have significantly hedged the interest rate and inflation risk through derivative instruments; (iii) in 2019 closed the Babcock International Group Pension Scheme to future accrual for some employees; and (iv) in 2020 closed the Rosyth Royal Dockyard Pension Scheme to future accrual for all employees.

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

The defined benefit schemes are prudently funded by payments to legally separate trustee-administered funds. The trustees of each scheme are required by law to act in the best interests of each scheme's members. In addition to determining future contribution requirements (with the agreement of the Group), the trustees are responsible for setting the schemes' investment strategy (subject to consultation with the Group). All the schemes have at least one independent trustee and member nominated trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004. The details of the latest formal actuarial valuation of the scheme are as follows (the actuarial valuation of the Rosyth Royal Dockyard Scheme as at 31 March 2021 has commenced):

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
Date of last formal completed actuarial valuation	31/03/2020	31/03/2019	31/03/2018	31/12/2019
Number of active members at above date	823	643	573	180
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Attained age
Results of formal actuarial valuation:				
Value of assets	£1,894m	£1,480m	£1,189m	£271m
Level of funding	90%	97%	78%	92%

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

29. Retirement benefits and liabilities (continued)

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

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme	Other	Total
Future service contribution rate	21.6%	51.1%	–	12.5%	17.5%-48.0%	–
Future service cash contributions	£12.9m	£6.5m	–	£0.9m	£2.9m	£23.2m
Deficit contributions	£18.6m	£22.9m	£67.5m	£1.6m	£1.3m	£111.9m
Additional longevity swap payments	£7.3m	£3.6m	£5.9m	–	–	£16.8m
Expected employer cash costs for 2021/22	£38.8m	£33.0m	£73.4m	£2.5m	£4.2m	£151.9m
Expected salary sacrifice contributions	£6.5m	£0.5m	–	£1.1m	£0.7m	£8.8m
Expected total employer contributions	£45.3m	£33.5m	£73.4m	£3.6m	£4.9m	£160.7m

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

The expected payments from the schemes are primarily pension payments and lump sums. Most of the pensions increase at a fixed rate or in line with RPI or CPI inflation when in payment. Benefit payments commence at retirement, death or incapacity and are predominantly calculated with reference to final salary. The levels of deficit contributions reflected above are expected to continue until technical provisions (self-sufficiency for the Babcock International Group Pension Scheme) funding levels are met either through asset performance or funding.

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

The latest full actuarial valuations of the Group's defined benefit pension schemes have been updated to 31 March 2021 by independent qualified actuaries for IAS 19 purposes, on a best estimate basis, using the following assumptions:

March 2021	**Devonport Royal Dockyard Scheme**	**Babcock International Group Scheme**	**Rosyth Royal Dockyard Scheme**	**Babcock Rail Ltd section of the Railways Pension Scheme**
Rate of increase in pensionable salaries	**2.9%**	**2.9%**	**2.9%**	**2.9%**
Rate of increase in pensions (past service)	**2.7%**	**3.1%**	**3.2%**	**2.7%**
Discount rate	**2.0%**	**2.0%**	**2.0%**	**2.0%**
Inflation rate (RPI)	**3.2%**	**3.2%**	**3.2%**	**3.2%**
Inflation rate (CPI)	**2.7%**	**2.7%**	**2.7%**	**2.7%**
Weighted average duration of cashflows (years)				
Total life expectancy for current pensioners aged 65 (years)	**85.7**	**87.1**	**84.8**	**85.9**
Total life expectancy for future pensioners currently aged 45 (years)	**86.8**	**87.7**	**85.9**	**86.9**

March 2020				
Rate of increase in pensionable salaries	2.0%	2.0%	2.0%	2.0%
Rate of increase in pensions (past service)	2.0%	2.6%	2.8%	2.0%
Discount rate	2.4%	2.4%	2.4%	2.4%
Inflation rate (RPI)	2.6%	2.6%	2.6%	2.6%
Inflation rate (CPI)	1.8%	1.8%	1.8%	1.8%
Weighted average duration of cashflows (years)	16	15	17	18
Total life expectancy for current pensioners aged 65 (years)	85.7	87.1	84.8	85.8
Total life expectancy for future pensioners currently aged 45 (years)	86.8	87.7	85.9	86.9

29. Retirement benefits and liabilities (continued)

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

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

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

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

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

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

	2021				2020			
	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	**24.1**	**2.0**	**2.0**	**28.1**	29.5	2.5	1.7	33.7
Incurred expenses	**6.4**	**0.7**	**0.2**	**7.3**	3.4	0.2	0.1	3.7
Past service costs	**1.4**	**–**	**–**	**1.4**	–	–	–	–
Curtailment	**7.5**	**–**	**–**	**7.5**	–	–	–	–
Total included within operating profit	**39.4**	**2.7**	**2.2**	**44.3**	32.9	2.7	1.8	37.4
Net interest (credit)/cost	**(5.2)**	**1.3**	**(0.1)**	**(4.0)**	(1.6)	1.6	0.1	0.1
Total included within income statement	**34.2**	**4.0**	**2.1**	**40.3**	31.3	4.3	1.9	37.5

29. Retirement benefits and liabilities (continued)

Amounts recorded in the Group statement of comprehensive income

	2021				2020			
	Principal schemes £m	**Railways scheme £m**	**Other schemes £m**	**Total £m**	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Actual return less interest on pension scheme assets	**224.3**	**26.3**	**174.0**	**424.6**	(64.0)	(2.4)	30.3	(36.1)
Experience gains/(losses) arising on scheme liabilities	**(33.5)**	**(0.6)**	**1.4**	**(32.7)**	(27.8)	–	(1.4)	(29.2)
Changes in assumptions on scheme liabilities	**(638.1)**	**(72.4)**	**(188.2)**	**(898.7)**	172.0	12.1	(18.9)	165.2
At 31 March	**(447.3)**	**(46.7)**	**(12.8)**	**(506.8)**	80.2	9.7	10.0	99.9

Analysis of movement in the Group statement of financial position

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

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

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

29. Retirement benefits and liabilities (continued)

The changes to the Group statement of financial position at March 2021 and the charges to the Group income statement for the year to March 2022, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2021 £m	Income statement 2022 £m
Initial assumptions	**5,078.0**	**45.5**
Discount rate assumptions increased by 0.5%	**(378.1)**	**(11.7)**
Discount rate assumptions decreased by 0.5%	**378.1**	**7.9**
Inflation rate assumptions increased by 0.5%	**306.0**	**8.4**
Inflation rate assumptions decreased by 0.5%	**(279.4)**	**(7.8)**
Total life expectancy increased by half a year	**129.6**	**3.0**
Total life expectancy decreased by half a year	**(129.6)**	**(3.0)**
Salary increase assumptions increased by 0.5%	**57.4**	**2.3**
Salary increase assumptions decreased by 0.5%	**(57.4)**	**(2.3)**

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

30. Movement in net debt

	2021 £m	2020 restated £m
(Decrease)/increase in cash in the year	**(820.9)**	1,083.6
Cash flow from the decrease/(increase) in debt	**1,202.1**	(912.3)
Change in net funds resulting from cash flows	**381.2**	171.3
Net additional lease obligations	**(82.3)**	(144.7)
New leases – granted	**13.9**	29.9
Transition to IFRS 16	**–**	(640.8)
Disposal of subsidiary undertaking	**–**	3.1
Other non-cash movements	**(6.2)**	1.3
Foreign currency translation differences	**44.6**	(53.8)
Movement in net debt in the year	**351.2**	(633.5)
Net debt at the beginning of the year	**(1,704.8)**	(1,071.1)
Net debt at the end of the year	**(1,353.6)**	(1,704.8)

31. Changes in net debt

	31 March 2020 (restated) £m	Cash flow £m	Additional leases £m	Other non-cash movement £m	Exchange movement £m	**31 March 2021 £m**
Cash and bank balances	1,845.9	(944.4)	–	–	3.3	**904.8**
Bank overdrafts	(497.2)	123.5	–	–	(0.2)	**(373.9)**
Cash, cash equivalents and bank overdrafts	1,348.7	(820.9)	–	–	3.1	**530.9**
Debt	(2,540.7)	1,129.3	–	–	82.8	**(1,328.6)**
Leases – received	(689.4)	140.6	(91.7)	9.4	18.8	**(612.3)**
Net debt derivative	89.4	(52.6)	–	–	(62.0)	**(25.2)**
Changes in liabilities from financing arrangements	(3,140.7)	1,217.3	(91.7)	9.4	39.6	**(1,966.1)**
Leases – granted	38.6	(14.9)	13.9	–	1.9	**39.5**
Net debt before loans to joint ventures and associates	(1,753.4)	381.5	(77.8)	9.4	44.6	**(1,395.7)**
Loans to joint ventures and associates	48.6	(0.3)	–	(6.2)	–	**42.1**
Net debt	(1,704.8)	381.2	(77.8)	3.2	44.6	**(1,353.6)**

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

In June 2020 the Group completed the sale of its 74% shareholding in Holdfast Training Services Limited for a cash consideration of £85.0 million which resulted in a loss on disposal of £38.2 million. This loss arose following goodwill allocation of £68.4 million to Holdfast Training Services Limited upon disposal (using the relative value method), as Holdfast Training Services Limited was integrated into the Land operating segment.

In September 2020, the Group disposed of Cavendish Nuclear Manufacturing Limited for no consideration which resulted in a loss on disposal of £0.6 million.

In October 2020, the Group completed the sale of Conbras Servicos Tecnicos de Suporte Ltda for a consideration of £9.7 million which resulted in a loss on disposal of £10.9 million.

During the previous year the Group disposed of Context Information Security Limited for £107.1 million, which resulted in a profit on disposal of £74.7 million. During the previous year the Group paid certain accrued costs on previously disposed of businesses of £0.8 million.

	2021				2020		
	Holdfast Training Services Limited £m	**Cavendish Nuclear Manufacturing Limited £m**	**Conbras Servicos Tecnicos de Suporte Ltda £m**	**Total £m**	Context Information Security Limited £m	Previously disposed of business £m	Total £m
Goodwill	**68.4**	**–**	**4.2**	**72.6**	20.6	–	20.6
Investment in joint ventures and associates	**53.2**	**–**	**–**	**53.2**	–	–	–
Other intangible assets	**–**	**–**	**–**	**–**	4.0	–	4.0
Property, plant and equipment	**–**	**–**	**0.8**	**0.8**	1.6	–	1.6
Right of use assets	**–**	**–**	**–**	**–**	2.3	–	2.3
Inventory	**–**	**0.5**	**0.1**	**0.6**	–	–	–
Other current assets	**–**	**0.7**	**11.1**	**11.8**	6.7	–	6.7
Cash, cash equivalents and bank overdrafts	**–**	**0.4**	**3.1**	**3.5**	1.8	–	1.8
Lease liabilities	**–**	**–**	**–**	**–**	(3.1)	–	(3.1)
Other current liabilities	**–**	**(1.0)**	**(8.2)**	**(9.2)**	(3.7)	–	(3.7)
Taxation	**–**	**–**	**–**	**–**	(0.4)	–	(0.4)
Provisions	**–**	**–**	**(2.5)**	**(2.5)**	(0.3)	–	(0.3)
Net assets disposed	**121.6**	**0.6**	**8.6**	**130.8**	29.5	–	29.5
Disposal costs	**1.6**	**–**	**1.5**	**3.1**	2.9	–	2.9
Cumulative currency translation loss	**–**	**–**	**10.5**	**10.5**	–	–	–
Deferred consideration	**–**	**–**	**–**	**–**	–	–	–
(Loss)/profit on disposal	**(38.2)**	**(0.6)**	**(10.9)**	**(49.7)**	74.7	–	74.7
Sale proceeds	**85.0**	**–**	**9.7**	**94.7**	107.1	–	107.1
Sale proceeds less cash disposed of	**85.0**	**(0.4)**	**6.6**	**91.2**	105.3	–	105.3
Less costs paid in the year	**–**	**–**	**(0.6)**	**(0.6)**	(2.9)	(0.8)	(3.7)
Net cash inflow/(outflow)	**85.0**	**(0.4)**	**6.0**	**90.6**	102.4	(0.8)	101.6

33. Transactions with non-controlling interests

There were no material transactions with non-controlling interests in the current or prior year.

34. Contingent liabilities

There are a number of contingent liabilities that arise in the normal course of business. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

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

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

(c) As a large contracting organisation, the Group has a significant number of contracts with customers to deliver services and products, as well as with its supply chain, where the Group cannot deliver all those services and products itself. The Group is involved in disputes and litigation, which have arisen in the course of its normal trading in connection with these contracts. Whilst the Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position, it is possible that, if any of these disputes come to court, the court may take a different view to the Group.

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

35. Capital and other financial commitments

	2021 £m	2020 £m
Contracts placed for future capital expenditure not provided for in the financial statements	**57.9**	14.7

36. Related party transactions

(a) The following related parties either sell to or receive services from the Group. Loans to joint ventures and associates are detailed in note 17.

2021	2021 Revenue to £m	2021 Purchases from £m	2021 Year-end debtor balance £m	2021 Year-end creditor balance £m
Joint ventures and associates				
Holdfast Training Services Limited	**10.8**	**–**	**0.2**	**–**
First Swietelsky Operation and Maintenance	**9.0**	**–**	**0.8**	**(0.4)**
Ascent Flight Training (Management) Limited	**2.0**	**–**	**0.2**	**–**
Ascent Flight Training (Holdings) Limited	**0.3**	**–**	**0.1**	**–**
ALC (Superholdco) Limited	**–**	**–**	**0.1**	**–**
Rotary Wing Training Limited	**4.0**	**–**	**–**	**–**
Fixed Wing Training Limited	**4.2**	**–**	**–**	**–**
Advanced Jet Training Limited	**2.7**	**–**	**0.2**	**–**
Rear Crew Training Limited	**1.3**	**–**	**–**	**–**
AirTanker Services Limited	**11.1**	**–**	**0.1**	**–**
Alert Communications Limited	**3.5**	**–**	**–**	**–**
Naval Ship Management (Australia) Pty Limited	**12.2**	**–**	**–**	**–**
Cavendish Dounreay Partnership Limited	**6.7**	**–**	**0.2**	**–**
ABC Electrification Limited	**–**	**–**	**2.5**	**–**
Duqm Naval Dockyard SAOC	**0.2**	**(0.4)**	**–**	**–**
	68.0	**(0.4)**	**4.4**	**(0.4)**

2020	2020 Revenue to £m	2020 Purchases from £m	2020 Year-end debtor balance £m	2020 Year-end creditor balance £m
Joint ventures and associates				
Holdfast Training Services Limited	67.2	–	0.9	–
First Swietelsky Operation and Maintenance	9.7	–	0.2	(0.7)
FSP (2004) Limited	–	–	–	–
Ascent Flight Training (Management) Limited	1.6	–	0.5	–
Rotary Wing Training Limited	3.8	–	–	–
Fixed Wing Training Limited	3.8	–	–	–
Advanced Jet Training Limited	1.9	–	0.3	–
Rear Crew Training Limited	1.2	–	0.2	–
AirTanker Services Limited	11.3	–	0.2	–
Alert Communications Limited	5.0	–	0.4	–
Naval Ship Management (Australia) Pty Limited	8.7	–	–	–
Cavendish Dounreay Partnership Limited	6.6	–	0.2	–
Cavendish Fluor Partnership Limited	10.2	–	–	–
Cavendish Boccard Nuclear Limited	1.6	–	–	–
	132.6	–	2.9	(0.7)

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

(b) Defined benefit pension schemes.
Please refer to note 29 for transactions with the Group defined benefit pension schemes.

(c) Key management compensation is shown in note 9.

(d) Transactions in employee benefits trusts are shown in note 29.

37. Events after the reporting period

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

In the year ended 31 March 2020, the Lazio Regional Administrative Court confirmed a €51 million fine issued by the Italian Competition Authority to our subsidiary, Babcock Mission Critical Services Italia SpA (BMCS Italia), for certain anti-trust violations. In July 2021, the Council annulled the fine, though allowing the Authority leave to re-calculate it. As a result we have reduced the provision to £20 million, being management's best estimate. Further information is detailed in note 3.

38. Group entities

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 31 March 2021 is disclosed below. Unless otherwise stated, the Group's shareholding represents ordinary shares held indirectly by Babcock International Group PLC, the entities are unlisted, and have one type of ordinary share capital, the year end is 31 March and the address of the registered office is 33 Wigmore Street, London W1U 1QX. The Group's interest in the voting share capital is 100% unless otherwise stated. No subsidiary undertakings have been excluded from the consolidation.

Subsidiaries, wholly owned

Airwork Limited

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

Armstrong Technology Associates Limited*

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

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

Babcock (UK) Holdings Limited[1]

Babcock Aerospace Limited

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

Babcock Airports Limited

Babcock Assessments Limited

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

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

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

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

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

Babcock Communications Limited

Babcock Contractors Limited[2]

Babcock Corporate Secretaries Limited*

Babcock Corporate Services Limited

Babcock Critical Assets Holdings LLP

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

Babcock Defence & Security Holdings LLP

Babcock Defence and Security Investments Limited

Babcock Defence Systems Limited

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

Babcock DS 2019 Limited*

Babcock Education & Training Holdings LLP

Babcock Education and Skills Limited

Babcock Education Holdings Limited

Babcock Emergency Services Limited[2]

Babcock Engineering Limited*

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

Babcock Europe Finance Limited[2]
Orange Point Building, Second Floor, Dun Karm Street, Birkirkara By-Pass, Birkirkara BKR 9037, Malta

Babcock Fire Services (SW) Limited

Babcock Fire Services Limited

Babcock Fire Training (Avonmouth) Limited

Babcock Group (US Investments) Limited

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

Babcock Holdings Limited[11]

Babcock Information Analytics and Security Holdings Limited*

Babcock Information Analytics and Security Limited[5]

Babcock Integrated Technology (Korea) Limited

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

Babcock Integrated Technology Limited

Babcock Integration LLP

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

Babcock International France SAS
21 Rue Leblanc 75015, Paris, France

Babcock International France Terre SAS
21 Rue Leblanc 75015, Paris, France

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

Babcock International Holdings Limited[2]
Orange Point Building, Second Floor, Dun Karm Street, Birkirkara By-Pass, Birkirkara BKR 9037, Malta

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

Babcock International Limited[5]

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

Babcock International Support Services Limited

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

Babcock Investments (Fire Services) Limited

Babcock Investments (Number Four) Limited

Babcock Investments (Number Nine) Limited

Babcock Investments Limited

Babcock IP Management (Number One) Limited

Babcock IP Management (Number Two) Limited

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

38. Group entities (continued)

Subsidiaries, wholly owned (continued)

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

Babcock Land Defence Limited

Babcock Leaseco Limited*

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

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

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

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

Babcock M 2019 Limited*

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

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

Babcock Malta Finance (Number Two) Limited[3]
Orange Point Building, Second Floor, Dun Karm Street, Birkirkara By-Pass, Birkirkara BKR 9037, Malta

Babcock Malta Finance Limited[3]
Orange Point Building, Second Floor, Dun Karm Street, Birkirkara By-Pass, Birkirkara BKR 9037, Malta

Babcock Malta Holdings (Number Two) Limited[3]
Orange Point Building, Second Floor, Dun Karm Street, Birkirkara By-Pass, Birkirkara BKR 9037, Malta

Babcock Malta Holdings Limited[3]
Orange Point Building, Second Floor, Dun Karm Street, Birkirkara By-Pass, Birkirkara BKR 9037, Malta

Babcock Management 2019 Limited*

Babcock Management Limited

Babcock Marine & Technology Holdings Limited

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

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

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

Babcock Marine Holdings (UK) Limited[5]

Babcock Marine Limited

Babcock Marine Products Limited*

Babcock Marine Training Limited[2]

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

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

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

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

Babcock Mission Critical Services Design and Completions Limited

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

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

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

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

Babcock Mission Critical Services Leasing Limited

Babcock Mission Critical Services Ltd

Babcock Mission Critical Services Offshore Limited

Babcock Mission Critical Services Onshore Limited

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

Babcock Mission Critical Services Topco Ltd[2]

Babcock Mission Critical Services UK Limited

Babcock MSS Limited

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

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

Babcock Networks Limited

Babcock Norway AS*
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Nuclear Limited

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

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

Babcock Overseas Investments Limited

Babcock Project Investments Limited

Babcock Project Services Limited

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

Babcock Rail Limited

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

Babcock Services Group Limited

Babcock Services Limited

Babcock Skills Development and Training Limited

Babcock Southern Careers Limited*[3]

Babcock Southern Holdings Limited[6]

Babcock Support Services (Investments) Limited

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

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

Babcock Support Services s.r.l.
Corso Vercelli, 40, 20145, Milano, Italy

Babcock Technical Services Limited*

Babcock Training Limited

Babcock UK Finance

38. Group entities (continued)

Subsidiaries, wholly owned (continued)

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

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

Babcock US Investments Limited[5]

Babcock Vehicle Engineering Limited[4]

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

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

Bond Aviation Topco Limited[5]

Brooke Marine Shipbuilders Limited*

Cavendish Nuclear (Overseas) Limited

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

Cavendish Nuclear Limited[5]

Cavendish Nuclear Manufacturing Limited

Chepstow Insurance Limited
PO Box 155, Mill Court, La Charroterie, St Peter Port, GY1 4ET, Guernsey

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

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

FBM Babcock Marine Holdings (UK) Limited*

FBM Babcock Marine Limited*

FBM Marine International (UK) Limited*

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

Flagship Fire Fighting Training Limited

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

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

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

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

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

HCTC Limited*

iMAST Limited*

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

KML (UK) Limited*

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

Marine Engineering & Fabrications (Holdings) Limited*

Marine Engineering & Fabrications Limited*

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

Peterhouse Group Limited

Peterhouse GmbH
Am Zoppenberg 23, 41366 Schwalmtal, Germany

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

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

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

SBRail Limited*

Skills2Learn Ltd

Touchstone Learning & Skills Ltd*

Vosper Thornycroft (UK) Limited

Westminster Education Consultants Limited*

38. Group entities (continued)

Subsidiaries, partly owned:

Airwork Technical Services & Partners LLC (51.0%)
PO Box 248 (Muaskar Al Murtafa'a (MAM) Garrison), Muscat, 100, Sultanate of Oman

Babcock Africa (Pty) Limited (90.0%)[7]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Holdings (Pty) Ltd (90.0%)[14]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Services (Pty) Ltd (90.0%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Aviation Services Holdings International Limited (49.82%)[14]
52 St Christopher Street, Valletta, VLT 1462, Malta

Babcock Denmark A/S (49.82%)[14]
Esberg Business Park, John Tranums, Vej 23, 6705, Esbjerg, Denmark

Babcock Dyncorp Limited (56.0%)[12]

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

Babcock Emergencias Aéreas España Holding, S.L.U. (49.82%)
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

Babcock Financial Services (Pty) Ltd (90.0%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

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

Babcock Learning and Development Partnership LLP (80.1%)

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

Babcock MCS Mozambique, Limitada (90.0%)
Sala no. 2022, 1 Andar, Terminal A, Aeroporto Internacional do Maputo, Distrito Urbano 2, Mozambique

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

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

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

Babcock Mission Critical Services Galicia SL (91.1%)
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

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

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

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

Babcock Moçambique Limitada (90.0%)
Av. Samora Machel 3380/1, Mozambique

Babcock Namibia Services Pty Ltd (90.0%)
Unit 5 Ground Floor, Dr Agostinho Neto Road, Ausspann Plaza, Ausspanplatz, Windhoek, Namibia

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

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

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

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

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

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

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

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

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

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

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

Babcock Zambia Limited (90.0%)
4th Floor, Consulting House, Broadway, Ndola, Zambia

Cognac Formation Aero (90.0%)
Base Aérienne 709 Cognac 16100 Châteaubernard, France

INAER Helicopter Peru S.A.C. (In liquidation) (70.0%)
Av. De La Floresta No 497 Int., Lima, Peru

National Training Institute LLC (70.0%)
PO Box 267, MadinatQaboos, Sultanate of Oman, 115 Oman

38. Group entities (continued)

Joint ventures and associates (equity accounted):

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

AirTanker Holdings Limited (15.4%)
Airtanker Hub RAF Brize Norton, Carterton, Oxfordshire, England, OX18 3LX, United Kingdom

AirTanker Services Limited (23.5%)[15]
Airtanker Hub RAF Brize Norton, Carterton, Oxfordshire, England, OX18 3LX, United Kingdom

ALC (Superholdco) Limited (50.0%)[16]
3rd Floor, Chancery Exchange, 10 Furnival Street, London, England, EC4A 1AB, United Kingdom

Alert Communications Group Holdings Limited (20.0%)

Ascent Flight Training (Holdings) Limited (50.0%)

Cavendish Boccard Nuclear Limited (51.0%)

Cavendish Dounreay Partnership Limited (50.0%)[12]

Cavendish Fluor Partnership Limited (65.0%)

Debut Services (South West) Limited (50.0%)
20 Triton Street, Regent's Place, London, NW1 3BF, United Kingdom

Duqm Naval Dockyard SAOC (49.0%)
Wadi Say, Al-Duqm, Al-Wusta'a, 3972 112, Oman

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

FSP (2004) Limited (50.0%)[2]
Kintail House, 3 Lister Way, Hamilton International Park, Blantyre, G72 0FT, Scotland

Naval Ship Management (Australia) Pty Ltd (50.0%)
Level 10, 40 Miller Street, North Sydney NSW 2060, Australia

Okeanus Vermogensverwaltungs GmbH & Co. KG (50.0%)
Vorsetzen 54, 20459, Hamburg, Germany

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

Babcock Careers Guidance Limited[6]; Babcock Careers Management Limited[3]; Babcock Environmental Services Limited; Babcock Lifeskills Limited; Capital Careers Limited (88.3%); Cura Classis UK (Hold Co) Limited (48.0%); F N Consultancy Limited; FNC Group Limited; FNCG 2019 Limited; Surrey Careers Services Limited (94.1%)[5]; UKAEA Limited.

Wholly owned subsidiaries with registered office at 55 Baker Street, London, W1U 7EU, United Kingdom, currently in Members Voluntary Liquidation:

2019 S&H Limited; Babcock Civil Infrastructure Limited; Babcock Infrastructure Holdings LLP; BIL Solutions Limited; Bond Aviation Leasing Limited; INS Innovation Limited; Scimco Limited.

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

Babcock Power Maintenance Limited; First Projects Limited; Transfleet Distribution Limited.

Notes

- * Dormant entity.
- 1. Babcock International Group PLC has direct holdings in Babcock (UK) Holdings Limited, and preference shares class A and B in Babcock Aviation Services (Holdings) Limited.
- 2. Holding of two types of ordinary shares.
- 3. Holding of three types of ordinary shares.
- 4. Holding of six types of ordinary shares.
- 5. Holding of ordinary and preference shares.
- 6. Holding of ordinary and deferred shares.
- 7. Holding of ordinary and redeemable preference shares.
- 8. Holding of ordinary and two types of preference shares.
- 9. Holding of ordinary and three types of preference shares.
- 10. Holding of ordinary and five types of preference shares.
- 11. Holding of two types of ordinary shares and two types of preference shares.
- 12. Holding of one type of ordinary share only, where more than one type of share is authorised or in issue.
- 13. Holding of two types of ordinary shares, where more than two types of share are authorised or in issue.
- 14. Holding of one type of ordinary share and one type of preference share, where more than two types of share are authorised or in issue.
- 15. Year end 31 December.
- 16. Year end 30 June.

Company statement of financial position

As at 31 March	Note	2021 £m	2020 £m
Fixed assets			
Investment in subsidiaries	5	**2,466.5**	2,466.5
Current assets			
Trade and other receivables	6	**3,764.7**	3,944.1
Cash and cash equivalents		**115.0**	865.0
Creditors: Amounts falling due within one year:			
Trade and other payables	7	**(2,270.6)**	(2,482.7)
Net current assets		**1,609.1**	2,326.4
Total assets less current liabilities		**4,075.6**	4,792.9
Creditors: Amounts falling due after more than one year:			
Trade and other payables	7	**(1,322.4)**	(2,054.0)
Net assets		**2,753.2**	2,738.9
Equity			
Called up share capital	9	**303.4**	303.4
Share premium account		**873.0**	873.0
Capital redemption reserve		**30.6**	30.6
Other reserve		**768.8**	768.8
Retained earnings		**777.4**	763.1
Total shareholders' funds		**2,753.2**	2,738.9

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

The Company has taken advantage of the exemption granted by Section 408 of the Companies Act 2006 whereby no individual income statement of the Company is disclosed. The Company's profit for the financial year was £30.5 million (2020: £143.9 million).

The financial statements on pages 269 to 270 were approved by the Board of Directors on 30 July 2021 and are signed on its behalf by:

David Lockwood OBE
Director

David Mellors
Director

Company statement of changes in equity

	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Total equity £m
At 31 March 2019	303.4	873.0	768.8	30.6	767.6	2,743.4
Profit for the year	–	–	–	–	143.9	143.9
Other comprehensive income	–	–	–	–	1.8	1.8
Total comprehensive income	–	–	–	–	145.7	145.7
Dividends	–	–	–	–	(152.1)	(152.1)
Share-based payments	–	–	–	–	2.9	2.9
Tax on share-based payments	–	–	–	–	1.9	1.9
Own shares	–	–	–	–	(2.9)	(2.9)
Net movement in equity	–	–	–	–	(4.5)	(4.5)
At 31 March 2020	303.4	873.0	768.8	30.6	763.1	2,738.9
Profit for the year	**–**	**–**	**–**	**–**	**30.5**	**30.5**
Other comprehensive income	**–**	**–**	**–**	**–**	**(19.5)**	**(19.5)**
Total comprehensive income	**–**	**–**	**–**	**–**	**11.0**	**11.0**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**
Share-based payments	**–**	**–**	**–**	**–**	**3.2**	**3.2**
Tax on share-based payments	**–**	**–**	**–**	**–**	**2.3**	**2.3**
Own shares	**–**	**–**	**–**	**–**	**(2.2)**	**(2.2)**
Net movement in equity	**–**	**–**	**–**	**–**	**14.3**	**14.3**
At 31 March 2021	**303.4**	**873.0**	**768.8**	**30.6**	**777.4**	**2,753.2**

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

Notes to the Company financial statements

1. General information

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

2. Significant accounting policies

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

Basis of accounting

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments on a going concern basis. The financial statements are prepared in Sterling which is the functional currency of the Company and rounded to the nearest £ million.

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

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

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

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

New standards adopted by the Company

The Company has applied the following standards and amendments for the first time for its annual reporting period commencing 1 April 2020:

- IAS 1, 'Presentation of Financial Statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors'. Amendment effective from 1 January 2020. The amendment related to the definition of material.
- IFRS 3, 'Business Combinations', amendment effective 1 January 2020. The amendment related to the definition of a business.

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

2. Significant accounting policies (continued)

Investments

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

Taxation

Current income tax

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

Deferred income tax

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

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

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

Finance costs

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

Employee benefits

(a) Share-based compensation

The Company operates equity-settled, share-based compensation plans which are recharged to the relevant subsidiaries. Full details of the share-based compensation plans are disclosed in note 28 to the Group financial statements.

(b) Treasury shares

The shares purchased by the Company's ESOP trusts are recognised as a deduction to equity. See note 28 to the Group financial statements for further details.

(c) Pension arrangements

The Company operates a multi-employer defined benefit pension scheme, however all assets and liabilities are recognised in the relevant subsidiary in which the employee operates. See note 29 to the Group financial statements for further details.

Financial instruments

(a) Financial assets and liabilities at amortised cost

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

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

(b) Derivative financial instruments

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

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

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

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

2. Significant accounting policies (continued)

Financial risk management

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

Dividends

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

Critical accounting estimates and judgements

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key assumptions about the future, and other key sources of estimation uncertainty at the reporting year end that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Impairment of investment in subsidiaries

The carrying value of investment in subsidiaries is tested annually for impairment, in accordance with IAS 36. The impairment assessment is based on assumptions in relation to the cashflows expected to be generated by the subsidiaries, together with appropriate discounting of the cashflows. Note 5 provides information on key assumptions and sensitivity analyses performed.

3. Company profit

The Company has no employees other than the Directors.

The fee payable to the parent auditor and its associates in respect of the audit of the Company's financial statements was £0.7 million (2020: £0.6 million).

4. Directors' emoluments

Under Schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 5), total Directors' emoluments, excluding Company pension contributions, were £2.9 million (2020: £4.3 million); these amounts are calculated on a different basis from emoluments in the Remuneration report which are calculated under Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Schedule 8 (2013)). These emoluments were paid for the Directors' services on behalf of Babcock International Group. No emoluments relate specifically to their work for the Company. Under Schedule 5, the aggregate gains made by Directors from the exercise of Long Term Incentive Plans in 2020 as at the date of exercise was £0.1 million (2020: £0.4 million) and the net aggregate value of assets received by Directors in 2020 from Long Term Incentive Plans as calculated at the date of vesting was £0.1 million (2020: £0.4 million); these amounts are calculated on a different basis from the valuation of share plan benefits under Schedule 8 (2013) in the Remuneration report.

5. Investment in subsidiary undertakings

	2021 £m	2020 £m
Investment in subsidiary undertaking	**2,466.5**	2,466.5
Preference shares in subsidiary undertaking (note 6)	**918.0**	981.9
Total investment in subsidiary undertaking	**3,384.5**	3,448.4

At 31 March 2021, the investment in subsidiary undertakings was tested for impairment in accordance with IAS 36. Management identified that the Group's market capitalisation of £1,155.7 million at 31 March 2021 was less than the carrying value of the Company's investment in subsidiary undertakings of £3,384.5 million at 31 March 2021 and that this represented an impairment indicator.

This impairment test did not result in an impairment of the total investment in subsidiary undertakings.

Impairment methodology

Cash-generating units

The CGU for the purpose of this analysis is the Group as a whole, as the Company has an investment in a single holding company through which it indirectly owns the rest of the Group. The recoverable amount of the CGU is the higher of its value-in-use and its fair value less costs of disposal.

Calculation of recoverable amount

The recoverable amount of the Company's investment in subsidiary undertakings was assessed by reference to value-in-use calculations. Note 13 of the Group financial statements sets out further details in relation to how the value in use calculations are determined.

5. Investment in subsidiary undertakings (continued)

Key assumptions

The key assumptions to which the recoverable amount of the Company's investment in subsidiary undertakings is most sensitive are future cash flows, long-term growth rates and discount rates. Further details on how these inputs are determined are set out in note 13 of the Group financial statements. The value in use calculations do not include the anticipated benefits of the Group's revised operating model or the implementation costs of this project reflecting that the Group was not committed to the project at 31 March 2021.

The discount rates and long-term growth rates used to determine the recoverable amount of the Company's investment in subsidiary undertakings is set out below.

	2021				2020			
	Aviation	**Land**	**Marine**	**Nuclear**	Aviation	Land	Marine	Nuclear
Pre-tax discount rate	**12.0**	**11.0**	**11.0**	**11.0**	10.9	10.0	10.0	10.0
Post-tax discount rate	**9.0**	**8.25**	**8.25**	**8.25**	8.9	8.2	8.2	8.2
Long-term growth rate	**2.0**	**2.0**	**2.0**	**2.0**	2.0	2.0	2.0	2.0

The Aviation operating segment discount rate includes a premium of 1% in relation to risks specific to this operating segment. The discount rates were not adjusted for the gearing impact of IFRS 16, reflecting that the impairment test is considering the recoverability of the Company's investment in subsidiary undertakings, which is carried at cost less impairment.

Sensitivity

The recoverable amount, headroom and carrying value of the Company's investment in subsidiary undertakings are set out in the table below:

£m	2021 £m
Carrying value	**3,384.5**
Headroom	**50.6**
Recoverable amount	**3,435.1**

The Directors carried out sensitivity analyses on the reasonably possible changes in key assumptions used to determine the recoverable value of the Company's investment in subsidiary undertakings.

The Company's calculation of recoverable value presents a headroom of £50.6 million. Accordingly, reasonably possible changes in estimates could give rise to a material impairment in the following year. The Company carried out sensitivity analyses on the reasonably possible changes in the discount rate and long-term growth rate used in the value-in-use models for each of the operating segments and the results are set out in the table below:

	2021 £m
Pre-tax discount rate	
Increase of 100bps	**300.5**
Long-term growth rate	
Decrease of 50bps	**115.8**

The Directors consider that key cash flow assumptions in the calculation of the recoverable value of the Company's investment in subsidiary undertakings include the retention of a key contract in the Marine operating segment which is due for renewal in two years. Failure to retain this contract would reduce the recoverable value of the investment in subsidiary undertaking by £66 million. Additionally, a reduction of £5 million in annual operating profits in the Aviation operating segment, as a result of failure to deliver forecast cost savings from FY23, is considered plausible and would result in a reduction of £51 million in the recoverable value of the Company's investment in subsidiary undertakings. A further key assumption relates to the retention of existing business in the Land operating segment. A reduction in annual operating profit of £5 million in relation to this is considered to be plausible from FY25, and would result in a reduction in the recoverable value of the Company's investment in subsidiary undertakings of £43 million.

6. Trade and other receivables

	2021 £m	2020 £m
Amounts due after one year		
Amounts due from subsidiary undertakings	**351.4**	351.9
Other debtors	**–**	0.1
	351.4	352.0
Amounts due within one year		
Amounts due from subsidiary undertakings	**2,472.7**	2,489.7
Preference shares in a subsidiary undertaking	**918.0**	981.9
Other financial assets – currency and interest rate swaps	**–**	104.7
Income tax recoverable	**6.2**	2.8
Deferred tax	**16.4**	13.0
	3,413.3	3,592.1
Total trade and other receivables	**3,764.7**	3,944.1

There are no material provisions held against trade and other receivables under the expected credit loss model. Amounts due from subsidiary undertakings that do not carry interest are repayable on demand.

Based on the investment in subsidiary undertakings impairment analysis above, the Company does not consider that there was an increased credit risk in relation to amounts due from subsidiaries. The Group concluded that the credit risk for intercompany balances is low as the borrower has a strong capacity to meet the contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Of the preference shares in a subsidiary undertaking, the B preference shares of USD500 million mature by mutual agreement of both parties and carry interest at 5.64%. The remaining preference shares in subsidiary undertakings are Euro-denominated preference shares, totalling €652 million, carrying a coupon rate of EURIBOR + 4.0%, and with a maturity date of 29 July 2021.

Interest rates on amounts owed by subsidiary operations:

	Non-current		Current	
	2021 £m	2020 £m	2021 £m	2020 £m
EURIBOR + 4.0%	**78.4**	81.9	**88.1**	58.3
EURIBOR + 2.0%	**12.1**	12.4	**–**	–
GBP LIBOR + 4.0%	**84.0**	73.5	**51.4**	51.4
GBP LIBOR + 5.0%	**140.0**	140.0	**–**	–
USD LIBOR + 4.0%	**5.8**	18.0	**1.5**	1.7
STIBOR + 4%	**1.8**	–	**7.2**	14.0
BBSW + 4.0%	**12.8**	11.5	**3.3**	2.9
NIBOR + 4.0%	**14.6**	12.8	**15.0**	8.1
4.5%	**–**	–	**100.8**	100.8
5.4%	**1.9**	1.8	**–**	–
Interest-free	**–**	–	**2,205.4**	2,252.5
	351.4	351.9	**2,472.7**	2,489.7

7. Trade and other payables

	2021 £m	2020 £m
Amounts due within one year		
Bank loans and overdrafts	**198.3**	547.7
Amounts due to subsidiary undertakings	**2,059.3**	1,821.9
Other financial liabilities – currency and interest rate swaps	**4.8**	104.7
Accruals and deferred income	**8.2**	8.4
	2,270.6	2,482.7
Amounts due after one year		
Bank loans and other borrowings	**1,283.1**	2,030.6
Other financial liabilities – currency and interest rate swaps	**39.3**	23.1
Other creditors	**–**	0.3
	1,322.4	2,054.0

The Company has £2,011.3 million (2020: £2,554.6 million) of committed borrowing facilities, of which £1,293.1 million (2020: £2,443.1 million) was drawn at the year end.

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

	2021 %	2020 %
UK bank overdraft	**1.1**	1.1
UK bank borrowings	**0.5**	0.5
US private placement – fixed	**–**	6.0
US private placement – floating	**–**	2.8
8 year Eurobond October 2022	**1.8**	1.8
8 year Eurobond September 2027 – fixed	**2.9**	2.9
8 year Eurobond September 2027 – floating	**2.8**	2.8
£300 million bond	**1.9**	1.9

The amounts due to subsidiary undertakings are repayable on demand and £2,059.3 million (2020: £1,821.9 million) is interest-free.

8. Other financial assets and liabilities

The notional principal amount of outstanding interest rate swap contracts at 31 March 2021 included interest rate swaps in relation to €550 million (2020: €550 million) Euro to Sterling cross-currency swap.

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

The Company has taken advantage of the exemptions within FRS 101 not to disclose all IFRS 7 and IFRS 13 requirements, as it and its subsidiary undertakings are included by full consolidation in the Group accounts on pages 174 to 268.

9. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2020 and 31 March 2021	**505,596,597**	**303.4**
Allotted, issued and fully paid		
At 1 April 2019 and 31 March 2020	505,596,597	303.4

10. Contingent liabilities

(a) The Company has guaranteed or has joint and several liability for bank facilities with nil utilisation at 31 March 2021 (2020: nil) provided to certain Group companies.

(b) Throughout the Group, guarantees exist in respect of performance bonds and indemnities issued on behalf of Group companies by banks and insurance companies in the ordinary course of business. At 31 March 2021 these amounted to £329.7 million (2020: £340.7 million), of which the Company had counter-indemnified £307.1 million (2020: £302.6 million).

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

11. Group entities

See note 38 of the Group financial statements for further details.

12. Events after the reporting period

In July 2021, the Company and the counterparty agreed to extend the maturity date of the B preference shares by 12 months. The amounts and terms and conditions attached to the B preference shares are unchanged.

Shareholder information

Financial calendar

Financial year end	31 March 2021
2020/21 full-year results announced	30 July 2021
Annual General Meeting	22 September 2021

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Company number 02342138

Registrars

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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 using their postal or email addresses given above.

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

ShareGift

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

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