Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Babcock International Group plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Company statements of changes in equity;
- the Group and Company statements of financial position;
- the Group cash flow statement; and
- the related Notes 1 to 35 of the Group financial statements and Notes 1 to 14 of the Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the year are disclosed in Note 5 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Impact of control deficiencies (Group and Company);
- Revenue and margin recognition on key long-term contracts with significant management judgment (Group);
- Carrying value of property, plant and equipment (PPE) and Right of Use (RoU) assets in the Aviation sector (Group);
- Carrying value of Goodwill within Land and Aviation sectors (Group);
- Hedge effectiveness on foreign currency forwards (Group and Company);
- Valuation of retirement benefit obligations (Group); and
- Carrying value of investments in subsidiaries (Company).

Five key audit matters identified by the previous auditor and described in their report for the year ended 31 March 2021 are not included in our report for the year ended 31 March 2022. These were:

- Impact of COVID as the impact was less pronounced in the year ended 31 March 2022;
- Presentation and classification of specific adjusting items, including exceptional items as the volume of specific adjusting items is significantly lower in the year ended 31 March 2022;
- Contract profitability and Balance sheet review (CPBS) as the adjustments were recorded in the year ended 31 March 2021, however we did consider these items within our transition activities;
- Going concern as the covenant headroom has increased as there are no CPBS adjustments for the year ended 31 March 2022 and the Directors delivered on their disposal plan; and
- Completeness and accuracy of lease liabilities and right of use assets which we did not consider to be a key audit matter as IFRS 16 is more established for the company.

This year we have identified the impact of control deficiencies (Group and Company), hedge effectiveness on forward foreign currency contracts (Group and Company), carrying value of property, plant and equipment (PPE) and Right of Use (RoU) assets in the Aviation sector (Group); the carrying value of Goodwill within the Land and Aviation sectors (Group); and the carrying value of investments in subsidiaries (Company) as new key audit matters.

Within section 5 of this report, any key audit matters which are similar to those identified by the previous auditor in the prior year are identified with . New key audit matters are identified with .

Materiality

We have determined materiality to be £15.6m. See section 6.1 for further details on materiality.

Scoping

Our scope covered eighteen components of the Group. Of these, seventeen were subjected to a full-scope audit and one was subject to specific procedures on certain account balances. The components contribute 97% of revenue and 95% of profit before tax. See section 7 for further details on our scoping.

4. Conclusions relating to going concern

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.

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

- Understanding the Group's processes and related controls over the assumptions in the going concern assessment;
- Assessing the Group's available committed borrowing facilities;
- Testing the accuracy of the Directors' models, including agreement to the most recent board approved budgets and forecasts;
- Determining whether the forecasts used within assessing the going concern assumption were consistent, where relevant, with those used within Goodwill impairment modelling;
- Challenging the key assumptions of these forecasts by:
  - reading analyst reports, industry data and other external information and comparing these with the Directors' estimates;
  - comparing forecast revenue with the secured revenue under contract, contract churn rates, contract win rates and historical performance;
  - comparing contract margin and overhead cost assumptions to historical performance and the macroeconomic environment;
  - evaluating the historical accuracy of forecasts prepared by the Directors;
  - assessing the sensitivity of the headroom and the Directors' forecasts; and
  - comparing the risks management have identified in their risk register to the going concern scenarios modelling to assess completeness and accuracy of the modelled scenarios.
- Evaluating the accuracy and completeness of the covenant calculation within the model; and
- Assessing the disclosures relating to going concern in the financial statements.

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 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 relation to the reporting on how the Group 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.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) that we identified. These matters included 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.

The following matters 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.

5.1. Impact of control deficiencies (Group and Company)

Refer to page 108 (Audit Committee report), Note 1 (Basis of preparation and significant accounting policies), Note 3 (Prior year restatements) and Note 5 to the Company financial statements (Prior year adjustment)

Key audit matter description

In the year ended 31 March 2021 the Group performed a contract profitability and balance sheet (CPBS) review which resulted in more than 140 accounting adjustments totalling £2.0 billion (post-tax effect on retained earnings) and spanning many account balances across several years.

This led to the Board concluding that the control environment was not operating effectively in certain parts of the Group, particularly in Aviation, Land and Group Head Office.

As outlined in Note 3 to the financial statements and Note 5 to the Company financial statements, through the course of our audit there were 13 prior year misstatements identified at the Group level and 4 at the Company level which have been corrected. Further detail on the majority of these errors is included within subsequent key audit matters.

The current year audit has identified a large number of errors that have affected both the current and prior years. A number of these relate to revenue recognition, where there was initially a lack of documented support for key accounting considerations under IFRS 15.

Our expectation was that there would be significant deficiencies in the Group's control environment and that our audit plan would therefore need to be adjusted to fully respond to the resultant increased risk of material misstatement in the financial statements.

The extent of the errors and control deficiencies identified had a significant impact on our audit and was a contributing factor to the extended time and effort required to complete the audit, which we consider to be a key audit matter.

How the scope of our audit responded to the key audit matter

Given the issues identified in 31 March 2021, our expectation was that the control environment would be deficient and our audit activities were enhanced in response to this increased risk of misstatement. The procedures most relevant to our key audit matter were:

- reviewing historical accounting policies and accounting judgements through discussion with the Directors and review and challenge of the Directors' papers and supporting documentation;
- interacting with management and the Audit Committee to understand and challenge the actions they were taking to address the control failures identified in the prior year;
- performing walkthroughs on key accounting processes, with particular focus on long term contract accounting;
- obtaining an understanding of the general IT control environment;
- identifying relevant controls and evaluating those controls; and
- inspecting the previous auditor's audit file which included the CPBS review.

We considered the nature and extent of the 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. Where necessary our risk assessment and subsequent audit approach was revised in response to the misstatements (and associated control findings) identified.

During the current year audit we identified a large number of errors that have affected both the current and prior years and identified significant deficiencies in control and we adjusted our audit plan accordingly. Additional procedures included:

- increasing our audit scope to bring more components into full scope audit;
- increasing the level of component oversight;
- expanding the types of journal entries that we selected for testing due to failures within the IT environment, now being remediated, that meant we were not able to rely on their operating effectiveness;
- more extensive use of specialist teams in tax, valuations, pensions and financial instruments;
- embedding an IFRS 15: 'Revenue from Contracts with Customers' ("IFRS 15") specialist into our team;
- requesting the preparation of over 70 key accounting papers to support accounting positions they had taken ;
- using data analytics to complete our testing, over key areas such as the consolidation and contracts; and
- increasing the seniority of our engagement and review teams.

The control deficiencies identified meant that we adopted a fully substantive audit approach which involved a significant increase in volume of work so that we had appropriately amended the nature, timing and extent of audit work to respond to the deficiencies in the control environment.

Key observations	Management has initiated and implemented a number of control enhancements during the year, however, as noted on page 108 the Audit Committee recognise that there remains on-going scope for further improvement in FY23, including lessons learnt from the FY22 closing. We identified significant deficiencies within the central Group functions in particular Treasury and Pensions, where several prior year errors have been identified which have required restatement, which were in addition to the £2 billion of errors already corrected in the 31 March 2021 annual report. Across the Group, we have identified a number of themes including significant variation in the process and control environment across comparable workstreams and sectors, a lack of formalised documentation to evidence operation of identified controls, and a lack of technical accounting and long-term accounting expertise within the finance teams. In respect of the IT environment, our testing identified a high number of observations, with the majority in relation to privileged access controls and password controls. As a consequence, we were not able to place reliance on the effective operation of IT controls throughout the year. Overall, given the extent to which our audit procedures identified significant deficiencies in relevant controls, we consider that the control environment requires significant enhancement for a group of this size and complexity.

5.2. Revenue and margin recognition on key long-term contracts with significant management judgment (Group)

Refer to page 108 (Audit Committee report), Group Income Statement, Note 1 (Basis of preparation and significant accounting policies), Note 3 (Prior year restatements), Note 18 (Trade and other receivables and contract assets) and Note 20 (Trade and other payables and contract liabilities)

Key audit matter description	The estimation of lifetime contract margin and the appropriate level of revenue and profit to recognise in any single accounting period requires the exercise of Directors' judgement. Within the Company's contract portfolio there are a number of contracts which extend over a number of years, with values in excess of £1billion, where the judgements are highly complex and could lead to a material error within the financial statements. These judgments include estimating the amount of cost transformation savings on long term facilities management contracts; the impact of inflation on estimates of cost to complete; estimating project completion dates on complex and technically challenging refit and maintenance projects; and schedule duration and contractual obligations on multiple ship deliveries that extend over a number of years. Consequently, we consider that revenue and margin recognition within key contracts, and the associated accounting for contracts assets, liabilities and provisions, in accordance with IFRS 15 and IAS 37: 'Provisions, contingent liabilities and contingent assets' ("IAS 37") represents a key audit matter. Key aspects of IFRS 15 we considered related to the recognition of variable consideration on the contract and agent versus principal considerations, and on IAS 37 the measurement of the provision for loss making contracts where there were delays to the contract schedule. In order to identify the key contracts where there is a significant risk of material misstatement, we undertook a contract risk assessment process for each sector utilising data analytics, the latest contract information, our understanding of the business, the results of prior audits and review of external information about market and geopolitical conditions which might impact certain contracts. We held meetings with key finance and contract managers, attended business review meetings and other key management meetings, read and understood underlying contract documentation and obtained support for key contract judgements. In addition, we looked for contracts that might have higher levels of judgement associated with the risk of schedule delivery or technical complexity, and other indicators that could increase the risk of a material impact on the financial statements, including achieving forecast transformation savings and the impact of rising inflation.

5.2. Revenue and margin recognition on key long-term contracts with significant management judgment (Group)

How the scope of our audit responded to the key audit matter	Our contract testing approach included: Understanding relevant controls • We obtained an understanding of relevant manual and IT controls and project accounting processes which management have established to ensure that contracts are appropriately forecast, managed, challenged and accounted for. • As part of this, we attended a sample of project contract status review meetings, quarterly business review meetings and Group level meetings to understand the various levels of challenge applied to the forecasts. • As outlined in Key Audit Matter 5.1, we were not able to rely on any controls for the purposes of our substantive testing. Challenging management's assumptions and estimates Our work included: • making inquiries of contract project teams and other personnel to obtain an understanding of the performance of the project throughout the year and at year-end; • analysing historical contract performance and understanding the reason for in-year movements or changes; • testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract and associated contingencies. We considered historical forecasting accuracy of costs, compared to similar programmes, and challenged future cost expectations with reference to those data points; • obtaining evidence and challenging management on the assumptions used to calculate future transformational savings; • examining external correspondence to assess the timeframe for delivery of the product or service and any judgements made in respect of these; • examining external evidence to assess contract status and estimation of variable consideration (including associated recoverability of contract balances), such as customer correspondence and for certain contracts meeting with the customer directly; • enquiring with in-house and external legal counsel regarding contract related litigation and claims; and • considering whether there were any indicators of management override of controls or bias in arriving at their reported position.
Key observations	Whilst not directly related to our key audit matter, as outlined in Note 3 to the Group financial statements the Directors have corrected a prior year error of £211m relating to the presentation of revenue and cost of revenue in relation to pass-through revenue on three of the Group's contracts. Through our testing of those contracts with the highest degree of management judgement, we identified a number of immaterial adjustments which were adjusted for by Group management. We also identified misstatements which had a net impact of reducing revenue, that management chose not to correct on the grounds that they netted to an overall immaterial income statement impact. We concluded overall that the judgements made by the Directors are reasonable.

5.3. Carrying value of property, plant and equipment (PPE) and Right of Use (RoU) assets in the Aviation sector (Group)

Refer to page108 (Audit Committee report), Note 1 (Basis of preparation and significant accounting policies), Note 3 (Prior year restatements), Note 5 (Operating (loss)/profit for the year) and Note 14 (Property, plant and equipment)

Key audit matter description

At 31 March 2022 the net book value of PPE and ROU assets within the Aviation sector was £476m (31 March 2021: £706.5m).

In accordance with IAS 36 'Impairment of Assets' ("IAS 36"), the Group has undertaken an annual assessment of indicators of impairment. Due to the identification of an impairment trigger relating to the potential sale of part of the Aviation sector an impairment review was performed for the Aviation sector which resulted in an impairment charge of £55m being recorded against the carrying value of Aviation property, plant and equipment and right of use assets (31 March 2021: charge of £140m).

As described in Note 14 to the financial statements, in making this assessment the Directors have grouped the aircraft at the lowest level for which there is identifiable cashflows that are largely independent of the cashflows of other groups of assets, which is generally at the fleet group level. The impairment calculations are based on estimated discounted cashflows over the remaining useful expected lives of the assets. The impairment charge was based on a recoverable amount of £224.0m.

We identified a key audit matter in relation to the impairment of PPE in the Aviation sector due to the material impairment indicated and the sensitivity of the value in use calculation to key assumptions.

The key assumptions applied by the Directors in the impairment reviews performed are:

- discount rates used to discount future cash flows;
- determination of CGUs as a basis for performing the two-stage impairment test required under IAS 36;
- forecast operating cash flows based on assumptions of future operating margins, contract renewals and aircraft useful lives; and
- market values of aircraft, in assessing fair value less costs to sell, and as a residual cash inflow in the value-in-use calculations.

How the scope of our audit responded to the key audit matter

We completed the following audit procedures:

- obtained an understanding of relevant controls relating to the impairment review process;
- evaluated the Directors' cash flow forecasts and the process by which they were determined and approved. This included checking the mechanical accuracy of the impairment models and the methodology applied by the Directors for consistency with the requirements of IAS 36;
- assessed the appropriateness of the determined CGUs with reference to the definition of a CGU in IAS 36, with our challenge focussed on whether a fleet level CGU was appropriate or whether there were identifiable and separable cash inflows at a lower level;
- assessed the appropriateness of forecast revenue, contract win/renewal rates, and margins with reference to recent and historical performance, external industry benchmarks and specific forecast events;
- assessed the inclusion of expected sale proceeds for Aircraft disposals for each CGU, evaluating evidence including; recent offers and industry valuation guides;
- assessed the appropriateness of the discount rates applied with the involvement of our internal valuations specialists and compared the rates applied with our internal benchmarking data;
- evaluated the appropriateness and completeness of information included in the impairment model based on our knowledge of the business driven by our review of contracts, strategic initiatives, minutes of executive committee meetings, and meetings with sector leads, together with our wider industry knowledge and considering the impact of any climate related impacts; and
- assessed the completeness and accuracy of disclosures within the financial statements.

Key observations

Our controls work highlighted that there was a lack of formalised documentation over model mechanics and assumptions made with limited documented evidence of review.

The Directors' discount rates were originally outside of the reasonable range calculated by our internal valuations specialists, resulting in additional impairment of £4m being recorded in the year ended 31 March 2022.

We also identified an error with the mechanical accuracy of the model, resulting in additional impairment of £9m which has been recorded by the Directors.

After recording these adjustments, we are satisfied that the judgements applied, impairment charges recorded and disclosures within the financial statements are appropriate.

5.4. Carrying value of Goodwill within the Land and Aviation sectors (Group)

Refer to page 108 (Audit Committee report), Note 1 (Basis of preparation and significant accounting policies), Note 3 (Prior year restatements), Note 5 (Operating (loss)/profit for the year) and Note 12 (Goodwill)

Key audit matter description

The Group holds goodwill balances with a combined carrying value of £782m as at 31 March 2022 (2021: £956m restated).

As disclosed in Note 3 to the financial statements, following a computational error identified in the Aviation CGU model in the prior year, a prior year restatement recorded an additional impairment charge of £81m in respect of the Aviation CGU in the year ended 31 March 2021.

The Directors perform an impairment review of the carrying value of each Cash Generating Unit ('CGU') Group on an annual basis in line with the requirements of IAS 36.

As described in Note 12 to the financial statements the Group monitors goodwill at operating segment level, with the exception of the establishment of a separate CGU Group during the year for Aviation – Europe. The current year impairment test resulted in an impairment of the goodwill allocated to the Aviation segment of £7.2m and as described in Note 13 to the financial statements an impairment of £57.6m against the acquired intangible balance allocated to the Aviation CGU for the year ended 31 March 2022.

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 five-year plan. Terminal value assessments are included based on year five and an estimated long-term, country-specific growth rate of 1.8–2.5% (2021: 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 of 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 supply chain disruption, inflation and climate change. The value in use calculations include the anticipated benefits of the Group's revised operating model, reflecting the fact that Group was committed to the project at 31 March 2022.

From our risk assessment procedures, we have identified a key audit matter in relation to the valuation of goodwill in the Aviation and Land sectors, focused on:

- discount rates used to discount future cash flows; and
- key assumptions within the short-term growth forecasts such as future revenue growth and margin improvements.

How the scope of our audit responded to the key audit matter

We completed the following audit procedures:

- obtained an understanding of the key controls in the impairment process, including the review controls performed at a sector level of the five-year plan, the Group level review of the five-year plan, and the Directors' review of the Goodwill model;
- assessed the mechanical accuracy of the impairment models and the methodology applied for consistency with the requirements of IAS 36;
- challenged the appropriateness of the Directors' change in CGU Groups with reference to the requirements of IAS36 and the level at which operations are managed and goodwill is monitored for internal reporting purposes;
- assessed the completeness and accuracy of the allocation of corporate overheads to CGUs;
- evaluated and challenged underlying assumptions, including forecast revenue, contract turnover rates, margins, operating model savings, future capital expenditure and working capital adjustments with reference to recent and historical performance, external industry benchmarks, specific forecast events, and considering the impact of any climate related impacts;
- engaged our Deloitte valuations specialists to assess the discount rate;
- determined that the prior year errors, identified in the current period, were included in the current year impairment assessment and did not apply to the current year model;
- in response to the prior year error we have performed additional work over the tie in of the prior year CPBS adjustments in addition to our transition activities;
- performed a 'stand-back' assessment, including consideration of enterprise value compared to the Directors' value in use and comparison to the potential sale value for the Aviation CGU to assess the appropriateness of the final recoverable amount and net book value, as well as the final impairment charge recorded; and
- assessed the completeness and accuracy of disclosures in the financial statements.

Key observations

Our controls work highlighted that there was a lack of formalised documentation over model mechanics and assumptions made with limited documented evidence of review.

The Directors' discount rates were originally outside of the reasonable range calculated by our internal valuations specialists, resulting in an additional impairment of £3.8m being recorded against the acquired intangible in the year ended 31 March 2022.

We concur with the identification of Aviation – Europe as a separate CGU Group.

Following the correction of the current and prior period errors, we are satisfied that the judgements applied, impairment charges recorded and disclosures within the financial statements are appropriate.

5.5. Hedge effectiveness on foreign currency forwards (Group and Company)

Refer to page 108 (Audit Committee report), Note 1 (accounting policy and financial disclosures), Note 3 (Prior year restatements), Note 5 (Operating (loss)/profit for the year), Note 24 (Financial instruments and fair value measurement) and Note 5 (Prior year adjustments) to the Company financial statements

Key audit matter description	The Group uses forward contracts to hedge the foreign currency cost of future purchases to be consumed in operations, future income to be received and debt payments to be made. The Group designates the spot element of the foreign currency risk in relation to these contracts to hedge the foreign currency risk. Undesignated components of the Group's derivatives are recognised immediately in the income statement. At 31 March 2022 the Group had net derivative financial liabilities of £82.8m (31 March 2021: £52.4m net liabilities). Further, as disclosed in note 3 to the Group financial statements and Note 5 to the Company financial statement, the Group incorrectly accounted for the valuation of certain cross currency swaps, which resulted in prior year restatements of £16.2m being recorded. As outlined in Note 5 to the Group financial statements, the Directors have recorded a loss on derivative instruments at fair value through profit or loss of £7.2m for the year ending 31 March 2022 (£6.9m for the year ended 31 March 2021) as a result of de-recognising certain hedging arrangements where it was deemed the hedging criteria under IFRS 9 were not met. The requirements of IFRS 9: Financial Instruments are complex and we have identified a key audit matter that cash flow hedge relationships designated by the Directors, where the hedging instrument is an FX derivative, do not comply with the eligibility, documentation and effectiveness requirements of IFRS 9: Financial Instruments, specifically, that: • Hedge effectiveness is not assessed in accordance with the requirements of IFRS 9; • The Directors' fail to appropriately identify, and measure the impact of, potential sources of ineffectiveness which may result in hedge ineffectiveness not being appropriately recognised in profit or loss, given we have observed hedge designations where the critical terms of the hedging instrument and hedged forecast cash flows do not match; and • Forecast future cash flows are not highly probable.
How the scope of our audit responded to the key audit matter	We completed the following audit procedures working with our financial instruments specialists: • Obtained an understanding of the key controls over hedge effectiveness; • Assessed, the eligibility of the hedging instrument and hedged item and the hedge designation against the requirements of IFRS 9; • Assessed whether the hedging item is highly probable, in line with the requirements of IFRS 9; • Assessed the hedge documentation against the requirement of IFRS 9; • Inspected the Directors' hedge effectiveness assessment to assess compliance with IFRS 9; • Performed an independent hedge effectiveness assessment; • Reviewed and re-calculated the value of the cash flow hedge reserve to determine the reasonableness of the closing cash flow hedge reserve balance; and • Assessed the reclassification journals from the cash flow hedge reserve to the income statement, or other account balances, to assess compliance with the hedge designation stated within hedge documentation and the requirements IFRS 9.
Key observations	We identified control deficiencies and a lack of technical accounting expertise, predominantly in relation to maintenance of hedge documentation and assessing hedge effectiveness. This resulted in many hedges not meeting the minimum requirements of IFRS 9 at designation, meaning that hedge accounting could not be applied. Following the correction of the prior year restatements referenced above we are satisfied that the hedge accounting applied complies with the requirements of IFRS 9.

5.6. Valuation of retirement benefits and obligations (Group)

Refer to page 108 (Audit Committee report), Note 1 (accounting policy and financial disclosures), Note 3 (Prior year restatements) and Note 27 Retirement benefits and liabilities

Key audit matter description

The Group has a net pension asset as at 31 March 2022 of £192m (2021: net pension liability of £279m restated) with aggregate scheme assets of £4.7bn less defined benefit obligation of £4.5bn (2021: £4.6bn scheme assets less £4.9bn defined benefit obligation).

As disclosed in note 3 to the financial statements, three prior year errors were identified and recorded in relation to: longevity swap valuations; allowance for the 2021 pension increases in the 31 March 2021 benefit obligation; and the Babcock Naval Services Pension Scheme (BNSPS) valuation.

Longevity swap valuation

- IFRS 13 requires that longevity swaps are accounted for at fair value using swap market pricing estimates. The longevity swaps are out-the-money and so are negative asset values.
- As outlined in Note 3, the Group has updated its approach for estimating the fair value of the longevity swaps which led to a restatement of the value of the longevity swaps at 31 March 2021 to reflect the revised methodology.
- The Directors' external actuarial specialist recomputed the valuation in line with an appropriate methodology.

Allowance for the 2021 pension increases in the 31 March 2021 benefit obligation

- The initial figures prepared by the Directors' actuary allowed for inflationary experience over the past two years being recorded in the 31 March 2022 defined benefit obligation ("DBO") as the prior year 31 March 2021 DBO did not allow for 2020 inflationary experience.
- As outlined in Note 3 to the financial statements, the approach was reviewed and the opening DBO as at 31 March 2021 was reduced by £53.9m to correctly account for prior year's inflationary experience. The current year other comprehensive Income ("OCI") was adjusted by the same amount.

Babcock Naval Services Pension Scheme (BNSPS) valuation

- We became aware that the valuation of the scheme was not aligned with the requirement of IAS 19, we revised our risk assessment and extended our audit scope to include the BNSPS valuation.
- As outlined in Note 3 this gave rise to a prior period restatement which has subsequently been corrected.

The net impact of these errors on other comprehensive income/(loss) at 31 March 2021 was £49.6m, with the error impacting the fair value of plan assets and the present value of defined benefit obligations and 31 March 2021 and 31 March 2020.

We identified a key audit matter over the valuation of pension scheme assets and liabilities, focused on the areas where we identified prior year errors given the size of the adjustments.

How the scope of our audit responded to the key audit matter

We completed the following audit procedures:

- Obtained an understanding of key controls in relation to the pension obligation valuation process;
- Utilised internal pension actuarial specialists to evaluate the key actuarial assumptions used, including both financial and demographic, and considering the methodology utilised to derive these assumptions;
- Benchmarked and performed sensitivity analysis on the key assumptions determined by the Directors;
- Assessed the competence, capabilities and objectivity of the independent actuaries engaged by the Directors to perform valuations of the relevant schemes;
- Sought third party confirmation from asset managers and/or custodians or other supporting evidence as appropriate; and
- Reviewed publicly available information on these assets, comparing to internal benchmarks and reconciling inputs used by the Directors to determine the asset values.

Longevity swap valuation

- We challenged the accuracy of the valuation in conjunction with our actuarial and valuations specialists.

Allowance for the 2021 pension increases in the 31 March 2021 benefit obligation

- We challenged the accuracy of the valuation in conjunction with our actuarial specialists.

Babcock Naval Services Pension Scheme (BNSPS) valuation

- We engaged internal valuation specialists to assist in our testing in this area, including performing a full review of the BNSPS triennial valuation which was not included in our original scope of work.

Key observations

As outlined in Note 3 to the Group financial statements, the Directors have corrected three prior period errors which were identified through the course of our audit procedures in this area.

Following the correction of errors, we considered the Directors' key assumptions to be within acceptable ranges. We assessed the related disclosures included in the Group financial statements and consider them to be appropriate.

5.7. Carrying value of investments in subsidiaries (Company)

Note 2 (significant accounting policies), Note 5 (Prior year adjustment) and Note 5 (Investment in subsidiary undertakings) to the Company financial statements

Key audit matter description

The Company holds investments in its subsidiaries of £2,467m (2021: £2,304m). Management has performed an assessment of the recoverable amount of the investments and compared this to the carrying value using the same cash flow methodology applied in the impairment test for goodwill.

As outlined in Note 5 to the Company financial statements the Directors have recorded a prior period error of £163m to record an impairment against the investment in subsidiary undertakings. This impairment reversed in the year-ended 31 March 2022. We involved internal valuation specialists to assist our work in this area.

We focused on this area due to the size of the investment balances and the potential impairment indicator being the fact that the investment balance exceeded the group's market capitalisation.

How the scope of our audit responded to the key audit matter

We completed the following audit procedures:

- obtained an understanding of key controls in relation to the investment impairment assessment process;
- evaluated management's assessment of whether any indicators of impairment existed by comparing the Company's investment carrying value to the market capitalisation of the Group;
- reconciled the cash flows and other key assumptions used to determine the recoverability of the Group's CGUs for the goodwill impairment review, which were subject to separate audit procedures as detailed in the key audit matter above;
- considered the recoverable value by reference to the Group's market capitalisation and to valuations implied from third party analyst reports;
- reperformed the investment impairment calculation to determine the accuracy of management's calculation in conjunction with valuation specialists;
- considered whether the impairment reversal indicated in the impairment model for 31 March 2022 reflected a change in service potential of the asset and therefore a valid reversal to record under IAS 36; and
- assessed the appropriateness of the disclosures as they relate to company only investment impairment within the annual report.

Key observations

Through our reperformance of the investment impairment calculation we identified errors in the modelling. This did not change the current year impairment conclusion, however when applied to the prior year investment impairment model resulted in a material prior year error of £163m impairment which, as outlined in note 5 to the company only financial statements, has been corrected by management.

Once the prior year error was flowed through to the current year assessment, this resulted in a £163m reversal in the current year. We have analysed the drivers of this reversal and are satisfied that the reflects a change in service potential of the asset and is therefore a valid reversal to record under IAS36.

We evaluated the disclosures made in note 2 and note 6 to the company financial statements and consider these are appropriate.

6. Our application of materiality

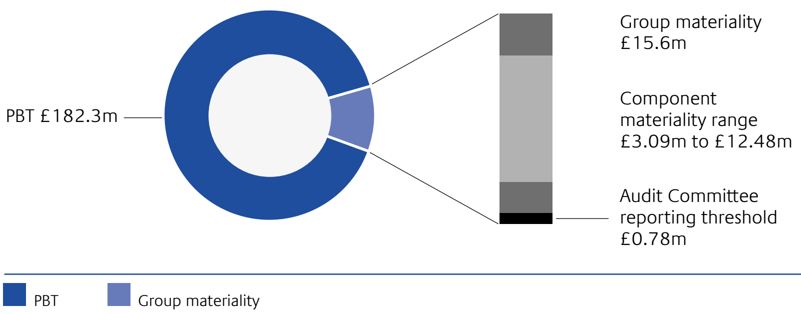
6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

	Group financial statements	Company financial statements
Materiality	£15,600,000 (2021: £15,900,000 was used by the previous auditors).	£66,322,000 (2021: £61,391,000 was used by the previous auditors). The materiality determined for the standalone Company financial statements exceeds the Group materiality. This is due to the fact that the total asset balance of the Company financial statements exceeds the total asset balance of the group. As the Company is non-trading and operates primarily as a holding company, we believe the total asset position is the most appropriate benchmark to use. Where there were balances and transactions within the parent company accounts that were within the scope of the audit of the Group financial statements, our procedures were undertaken using the lower materiality level (£12,480,000, 2021: £12,375,000 was used by the previous auditors) applicable to the group audit components. It was only for the purposes of testing balances not relevant to the Group audit, such as intercompany investment balances, that the higher level of materiality applied in practice.
Basis for determining materiality	In determining our benchmark for materiality, we considered the metrics used by investors and other readers of the financial statements. In particular, we considered: Revenue, Net Assets, Total assets, Profit before tax, Profit before tax excluding £163.1m of profit from business acquisition, merger and divestment related items, restructuring costs of £(33.8)m and exceptional costs of £(118.8)m as defined in Note 2 and cash generated from operations. Metric Revenue: 0.4% Net assets: 2.2% Total assets: 0.3% Profit before tax: 8.6% Profit before tax excluding £163.1m of profit from business acquisition, merger and divestment related items, restructuring costs of £(33.8)m and exceptional costs of £(118.8)m as defined in Note 2.: 9.1% The previous auditors determined materiality as 75% of 2020 materiality, which was based on 5% of 2020 profit before tax, adjusted for amortisation of acquired intangible assets and exceptional items. The prior year materiality represented 0.4% of revenue, 6.5% of net assets, 0.3% of total assets, 0.9% of loss before tax and 7.2% of loss before tax and exceptional items.	1% of total assets (2021: The previous auditors used 1%). The lower materiality of £12,480,000 for the purposes of the group audit was based on 80% of Group materiality (2021: The previous auditors based this on a calculation and allocation of component materiality for the Group audit).

	Group financial statements	Company financial statements
Rationale for the benchmark applied	We assessed which line items are the most important to investors and analysts by reading analyst reports and Babcock's communications to shareholders, as well as the communications of peer companies. Profit before tax is the benchmark ordinarily considered by us when auditing listed entities. It provides comparability against companies across all sectors but has limitations particularly where profitability has significantly varied year on year as is the case for Babcock. Following this assessment, we determined using our professional judgement that the selected materiality was appropriate, we note this is consistent with the approach adopted by the previous auditors.	In determining our materiality, we have considered total assets as the appropriate benchmark given the Company is primarily a holding company for the Group.



Note that excluding the Parent Company, Component materiality ranged from £3.09m to £4.91m

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	60% (2021: 75%) of Group materiality.	60% (2021: 75%) of Company materiality.
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • The current financial year being Deloitte LLP's first year auditing the Group and Parent financial statements; • The control deficiencies identified in the control environment; • The de-centralised nature of the group and lack of common controls and processes; • The nature, volume and size of uncorrected misstatements arising in the previous audit; and • The nature, volume and size of identified uncorrected misstatements that remain uncorrected in the current period. As a result of the above procedures we deemed it appropriate to reduce performance materiality to 60% of materiality, which represents a reduction from the prior year and is reflective of our findings on the control environment as outlined in key audit matter 5.1.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £780,000 (2021: £800,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

We performed our scoping of the Group audit by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the audit risks. This exercise considered the relative size of each reporting unit's contribution to revenue, profit before tax and adjusted profit before tax, alongside further financial or contractual risks, which we considered to be present. This resulted in 29 components in full scope and one in specified balances scope. We increased the number of components in full scope in part due to the impact of identified control deficiencies highlighted in section 5.1. For example, we increased our scope to include Norway and Sweden primarily given the high level of local misstatements resulting from the CPBS and discussions with management and internal audit, which highlighted control weaknesses. We directed these two component auditors to perform a full scope audit for these components.

For all other reporting units not included in full scope or specified account balance scope , we performed centrally directed analytical review procedures to confirm our conclusion that there was no significant risk of material misstatement in the residual population.

As each of the sub-sectors maintains separate financial records, we engaged component auditors from the Deloitte member firms in Australia, Canada, France, Italy, Norway, the UK, South Africa, Spain and Sweden to perform procedures at all the wholly owned components under our direction and supervision.

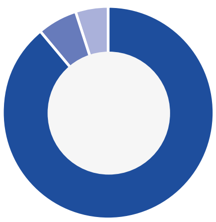
This approach also allowed us to engage local auditors who have appropriate knowledge of local regulations to perform the audit work, under a common Deloitte audit approach. We issued detailed instructions to the component auditors, including specific procedures to address group level significant risks such as contracts testing and asset impairment procedures for some geographies and directed and supervised their work through a number of visits to the component auditor during the planning and performance stages of our audit alongside frequent remote communication and review of their work

In respect of the Airtanker Operating Company we engaged with the entities' non-Deloitte auditors to perform a full-scope audit under our direction and supervision. Further our Australian member firm engaged the non-Deloitte auditor as part of their scope to perform procedures under their direction and supervision for a subcomponent and our oversight of the Australian member firm included reviewing and challenging their procedures.

In addition to the work performed at a component level the group audit team also performs audit procedures on the Company financial statements including but not limited to corporate activities such as treasury and pensions as well as on the consolidated financial statements themselves, including entity level controls, litigation provisions, the consolidation, financial statement disclosures and risk assessment work on components not included elsewhere in the scope of our audit. The group audit team also co-ordinates certain procedures performed on key areas, such PPE impairment, where audit work is performed by both the group and component audit teams as well as analytical reviews on out-of-scope components.

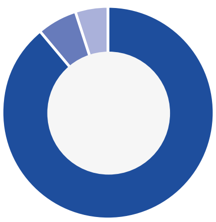
The 30 components within either full or specified account balance scope contribute the proportions of Group totals shown below.

Revenue



- 89% Full audit scope
- 6% Specified audit procedures
- 5% Review at group level

Profit before tax



- 89% Full audit scope
- 6% Specified audit procedures
- 5% Review at group level

7.2. Our consideration of the control environment
We have performed detailed walkthroughs of the processes associated with each of the Group's business cycles, identifying relevant controls and evaluating those controls. We also identified relevant IT applications, infrastructure and operating systems used in the operation of the Group's relevant controls, and performed testing of the general IT controls over those systems identified as key.

As outlined in section 5.1 the results of these procedures meant that we were unable to adopt a controls reliance audit approach.

7.3. Our consideration of climate-related risks
As a part of our audit procedures we have held discussions with the Directors to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements. While management has acknowledged that the transition and physical risks posed by climate change have the potential to impact the medium to long term success of the business, they have assessed that there is no material impact arising from climate change on the judgements and estimates made in the financial statements as at 31 March 2022. In particular, as disclosed in Note 12 (Goodwill), management have considered the impact of climate change on the useful economic lives of assets, disruption to key operating sites and supply chain, and potential asset impairments. These considerations did not have a material impact on the goodwill impairment assessment. We performed our own qualitative risk assessment of the potential impact of climate change on the Group's account balances and classes of transaction and did not identify any additional risks of material misstatement.

7.4. Working with other auditors
Our oversight of component auditors included directing the planning of their audit work and understanding their risk assessment process to identify key areas of estimates and judgement, as well as the supervising the execution of their audit work.

We issued detailed instructions to the component auditors, reviewed and challenged the related component inter-office reporting and findings from their work, reviewed underlying audit files, attended component audit closing conference calls and held regular remote communication to interact on any related audit and accounting matters which arose. Additionally, all teams were involved in our global planning and fraud meeting, which was led by the Group audit team. Visits to meet with certain component teams in the UK, Spain, France, Norway, Sweden and Italy were conducted, where we did not visit components in person, we maintained an ongoing dialogue virtually and reviewed files remotely.

The Company is located in the United Kingdom and the UK components were audited directly by the Group audit team.

We are satisfied that the level of involvement of the Group audit partner and team in the component audits has been extensive and has enabled us to conclude that sufficient appropriate audit evidence has been obtained in support of our opinion on the Group financial statements as a whole.

8. Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

9. Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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.

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

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

11. Extent to which the audit was considered capable of 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 above, 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.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment (in particular the deficiencies we identified in this area, see 5.1 above) and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- we considered the impact of adjustment made to the presentation of specific adjusting items and exceptional items, including the CPBS adjustments recorded in the prior year;
- results of our enquiries of the Directors, internal audit, internal and external legal counsel and the Audit Committee about their own identification and assessment of the risks of irregularities;
- the expertise of our internal fraud and forensic specialists in planning our response to potential fraud risk factors, in particular through attending engagement team discussions;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations including obtaining an understanding of the Group's bribery and corruption and whistleblowing policies; and
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, forensics, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in: the level of judgement involved in estimating costs to complete on long-term contracts, particularly in a high inflationary environment; cost allocation between contracts; assessing the level of allowable and disallowable costs to recharge; the level of cumulative-catch-up adjustments (CCAs) recorded and the subsequent impact on revenue and margin recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty, including in respect of export controls, defence contracting and anti-bribery and corruption legislation.

11.2. Audit response to risks identified

As a result of performing the above, we identified 'Revenue and margin recognition on three long-term contracts with significant management judgment' as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

As a result of performing the above, we did not identify any additional key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

In addition to the above, our procedures to respond to risks identified included the following:

- recomputing the CCA adjustments recorded by management and considering any impacts on management's forecasting accuracy;
- testing debit adjustments to Revenue has been included as a test within our journal entry testing;
- performing specific testing over forecast inflation assumptions;
- performing a risk assessment to identify contracts where cost shifting would impact on the margin recorded and performing focussed testing;
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;

- enquiring of the Directors, the Audit Committee, in-house legal counsel and where needed, circularising external legal counsel, concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

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 with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 88;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 88;
- the Directors' statement on fair, balanced and understandable set out on page 139;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 138;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 138; and
- the section describing the work of the audit committee set out on page 108.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by shareholders at its annual general meeting on 22 September 2021 to audit the financial statements of Babcock International Group plc for the year ending 31 March 2022 and subsequent financial periods. The period of total uninterrupted engagement of the firm is accordingly one year.

15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

In due course as required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

MAKHAN CHAHAL ACA (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF DELOITTE LLP
Statutory Auditor
London, UK
28 July 2022

GROUP INCOME STATEMENT

For the year ended 31 March	Note	2022 £m	2021 (restated) £m
Revenue	2,4	4,101.8	3,971.6
Cost of revenue		(3,756.5)	(3,945.5)
Gross profit		345.3	26.1
Administration and distribution expenses		(284.1)	(376.5)
Goodwill impairment	12	(7.2)	(1,336.6)
Profit/(loss) resulting from acquisitions and disposals	29	172.8	(49.7)
Operating profit/(loss)	2,4,5	226.8	(1,736.7)
Other income		6.2	–
Share of results of joint ventures and associates	2,4,16	20.1	(13.1)
Finance income	6	9.6	16.6
Finance costs	6	(80.4)	(77.8)
Profit/(loss) before tax	2,4	182.3	(1,811.0)
Income tax (expense)/benefit	8	(14.4)	8.0
Profit/(loss) for the year		167.9	(1,803.0)
Attributable to:			
Owners of the parent		164.2	(1,803.0)
Non-controlling interest		3.7	–
Earnings/(loss) per share			
Basic	10	32.5p	(357.0)p
Diluted	10	32.1p	(357.0)p

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March	Note	2022 £m	2021 (restated) £m
Profit/(loss) for the year		167.9	(1,803.0)
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		0.2	1.7
Reclassification of cumulative currency translation reserve on disposal		(7.3)	10.5
Fair value adjustment of interest rate and foreign exchange hedges		(14.7)	18.4
Tax, including rate change impact, on fair value adjustment of interest rate and foreign exchange hedges		(1.0)	(4.5)
Hedging gains/(losses) reclassified to profit or loss		17.1	6.9
Reclassification of cumulative hedge reserve on disposal of joint venture		20.8	–
Share of other comprehensive income of joint ventures and associates	16	30.2	7.0
Tax, including rate change impact, on share of other comprehensive income of joint ventures and associates	16	(5.7)	(1.4)
Items that will not be reclassified to income statement			
Remeasurement of retirement benefit obligations	27	322.5	(445.6)
Tax, including rate change impact, on remeasurement of retirement benefit obligations		(64.2)	84.7
Other comprehensive income/(loss), net of tax		297.9	(322.3)
Total comprehensive income/(loss)		465.8	(2,125.3)
Total comprehensive income/(loss) attributable to:			
Owners of the parent		461.2	(2,126.4)
Non-controlling interest		4.6	1.1
Total comprehensive income/(loss)		465.8	(2,125.3)

In the year ended 31 March 2022, the Group restated the prior year financial information. Details of the restatement are contained in note 3.

GROUP STATEMENT OF CHANGES IN EQUITY

	Note	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 2020 (previously stated)		303.4	873.0	768.8	30.6	480.1	(97.3)	(59.5)	2,299.1	15.7	2,314.8
Prior period restatements	3	–	–	–	–	8.8	28.2	–	37.0	–	37.0
At 1 April 2020 restated		303.4	873.0	768.8	30.6	488.9	(69.1)	(59.5)	2,336.1	15.7	2,351.8
(Loss)/profit for the year		–	–	–	–	(1,803.0)	–	–	(1,803.0)	–	(1,803.0)
Other comprehensive income/(loss)		–	–	–	–	(360.9)	26.4	11.1	(323.4)	1.1	(322.3)
Total comprehensive loss		–	–	–	–	(2,163.9)	26.4	11.1	(2,126.4)	1.1	(2,125.3)
Dividends		–	–	–	–	–	–	–	–	(0.8)	(0.8)
Share-based payments	26	–	–	–	–	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		–	–	–	–	(2,160.6)	26.4	11.1	(2,123.1)	0.3	(2,122.8)
At 31 March 2021 restated		303.4	873.0	768.8	30.6	(1,671.7)	(42.7)	(48.4)	213.0	16.0	229.0
At 1 April 2021 as restated		303.4	873.0	768.8	30.6	(1,671.7)	(42.7)	(48.4)	213.0	16.0	229.0
Profit for the year		–	–	–	–	164.2	–	–	164.2	3.7	167.9
Other comprehensive income		–	–	–	–	258.3	46.7	(8.0)	297.0	0.9	297.9
Total comprehensive income		–	–	–	–	422.5	46.7	(8.0)	461.2	4.6	465.8
Dividends		–	–	–	–	–	–	–	–	(1.1)	(1.1)
Share-based payments	26	–	–	–	–	5.5	–	–	5.5	–	5.5
Tax on share-based payments		–	–	–	–	2.3	–	–	2.3	–	2.3
Net movement in equity		–	–	–	–	430.3	46.7	(8.0)	469.0	3.5	472.5
At 31 March 2022		303.4	873.0	768.8	30.6	(1,241.4)	4.0	(56.4)	682.0	19.5	701.5

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 2022 £m	31 March 2021 (restated) £m	1 April 2020 (restated) £m
Assets				
Non-current assets				
Goodwill	12	782.4	956.3	2,381.3
Other intangible assets	13	175.7	199.9	332.9
Property, plant and equipment	14	710.6	734.4	840.9
Right of use assets	15	334.3	518.3	609.0
Investment in joint ventures and associates	16	54.3	73.5	161.9
Loan to joint ventures and associates	16	12.1	42.1	48.6
Retirement benefits surpluses	27	300.9	46.8	298.4
Other financial assets		10.0	11.2	12.8
Lease receivables	15, 23	24.1	12.9	6.9
Derivatives	23	–	4.3	14.6
Deferred tax asset	8	47.0	129.7	69.4
Trade and other receivables	18	9.7	26.7	25.9
		2,461.1	2,756.1	4,802.6
Current assets				
Inventories	17	142.7	153.0	191.6
Trade and other receivables	18	488.8	435.7	480.7
Contract assets	18	299.3	276.4	319.2
Income tax recoverable		25.4	50.0	57.2
Lease receivables	15, 23	23.3	26.7	31.7
Derivatives	23	11.4	8.2	122.2
Cash and cash equivalents	19, 28	1,146.3	904.8	1,845.9
		2,137.2	1,854.8	3,048.5
Total assets		4,598.3	4,610.9	7,851.1
Equity and liabilities				
Equity attributable to owners of the parent				
Share capital	25	303.4	303.4	303.4
Share premium		873.0	873.0	873.0
Capital redemption and other reserves		747.0	708.3	670.8
Retained earnings		(1,241.4)	(1,671.7)	488.9
		682.0	213.0	2,336.1
Non-controlling interest		19.5	16.0	15.7
Total equity		701.5	229.0	2,351.8
Non-current liabilities				
Bank and other borrowings	21	847.7	1,323.8	2,055.0
Lease liabilities	15, 21	329.3	486.2	548.5
Trade and other payables	20	1.0	1.9	2.1
Deferred tax liabilities	8	9.6	7.7	33.7
Derivatives	23	59.3	51.0	35.5
Retirement benefit deficits	27	109.3	325.7	200.2
Provisions for other liabilities	22	60.3	73.7	32.7
		1,416.5	2,270.0	2,907.7
Current liabilities				
Bank and other borrowings	21	863.4	383.7	987.9
Lease liabilities	15, 21	104.8	126.1	140.9
Trade and other payables	20	888.1	1,110.2	1,058.0
Contract liabilities	20	518.3	396.5	243.2
Income tax payable		17.7	9.7	3.8
Derivatives	23	34.8	13.9	27.7
Provisions for other liabilities	22	53.2	71.8	130.1
		2,480.3	2,111.9	2,591.6
Total liabilities		3,896.8	4,381.9	5,499.3
Total equity and liabilities		4,598.3	4,610.9	7,851.1

In the year ended 31 March 2022, the Group restated the prior year financial information. Details of the restatement are contained in note 3. The notes on pages 163 to 232 are an integral part of the consolidated financial statements. The Group financial statements on pages 159 to 162 were approved by the Board of Directors on 28 July 2022 and are signed on its behalf by:

DAVID LOCKWOOD OBE
Director

DAVID MELLORS
Director

For the year ended 31 March	Note	2022 £m	2021 (restated) £m
Cash flows from operating activities			
Profit/(loss) for the year		167.9	(1,803.0)
Share of results of joint ventures and associates	16	(20.1)	13.1
Income tax expense/(benefit)	8	14.4	(8.0)
Finance income	6	(9.6)	(16.6)
Finance costs	6	80.4	77.8
Depreciation and impairment of property, plant and equipment		117.5	199.9
Depreciation and impairment of right of use assets		123.1	179.8
Amortisation and impairment of intangible assets		94.7	148.5
Goodwill impairment		7.2	1,336.6
Equity share-based payments		5.5	3.2
Impairment of joint venture loans	16	–	7.0
Net derivative fair value and currency movement through profit or loss		(0.9)	6.9
(Profit)/loss on disposal of subsidiaries, businesses and joint ventures and associates	29	(172.8)	49.7
(Profit)/loss on disposal of property, plant and equipment		(1.5)	26.4
Profit on disposal of right of use assets		(3.2)	–
Loss on disposal of intangible assets		0.7	–
Cash generated from operations before movement in working capital and retirement benefit payments		403.3	221.3
Decrease in inventories		10.6	32.9
(Increase)/decrease in receivables		(111.7)	87.8
(Decrease)/increase in payables		(77.8)	212.5
(Decrease) in provisions		(30.9)	(14.6)
Retirement benefit contributions in excess of current period expense		(151.7)	(64.5)
Cash generated from operations		41.8	475.4
Income tax received		10.0	19.4
Interest paid		(54.9)	(79.4)
Interest received		9.9	12.0
Net cash flows from operating activities		6.8	427.4
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	29	420.7	90.6
Acquisition of subsidiaries, net of cash acquired		(15.5)	–
Dividends received from joint ventures and associates	16	41.6	36.8
Proceeds on disposal of property, plant and equipment		68.0	33.2
Purchases of property, plant and equipment		(190.8)	(156.9)
Purchases of intangible assets		(12.4)	(19.6)
Investment in joint ventures	16	(2.6)	(8.8)
Loans repaid by joint ventures and associates		31.0	4.2
Increase in loans to joint ventures and associates		(1.4)	(3.9)
Net cash flows from investing activities		338.6	(24.4)
Cash flows from financing activities			
Lease principal payments	28	(113.0)	(140.6)
Cash outflow from non-hedging derivatives		–	(3.6)
Cash inflow from settlement of derivatives		–	52.6
Bank loans repaid	28	(31.7)	(1,154.4)
Loans raised and facilities drawn down	28	23.1	25.1
Dividends paid to non-controlling interest		(1.1)	(0.8)
Repurchase of own shares		–	(2.2)
Net cash flows from financing activities		(122.7)	(1,223.9)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		222.7	(820.9)
Cash, cash equivalents and bank overdrafts at beginning of year	28	530.9	1,348.7
Effects of exchange rate fluctuations	28	2.9	3.1
Cash, cash equivalents and bank overdrafts at end of year	28	756.5	530.9

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 Going concern and viability statement on page 88. The Board considered the period from 31 July 2022 to 30 September 2023 in its assessment of going concern. The financial statements have been prepared in accordance with United Kingdom adopted International Accounting Standards, which has not differed from the previously EU-adopted International Financial Reporting Standards (IFRS), and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value. 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 2021:

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2021 and did not have a material impact on the consolidated financial statements:

- The IFRS Interpretations Committee (IFRIC) published an agenda decision in April 2021 which clarified how a customer should account for the costs of configuring or customising the supplier's application software in a Software-as-a-service arrangement. As a result of this decision the Group has revised its accounting policy and will not capitalise costs associated with Software-as-a-service arrangements where it does not control the underlying software and will no longer capitalise configuration or customisation costs associated with Software-as-a-service arrangements unless those costs result in the creation of an asset controlled by the Company. Where amounts are paid to a Software-as-a-service supplier for implementation services and those services are determined not to be distinct from the underlying Software-as-a-service arrangement, a prepayment asset is initially recognised then amortised to expense as the services are received. This policy has been retrospectively applied and all costs capitalised in relation to Software-as-a-service arrangements have been reviewed. This has not had a material impact on the consolidated financial statements. The Group will continue to apply this accounting policy to new Software-as-a-service arrangements as we continue to upgrade and standardise our IT environment. As this policy requires costs to be expensed as incurred, this may lead to a higher up-front charge to the income statement in future years but will not impact on the Group's cash flows.
- Interest Rate Benchmark Reform, Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

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:

- 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.
- 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 review to determine the impact of this amendment is ongoing, however this is not expected to have a material impact.
- IAS 16, 'Property, plant and equipment'. Amendment effective for periods commencing on or after 1 January 2022. The amendment relates to proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.
- IFRS 17 'Insurance Contracts'. Amendment effective from 1 January 2023.

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.

(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.

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

Basis of consolidation (continued)

(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. Detail of the Group's key judgements involving estimates are included in the Key sources of estimation uncertainty section.

Revenue and profit recognition

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. Management is required to exercise judgement on these revenue streams in considering whether the Group is acting as principal or agent. This is 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, although there may be a material impact to revenue and cost of revenue.

The Group has re-examined the principal versus agent assessment in relation to pass-through revenue on three of the Group's contracts. Further detail is included in note 3.

Determining the Group's cash generating units

Management exercises judgement in determining the Group's cash generating units for the goodwill impairment assessment. This determination is generally straightforward and factual, however in some cases judgement is required, for example it was determined that Africa is a separate cash generating unit, whilst operations of the Group in other territories do not represent separate cash generating units. Over time management reviews the cash generating units 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. If there was a change in this judgement this could result in a material adjustment to goodwill. Further detail is included in notes 4 and 12.

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

Key sources of estimation uncertainty

The key sources of estimation uncertainty at the reporting period end that may result in significant risk of 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's revenue recognition policies require management to make an estimate of the cost to complete for long-term contracts. Management estimates outturn costs on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel. Estimates of cost to complete 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 judgements and estimates are reviewed regularly throughout the contract life based on latest available information and adjustments are made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn. One key contract for the Group includes a critical estimate around the realisation of future transformational savings. If these savings fail to be realised, this will impact on the margin for this contract and could result in a reduction to revenue and contract assets, and therefore profit, of £10 million.

Defined benefit pension schemes obligations

The Group's defined benefit pension schemes are assessed annually in accordance with IAS 19, 'Employee benefits' 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, management is required to make an accounting judgement relating to the expected availability of future accounting surpluses under IFRIC 14, `IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. Further information on the key assumptions and sensitivities is included in note 27.

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 future 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. The key assumptions in estimating the carrying value of goodwill are discount rate, long-term growth rate and short-term growth rates. Further information on key assumptions and sensitivity analyses are included in note 12.

Inflation

The level to which the Group's revenue and cost for each contract will be impacted by inflation is a key accounting estimate, as this could cause the cost of contract delivery to be greater than was expected at the time of contracting. The Group's contracts are exposed to inflation due to rising employment costs, as well as increased costs of raw materials.

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'). 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 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 results in some contracts only having 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 be entitled 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. Any required adjustment is made against the contract price in the period in which the adjustment occurs.

Variable consideration is estimated using either the expected value or the most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. 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. Variable consideration may be included in the total transaction price or, in certain circumstances, may be allocated to a specific time period. Where variable consideration is allocated to a specific time period this will typically be in relation to performance related deductions.

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 observable 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 the services. 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 an input method to measure satisfaction of each performance obligation based on costs incurred compared to total estimated contract costs. For the majority of the Group's contracts, this is deemed to be the most appropriate method to measure Babcock's effort in satisfying the applicable performance obligations. 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. For contracts where costs incurred is not deemed to be the most appropriate measure, the Group uses time elapsed to measure satisfaction of the performance obligation.

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 (h) 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 4, sale of goods at a point in time represents approximately 6% of Group revenues. These revenues are delivered predominantly by the Aviation and Land sectors and include sales of equipment to commercial customers and procurement of consumables on behalf of the Ministry of Defence (MOD).

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.

If a contract is deemed to be loss making the present obligation is recognised and measured a provision. Further detail is included in the Provisions accounting policy.

(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. 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.

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

Accounting for contract modifications

The Group accounts for contract modifications in one of three ways, based on the facts and circumstances of the contract modification:

1. Prospectively, as an additional, separate contract;

2. Prospectively, as a termination of the existing contract and creation of a new contract; or

3. As part of the original contract using a cumulative catch-up.

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 carried out 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 sub-contractors 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. The costs are capitalised as an asset in capitalised contract costs and amortised to cost of revenue on a typically straight-line 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.

(g) Costs to fulfil a contract

Post contract award but pre contract operational start-up costs which satisfy the criteria for capitalisation under another standard, such as property, plant and equipment (IAS 16, 'Property, Plant and Equipment') or intangible assets (IAS 38, `Intangible assets'), are accounted for in accordance with those standards. Costs to fulfil a contract 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.

Costs of recruiting or training staff are expensed as incurred.

Capitalised contract costs are amortised to cost of revenue on a straight-line basis consistent with the transfer to the customer of the goods and services to which the asset relates.

(h) Contract assets and liabilities

Contract assets represent amounts for which the Group has a conditional right to consideration in exchange for goods or services that the Group has transferred to the customer. Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Payment terms are set out in the contract and reflect the timing and performance of service delivery. For substantially all contracts the payment terms are broadly in line with satisfaction of performance obligations, and therefore recognition of revenue, such that each contract has either a contract asset or contract liability, however these are not overly material in the context of the contract.

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

Significant accounting policies (continued)

Underlying financial information and specific adjusting items

Definitions and a description of the use of the underlying performance measures can be found in note 2.

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 right of use aircraft and specific associated 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 annually at 31 March 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 12 for further information on goodwill impairment reviews.

On disposal of a subsidiary, joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(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.

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 20 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. Configuration and customisation costs relating to Software-as-a-service agreements are expensed as incurred. Computer software is measured at cost less accumulated amortisation and is amortised on a straight-line basis over its expected useful life of between three and seven 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

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.

Depreciation is provided, normally on a straight-line basis, to write off the cost of items of property, plant and equipment over their estimated useful lives to any estimated residual value, using the following 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	2%

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).

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.

The useful economic life of aircraft is based on management's estimate of how long the aircraft will continue to be operated in the same manner or a similar manner, typically not exceeding 30 years. Where the Group acquires aircraft which have already been used, and may already exceed the typical useful economic life, an individual assessment of useful economic life is performed.

Impairment of non-current assets

Goodwill and indefinite life intangibles are 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 excluding loans to joint ventures and associates and lease receivables

Net debt excluding loans to joint ventures and associates and lease receivables 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 hedge the underlying debt. This includes swaps of the currency of the debt into the functional currency of the company carrying the debt. The Group's key performance indicators exclude certain lease obligations 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.

Spare parts that are consumed in the sale of goods or in the rendering of services are classified as inventory.

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 31 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.

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 assets are recognised where deferred tax liabilities exist and are expected to reverse in the same period as the deferred tax asset or in periods into which a loss arising from a deferred tax asset can be carried forward or back. In the absence of sufficient deferred tax liabilities, deferred tax assets are recognised where it is probable that there will be future taxable profits from other sources against which a loss arising from the deferred tax asset can be offset. In assessing the availability of future profits, the Group uses profit forecasts consistent with those used for goodwill impairment testing. Profits forecast beyond the Group's five-year budget cycle are risk-weighted to reflect commercial uncertainties.

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.

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.

Finance income

Finance income is recognised in the period to which it relates using the effective interest rate method.

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 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 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. Trade receivables, contract assets and lease receivables include a provision for expected credit losses. The Group measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. For all other financial assets carried at amortised cost, including loans to joint ventures and associates and other debtors, the Group measures the provision at an amount equal to 12-month expected credit losses. See note 24 for further information on how the Group assesses credit risk.

Trade creditors, amounts due to related parties, other creditors, accruals and bank loans and overdrafts are classified as financial liabilities held at amortised cost.

(b) Derivative financial instruments

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

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

For derivatives that qualify as cash flow hedges, fair value gains or losses are deferred in equity until the underlying transaction is recognised.

Interest Rate Benchmark Reform

In the current year, the Group adopted the Phase 2 amendments Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

Both the Phase 1 and Phase 2 amendments are relevant as the Group applies hedge accounting to its interest rate benchmark exposures. Details of the derivative and non-derivative financial instruments affected by the interest rate benchmark reform together with a summary of the actions taken by the Group to manage the risks relating to the reform and the accounting impact, including the impact on hedge accounting relationships, appear in note 24.

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

Significant accounting policies (continued)

Financial instruments (continued)

Interest Rate Benchmark Reform (continued)

The amendments are relevant for the following types of hedging relationships and financial instruments of the Group:

- Fair value hedges where IBOR-linked derivatives are designated as a fair value hedge of debt; and
- Cash flow hedges where IBOR-linked derivatives are designated as a cash flow hedge.

As a result of the Phase 2 amendments:

- If the contractual terms of the Group's bank borrowings are amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Group changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate.
- If a lease is modified as a direct consequence of the interest rate benchmark reform and the new basis for determining the lease payments is economically equivalent to the previous basis, the Group remeasures the lease liability to reflect the revised lease payments discounted using a revised discount rate that reflects the change in the basis for determining the contractual cash flows.
- If changes are made to the hedging instruments, hedged item and hedged risk as a result of the interest rate benchmark reform, the Group updates the hedge documentation without discontinuing the hedging relationship and, in the case of a cash flow hedge, the amount accumulated in the cash flow hedge reserve is deemed to be based on Sterling Overnight Interest Average ('SONIA').

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 (SOIA).

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. 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.

Supply chain financing

Suppliers can choose to access supplier financing arrangements provided by different third-party banks in different countries. Commercial requirements, including payment terms or the price paid for goods, do not depend on whether a supplier chooses to access such arrangements. Under the arrangements, suppliers may choose to access payment early rather than on our normal payment terms, at a funding cost to the supplier that is set by the factoring agent. Management reviews supplier financing arrangements to determine the appropriate presentation of balances outstanding as trade payables or borrowings, dependent on the nature of each arrangement. Factors considered in determining the appropriate presentation include the commercial rationale for the arrangement, impact on the Group's working capital positions, credit enhancements or other benefits provided to the bank and recourse exposures.

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 restatements

The results of the Group have been restated where practicable by retrospectively restating the Group's prior period results for the affected periods. Any restatements identified relating to reporting periods before 1 April 2020 have been corrected by cumulatively restating the impacted balance sheet line item, including retained earnings, at 1 April 2020.

Changes in accounting policies

Management implemented one change in accounting policy during the year ended 31 March 2022. See note 3 for further details.

Changes in presentation

The Group changed the presentation of the Group statement of financial position to disaggregate lease receivables, trade and other receivables, contract assets, trade and other payables and contract liabilities.

2. Adjustments between statutory and underlying information

Definition of underlying measures and specific adjusting 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, as well as the planning and allocation of capital resources. They are also 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's alternative performance measures are consistent with the year ended 31 March 2021.

Underlying operating profit

Underlying operating profit excludes certain specific adjusting items that distort the reporting of underlying business performance measures if they are not adjusted for. Underlying operating profit eliminates potential differences in performance caused by purchase price allocations on business combinations in prior periods (amortisation of acquired intangibles), business acquisition, merger and divestment related items and large, infrequent restructuring programmes. Transactions such as these may happen regularly and could be lumpy and may be profits or losses.

For the year ended 31 March 2022, the Group has amended its definition of specific adjusting items to include the fair value gain/(loss) on forward rate contracts used to hedge the operational activity of the Group. The fair value movement on these items is driven by external economic variables and not the operational activity of the Group, as such they may distort the reporting of underlying business performance measures if they are not adjusted for. On maturity, the final gain/loss on the forward rate contracts will be included in cost of revenue or administration and distribution costs, depending on the nature of the item being hedged.

Specific adjusting items include:

- Amortisation of acquired intangibles;
- Business acquisition, merger and divestment related items (being amounts related to corporate transactions 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;
- Fair value gain/(loss) on open forward rate contracts; 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

		Year ended 31 March 2022			Year ended 31 March 2021 (restated)		
	Note	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Revenue	4	4,101.8	–	4,101.8	3,971.6	–	3,971.6
Operating profit/(loss)	4,5	237.7	(10.9)	226.8	(27.9)	(1,708.8)	(1,736.7)
Other income		6.2	–	6.2	–	–	–
Share of results of joint ventures and associates	16	20.1	–	20.1	(13.1)	–	(13.1)
Investment income	6	0.8	–	0.8	0.9	–	0.9
Other net finance costs	6	(62.0)	(9.6)	(71.6)	(62.1)	–	(62.1)
Profit/(loss) before tax		202.8	(20.5)	182.3	(102.2)	(1,708.8)	(1,811.0)
Income tax (expense)/benefit	8	(43.9)	29.5	(14.4)	(21.8)	29.8	8.0
Profit/(loss) after tax for the year		158.9	9.0	167.9	(124.0)	(1,679.0)	(1,803.0)

2. Adjustments between statutory and underlying information (continued)

Earnings per share including underlying measures

	Year ended 31 March 2022			Year ended 31 March 2021 (restated)		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Profit/(loss) after tax for the year	158.9	9.0	167.9	(124.0)	(1,679.0)	(1,803.0)
Amount attributable to owners of the parent	155.2	9.0	164.2	(124.0)	(1,679.0)	(1,803.0)
Amount attributable to non-controlling interests	3.7	–	3.7	–	–	–
Weighted average number of shares (m)	505.1		505.1	505.0		505.0
Effect of dilutive securities (m)	6.1		6.1	4.0		4.0
Diluted weighted average number of shares (m)	511.2		511.2	509.0		509.0
Basic EPS	30.7p		32.5p	(24.6)p		(357.0)p
Diluted EPS	30.4p		32.1p	(24.6)p		(357.0)p

Details of specific adjusting items

The impact of specific adjusting items is set out below:

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Amortisation of acquired intangibles	(21.4)	(40.2)
Business acquisition, merger and divestment related items	163.1	(49.7)
Gains, losses and costs directly arising from withdrawal from a specific market or geography	–	(11.1)
Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes	–	(8.9)
Restructuring	(33.8)	(8.4)
Fair value loss on forward rate contracts	(9.6)	–
Exceptional items	(118.8)	(1,590.5)
Loss before tax	(20.5)	(1,708.8)
Income tax benefit		
Amortisation of acquired intangibles	5.5	8.2
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	6.5	0.5
Fair value loss on forward rate contracts	2.5	–
Exceptional tax items and tax on exceptional items	15.0	18.4
Income tax benefit	29.5	29.8

2. 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 and is removed to aid comparability with peers who have grown organically as opposed to through acquisition. 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 gain relating to business acquisition, merger and divestment related items was £163.1 million. This comprised of £172.8 million profit resulting from acquisitions and disposals completed in the year offset by £9.7 million of costs incurred in relation to the Group's divestment programme for disposals that had not completed at 31 March 2022. The profit resulting from acquisitions and disposals completed in the year included a £140.4 million gain on disposal of the Oil and Gas business, Frazer-Nash Consultancy, Power and AirTanker Holdings Limited, plus a gain on acquisition on Naval Ship Management (Australia) Pty Limited of £32.4 million, as detailed in note 29.

The prior year included a total net loss of £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 de Suporte Ltda.

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

In the prior year the Group ceased its Airport baggage handling contract, 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).

Restructuring

The Group has incurred £36.8 million of restructuring costs in relation to the implementation of the new operating model announced and implemented during the year ended 31 March 2022. This has been offset by the release of £3.0 million of restructuring provisions created in previous years that were classified as exceptional but are no longer needed.

In the prior period, the Group incurred a restructuring charge of £9.3 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.

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

In the prior year, 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

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

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Operating costs		
Impairment of goodwill	(7.2)	(1,336.6)
Impairment of acquired intangibles	(57.6)	(56.4)
Impairment of internally generated intangible assets	–	(32.7)
Impairment of property, plant and equipment and aircraft fleet rationalisation	(58.8)	(142.6)
Impairment of right of use assets	–	(46.4)
Release of onerous contract provisions	1.8	–
Release of provisions relating to the Italy fine and related costs	3.6	24.2
Other	(0.6)	–
Exceptional items – Group	(118.8)	(1,590.5)
Exceptional tax items and tax on exceptional items	15.0	18.4
Exceptional items – net of tax	(103.8)	(1,572.1)

2. Adjustments between statutory and underlying information (continued)

Explanation of exceptional items

Impairment of goodwill

The Group has recorded a goodwill impairment of £7.2 million in the Aviation operating segment, due to changes in the forecast future business performance informed by the Group's disposal programme. This change has impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base. Previously, assets were shared cross-sector, however during the year ended 31 March 2022 management reduced the sharing of assets to a country level, which has resulted in a reduced value-in-use. Further detail is included in note 12.

The prior year impairment test resulted in an impairment of the Land operating segment goodwill of £437.4 million, the Aviation operating segment goodwill of £890.3 million and the goodwill allocated to the Aviation oil and gas business CGU of £8.9 million.

Impairment of acquired intangibles

The Group has recorded an impairment of acquired intangibles of £57.6 million in the Aviation operating segment, due to changes in the forecast future business performance informed by the Group's disposal programme. This change has impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base. Previously, assets were shared cross-sector, however during the year ended 31 March 2022 management reduced the sharing of assets to a country level, which has resulted in a reduced value-in-use. Further detail is included in note 13.

In prior year, the Land operating segment impaired an acquired intangible in relation to the DSG contract.

Impairment of internally generated intangible assets

In the prior year, impairment charges of £32.7 million were recorded on mainly software assets.

Impairment of property, plant and equipment and aircraft fleet rationalisation

The Group has recorded an impairment of property, plant and equipment of £58.8 million in the Aviation operating segment, due to changes in the forecast future business performance informed by the Group's disposal programme. This change has impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base. Previously, assets were shared cross-sector, however during the year ended 31 March 2022 management reduced the sharing of assets to a country level, which has resulted in a reduced value-in-use. Further detail is included in note 14.

In the prior year, 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. In addition, we carried out an aircraft rationalisation programme which resulted in asset impairments and crystallisation of losses on disposal of surplus aircraft of £29.3 million.

Impairment of right of use assets

In prior year, 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.

Onerous contracts

In the year ended 31 March 2022, the Group released an onerous contract provision that was no longer required and was previously classified as exceptional, which totalled £1.8 million.

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 £47.3 million.

In the year ended 31 March 2021, 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. Taking into account the guidance given by the Council to the Authority on the recalculation, the Group expected the Authority to reduce the fine and reduced the provision to £20 million as at 31 March 2021.

In February 2022 management received notice that the fine had been set at €18 million, which was subsequently paid by the Group. This has resulted in the release of unused provision of £3.6 million.

Tax

Tax includes tax on exceptional items (£13.1 million credit), tax recorded in the year relating to Specific Adjusting Items in prior periods (£1.0 million charge) and a credit arising from the impact on the Group's deferred tax asset of the increase in the UK rate of corporation tax to 25% with effect from 1 April 2023 (£2.9 million).

3. Prior year restatements

In the year ended 31 March 2022, the Group restated the prior year financial information. The impact of these restatements on underlying operating profit for the year ended 31 March 2021 was £0.3 million. The restatements are summarised below:

Impact on the income statement for the year ended 31 March 2021

	Year ended 31 March 2021 (previously published)	(i) Principal versus agent assessment	(vi) Goodwill impairment	(vii) Taxation	(viii) Land contract asset	(ix) Software-as-a-service	Year ended 31 March 2021 (restated)
Group income statement							
Revenue	4,182.7	(211.1)	–	–	–	–	3,971.6
Cost of revenue	(4,156.6)	211.1	–	–	–	–	(3,945.5)
Administration and distribution expenses	(376.2)	–	–	–	–	(0.3)	(376.5)
Goodwill impairment	(1,243.2)	–	(81.8)	–	(11.6)	–	(1,336.6)
Loss on divestments	(49.7)	–	–	–	–	–	(49.7)
Share of results of joint ventures and associates	(13.1)	–	–	–	–	–	(13.1)
Finance income	16.6	–	–	–	–	–	16.6
Finance costs	(77.8)	–	–	–	–	–	(77.8)
Loss before tax	(1,717.3)	–	(81.8)	–	(11.6)	(0.3)	(1,811.0)
Income tax benefit	15.3	–	–	(7.3)	–	–	8.0
Loss for the period	(1,702.0)	–	(81.8)	(7.3)	(11.6)	(0.3)	(1,803.0)
Impact on basic earnings per share (pence)	(337.0)p	–	(16.2)p	(1.4)p	(2.3)p	(0.1)p	(357.0)p
Impact on diluted earnings per share (pence)	(337.0)p	–	(16.2)p	(1.4)p	(2.3)p	(0.1)p	(357.0)p

Year ended 31 March 2021 – Group statement of other comprehensive income (extract)

The table below shows the impact of the prior year restatements on the statement of other comprehensive income.

	Year ended 31 March 2021 (previously published)	(ii) Pensions	Year ended 31 March 2021 (restated)
Other comprehensive income/(loss)			
Remeasurement of retirement benefit obligations	(506.8)	61.2	(445.6)
Tax, including rate change impact, on remeasurement of retirement benefit obligations	96.3	(11.6)	84.7

3. Prior year restatements (continued)

1 April 2020 – Group statement of financial position (extract)

	1 April 2020 (previously published)	(ii) Pensions	(iii) Cross currency interest rate swap valuation	(iv) Hedging	(v) Balance sheet reclassification	(vi) Goodwill impairment	(viii) Land contract asset	(ix) Software-as-a-service	1 April 2020 (restated)
Assets									
Non-current assets									
Goodwill	2,287.9	–	–	–	–	81.8	11.6	–	2,381.3
Other intangible assets	334.7	–	–	–	–	–	–	(1.8)	332.9
Retirement benefit surpluses	325.3	(26.9)	–	–	–	–	–	–	298.4
Deferred tax asset	60.5	8.9	–	–	–	–	–	–	69.4
Trade and other receivables	–	–	–	–	25.9	–	–	–	25.9
Total non-current assets*	4,703.1	(18.0)	–	–	25.9	81.8	11.6	(1.8)	4,802.6
Current assets									
Trade and other receivables	506.6	–	–	–	(25.9)	–	–	–	480.7
Contract assets	330.8	–	–	–	–	–	(11.6)	–	319.2
Total current assets*	3,086.0	–	–	–	(25.9)	–	(11.6)	–	3,048.5
Liabilities									
Non-current liabilities									
Bank and other borrowings	(2,050.0)	–	(5.0)	–	–	–	–	–	(2,055.0)
Derivatives	(35.6)	–	0.1	–	–	–	–	–	(35.5)
Retirement benefit deficits	(180.1)	(20.1)	–	–	–	–	–	–	(200.2)
Total non-current liabilities*	(2,882.7)	(20.1)	(4.9)	–	–	–	–	–	(2,907.7)
Equity									
Capital redemption and other reserves	(642.6)	–	(11.3)	(16.9)	–	–	–	–	(670.8)
Retained earnings	(480.1)	38.1	16.2	16.9	–	(81.8)	–	1.8	(488.9)
Total equity*	(2,314.8)	38.1	4.9	–	–	(81.8)	–	1.8	(2,351.8)

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

3. Prior year restatements (continued)

31 March 2021 – Group statement of financial position (extract)

	31 March 2021 (previously published)	(ii) Pensions	(iii) Cross currency interest rate swap valuation	(iv) Hedging	(v) Balance sheet reclassification	(vii) Taxation	(viii) Land contract asset	(ix) Software-as-a-service	31 March 2021 (restated)
Assets									
Non-current assets									
Goodwill	956.3	–	–	–	–	–	–	–	956.3
Other intangible assets	202.0	–	–	–	–	–	–	(2.1)	199.9
Property, plant and equipment	731.5	–	–	–	2.9	–	–	–	734.4
Right of use assets	521.2	–	–	–	(2.9)	–	–	–	518.3
Retirement benefit surpluses	40.8	6.0	–	–	–	–	–	–	46.8
Deferred tax asset	141.3	(2.7)	–	–	–	(8.9)	–	–	129.7
Trade and other receivables	–	–	–	–	26.7	–	–	–	26.7
Total non-current assets*	2,737.1	3.3	–	–	26.7	(8.9)	–	(2.1)	2,756.1
Current assets									
Inventory	162.4	–	–	–	(9.4)	–	–	–	153.0
Trade and other receivables	462.4	–	–	–	(26.7)	–	–	–	435.7
Contract assets	278.6	–	–	–	9.4	–	(11.6)	–	276.4
Income tax recoverable	48.4	–	–	–	–	1.6	–	–	50.0
Total current assets*	1,891.5	–	–	–	(26.7)	1.6	(11.6)	–	1,854.8
Liabilities									
Non-current liabilities									
Bank and other borrowings	(1,318.8)	–	(5.0)	–	–	–	–	–	(1,323.8)
Derivatives	(51.1)	–	0.1	–	–	–	–	–	(51.0)
Retirement benefit deficits	(333.9)	8.2	–	–	–	–	–	–	(325.7)
Total non-current liabilities*	(2,273.3)	8.2	(4.9)	–	–	–	–	–	(2,270.0)
Equity									
Capital redemption and other reserves	(680.1)	–	(11.3)	(16.9)	–	–	–	–	(708.3)
Retained earnings	1,629.1	(11.5)	16.2	16.9	–	7.3	11.6	2.1	1,671.7
Total equity*	(243.4)	(11.5)	4.9	–	–	7.3	11.6	2.1	(229.0)

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

3. Prior year restatements (continued)

i. Principal versus agency assessment

The Group has re-examined the presentation of revenue and cost of revenue in relation to pass-through revenue on three of the Group's contracts. The Group had previously taken the judgement that it acted as a principal in these arrangements, informed by the contractual terms and practical delivery of the contract to the customer. This approach was disclosed as a judgemental area in the Annual Report for the year ended 31 March 2021. Following the transition to the Group's new auditors, this has been further considered and the Group has reassessed this judgement, which had always been a finely balanced one. This change of judgement, and the resultant accounting policy, means that revenue and cost of revenue are now presented net for these contracts. Restatement of the financial information in accordance with the new accounting policy results in a decrease in revenue and cost of revenue of £211.1 million in the year ended 31 March 2021. There is no impact to reported profit or cash flow as a result of this adjustment.

ii. Pensions

Longevity swap valuation

The longevity swaps related to the three main Group pension schemes were previously valued in line with the collateral posted by each scheme with their intermediary. This was deemed a proxy for fair value in line with IAS 19. Having considered valuations of a notional replacement swap, or exit, we now believe the previous approach no longer accurately reflects fair value and so we have changed our valuation approach accordingly. This restatement has reduced retirement benefit surpluses by £26.9 million, increased deferred tax assets by £8.9 million, increased retirement benefit deficits by £20.1 million and decreased retained earnings by £38.1 million as at 1 April 2020. In the year ended 31 March 2021 there was a £5.9 million gain through the statement of other comprehensive income resulting in a cumulative reduction to retirement benefit surpluses of £26.2 million, an increase to deferred tax assets of £7.6 million, an increase to retirement benefit deficits of £13.6 million and an increase to retained earnings of £11.5 million as at 31 March 2021. There is no impact on the Group income statement. This change does not affect the technical provisions assessed for those schemes during triennial valuations, their funding requirements, or the deficit recovery cash contributions agreed with each scheme. There is no impact to earnings per share as a result of this restatement.

Allowance for the 2021 pension increases in the 31 March 2021 benefit obligation

Furthermore, a refinement in the calculation of the value of defined benefit obligation for the principal schemes now allows for the inclusion of the actual known rate of the next pension increase, rather than using the longer-term assumed inflation rate of pension increases. This approach was not appropriately followed in the year ended 31 March 2021. Application of the correct methodology at 31 March 2021 results in an increase to the retirement benefit surplus of £32.2 million, a decrease to deferred tax assets of £10.3 million and a decrease to the retirement benefit deficit of £21.8 million, due to actual inflation being lower than assumed long-term inflation as at 31 March 2021.

Babcock Naval Services Pension Scheme (BNSPS)

The Group hosts the BNSPS (Babcock Naval Services Pension Scheme), which is underwritten by the previous principal employer, with a full indemnity given by them to the Babcock Group. In the previous year a buy-in was undertaken and scheme assets and liabilities were valued by reference to the premium paid, rather than valuing the obligation in accordance with IAS 19 with a corresponding amount of plan assets. We have now adopted methodologies in line with IAS 19 'Employee Benefits' and reflected this change as a prior year restatement. There is no impact to net assets, given the underwritten nature, however scheme assets and liabilities are both reduced by £121.6m as at 31 March 2021. De-risking continues in the scheme, supported by the previous principal employer, with a buyout process expected to commence before the end of 2022, with no cost to the Group.

iii. Cross currency interest rate swaps

The Group uses cross currency interest rate swaps to manage foreign currency and interest rate risk. Further detail is included in note 24.

During the year ended 31 March 2022 it was identified that the valuation methodology applied by the Group was not appropriate, as it did not incorporate the impact of credit risk. Additionally, the hedge effectiveness assessment did not account for the difference in timing between when the debt facility and derivative were entered into. Application of the appropriate valuation methodology and hedge effectiveness has resulted in an increase to bank and other borrowings of £5.0 million, a decrease to other financial liabilities of £0.1 million, an increase in the cash flow hedge reserve of £11.3 million and a decrease to retained earnings of £16.2 million.

iv. Hedging

In the year ended 31 March 2015 the Group disposed of its 50% ownership in the joint ventures Greenwich BSF SPV Limited and Lewisham Schools for the Future. These joint ventures had a combined accumulated balance of £12.3 million in the cash flow hedge reserve which was not eliminated when these joint ventures were disposed of. Furthermore, there is a balance of £4.6 million that has incorrectly accumulated in the cash flow hedge reserve relating to the ALC joint venture. This restatement has resulted in a reclassification from the cash flow hedge reserve to retained earnings of £16.9 million at 1 April 2020.

v. Balance sheet reclassifications

Inventory to contract assets

In the year ended 31 March 2022 it was identified that certain contract assets were incorrectly recognised as inventory. Reclassifying these reduces inventory and increases contract assets by £9.4 million at 31 March 2021.

Non-current capitalised contract costs

Certain costs to obtain a contract and costs to fulfil a contract were capitalised as current when a portion of these balances should have been capitalised as non-current, based on when the expense it expected to be realised in the income statement. This restatement has resulted in £26.7 million at 31 March 2021 and £25.9 million at 1 April 2020 being reclassified to non-current.

3. Prior year restatements (continued)

Right of use assets to property, plant and equipment

Additionally, in the year ended 31 March 2022 it was identified that leases which were purchased during the year ended 31 March 2021 were not reclassified from right of use assets to property, plant and equipment. Reclassifying these reduces right of use assets by £2.9 million and increases property, plant and equipment by £2.9 million at 31 March 2021.

vi. Goodwill impairment

A prior year restatement has been identified in relation to the Aviation goodwill impairment for the year ended 31 March 2020 and 31 March 2021. An impairment of acquired intangibles identified through the contract profitability and balance sheet review was not reflected in the carrying value used in the Aviation goodwill impairment assessment at 31 March 2020. This restatement results in an increase of £81.8 million to the goodwill balance at 31 March 2020, a decrease of £81.8 million to the impairment charge for the year ended 31 March 2020 and an increase of £81.8 million to the impairment charge for the year ended 31 March 2021. There is no impact on goodwill or retained earnings at 31 March 2021.

vii. Taxation

During the year management identified that deferred tax balances recognised at 31 March 2021 were not recoverable. This restatement has decreased the deferred tax asset balance by £8.9 million at 31 March 2021. There is also an increase to income tax recoverable of £1.6 million at 31 March 2021.

viii. Land contract asset

Management have identified a restatement in relation to one of the Group's contracts which reduces the contract asset and retained earnings by £11.6 million at 1 April 2020 and 31 March 2021. This restatement reduces the carrying value of the Land operating segment used in the impairment assessment at 1 April 2020 by £11.6 million, resulting in an increase to the goodwill balance at 1 April 2020 of £11.6 million. At 31 March 2021, the carrying value of the Land operating segment used in the impairment assessment is increased by £11.6 million, resulting in an increase to the goodwill impairment charge for the year ended 31 March 2021 of £11.6 million. There is no impact on the goodwill balance at 31 March 2021 as a result of this restatement.

ix. Software-as-a-service

In April 2021 the IFRS Interpretations Committee (IFRIC) published an agenda decision which clarified how a customer should account for the costs of configuring or customising the supplier's application software in a Software-as-a-service arrangement.

The Group's policy has historically been to capitalise configuration and customisation costs as an intangible asset, including costs directly payable to the software provider, sub-contractor costs and related third-party costs. As a result of the IFRIC agenda decision the Group reviewed its cloud computing arrangements and, for those arrangements where the Group does not control the underlying software, the Group has derecognised the intangible asset previously capitalised. Application of this new policy accounting has resulted in a reduction to other intangible assets of £1.8 million at 1 April 2020 and £2.1 million at 31 March 2021. There is an increase to administration and distribution costs of £0.3 million for the year ended 31 March 2021.

The Group will continue to apply this accounting policy to new Software-as-a-service arrangements as we continue to upgrade and standardise our IT environment. As this policy requires costs to be expensed as incurred, this may lead to a higher up-front charge to the income statement in future years but will not impact on the Group's cash flows.

4. Segmental information

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

Marine – 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.

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 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 Africa meets the definition of an operating segment, as defined by IFRS 8. However, as permitted by IFRS 8, the Group includes the Africa operating segment in the Land reportable segment.

The table below presents the underlying results for each reportable segment in accordance with the definition of underlying revenue and underlying operating profit, as set out in note 2, and reconciles the underlying operating profit/(loss) to the statutory profit/(loss) before tax.

Year ended 31 March 2022	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	1,259.3	1,009.7	1,015.5	817.3	–	4,101.8
Underlying operating profit	98.0	62.4	58.8	18.5	–	237.7
Specific Adjusting Items (note 2)						
Amortisation of acquired intangibles	(0.6)	–	(1.3)	(19.5)	–	(21.4)
Business acquisition, merger and divestment related items	221.3	–	(6.1)	(52.1)	–	163.1
Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography	–	–	–	–	–	–
Restructuring costs	(8.6)	(5.5)	(16.9)	(2.8)	–	(33.8)
Profit or loss from amendment, curtailment, settlement or equalisation of group pension schemes	–	–	–	–	–	–
Exceptional items	(0.4)	–	1.7	(120.1)		(118.8)
Operating profit/(loss)	309.7	56.9	36.2	(176.0)	–	226.8
Other income	–	–	–	6.2	–	6.2
Share of results of joint ventures and associates	3.5	0.4	2.5	13.7	–	20.1
Investment income	–	–	0.8	–	–	0.8
Other net finance costs**	–	–	–	–	(71.6)	(71.6)
Profit/(loss) before tax	313.2	57.3	39.5	(156.1)	(71.6)	182.3

Year ended 31 March 2021 (restated*)	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	1,230.6	975.9	910.7	854.4	–	3,971.6
Underlying operating profit/(loss)	56.2	63.8	(17.5)	(130.4)	–	(27.9)
Specific Adjusting Items (note 2)						
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)	(528.3)	(1,052.2)	–	(1,590.5)
Operating profit/(loss)	43.7	58.1	(618.2)	(1,218.9)	(1.4)	(1,736.7)
Share of results of joint ventures and associates	3.1	(15.0)	5.1	(6.3)	–	(13.1)
Investment income	–	–	0.9	–	–	0.9
Other net finance costs**	–	–	–	–	(62.1)	(62.1)
Profit/(loss) before tax	46.8	43.1	(612.2)	(1,225.2)	(63.5)	(1,811.0)

* The results for 31 March 2021 have been restated due to a change in accounting policy. Further details are set out in note 3.

** Other net finance costs are not allocated to a specific sector.

4. Segmental information (continued)

Revenues of £2.0 billion (2021: £2.1 billion) are derived from a single external customer. These revenues are attributable across all reportable segments.

Segment assets and liabilities

The reportable segment assets and liabilities at 31 March 2022 and 31 March 2021 and capital expenditure and lease principal payments for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure		Lease payments	
	2022 £m	2021 (restated*) £m	2022 £m	2021 (restated*) £m	2022 £m	2021 (restated*) £m	2022 £m	2021 £m
Marine	773.8	770.5	601.8	384.5	41.8	45.2	6.4	8.9
Nuclear	561.1	529.6	271.6	227.7	56.9	32.5	3.4	4.2
Land	626.5	770.8	335.3	487.2	5.3	13.9	17.2	18.1
Aviation	997.8	1,327.8	321.5	494.1	90.3	72.9	82.3	107.1
Unallocated **	1,639.1	1,212.2	2,366.6	2,788.4	8.9	12.0	3.7	2.3
Group total	4,598.3	4,610.9	3,896.8	4,381.9	203.2	176.5	113.0	140.6

* In the year ended 31 March 2022, the Group restated the prior year financial information. Details of the restatement are contained in note 3.

** 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.

Capital expenditure represents additions to property, plant and equipment and intangible assets. Proceeds from the sale of assets totalled £68.0 million (2021: £33.2 million) and are predominantly in the Aviation sector. See note 20 relating to the treatment of amounts payable in respect of capital expenditure.

The segmental analysis of joint ventures and associates is detailed in note 16.

Segmental depreciation and amortisation

The segmental depreciation on property, plant and equipment, right of use assets and amortisation of intangible assets for the years ended 31 March 2022 and 31 March 2021 is as follows:

	Depreciation of property, plant and equipment		Depreciation of right of use assets		Amortisation of intangible assets	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Marine	8.2	8.3	7.4	9.0	4.6	5.6
Nuclear	22.3	22.8	3.7	4.6	0.3	0.4
Land	4.4	8.1	12.5	17.1	2.6	20.6
Aviation	18.0	41.6	78.8	100.6	20.2	24.2
Unallocated	5.8	5.8	2.7	2.1	9.4	8.6
Group total	58.7	86.6	105.1	133.4	37.1	59.4

Segmental asset impairments

The segmental impairment on property, plant and equipment, right of use assets and intangible assets for the years ended 31 March 2022 and 31 March 2021 is as follows:

	Impairment of property, plant and equipment		Impairment of right of use assets		Impairment of intangible assets	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Marine	–	–	–	–	–	0.6
Nuclear	–	2.4	–	0.7	–	–
Land	–	7.9	–	9.1	–	70.5
Aviation	58.8	103.0	18.0	36.6	57.6	8.0
Unallocated	–	–	–	–	–	10.0
Group total	58.8	113.3	18.0	46.4	57.6	89.1

4. Segmental information (continued)

Geographic analysis of non-current assets

The geographic analysis for non-current assets by location of those assets for the years ended 31 March 2022 and 31 March 2021 is as follows:

	2022 £m	2021 (restated) £m
United Kingdom	1,250.3	1,649.9
Rest of Europe	548.0	639.2
Africa	69.7	56.8
North America	21.3	23.0
Australasia	187.8	179.5
Rest of World	2.0	2.8
Non-current segment assets	2,079.1	2,551.2
Retirement benefits	300.9	46.8
IFRIC 12 financial assets	10.0	11.2
Lease receivables	24.1	12.9
Derivatives	–	4.3
Deferred tax asset	47.0	129.7
Total non-current assets	2,461.1	2,756.1

Geographic analysis of revenue

The geographic analysis of revenue by origin of customer for the years ended 31 March 2022 and 31 March 2021 is as follows:

	Revenue	
Geographic analysis	2022 £m	2021 (restated) £m
United Kingdom	2,593.5	2,614.3
Rest of Europe	546.8	515.5
Africa	318.9	269.6
North America	172.9	161.6
Australasia	218.6	204.4
Rest of World	251.1	206.2
Group total	4,101.8	3,971.6

* In the year ended 31 March 2022, the Group restated the prior year financial information. Details of the restatement are contained in note 3.

The analysis of revenue for the years ended 31 March 2022 and 31 March 2021 is as follows:

	2022 £m	2021 £m
Sale of goods – transferred at a point in time	257.5	298.8
Sale of goods – transferred over time	258.1	175.7
Sale of goods	515.6	474.5
Provision of services – transferred over time	3,580.8	3,492.6
Rental income	5.4	4.5
Revenue	4,101.8	3,971.6

5. Operating profit /(loss) for the year

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

	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m
Employee costs (note 7)	1,523.6	1,622.4
Cost of inventories recognised as an expense	295.7	406.5
Depreciation of property, plant and equipment (PPE) (note 14)	58.7	86.6
Depreciation of right of use assets (note 15)	105.1	133.4
Amortisation of intangible assets (note 13)		
• Acquired intangibles	21.4	40.2
• Other	15.7	19.2
	37.1	59.4
Impairment of goodwill (note 12)	7.2	1,336.6
Impairment of intangible assets (note 13) *	57.6	89.1
Impairment of property, plant and equipment (PPE) (note 14) *	58.8	113.3
Impairment of right of use assets (note 15) *	18.0	46.4
(Gain)/loss on disposal of property, plant and equipment	(1.5)	26.4
Loss on disposal of intangible assets	0.7	–
Net foreign exchange loss	10.5	7.8
Loss on derivative instruments at fair value through profit or loss	7.2	6.9

* Included in cost of revenue in the income statement.

Operating costs includes research and development expenditure of £2.6 million (2021: £1.1 million) funded by the Group.

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. Deloitte LLP were the Group's auditor for the year ended 31 March 2022, having replaced PricewaterhouseCoopers LLP:

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £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	2.3
Fees payable to the parent auditor and its associates in respect of the audit of the Company's subsidiaries	4.3	3.7
Audit related assurance fees	0.5	–
Fees for other services:		
Other non-audit services	–	–
Total fees paid to the Group's auditor and network firms	7.1	6.0

6. Net finance costs

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	57.3	50.0
Lease interest	17.4	23.5
Amortisation of issue costs of bank loan	2.0	1.4
Retirement benefit interest	3.7	–
Other	–	2.9
Total finance costs	80.4	77.8
Finance income		
Bank deposits, loans and leases	8.8	11.7
IFRIC 12 Investment income	0.8	0.9
Retirement benefit interest	–	4.0
Total finance income	9.6	16.6
Net finance costs	70.8	61.2

Other net finance costs increased to £71.6 million (FY21: £62.1 million), with lower net interest costs due to lower average debt and reduced IFRS 16 lease interest, more than offset by a £7.7 million higher pension finance charge and a one-off, non-cash finance charge on derivative instruments of £9.6 million.

7. Employee costs

	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m
Wages and salaries	1,252.8	1,318.9
Social security costs	143.4	164.1
Share-based payments (note 26)	5.5	4.2
Pension costs – defined contribution plans (note 27)	83.4	90.9
Pension charges – defined benefit plans (note 27)	38.5	44.3
	1,523.6	1,622.4

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

	2022 Number	2021 Number
Operations	25,428	28,569
Administration and management	3,547	3,840
	28,975	32,409

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.

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Salaries	7.3	6.7
Share-based payments	1.9	0.2
	9.2	6.9

8. Taxation

Income tax expense

	Total	
	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m
Analysis of tax expense/(benefit) in the year		
Current tax		
• UK current year charge	1.9	13.4
• UK prior year (benefit)	(10.8)	(28.0)
• Overseas current year charge	19.3	10.5
• Overseas prior year charge	2.5	–
	12.9	(4.1)
Deferred tax		
• UK current year charge/(benefit)	17.5	(36.7)
• UK prior year charge	11.5	8.5
• Overseas current year (benefit)/charge	(25.3)	24.5
• Overseas prior year charge	0.7	–
• Impact of changes in tax rates	(2.9)	(0.2)
	1.5	(3.9)
Total income tax expense/(benefit)	14.4	(8.0)

The tax for the year is lower (2021: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m
Profit/(loss) before tax	182.3	(1,811.0)
Profit/(loss) on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2021: 19%)	34.6	(344.1)
Effects of:		
Expenses not deductible for tax purposes	2.4	3.3
Non-deductible write-off of goodwill	1.4	254.0
Re-measurement of deferred tax in respect of statutory rate changes	(2.9)	(0.2)
Difference in respect of share of results of joint ventures and associates' results	(2.1)	2.5
Prior year adjustments	3.9	(19.5)
Differences in respect of foreign rates	(0.4)	3.9
Unrecognised deferred tax movements	25.0	83.4
Deferred tax not previously recognised/derecognised	(8.1)	3.3
Non-taxable profits on disposals and non-deductible losses on disposals	(37.8)	9.4
Other	(1.6)	(4.0)
Total income tax expense/(benefit)	14.4	(8.0)

Further information on exceptional items and tax on exceptional items is detailed in note 2.

During the year the Group concluded discussions with certain tax authorities regarding prior year tax positions, resulting in a tax credit of £12.6 million (2021: tax credit of £21.6 million).

The Group is subject to taxation in several jurisdictions. The complexity of applicable rules may result in legitimate differences of interpretation between the Group and taxing authorities, especially where an economic judgement or valuation is involved. The principal elements of the Group's uncertain tax positions relate to the pricing of intra-group transactions and the allocation of profits in overseas territories. The outcome of tax authority disputes in such areas is not predictable, and to reflect the effect of these uncertain tax positions a provision is recorded which represents management's assessment of the most likely outcome of each issue. At 31 March 2022 the Group held uncertain tax provisions of £16.5 million (2021: £5.4 million).

During the period the Group made disposals that are expected to be exempt from UK tax due to qualification for the UK substantial shareholding exemption.

The increase in the UK rate of corporation tax to 25% with effect from 1 April 2023 was substantively enacted during the period, The effect has been to increase the Group's net deferred tax asset by £1.4 million, comprising a credit to Income Statement of £2.9 million, a debit to Other Comprehensive Income of £2.0 million and a credit to equity of £0.5 million.

8. Taxation (continued)

Deferred tax

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:

	2022 £m	2021 £m
Deferred tax asset	47.0	129.7
Deferred tax liability	(9.6)	(7.7)
	37.4	122.0

The movements in deferred tax assets and liabilities during the year are shown below.

	Tangible assets £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
At 1 April 2021	(17.0)	53.2	98.9	(13.1)	122.0
Income statement credit/(debit)	(8.4)	(28.3)	(15.7)	48.0	(4.4)
Tax credit/(debit) to other comprehensive income/equity	–	(61.2)	–	(0.2)	(61.4)
Transfer from income tax receivable	–	–	–	4.4	4.4
Acquisition of subsidiary	–	–	–	(18.6)	(18.6)
Disposal of subsidiary	(1.2)	–	–	(6.4)	(7.6)
Effect of changes in tax rates					
• Income statement	(6.6)	(8.7)	17.2	1.0	2.9
• Other comprehensive income/equity	–	(3.0)	–	1.5	(1.5)
Exchange differences	0.5	–	1.1	–	1.6
At 31 March 2022	(32.7)	(48.0)	101.5	16.6	37.4
At 1 April 2020 as previously stated	1.9	(27.7)	71.6	(19.0)	26.8
Prior year restatement (note 2)	–	8.9	–	–	8.9
At 1 April 2020 (restated)	1.9	(18.8)	71.6	(19.0)	35.7
Income statement credit/(debit)	(18.9)	(12.7)	27.1	8.2	3.7
Tax credit/(debit) to equity	–	84.7	–	(2.2)	82.5
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	(17.0)	53.2	98.9	(13.1)	122.0

Transfers represent transfers between current and deferred tax, including £10.8 million in respect of UK research and development tax credits.

The net deferred tax assets of £37.4 million (2021: £122.0 million) include deferred tax assets of £31.6 million (2021: £28.3 million) and deferred tax liabilities of £9.6 million (2021: £7.4 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 note 1 to the Accounts.

8. Taxation (continued)

Net deferred tax assets have been recognised in respect of operations in the following jurisdictions, each of which experienced a loss in the preceding period: UK (DTA £15.4 million); Italy (£9.8 million); Australia (£8.9 million); Spain (£3.5 million). In the year ended 31 March 2021 the Group undertook a contract profitability and balance sheet review, resulting in significant losses being recorded in many jurisdictions, including the above. The Directors do not consider that the results for this period are representative of future trading performance and are satisfied that these net deferred tax assets are recoverable based on future profit forecasts. The net deferred tax liability in respect of "Other" includes a liability relating to acquired intangible assets of £25.1 million (2021: £25.5 million).

No deferred tax has been recognised in respect of temporary differences associated with investments in subsidiaries, branches, associates and interests 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 their post acquisition retained earnings and amounted to £291 million (2021: restated £261 million). The aggregate amount of temporary differences previously stated at 31 March 2021 was £47 million. The difference reflects a change in the basis for determining retained earnings, which now comprise the post acquisition retained earnings of the relevant non UK subsidiaries.

At the statement of financial position date, deferred tax assets of £101.5 million (2021: £98.9 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 £519 million (2021: £754 million). In addition to these amounts, UK capital losses of £92.0 million (2021: £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 losses, 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.

9. Dividends

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Final dividend for the year ended 31 March 2021 of nil (2020: nil p) per 60p share	–	–
Interim dividend for the year ended 31 March 2022 of nil (2021: nil p) per 60p share	–	–
	–	–

10. Earnings/(loss) per share

Basic earnings/(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 earnings/(loss) per share is based on the following data:

Number of shares

	2022 Number	2021 Number
Weighted average number of ordinary shares for the purpose of basic EPS	505,091,970	504,993,024
Effect of dilutive potential ordinary shares: share options	6,083,765	3,998,687
Weighted average number of ordinary shares for the purpose of diluted EPS	511,175,735	508,991,711

Earnings

	Year ended 31 March 2022			Year ended 31 March 2021 (restated)		
	Earnings/(loss) from continuing operations £m	Basic per share Pence	Diluted per share Pence	Earnings/(loss) from continuing operations £m	Basic per share Pence	Diluted per share Pence
Earnings/(loss) for the year	164.2	32.5	32.1	(1,803.0)	(357.0)	(357.0)
(Deduct)/add back:						
Specific Adjusting Items, net of tax (note 2)	(9.0)	(1.8)	(1.7)	1,679.0	332.4	332.4
Earnings before Specific Adjusting Items	155.2	30.7	30.4	(124.0)	(24.6)	(24.6)

11. Contract profitability and balance sheet review

As outlined in the Annual Report and financial statements for the year ended 31 March 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 contract profitability and balance sheet review has impacted on the results for the year ended 31 March 2021, consisting of a charge of £1,813.7 million, the vast majority of which is due to changes in estimates.

Of the adjustments recorded (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.

The impacts of the contract profitability and balance sheet review adjustments on the income statement for the year ended 31 March 2021, including the results of the annual goodwill impairment test, are summarised as follows:

	Year ended 31 March 2021		
	Underlying £m	Specific Adjusting Items £m	Statutory £m
Revenue impacts	(207.4)	–	(207.4)
Operating profit/(loss) impacts			
Impairment/disposal of goodwill and acquired intangible assets	–	(1,349.4)	(1,349.4)
Impairment of non-current assets	(5.8)	(32.7)	(38.5)
Impairment of property, plant and equipment and right of use assets	–	(156.9)	(156.9)
Impairment/write down of current assets	(142.6)	(0.8)	(143.4)
Introduction of/increase to liabilities	(126.3)	(1.0)	(127.3)
Operating profit/(loss)	(274.7)	(1,540.8)	(1,815.5)
Share of income from JVs and associates	(37.1)	–	(37.1)
Profit/(loss) before tax impacts	(311.8)	(1,540.8)	(1,852.6)
Tax adjustments	(7.5)	–	(7.5)
Tax effect	29.3	17.1	46.4
Loss after tax for the year impacts	(290.0)	(1,523.7)	(1,813.7)

12. Goodwill

	31 March 2022 £m	31 March 2021 (restated) £m
Cost		
At 1 April (restated)	2,487.3	2,571.1
On disposal of subsidiaries (note 29)	(197.9)	(72.6)
Additions (note 29)	21.3	–
Exchange adjustments	1.0	(11.2)
At 31 March	2,311.7	2,487.3
Accumulated impairment		
At 1 April (restated)	1,531.0	189.8
On disposal of subsidiaries (note 29)	(8.9)	–
Impairment	7.2	1,336.6
Exchange adjustments	–	4.6
At 31 March	1,529.3	1,531.0
Net book value at 31 March	782.4	956.3

12. Goodwill (continued)

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

	31 March 2022 £m	31 March 2021 £m
Marine	296.7	339.2
Nuclear	233.1	233.1
Land	218.6	262.7
Aviation	32.0	119.3
Africa	2.0	2.0
	782.4	956.3

During the year, goodwill was tested for impairment at 31 March 2022 in accordance with IAS 36. This impairment analysis is performed on an annual basis at operating segment level, as outlined in the Group's accounting policies. The Group monitors goodwill at operating segment level, with the exception of the establishment of a separate cash generating unit during the year for part of the Aviation business ('Aviation – Europe'). The Group's disposal programme impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base. A portion of the goodwill previously allocated in full to the Aviation operating segment has been allocated to this part of the Aviation business, and a separate value-in-use analysis has been prepared.

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.

During the year the Group disposed of goodwill of £189.0 million through the disposal of the Oil and Gas business (£0.4 million) and AirTanker Holdings Limited (£80.0 million) in Aviation, Frazer-Nash Consultancy (£64.5 million) in Marine and Power (£44.1 million) in Land. Further details are set out in note 29. The Group recognised goodwill on the acquisition of Naval Ship Management Pty Ltd of £21.3 million.

Results of goodwill impairment test

The current year impairment test results in an impairment of the goodwill allocated to Aviation – Europe of £7.2 million, this impairment reflects changes in the future business performance, which was informed by the Group's disposal programme. This change has impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base. Previously, assets were shared cross-sector, however during the year ended 31 March 2022 management reduced the sharing of assets to a country level, which has resulted in a reduced value-in-use. This has also resulted in an acquired intangible impairment of £57.6 million and an aircraft fleet impairment of £58.8 million. Further detail is included in notes 13 and 14, respectively.

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 five-year plan. Terminal value assessments are included based on year five and an estimated long-term, country-specific growth rate of 1.8 – 2.5% (2021: 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 inflation.

Furthermore, in preparing this assessment we have considered the potential impact of climate change. In particular, we have considered the impact of climate change on the useful economic lives of assets, disruption to key operating sites and supply chain, and potential asset impairments. These considerations did not have a material impact on the goodwill impairment assessment.

The value-in-use calculations include the anticipated benefits of the Group's revised operating model, reflecting the fact that the Group was committed to the project at 31 March 2022.

12. Goodwill (continued)

Key assumptions

Key assumptions are based on past experience and expectations of future changes in the market, including prevailing economic forecasts, industry specific data, competitor activity and market dynamics.

Pre-tax discount rates derived from the Group's post tax weighted average cost of capital, and adjusted for the gearing impact of lease liabilities, were used to discount the estimated risk-adjusted cash flows. Management estimates discount rates using pre-tax rates that reflect the market assessment as at the balance sheet date of the time value of money and the risks specific to the cash-generating units.

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

	31 March 2022				31 March 2021			
	Aviation	Land	Marine	Nuclear	Aviation	Land	Marine	Nuclear
Pre-tax discount rate	11.3	11.7	11.3	11.3	10.9	10.9	10.9	10.9
Post-tax discount rate	8.5	8.8	8.5	8.5	8.2	8.2	8.2	8.2
Long-term growth rate	1.8	2.2	2.5	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 and the production of vertical missile tubes for the US-UK common missile compartment programme.
Nuclear	Continuing delivery of naval nuclear services to the UK Ministry of Defence, including the FMSP contract. 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.
Aviation	Continuing delivery of long-term contracts with the UK Ministry of Defence and key overseas territories. Delivery of cost savings through an embedded performance improvement programme.

Sensitivity

The value-in-use for Marine and Nuclear results in these operating segments having significant headroom. It would require a long-term growth of nil combined with discount rates in excess of 25% to reduce the headroom in Marine and Nuclear to £nil. Additionally, it would take a reduction in the short-term cash flows of Marine and Nuclear in excess of 50% to reduce the headroom in these operating segments to £nil. The Directors do not consider these to be plausible assumptions.

In Aviation, following the allocation and impairment of goodwill to Aviation – Europe there is a remaining goodwill balance of £32.0 million. In Land there is a goodwill balance of £218.6 million. The decrease in headroom that would result from a change in the discount rate and long-term growth rate are set out in the table below:

	31 March 2022		31 March 2021	
	Aviation	Land	Aviation	Land
Pre-tax discount rate				
Increase of 100bps	30.2	63.9	46.8	26.8
Long-term growth rate				
Decrease of 50bps	12.5	25.1	16.8	9.8

Management have also identified the growth rate in the short-term cash flows as a key assumption. If the year-on-year growth is decreased by 15%, the collective headroom across Marine, Nuclear, Land, Africa and Aviation is reduced by £160.0 million, however this does not change the impairment conclusion for any of these cash generating units. If the year-on-year growth for Aviation – Europe is decreased by 15%, this would cause a reduction in the value-in-use for this cash generating unit of £33.9 million.

13. Other intangible assets

	Acquired intangibles – relationships £m	Internally generated software development costs and licences £m	Internally generated development costs and other £m	Total £m
Cost				
At 1 April 2021	1,031.5	189.3	26.1	1,246.9
On acquisition of subsidiaries and joint ventures (note 29)	62.0	–	–	62.0
Additions	–	7.0	4.4	11.4
Reclassification to property, plant and equipment	–	0.1	(1.6)	(1.5)
Reclassification	–	0.9	(0.9)	–
Disposal of subsidiary undertakings (note 29)	–	(3.9)	–	(3.9)
Disposals at cost	–	(1.4)	(0.3)	(1.7)
Exchange adjustments	0.8	0.2	(0.1)	0.9
At 31 March 2022	1,094.3	192.2	27.6	1,314.1
Accumulated amortisation and impairment				
At 1 April 2021	927.5	115.0	4.5	1,047.0
Amortisation charge	21.4	13.9	1.8	37.1
Impairment	57.6	–	–	57.6
Reclassification	–	0.1	(0.1)	–
Disposal of subsidiary undertakings (note 29)	–	(1.8)	–	(1.8)
Disposals	–	(1.0)	–	(1.0)
Exchange adjustments	(0.7)	0.2	–	(0.5)
At 31 March 2022	1,005.8	126.4	6.2	1,138.4
Net book value at 31 March 2022	88.5	65.8	21.4	175.7
Cost				
At 1 April 2020 as previously stated	1,042.9	187.1	26.8	1,256.8
Prior year adjustment	–	(2.8)	–	(2.8)
At 1 April 2020 restated	1,042.9	184.3	26.8	1,254.0
On disposal of subsidiaries (note 29)	(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)	0.1	(0.6)	(6.7)
At 31 March 2021	1,031.5	189.3	26.1	1,246.9
Accumulated amortisation and impairment				
At 1 April 2020 as previously stated	840.3	79.8	2.0	922.1
Prior year adjustment	–	(1.0)	–	(1.0)
At 1 April 2020 restated	840.3	78.8	2.0	921.1
On disposal of subsidiaries and joint ventures (note 29)	(5.2)	(0.1)	–	(5.3)
Amortisation charge	40.2	18.2	1.0	59.4
Impairment (note 2)	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)	0.1	(0.1)	(4.2)
At 31 March 2021	927.5	115.0	4.5	1,047.0
Net book value at 31 March 2021	104.0	74.3	21.6	199.9

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

In the year ended 31 March 2022 the Group amended its accounting policy in related to Software-as-a-service agreements, which would previously have been capitalised within 'Internally generated software development costs and licences'. Further detail is included in note 1.

In the year ended 31 March 2022, the Aviation operating segment recorded an impairment to acquired intangibles of £57.6 million on an acquired intangible that was initially recognised in relation to the acquisition of the Avincis business. The Group's disposal programme impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base, resulting in reassessment of the value-in-use for the operating segment in line with an assessment under IAS 36, as outlined in note 12 resulting in this asset being fully impaired.

Included in Internally generated software development costs and licences is £40.7 million relating to the Group's ERP system, which will be fully amortised in 10 years. Included in the acquired intangible balance is £63.6 million relating to the acquisition of the NSM joint venture (refer to note 29 for further details). This will be fully amortised in 20 years.

14. 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 2021	159.8	15.8	506.5	365.3	187.6	1,235.0
On acquisition of subsidiaries (note 29)	–	–	0.4	–	–	0.4
On disposal of subsidiaries (note 29)	(7.6)	(0.6)	(21.6)	(17.4)	(0.9)	(48.1)
Additions	1.8	3.8	32.3	28.9	112.6	179.4
Disposals	(2.5)	(0.8)	(14.2)	(56.0)	(46.5)	(120.0)
Reclassification	1.5	4.9	(1.5)	0.9	(5.8)	–
Reclassification from intangible assets	0.4	–	1.1	–	–	1.5
Exchange adjustments	–	0.1	4.4	(0.4)	(0.7)	3.4
At 31 March 2022	153.4	23.2	507.4	321.3	246.3	1,251.6
Accumulated depreciation						
At 1 April 2021	69.5	10.9	373.1	45.4	1.7	500.6
On disposal of subsidiaries (note 29)	(4.7)	(0.2)	(13.7)	(7.7)	–	(26.3)
Charge for the year	8.1	0.5	38.1	12.0	–	58.7
Impairment	–	–	–	58.8	–	58.8
Disposals	(1.5)	(0.7)	(10.8)	(38.9)	(1.6)	(53.5)
Exchange adjustments	–	–	1.8	1.0	(0.1)	2.7
At 31 March 2022	71.4	10.5	388.5	70.6	–	541.0
Net book value at 31 March 2022	82.0	12.7	118.9	250.7	246.3	710.6
Cost						
At 1 April 2020 as previously stated	125.2	32.0	605.7	533.8	88.5	1,385.2
Reclassification of assets in the course of construction	18.7	–	(61.4)	–	42.7	–
At 1 April 2020 restated	143.9	32.0	544.3	533.8	131.2	1,385.2
On disposal of subsidiaries (note 29)	–	–	(1.7)	–	–	(1.7)
Additions (restated)	2.5	1.2	39.5	39.2	76.0	158.4
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	159.8	15.8	506.5	365.3	187.6	1,235.0
Accumulated depreciation						
At 1 April 2020	66.6	9.5	390.7	77.5	–	544.3
On disposal of subsidiaries (note 29)	–	–	(0.9)	–	–	(0.9)
Charge for the year	5.0	1.0	46.7	33.9	–	86.6
Impairment (note 2)	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	90.3	4.9	133.4	319.9	185.9	734.4

In the year ended 31 March 2022 it was identified that assets in the course of construction were incorrectly classified as plant and equipment and freehold property. The reclassification results in an increase to assets in the course of construction and a decrease to plant and equipment of £42.7 million at 1 April 2020. At 31 March 2021 there is an increase to assets in the course of construction of £94.3 million and a decrease to plant and equipment of £76.2 million and freehold property of £18.1 million. Furthermore, it was identified that freehold property totalling £18.7m was incorrectly classified as plant and equipment. This reclassification results in an increase to freehold property of £18.7 million at 1 April 2020 and 31 March 2021, with a resulting decrease to plant and equipment.

In the year ended 31 March 2022, the Group recognised an impairment charge of £58.8 million in relation to the aircraft fleet in the Aviation operating segment due to changes in the future business performance, as informed by the Group's disposal programme. This change has impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base. In making this assessment management have grouped the aircraft at the lowest level for which there are identifiable and separable cashflows, which is generally at the fleet level. The asset valuations have been calculated based on estimated discounted cashflows over the remaining useful expected lives of the assets. The impairment charge of £58.8 million is based on a recoverable amount for the relevant assets of £220.0 million.

15. 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 2021	152.9	72.1	584.2	809.2
Additions	24.0	3.4	61.2	88.6
Acquisition of subsidiary (note 29)	0.5	–	–	0.5
Disposals	(31.1)	(7.8)	(33.0)	(71.9)
Disposal of subsidiaries (note 29)	(21.1)	(3.0)	(228.4)	(252.5)
Exchange adjustments	2.1	–	(1.0)	1.1
At 31 March 2022	127.3	64.7	383.0	575.0
Accumulated depreciation				
At 1 April 2021	51.1	42.2	197.6	290.9
Charge for the year	23.5	9.5	72.1	105.1
Impairment	–	–	18.0	18.0
Disposals	(23.7)	(6.9)	(21.8)	(52.4)
Disposal of subsidiaries (note 29)	(9.5)	(1.9)	(109.5)	(120.9)
Reclassification	–	(2.0)	2.0	–
Exchange adjustments	1.1	–	(1.1)	–
At 31 March 2022	42.5	40.9	157.3	240.7
Net book value at 31 March 2022	84.8	23.8	225.7	334.3

	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Total £m
Cost				
At 1 April 2020	148.2	70.6	549.4	768.2
Additions	18.2	8.0	65.5	91.7
Disposals	(15.3)	(6.5)	(38.3)	(60.1)
Exchange adjustments	1.8	–	7.6	9.4
At 31 March 2021	152.9	72.1	584.2	809.2
Accumulated depreciation				
At 1 April 2020	26.4	30.1	102.7	159.2
Charge for the year	27.7	12.6	93.1	133.4
Impairment (note 2)	7.3	4.4	34.7	46.4
Disposals	(10.7)	(4.8)	(32.3)	(47.8)
Exchange adjustments	0.4	(0.1)	(0.6)	(0.3)
At 31 March 2021	51.1	42.2	197.6	290.9
Net book value at 31 March 2021	101.8	29.9	386.6	518.3

15. Leases (continued)

Lease liabilities

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

	Total £m
At 1 April 2021	612.3
Additions	93.8
Acquisition of subsidiaries (note 29)	0.5
Disposals	(22.6)
Disposal of subsidiaries (note 29)	(137.1)
Exchange adjustments	0.2
Lease interest	17.4
Lease repayments	(130.4)
At 31 March 2022	434.1
Non-current lease liabilities	329.3
Current lease liabilities	104.8
At 31 March 2022	434.1
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

See note 24 for a maturity analysis of the contractual undiscounted lease payments.

Amounts recognised in the Group income statement

	2022 £m	2021 £m
Interest on lease liabilities	17.4	23.5

The total expense for short term and low value leases was £8.9 million, which is deemed approximate to the cash outflow for short term and low value leases.

15. Leases (continued)

Amounts recognised in the Group cash flow statement

	2022 £m	2021 £m
Total cash outflow for principal element of leases	113.0	140.6
Total cash outflow for interest element of leases	17.4	23.5
Total cash outflow for leases	130.4	164.1

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.

Amounts recognised in the Group income statement

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Finance lease – interest income	3.1	1.8

Finance lease payments receivable

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Within one year	23.3	26.7
Greater than one year but less than two years	12.2	7.9
Greater than two years but less than three years	8.1	4.7
Greater than three years but less than four years	4.0	0.4
Greater than four years but less than five years	–	–
Greater than five years	–	–
Total undiscounted finance lease payments receivable	47.6	39.7
Impact of discounting	(0.2)	(0.1)
Finance lease receivable (net investment in the lease)	47.4	39.6

There was no material impairment of lease receivables in the year ended 31 March 2022 (2021: £nil).

16. 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 (2022)	% interest held (2021)	Country of incorporation	Principal area of operation
AirTanker Services Limited	Associate	31 Dec	Provision of air-to-air refuelling	23.5%	23.5%	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

During the year the Group increased its shareholding in Naval Ship Management (Australia) Pty Limited, and acquired the remaining 50% interest for a cash consideration of £33.1 million.

The Group disposed of its share in AirTanker Holdings Limited for a cash consideration of £95.6 million (note 29).

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.

	31 March 2022		31 March 2021	
Summarised income statement extract (year ended)	**Ascent Flight Training (Holdings) Limited**	**AirTanker Services Limited**	Ascent Flight Training (Holdings) Limited	AirTanker Services Limited
Revenue	164.8	189.2	155.1	144.6
Depreciation and amortisation	–	(14.5)	–	(3.3)
Interest income	6.1	–	7.7	–
Interest expense	(6.2)	(0.3)	(7.2)	(0.2)
Income tax expense	(3.7)	(2.5)	(2.9)	–
Profit from continuing operations	15.4	6.5	15.3	5.7
Other comprehensive income	0.4	–	–	–
Total comprehensive income/(loss)	15.8	6.5	15.3	5.7
Summarised balance sheet				
Non-current assets	29.4	78.2	94.2	41.8
Current assets (excluding cash and cash equivalents)	101.5	69.0	75.2	91.0
Cash and cash equivalents	60.4	54.4	25.5	64.3
Non-current financial liabilities (excluding trade and other payables and provisions)	(137.5)	(49.3)	(113.3)	(9.9)
Current financial liabilities (excluding trade and other payables and provisions)	–	–	(3.5)	–
Current trade and other payables and provisions	(4.6)	(51.9)	(35.4)	(93.6)
Net assets	49.2	100.4	42.7	93.6
Ownership	50.0%	23.5%	50.0%	23.5%
Carrying value of investment	24.6	23.6	21.4	22.0

16. 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	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
At 1 April	73.5	161.9	42.1	48.6	115.6	210.5
Acquisition and disposal of joint ventures and associates (note 29)	(24.5)	(53.2)	–	–	(24.5)	(53.2)
Loans repaid by joint ventures and associates	–	–	(31.0)	(4.2)	(31.0)	(4.2)
Increase in loans to joint ventures and associates	–	–	1.4	3.9	1.4	3.9
Impairment of loans to joint ventures and associates	–	–	–	(7.0)	–	(7.0)
Investment in joint ventures and associates	2.6	8.8	–	–	2.6	8.8
Share of profits/(losses)	20.1	(13.1)	–	–	20.1	(13.1)
Interest accrued and capitalised	–	–	3.2	3.1	3.2	3.1
Interest received	–	–	(3.6)	(2.3)	(3.6)	(2.3)
Dividends received	(41.6)	(36.8)	–	–	(41.6)	(36.8)
Fair value adjustment of derivatives	30.2	7.0	–	–	30.2	7.0
Tax on fair value adjustment of derivatives	(5.7)	(1.4)	–	–	(5.7)	(1.4)
Foreign exchange	(0.3)	0.3	–	–	(0.3)	0.3
At 31 March	54.3	73.5	12.1	42.1	66.4	115.6

In the prior year, the share of results of joint ventures and associates loss reported of £13.1 million was 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 (refer to note 11 for further details). The contract profitability and balance sheet review also identified an impairment of £7.0 million in relation to loans to joint ventures and associates. This joint venture had entered the final stages of its operations and the loan was no longer deemed recoverable and was fully impaired.

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

	2022 £m	2021 £m
Marine	4.8	6.5
Nuclear	0.3	9.6
Land	1.5	13.1
Aviation	59.8	86.4
Net book value	66.4	115.6

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.

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.

17. Inventories

	31 March 2022 £m	31 March 2021 (restated) £m
Raw materials and spares	77.3	69.8
Work-in-progress	4.1	7.2
Finished goods and goods for resale	61.3	76.0
Total	142.7	153.0

£9.4m of inventory has been reclassified as contract assets at 31 march 2021. See note 3 for further details.

Write-downs of inventories amounted to £15.8 million (2021: £28.6 million). These were recognised as an expense during the year ended 31 March 2022 and included in cost of revenue in the income statement.

18. Trade and other receivables and contract assets

	31 March 2022 £m	31 March 2021 (restated) £m
Non-current assets		
Costs to obtain a contract	8.9	17.5
Costs to fulfil a contract	0.8	9.2
Non-current trade and other receivables	9.7	26.7
Current assets		
Trade receivables	311.5	283.8
Less: provision for impairment of receivables	(14.6)	(14.0)
Trade receivables – net	296.9	269.8
Retentions	4.4	8.0
Amounts due from related parties (note 33)	2.0	1.7
Other debtors	106.2	83.8
Prepayments	71.1	66.8
Costs to obtain a contract	7.6	3.7
Costs to fulfil a contract	0.6	1.9
Trade and other receivables	488.8	435.7
Contract assets	299.3	276.4
Current trade and other receivables and contract assets	788.1	712.1

£9.4m of inventory has been reclassified as contract assets at 31 March 2021. Separately, an £11.6m restatement has been recognised reducing contract assets as at 31 March 2021. See note 3 for further details.

£26.7m of costs to obtain and fulfil a contract as at 31 March 2021 have been restated as non-current assets based on when the expense is expected to be realised in the income statement. See note 3 for further details. Costs to obtain and fulfil contracts are also now presented separately from contract assets.

Trade and other receivables are stated at amortised cost. There has been no impairment to other debtors during the year ended 31 March 2022.

The Group recognises that there is an inherent element of estimation uncertainty and judgement involved in assessing contract profitability, as disclosed in note 1. Management have taken a best estimate view of contract outcomes based on the information currently available, after allowing for contingencies, and have applied a constraint to the variable consideration within revenue resulting in a revenue estimate that is suitably cautious under IFRS 15.

In the year ended 31 March 2022, amortisation of costs to obtain a contract and costs to fulfil a contract totalled £2.8 million (2021: £11.2 million). No impairment was recorded in relation to costs to obtain a contract or costs to fulfil a contract (2021: £15.5 million).

18. Trade and other receivables (continued)

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

	Contract assets £m
31 March 2021 (restated)	276.4
Acquisition of subsidiary undertaking	16.3
Disposal of subsidiary undertaking	(20.8)
Transfers from contract assets recognised at the beginning of the year to trade receivables	(228.7)
Increase due to work done not transferred from contract assets	255.1
Exchange adjustment	1.0
31 March 2022	299.3

31 March 2020 (restated)	319.2
Disposal of subsidiary undertaking	(4.0)
Transfers from contract assets recognised at the beginning of the year to receivables	(291.6)
Increase due to work done not transferred from contract assets	262.0
Write down of contract assets	(6.9)
Exchange adjustment	(2.3)
31 March 2021 (restated)	276.4

The Group does not have the information presently available to disclose revenue recognised in respect of performance obligations satisfied or partially satisfied in previous periods. We will seek to extend the scope of this disclosure in due course to include the full population of the Group's contracts, as we adopt data collection on to common systems with common controls.

At 31 March 2022, there is £4.1 billion (2021: £3.6 billion) of transaction price on contracts with customers that has been allocated to unsatisfied or partially satisfied performance obligations (note this has metric has been prepared for IFRS 15 disclosure purposes and therefore does not align to the Group's contract backlog). Management expects that 43.2% (2021: 32.7%) of the transaction price allocated to unsatisfied performance obligations as at 31 March 2022 will be recognised as revenue during the next reporting period. A further 46.6% (2021: 49.5%) of the transaction price allocated to unsatisfied performance obligations is expected to be recognised as revenue in years two to five after 31 March 2022.

Details on the Group's approach to assess credit risk are included in note 24.

19. Cash and cash equivalents

	31 March 2022 £m	31 March 2021 £m
Cash at bank and in hand	616.0	610.5
Short-term bank deposits	530.3	294.3
	1,146.3	904.8

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

	31 March 2022		31 March 2021	
	Total £m	Floating rate £m	Total £m	Floating rate £m
Currency				
Sterling	1,023.9	1,023.9	734.0	734.0
Euro	15.0	15.0	52.7	52.7
US Dollar	25.5	25.5	28.3	28.3
South African Rand	27.8	27.8	39.9	39.9
Canadian Dollar	12.2	12.2	16.5	16.5
Omani Rial	4.7	4.7	4.9	4.9
Australian Dollar	22.2	22.2	9.4	9.4
Norwegian Krone	1.4	1.4	3.1	3.1
Swedish Krona	6.5	6.5	3.7	3.7
New Zealand Dollar	1.0	1.0	3.1	3.1
Other currencies	6.1	6.1	9.2	9.2
	1,146.3	1,146.3	904.8	904.8

Surplus cash balances are typically invested at short-term floating rates, linked to SONIA 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.

Expected credit losses of cash and cash equivalents has been determined to be immaterial.

20. Trade and other payables and contract liabilities

	2022 £m	2021 £m
Current liabilities		
Contract liabilities	518.3	396.5
Trade creditors	164.7	410.6
Amounts due to related parties (note 33)	1.5	0.4
Other creditors	26.9	37.4
Other taxes and social security	76.6	144.5
Accruals	618.4	517.3
Trade and other payables	888.1	1,110.2
Trade and other payables and contract liabilities	1,406.4	1,506.7
Non-current liabilities		
Other creditors	1.0	1.9

Included in creditors is £6.7 million (2021: £19.1 million) relating to capital expenditure which has therefore not been included in working capital movements within the cash flow statement.

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

	Contract liabilities £m
31 March 2021	396.5
Revenue recognised that was included in the contract liability balance at the beginning of the year	(294.7)
Cash advanced	419.0
Acquisition of subsidiary undertaking	8.2
Disposal of subsidiary undertaking	(12.5)
Exchange adjustment	1.8
31 March 2022	518.3
31 March 2020	243.2
Revenue recognised that was included in the contract liability balance at the beginning of the year	(163.5)
Increase due to cash received, excluding amounts recognised as revenue	318.1
Disposal	(0.5)
Exchange adjustment	(0.8)
31 March 2021	396.5

21. Bank and other borrowings

	31 March 2022 £m	31 March 2021 (restated**) £m
Current liabilities		
Bank loans and overdrafts due within one year or on demand		
Secured	0.4	0.2
Unsecured	863.0	383.5
	863.4	383.7
Lease obligations*	104.8	126.1
	968.2	509.8
Non-current liabilities		
Bank and other borrowings		
Secured	24.0	18.5
Unsecured	823.7	1,305.3
	847.7	1,323.8
Lease obligations*	329.3	486.2
	1,177.0	1,810.0

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

** In the year ended 31 March 2022, the Group restated the prior year financial information. Details of the restatement are contained in note 3.

The Group's overdraft totalled £389.8 million at 31 March 2022 (2021: £373.9 million).

The Group has £3.5 million (2021: £3.9 million) of secured debt in the Land operating segment that is secured against a property owned by the Group and £20.9 million (£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 24.

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

	31 March 2022			31 March 2021		
Currency	Total £m	Floating rate £m	Fixed rate £m	Total £m	Floating rate £m	Fixed rate £m
Sterling	832.1	405.6	426.5	851.8	399.4	452.4
Euro*	1,181.1	252.8	928.3	1,253.9	250.7	1,003.2
US Dollar	44.4	19.1	25.3	123.9	18.8	105.1
South African Rand	30.0	20.8	9.2	23.0	14.8	8.2
Canadian Dollar	7.5	0.7	6.8	8.5	–	8.5
Australian Dollar	28.2	1.5	26.7	36.7	–	36.7
Norwegian Krone	4.7	3.9	0.8	0.7	–	0.7
Swedish Krona	15.6	–	15.6	18.5	–	18.5
New Zealand Dollar	0.2	–	0.2	0.8	–	0.8
South Korean Won	1.2	–	1.2	1.5	–	1.5
Botswana Pula	0.2		0.2			
Danish Krone	–	–	–	0.5	–	0.5
	2,145.2	704.4	1,440.8	2,319.8	683.7	1,636.1

* €1,100 million (2021: €550 million) has been swapped into Sterling, with €275 million (2021: €275 million) equivalent into floating rates and €825 million (2021: €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% (2021: 1.9%). The weighted average period for which these interest rates are fixed is 4.6 years (2021: five years).

The floating rate for borrowings is linked to SONIA 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.

21. Bank and other borrowings (continued)

The exposure of the Group to interest rate changes when borrowings re-price is as follows.

Total borrowings	1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £m
As at 31 March 2022	968.2	113.1	510.7	553.2	2,145.2
As at 31 March 2021	509.8	596.5	265.5	948.0	2,319.8

The effective interest rates at the statement of financial position dates, including the impact of hedging, were as follows:

	31 March 2022 %	31 March 2021 %
UK bank overdraft	1.1	1.1
UK bank borrowings	1.4	0.6
8-year Eurobond September 2027 – fixed	2.9	2.9
8-year Eurobond September 2027 – floating	3.3	2.4
8-year Eurobond October 2022	1.8	1.8
£300 million bond 2026	1.9	1.9
Other borrowings	4.8 – 6.9	4.8 – 6.4
Leases obligations	2.2 – 11.8	2.2 – 11.8

Repayment details

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

	31 March 2022		31 March 2021	
	Loans and overdrafts £m	Lease obligations £m	Loans and overdrafts £m	Lease obligations £m
Within one year	863.4	104.8	383.7	126.1
Between one and two years	22.6	90.5	476.4	120.1
Between two and three years	0.6	67.9	15.0	91.4
Between three and four years	0.7	46.4	0.3	96.6
Between four and five years	356.4	38.7	0.3	61.9
Greater than five years	467.4	85.8	831.8	116.2
	1,711.1	434.1	1,707.5	612.3

Borrowing facilities

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

	31 March 2022 £m	31 March 2021 £m
Expiring in less than one year	–	3.0
Expiring in more than one year but not more than five years	1,012.2	783.5
	1,012.2	786.5

Bank loans include £12.5 million (2021: £25.1 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 £108.3 million at 31 March 2022 (2021: £230.0 million). The typical factoring fee is 0.1% – 0.5% (2021: 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.

22. Provisions for other liabilities

	Contract/ warranty (a) £m	Employee benefits and business reorganisation costs (b) £m	Italian anti-trust fine (c) £m	Property (d) £m	Other (e) £m	Total provisions £m
At 31 March 2021	67.1	35.8	20.0	21.5	1.1	145.5
On disposal of subsidiaries (note 29)	–	(1.3)	–	(1.2)	–	(2.5)
On acquisition of subsidiaries (note 29)	1.3	–	–	–	–	1.3
Net charge/(release) to income statement	(8.6)	40.1	(3.6)	1.8	0.3	30.0
Utilised in year	(8.5)	(35.4)	(16.1)	(0.8)	–	(60.8)
Unwinding of discount	–	0.2	–	–	–	0.2
Foreign exchange	(0.2)	0.3	–	(0.3)	–	(0.2)
At 31 March 2022	51.1	39.7	0.3	21.0	1.4	113.5

(a) The contract/warranty provisions relate to onerous contracts and warranty obligations on completed contracts and disposals. Warranty provisions are provided in the normal course of business and are recognised when the underlying products and services are sold. The provision is based on an assessment of future claims with reference to historical warranty data and a weighting of possible outcomes against their associated probabilities.

(b) The net charge to the employee benefits and reorganisation provision comprises a charge in the year of £43.5 million and a release of £3.4 million.

(c) For further details of the provision in relation to the Italian anti-trust fine see note 2.

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

(e) Other provisions include provisions for insurance claims arising within the Group's captive insurance company, Chepstow Insurance Limited. They relate to specific claims assessed in accordance with the advice of independent actuaries.

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

	31 March 2022 £m	31 March 2021 £m
Current	53.2	71.8
Non-current	60.3	73.7
	113.5	145.5

Included within provisions is £7.4 million (2021: £5.0 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.

23. Financial instruments and fair value measurement

The following table presents the Group's assets and liabilities:

31 March 2022	Financial assets at fair value £m	Financial assets at amortised cost £m	Financial liabilities at fair value £m	Financial liabilities at amortised cost £m	Total carrying amount £m	Fair value £m
Non-current financial assets						
Investment in joint ventures and associates	–	54.3	–	–	54.3	54.3
Loans to joint ventures and associates	–	12.1	–	–	12.1	12.1
Financial assets	–	10.0	–	–	10.0	10.0
Lease receivables	–	24.1	–	–	24.1	24.1
Current financial assets						
Trade and other receivables *	–	335.3	–	–	335.3	335.3
Lease receivables	–	23.3	–	–	23.3	23.3
Derivatives	11.4	–	–	–	11.4	11.4
Cash and cash equivalents	–	1,146.3	–	–	1,146.3	1,146.3
Non-current financial liabilities						
Bank and other borrowings	–	–	–	(847.7)	(847.7)	(819.6)
Derivatives	–	–	(59.3)	–	(59.3)	(59.3)
Current financial liabilities						
Bank and other borrowings	–	–	–	(863.4)	(863.4)	(833.1)
Trade and other payables *	–	–	–	(460.0)	(460.0)	(460.0)
Derivatives	–	–	(34.8)	–	(34.8)	(34.8)
Net financial assets / (financial liabilities)	11.4	1,605.4	(94.1)	(2,171.1)	(648.4)	(590.0)

* Trade and other receivables and trade and other payables only include balances which meet the definition of a financial instrument.

31 March 2021	Financial assets at fair value £m	Financial assets at amortised cost £m	Financial liabilities at fair value £m	Financial liabilities at amortised cost £m	Total carrying amount £m	Fair value £m
Non-current financial assets						
Investment in joint ventures and associates	–	73.5	–	–	73.5	73.5
Loans to joint ventures and associates	–	42.1	–	–	42.1	42.1
Financial assets	–	11.2	–	–	11.2	11.2
Lease receivables	–	12.9	–	–	12.9	12.9
Derivatives	4.3	–	–	–	4.3	4.3
Current financial assets						
Trade and other receivables *	–	353.8	–	–	353.8	353.8
Lease receivables	–	26.7	–	–	26.7	26.7
Derivatives	8.2	–	–	–	8.2	8.2
Cash and cash equivalents	–	904.8	–	–	904.8	904.8
Non-current financial liabilities						
Bank and other borrowings	–	–	–	(1,323.8)	(1,323.8)	(1,377.2)
Derivatives	–	–	(51.0)	–	(51.0)	(51.0)
Current financial liabilities						
Bank and other borrowings	–	–	–	(383.7)	(383.7)	(399.2)
Trade and other payables *	–	–	–	(674.8)	(674.8)	(674.8)
Derivatives	–	–	(13.9)	–	(13.9)	(13.9)
Net financial assets / (financial liabilities)	12.5	1,425.0	(64.9)	(2,382.3)	(1,009.7)	(1,078.6)

* Trade and other receivables and trade and other payables only include balances which meet the definition of a financial instrument.

23. Financial instruments and fair value measurement (continued)

The fair value hierarchy is as follows:

- 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).

All of the financial assets and liabilities measured at fair value are classified as Level 2 using the fair value hierarchy. There were no transfers between levels during the period.

The fair values of financial instruments held at fair value have been determined based on available market information at the balance sheet date, and the valuation methodologies listed below:

- The fair values of forward foreign exchange contracts are calculated by discounting the contracted forward values and translating at the appropriate balance sheet rates; and
- The fair values of cross-currency interest rate swaps are calculated by discounting expected future principal and interest cash flows and translating at the appropriate balance sheet rates.

Financial assets and liabilities in the Group's Consolidated balance sheet are either held at fair value or their carrying value approximates to fair value, with the exception of loans, which are held at amortised cost. Due to the variability of the valuation factors, the fair values presented at 31 March may not be indicative of the amounts the Group would expect to realise in the current market environment.

Derivative financial instruments and hedging activities

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. 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.

Cash flow hedges

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. The Group designates the spot element of these contracts to hedge the foreign currency risk. Undesignated components of the Group's derivatives are recognised immediately in the income statement.

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 rate of interest. 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.

24. Financial risk management

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 and the Group's cash and cash equivalents.

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	The Group's interest rate management policy is to monitor the mix of fixed versus floating interest rate debt to ensure that it is compatible with its business requirements and capital structure.
Risk management	The Group manages interest rate risk 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.
Performance	As at 31 March 2022, the Group had 66% fixed rate debt (2021: 70%) and 34% floating rate debt (2021: 30%) based on gross debt, including derivatives, of £2,290.1 million (2021: £2,340.0 million).

The following balances are exposed to interest rate risk as shown below:

	31 March 2022			31 March 2021		
	Less than one year £m	Between one and two years £m	Greater than two years £m	Less than one year £m	Between one and two years £m	Greater than two years £m
Cash and cash equivalents	1,146.3	–	–	904.8	–	–
Bank and other borrowings	968.2	113.1	1,063.9	509.8	596.5	1,213.5

The effect of fair value hedges on the Group's financial position and performance for the year is as follows:

	Year ended 31 March 2022			Year ended 31 March 2021		
Hedging instruments	Notional principal amount £m	Carrying amount of hedging instrument £m	Change in fair value of hedging instrument used for calculating hedge ineffectiveness £m	Notional principal amount £m	Carrying amount of hedging instrument £m	Change in fair value of hedging instrument used for calculating hedge ineffectiveness £m
Cross currency interest rate swap[1]	246.7	(34.6)	(14.6)	246.7	(21.1)	(8.9)
Interest rate swap[2]	3.9	0.4	0.4	3.9	0.7	0.1

1. The Group has entered into a cross currency interest rate swap to convert €275 million of fixed rate (1.375%) debt to GBP debt linked to SONIA. This matures on 13 September 2027.
2. The Group has entered into an interest rate swap with a nominal value of £3.9 million. This interest rate swap converts fixed debt with an interest rate of 4.745% to SONIA.

	Year ended 31 March 2022				Year ended 31 March 2021			
Hedged item	Carrying amount of hedged item £m	Accumulated fair value adjustments £m	Change in fair value used for calculating ineffectiveness £m	Amount of ineffectiveness 211ecognized in the income statement £m	Carrying amount of hedged item £m	Accumulated fair value adjustments £m	Change in fair value used for calculating ineffectiveness £m	Amount of ineffectiveness 211ecognized in the income statement £m
Debt	234.8	22.7	13.7	0.1	237.8	8.7	8.7	0.1

Ineffectiveness is included in the income statement in finance costs.

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:

	Year ended 31 March 2022		Year ended 31 March 2021	
	Change in interest rate	Effect on profit before tax £m	Change in interest rate	Effect on profit before tax £m
GBP	0.5%	2.5	0.5%	2.0
EUR*	0.5%	1.2	0.5%	1.2

* The majority of the Group's floating rate relates to €275 million of the Eurobond. If interest rates increased by 0.5% there would be an impact to equity of £3.0 million.

24. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group becomes unable to meet payment obligations in a timely manner when they become due.

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

Objective	The Group's objective with regards to liquidity risk is 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	The Group's policy is to ensure the business is prudently funded and that sufficient liquidity headroom is maintained on its facilities.
Risk management	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. 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. Further detail is included in note 21.
Performance	The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objectives. In the year ended 31 March 2022, the Group signed a new £300 million RCF maturing in 2024 and extended the maturity of £730 million of its existing RCF to 2026. Surplus cash during the year was invested in short-term deposits diversified across several well-rated financial institutions in accordance with policy.

The contracted cash outflows on bank and other borrowings and derivatives at the reporting date are shown below, 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 2022					
Bank and other borrowings	968.2	113.1	510.7	553.2	2,145.2
Derivatives cash outflows settled net	555.7	300.5	246.4	549.6	1,652.2
Derivatives cash outflows settled gross	–	–	–	0.4	0.4
At 31 March 2021					
Bank and other borrowings	509.8	596.5	265.5	948.0	2,319.8
Derivatives cash outflows settled net	97.6	167.7	132.9	545.0	943.2
Derivatives cash outflows settled gross	–	–	–	0.7	0.7

A maturity analysis showing the contract cash outflows on lease liabilities is shown below:

Lease payments maturity profile

	31 March 2022 £m	31 March 2021 £m
Within one year	115.6	156.0
Greater than one year but less than two years	100.6	136.1
Greater than two years but less than three years	76.8	124.9
Greater than three years but less than four years	53.1	90.7
Greater than four years but less than five years	42.1	67.1
Greater than five years	106.3	110.4
Total undiscounted lease payments	494.5	685.2
Impact of discounting	(60.4)	(72.9)
Lease liability	434.1	612.3

24. Financial risk management (continued)

Currency risk

Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. 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 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, ZAR, AUD and CAD, and some exposure to NOK and SEK.

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

Objective	The Group's objective is 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, ZAR, AUD and CAD.
Policy – Transactional risk	In order to mitigate the currency risk of adverse currency movements on foreign currency denominated transactions, the Group's policy is to hedge all foreign currency transactions greater than £10k, using financial instruments where appropriate. The Group applies IFRS 9 hedge accounting treatment where appropriate.
Policy – Translational risk	The Group is also exposed to adverse foreign currency movements on 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.
Risk management	Currency risk management includes hedging the underlying foreign currency exposures in the foreign exchange market with approved counterparties. Currency transactions are recorded and monitored in the treasury management system. Each of the sectors in the Group provides a quarterly foreign currency exposure report to monitor the level of currency hedge cover is appropriate.
Performance	All material firm transactional exposures are hedged using foreign exchange forward contracts and the Group aims, where possible, to apply hedge accounting to these transactions.

Under the Group's hedging policy, the terms of the forward contracts are arranged to align with the expected timing, currency and amounts of the hedged items. The hedging instruments and hedged items will therefore have values which generally move in opposite directions because of the same hedged risk, and an economic relationship can be demonstrated on an ongoing basis. Under the Group's hedging policy, the Group typically enters into transactions where the hedge ratio is 1:1 on the basis that the notional amount of the designated hedging instruments matches the principal amount of the forecast foreign currency transaction.

The Group considers the potential sources of hedge ineffectiveness to be:

- Changes to the timing and amount of forecast transactions;
- Currency basis spread;
- Non-occurrence of the designated hedged items; and
- Valuation adjustments for credit risk made to derivative hedging instruments at each hedge effectiveness measurement date.

The effect of cash flow hedges on the Group's financial position and performance for the year is as follows:

	Year ended 31 March 2022					
Contracts:	Maturity date	Weighted average hedged rate	Change in value of instruments	Change in value of item	Carrying value of derivative	Notional amount
Hedging forecast purchases in EUR	05/03/2023	1.3617	(3.0)	3.0	(2.2)	73.3
Hedging forecast sales in GBP	17/04/2023	0.8929	(1.1)	1.1	(1.1)	110.0
Hedging forecast purchases/sales in CHF/EUR**	20/11/2022	0.9387	1.0	(1.0)	1.0	22.1
Hedging forecast purchase/sales in EUR/NOK**	21/09/2022	10.4500	–	–	–	–
Hedging forecast purchases/sales in other currencies**	19/10/2022	N/A	0.2	(0.2)	(0.4)	38.7
Hedging debt denominated in EUR***	14/03/2025	1.1295	(11.8)	15.6	(30.7)	695.1
Cash flow hedges			(14.7)	18.5	(33.4)	939.2

* The notional amount is the GBP equivalent of the net currency amount purchased or sold.

** Individually immaterial items

*** Instruments used are the cross-currency swaps used to swap fixed rate EUR denominated debt into fixed rate GBP denominated debt and foreign currency forward rate contracts.

24. Financial risk management (continued)

Currency risk (continued)

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

	Year ended 31 March 2022			Year ended 31 March 2021		
	Change in foreign currency rate	Effect on profit before tax £m	Effect on other components of equity £m	Change in interest rate	Effect on profit before tax £m	Effect on other components of equity £m
EUR	5%	0.8	0.8	5%	2.0	2.0
ZAR	5%	(1.6)	(1.6)	5%	1.2	1.2
AUD	5%	(1.6)	(1.6)	5%	1.4	1.4
CAD	5%	(0.5)	(0.5)	5%	(0.2)	(0.2)

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.

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

Objective	The Group's objective is to ensure that the Group continues to operate with an acceptable level of credit risk, based on management's judgement, associated with its operating activities, such as customer trade receivables, and financial activities, including cash deposits and financial instruments.
Policy	The Group's policy is to manage credit risk by setting and reviewing appropriate credit limits for non-government commercial customers, being the Group's main exposure to credit risk. With regards to financial institutions, credit limits will be set according to the respective financial institution's credit rating. Counterparty bank credit risk is closely monitored on a systematic and ongoing basis.
Risk management	Currency risk management includes performing credit checks on non-government commercial customers and setting and only performing financial transactions with approved investment grade counterparties.
Performance	Expected credit loss on trade receivable portfolio / provisions of £14.6 million (2021: £14.0 million). The carrying amount of the Group's financial assets represents the maximum exposure to credit risk.

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.

At 31 March 2022, 15.3% of the Group's cash and cash equivalents was held with a counter-party with a credit rating of AA- or higher, 78.7% with counter-party with a credit rating of A+ to A-, and 6.0% with a counter-party with a credit rating of BBB+ to BB-. Total balance for those assets as at 31 March 2022 is £1,146.3 million (2021: £904.8 million).

Trade receivables

The Group's assessment is that credit risk in relation to customers or sub-contractors to governments is limited as their probability of default is considered to be extremely low. The provision for expected credit losses for receivables from governments and sub-contractors 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, 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. For all other assets the loss allowance is measured using 12-months expected credit losses unless there was a significant increase in credit risk since initial recognition.

24. Financial risk management (continued)

Credit risk (continued)

The Group considers that default has occurred when receivables are more than 90 days overdue and recognises a provision of 100% against all such receivables unless there is evidence of recoverability at the individual receivable level. The movement on the provision for expected credit losses is as follows:

	2022 £m	2021 (restated) £m
Balance at 1 April	(14.0)	(8.1)
Charged to the income statement	(1.0)	(7.6)
Receivables written off during the year as uncollectable	–	0.2
Unused amounts reversed	0.7	1.0
Exchange differences	(0.3)	0.5
Balance at 31 March	(14.6)	(14.0)

The creation and release of provisions for impairment of receivables have been included in cost of revenue in the income statement.

The Group writes off a receivable when there is evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation. None of the trade receivables that were written off during the year are still subject to enforcement activity. The ageing of trade receivables is detailed below:

	Year ended 31 March 2022			Year ended 31 March 2021		
	Gross £m	Provision £m	Net £m	Gross £m	Provision £m	Net £m
Not past due	298.0	(1.1)	296.9	263.4	–	263.4
Up to 90 days overdue	7.4	(7.4)	–	4.8	–	4.8
Past 90 days overdue	6.1	(6.1)	–	15.6	(14.0)	1.6
	311.5	(14.6)	296.9	283.8	(14.0)	269.8

The maximum exposure to credit risk at the reporting date is the carrying 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.

Capital risk

Capital risk is the risk that the entity may not be able to continue as a going concern.

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

Objective	The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, and to provide returns for shareholders and other stakeholder benefits.
Policy	The Group's policy is to protect and strengthen the Group balance sheet through the appropriate balance of debt and equity funding.
Risk management	The Group manages its capital structure and makes adjustments in response to changes to economic conditions and the strategic objectives of the Group. The Group raises finance in the public debt market from financial institutions, using a variety of capital market instruments and borrowing facilities.
Performance	During the current financial year, the Group entered into a £300 million three-year RCF maturing 20 May 2024 and extended the maturity of £730 million of the existing RCF facility to 28 August 2026.

25. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2021 and 31 March 2022	505,596,597	303.4
Allotted, issued and fully paid		
At 1 April 2019 and 31 March 2021	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 2022 that are capable of being met on exercise or vesting by the issue of new shares. They represent outstanding awards granted under the Company's executive share plans. The awards were granted directly by the Company and satisfied by the Trustees of the Babcock Employee Share Trust (BEST) – a total of 9,945,822 shares (2021: 10,438,350 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	2022 Number	2021 Number
14 June 2017	DBP[3]	14/06/2020 – 14/06/2021	–	12,439
13 June 2018	DBP[2]	13/06/2020 – 13/06/2021	–	18,092
13 June 2018	DBP[3]	13/06/2021 – 13/06/2022	23,335	187,433
13 June 2018	PSP[1]	13/06/2021 – 13/06/2022	–	1,311,264
13 June 2018	PSP[1]	13/06/2023 – 13/06/2024	–	758,280
13 June 2019	DBP[2]	13/06/2021 – 13/06/2022	14,668	83,466
13 June 2019	DBP[3]	13/06/2022 – 13/06/2023	224,369	313,909
13 June 2019	PSP[1]	13/06/2022 – 13/06/2023	2,330,777	2,545,970
13 June 2019	PSP[1]	13/06/2024 – 13/06/2025	803,839	1,134,950
3 August 2020	DBP[2]	3/08/2022 – 3/08/2023	146,306	146,306
3 August 2020	DBP[3]	3/08/2023 – 3/08/2024	109,929	118,320
13 August 2020	DBP[2]	13/08/2022 – 13/08/2023	8,474	8,474
13 August 2020	DBP[3]	13/08/2023 – 13/08/2024	192,096	192,096
1 December 2020	PSP[1]	1/12/2025 – 1/12/2026	1,389,984	1,667,742
1 December 2020	PSP[1]	1/12/2023 – 1/12/2024	1,653,975	1,939,609
24 August 2021	PSP[1]	24/08/2026 – 24/08/2027	769,165	–
24 September 2021	DBP[3]	24/09/2024 – 24/09/2025	45,312	–
24 September 2021	PSP[1]	24/09/2024 – 24/09/2025	1,606,889	–
24 September 2021	PSP[1]	24/09/2026 – 24/09/2027	626,704	–
			9,945,822	10,438,350

Options granted to Directors are summarised in the Remuneration report on pages 113 to 133 and are included in the outstanding options set out above.

1. 2009 Performance Share Plan ('PSP').
2. DBP – Award issued without matching shares, has two-year vesting period.
3. DBP – Award issued without matching shares, has three-year vesting period.

25. Share capital (continued)

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

	31 March 2022		31 March 2021	
	Shares newly issued by the Company	Shares bought in the market	Shares newly issued by the Company	Shares bought in the market
BEST	–	398,036	–	661,463
Total	–	398,036	–	661,463

A reconciliation of PSP and DBMP movements is shown below:

	31 March 2022 Number '000	31 March 2021 Number '000
Outstanding at 1 April	10,438	9,527
Granted	3,222	4,593
Exercised	(263)	(258)
Forfeited/lapsed	(3,451)	(3,424)
Outstanding at 31 March	9,946	10,438
Exercisable at 31 March	38	31

The weighted average share price for awards exercised during the year was 319.3p per share (2021: 301.8p per share).

During the year no ordinary shares (2021: 697,886 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 2022, 263,427 shares (2021: 257,743 shares) were disposed of by the Trust resulting from options exercised. At 31 March 2022, the Trust held a total of 398,036 ordinary shares (2021: 661,463 ordinary shares) at a total market value of £1,291,682 (2021: £1,512,104) representing 0.08% (2021: 0.13%) of the issued share capital at that date. The Company did not pay dividends to the 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 benefitting 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 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.

26. 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 £5.5 million (2021: £4.2 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £4.5 million (2021: £3.3 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
2021 PSP	769,165	371.6	19.0%	6.0	100.0%	148.6	315.9	55.0%	24/08/21
2021 PSP	626,704	380.2	19.0%	6.0	100.0%	–	325.0	55.0%	24/09/21
2021 PSP	1,780,849	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
2021 DBP	45,312	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
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

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 Executives 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.

PSP awards made in August 2021 of 769,165 shares include performance criteria weighted to 50% against free cash flow targets and 50% against TSR performance.

PSP awards made in September 2021 of 2,407,553 shares were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached.

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 159,494 matching shares (2021: 180,175 matching shares) at a cost of £0.5 million (2021: £0.5 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year 4,784 matching shares were purchased on the open market (2021: 5,000 matching shares) and 2,823 matching shares vested (2021: 1,193 matching shares) leaving a balance of 6,973 matching shares (2021: 5,012 matching shares).

27. Retirement benefits and liabilities

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Defined contribution schemes	83.4	90.9

Defined benefit schemes

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

	31 March 2022 £m	31 March 2021 (restated) £m
Retirement benefits – funds in surplus	300.9	46.8
Retirement benefits – funds in deficit	(109.3)	(325.7)
	191.6	(278.9)

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.

In the year ended 31 March 2022, the Group has changed the methodology used to value the longevity swaps, as the previous approach no longer accurately reflects fair value. Further details are included in note 3.

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) in 2009, 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 risks; (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 Railways 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 Babcock International Group Scheme as at 31 March 2022 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	31/03/2021	31/12/2019
Number of active members at above date	1,607	643	–	180
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Attained age
Results of formal actuarial valuation:				
Value of assets	£1,894m	£1,480m	£946m	£271m
Level of funding	90%	97%	86%	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, which commenced winding up in 2021, and for which the MOD retains liability.

27. 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%	15.3% – 48.0%	–
Future service cash contributions	£12.1m	£5.3m	–	£0.4m	£2.1m	£19.9m
Deficit contributions	£18.6m	–	£66.6m	£1.6m	£1.5m	£88.3m
Additional longevity swap payments	£7.3m	£3.6m	£4.7m	–	–	£15.6m
Expected employer cash costs for 2022/23	£38.0m	£8.9m	£71.3m	£2.0m	£3.6m	£123.8m
Expected salary sacrifice contributions	£6.3m	£0.4m	–	£0.5m	£0.6m	£7.8m
Expected total employer contributions	£44.3m	£9.3m	£71.3m	£2.5m	£4.2m	£131.6m

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 is completed; 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 2022 by independent qualified actuaries for IAS 19 purposes, on a best estimate basis, using the following assumptions:

March 2022	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	3.4%	3.4%	–	0.5%
Rate of increase in pensions	3.2%	3.5%	3.7%	3.2%
Discount rate	2.7%	2.7%	2.7%	2.7%
Inflation rate (RPI)	3.7%	3.7%	3.7%	3.6%
Inflation rate (CPI)	3.2%	3.2%	3.2%	3.2%
Weighted average duration of cash flows (years)	16	14	16	17
Total life expectancy for current pensioners aged 65 (years)	85.9	86.8	85.0	85.3
Total life expectancy for future pensioners currently aged 45 (years)	86.6	87.4	85.9	86.4

March 2021				
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 cash flows (years)	17	17	17	17
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

27. 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:

	2022 Principal schemes £m	2022 Railways scheme £m	2022 Other schemes £m	2022 Total £m	2021 (restated) Principal schemes £m	2021 (restated) Railways scheme £m	2021 (restated) Other schemes £m	2021 (restated) Total £m
Fair value of plan assets								
Growth assets								
Equities	31.6	14.3	30.6	76.5	55.0	12.5	23.0	90.5
Property funds	364.0	0.1	5.1	369.2	437.1	2.1	4.7	443.9
High yield bonds/emerging market debt	44.1	–	0.4	44.5	348.4	–	–	348.4
Absolute return and multi-strategy funds	46.0	182.9	31.8	260.7	428.5	194.6	25.4	648.5
Low-risk assets								
Bonds	1,924.1	77.2	77.5	2,078.8	1,422.9	54.7	83.4	1,561.0
Matching assets*	2,094.0	1.3	101.8	2,197.1	1,682.7	1.7	108.5	1,792.9
Longevity swaps	(283.5)	–	(10.2)	(293.7)	(250.9)	–	(10.7)	(261.6)
Fair value of assets	4,220.3	275.8	237.0	4,733.1	4,123.7	265.6	234.3	4,623.6
Percentage of assets quoted	100%	100%	100%	100%	100%	100%	100%	100%
Percentage of assets unquoted	–	–	–	–	–	–	–	–
Present value of defined benefit obligations								
Active members	756.0	65.7	35.8	857.5	857.6	126.1	39.4	1,023.1
Deferred pensioners	1,066.2	93.5	132.7	1,292.4	1,227.3	107.4	152.4	1,487.1
Pensioners	2,170.4	167.9	53.3	2,391.6	2,205.1	136.1	51.1	2,392.3
Total defined benefit obligations	3,992.6	327.1	221.8	4,541.5	4,290.0	369.6	242.9	4,902.5
Net assets/(liabilities) recognised in the statement of financial position	227.7	(51.3)	15.2	191.6	(166.3)	(104.0)	(8.6)	(278.9)

* The Babcock International Group Pension Scheme, Devonport Royal Dockyard Pension Scheme and Rosyth Royal Dockyard Pension Scheme invest in segregated portfolios, pooled investment vehicles and derivative contracts. The Trustee has authorised the use of derivatives by the investment managers for efficient portfolio management purposes including to reduce certain investment risks such as interest rate risk and inflation risk. The principal investment in derivatives is gilt repurchase agreements, interest rate and inflation swaps in the liability matching portfolio; total return swaps in the return seeking portfolios. These derivatives are included within the matching assets and equities classifications. The matching assets category includes gross assets of £3,966 million (2021: £3,860 million) and associated repurchase agreement liabilities of £1,872 million (2021: £2,177 million). Repurchase agreements are entered into with counterparties to better offset the scheme's exposures to interest and inflation rates, whilst remaining invested in assets of a similar risk profile.

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 using Level 3 inputs. The key inputs to the valuation are the discount rate and mortality assumptions.

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

	2022 Principal schemes £m	2022 Railways scheme £m	2022 Other schemes £m	2022 Total £m	2021 Principal schemes £m	2021 Railways scheme £m	2021 Other schemes £m	2021 Total £m
Current service cost	25.7	2.0	3.4	31.1	24.1	2.0	2.0	28.1
Incurred expenses	6.6	0.5	0.3	7.4	6.4	0.7	0.2	7.3
Past service costs	–	–	–	–	1.4	–	–	1.4
Curtailment	–	–	–	–	7.5	–	–	7.5
Total included within operating profit	32.3	2.5	3.7	38.5	39.4	2.7	2.2	44.3
Net interest cost/(credit)	1.5	2.1	0.1	3.7	(5.2)	1.3	(0.1)	(4.0)
Total included within income statement	33.8	4.6	3.8	42.2	34.2	4.0	2.1	40.3

27. Retirement benefits and liabilities (continued)

Amounts recorded in the Group statement of comprehensive income

	Year ended 31 March 2022				Year ended 31 March 2021 (restated)			
	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	77.0	13.1	(1.7)	88.4	231.5	26.3	40.0	297.8
Experience gains/(losses) arising on scheme liabilities	(70.6)	14.2	2.4	(54.0)	20.5	(0.6)	2.2	22.1
Changes in assumptions on scheme liabilities	238.8	27.4	21.9	288.1	(638.2)	(72.4)	(54.9)	(765.5)
	245.2	54.7	22.6	322.5	(386.2)	(46.7)	(12.7)	(445.6)

Analysis of movement in the Group statement of financial position

	Year ended 31 March 2022				Year ended 31 March 2021 (restated)			
	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
Restatement (note 3)					(47.0)	–	10.1	(36.9)
At 1 April (restated)	4,123.7	265.6	234.3	4,623.6	3,942.2	241.4	190.8	4,374.4
Interest on assets	82.3	5.2	4.7	92.2	91.6	5.7	4.6	101.9
Actuarial gain on assets*	77.0	13.1	(1.7)	88.4	231.5	26.3	40.0	297.8
Employer contributions	182.5	2.6	5.1	190.2	102.5	2.8	3.5	108.8
Employee contributions	0.2	–	–	0.2	0.2	–	–	0.2
Benefits paid	(245.4)	(10.7)	(5.4)	(261.5)	(244.3)	(10.6)	(4.6)	(259.5)
At 31 March	4,220.3	275.8	237.0	4,733.1	4,123.7	265.6	234.3	4,623.6
Present value of benefit obligations								
At 1 April					3,790.8	297.5	177.8	4,266.1
Restatement (note 3)					–	–	10.1	10.1
At 1 April	4,290.0	369.6	242.9	4,902.5	3,790.8	297.5	187.9	4,276.2
Service cost	25.6	2.0	3.5	31.1	24.1	2.0	2.0	28.1
Incurred expenses	6.6	0.5	0.3	7.4	6.4	0.7	0.2	7.3
Interest cost	83.8	7.3	4.8	95.9	86.4	7.0	4.5	97.9
Employee contributions	0.2	–	–	0.2	0.2	–	–	0.2
Experience (gain)/loss*	70.6	(14.2)	(2.4)	54.0	(20.5)	0.6	(2.2)	(22.1)
Actuarial loss/(gain) – demographics*	(11.5)	(3.5)	–	(15.0)	8.5	(0.6)	(0.7)	7.2
Actuarial (gain)/loss – financial*	(227.3)	(23.9)	(21.9)	(273.1)	629.7	73.0	55.6	758.3
Benefits paid	(245.4)	(10.7)	(5.4)	(261.5)	(244.5)	(10.6)	(4.4)	(259.5)
Past service costs	–	–	–	–	1.4	–	–	1.4
Curtailment	–	–	–	–	7.5	–	–	7.5
At 31 March	3,992.6	327.1	221.8	4,541.5	4,290.0	369.6	242.9	4,902.5
Net surplus/(deficit) at 31 March	227.7	(51.3)	15.2	191.6	(166.3)	(104.0)	(8.6)	(278.9)

* Remeasurement of net retirement benefit obligations resulted in a gain of £322.5 million (2021: £445.6 million loss)

The Group has restated the results for the year ended 31 March 2021 due to an updated approach for the valuation of the longevity swap. Further detail is included in note 3.

The movement in net deficits for the year ending 31 March 2022 is as a result of the movement in assets and liabilities shown above.

27. Retirement benefits and liabilities (continued)

The disclosures below relate to post-retirement benefit schemes which are accounted for as defined benefit schemes in accordance with IAS 19. The changes to the Group statement of financial position at 31 March 2022 and the changes to the Group income statement for the year to March 2023, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2022 £m	Income statement 2023 £m
Initial assumptions	4,541.5	26.0
Discount rate assumptions increased by 0.5%	(352.0)	(14.9)
Discount rate assumptions decreased by 0.5%	394.2	12.6
Inflation rate assumptions increased by 0.5%	277.6	8.9
Inflation rate assumptions decreased by 0.5%	(262.5)	(8.4)
Total life expectancy increased by half a year	103.1	3.1
Total life expectancy decreased by half a year	(100.4)	(3.1)
Salary increase assumptions increased by 0.5%	29.6	1.4
Salary increase assumptions decreased by 0.5%	(28.3)	(1.4)

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.

28. Changes in net debt excluding loans to joint ventures and associates and lease receivables

	31 March 2021 £m	Cash flow £m	Additional leases £m	Other non-cash movement £m	Changes in fair value £m	Exchange movement £m	31 March 2022 £m
Cash and bank balances	904.8	238.6	–	–	–	2.9	1,146.3
Bank overdrafts	(373.9)	(15.9)	–	–	–	–	(389.8)
Cash, cash equivalents and bank overdrafts	530.9	222.7	–	–	–	2.9	756.5
Debt	(1,333.6)	8.6	–	(2.0)	(1.6)	7.3	(1,321.3)
Lease liabilities	(612.3)	113.0	(93.8)	159.2	–	(0.2)	(434.1)
Derivative designated as hedge of Group debt	(19.1)	–	–	–	(10.2)	–	(29.3)
Changes in liabilities from financing arrangements	(1,965.0)	121.6	(93.8)	157.2	(11.8)	7.1	(1,784.7)
Lease receivables	39.6	(36.9)	41.9	–	–	2.8	47.4
Net debt before loans to joint ventures and associates	(1,394.5)	307.4	(51.9)	157.2	(11.8)	12.8	(980.8)
Loans to joint ventures and associates	42.1	(29.6)	–	(0.4)	–	–	12.1
Net debt excluding loans to joint ventures and associates and lease receivables	(1,352.4)	277.8	(51.9)	156.8	(11.8)	12.8	(968.7)

29. Acquisition and disposal of subsidiaries, businesses and joint ventures and associates

Acquisitions

On 15 March 2022, the Group acquired the remaining 50% of Naval Ship Management (Australia) Pty Limited ('NSM'). The Group had previously held a 50% interest in this entity since May 2012 which was classified as a joint venture. NSM provides repair, engineering and maintenance services to the Australian Navy. The Group paid cash consideration of £33.1 million (AUD60 million) for this acquisition.

The fair value of assets and liabilities recognised as a result of the acquisition are as follows:

	Naval Ship Management £m
Fair value gain on previously held interest:	
Carrying value of previously held interest	0.7
Fair value gain on previously held interest	32.4
Fair value of previously held interest at acquisition date	33.1
Purchase consideration:	
Cash consideration	33.1
Fair value of previously held interest	33.1
Total consideration	66.2
Assets acquired:	
Property, plant and equipment	0.4
Right of use assets	0.5
Deferred tax assets	0.3
Contract assets	16.3
Trade and other receivables	11.6
Cash and cash equivalents	17.6
Deferred tax liability	(18.9)
Income tax payable	(0.4)
Lease liabilities	(0.5)
Contract liabilities	(8.2)
Trade and other payables	(34.5)
Provisions	(1.3)
Net identifiable assets acquired	(17.1)
Goodwill	21.3
Intangible assets	62.0
Net assets acquired	66.2

Post-acquisition, Naval Ship Management (Australia) Pty Limited contributed £0.7 million to the profit before tax of the Group. If this entity had been owned for the full financial year the contribution to profit before tax would have been £10.5 million.

The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by intangible assets of £62.0 million, relating to customer relationships, and goodwill of £21.3 million, representing potential for future synergies arising from combining the acquired businesses with the Group's existing business. Goodwill is not deductible for tax purposes.

Disposals

On 11 March 2021, the Group announced that it had entered into a sale and purchase agreement to dispose of the Oil and Gas business, which provides offshore Oil and Gas crew transportation services in the UK, Denmark and Australia. The disposal was made as part of the Group's targeted disposals programme. The disposal completed on 1 September 2021, on which date control of the Oil and Gas business passed to CHC Group LLC. The Group received consideration of £10.0 million.

On 13 August 2021, the Group announced that it had entered into a sale and purchase agreement to dispose of Frazer-Nash Consultancy, which provides engineering and technology solutions across a broad range of critical national infrastructure. The disposal was made as part of the Group's targeted disposals programme. The disposal completed on 20 October 2021, on which date control of Frazer-Nash Consultancy passed to KBR Inc. The Group received consideration of £291.7 million.

On 24 December 2021, the Group announced the disposal of the Power business to M Group Services, which provides engineering services in the UK overhead line electric transmission and distribution industry. The disposal was made as part of the Group's targeted disposals programme. The disposal completed on 24 December 2021, on which date control passed to M Group Services. The Group received consideration of £50.0 million.

29. Acquisition and disposal of subsidiaries, businesses and joint ventures and associates (continued)

Disposals (continued)

On 13 September 2021, the Group announced a definitive agreement with Equitix Investment Management Limited for the sale of its 15.4% shareholding in AirTanker Holdings Limited, a joint venture with Airbus, Thales and Rolls-Royce which owns 14 A330 Voyager aircraft to support air-to-air refuelling, air transport and ancillary services for the MOD. The Group has retained its 23.5% shareholding in AirTanker Services Limited, which operates these aircraft. The disposal was made as part of the Group's targeted disposals programme. The disposal completed on 9 February 2022, on which date control passed to Equitix. The Group received consideration of £95.6 million, and shareholder loans of £31.5 million were repaid.

In the prior year the Group disposed 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. The Group also disposed of Cavendish Nuclear Manufacturing Limited for no consideration, which resulted in a loss on disposal of £0.6 million, and Conbras Servicos Tecnicos de Suporte Ltda for a consideration of £9.7 million which resulted in a loss on disposal of £10.9 million.

	Year ended 31 March 2022					Year ended 31 March 2021			
	Oil and Gas business £m	Frazer-Nash Consultancy £m	Power £m	AirTanker £m	Total £m	Holdfast Training Services Limited £m	Cavendish Nuclear Manufacturing Limited £m	Conbras Servicos Tecnicos de Suporte Ltda £m	Total £m
Goodwill	0.4	64.5	44.1	80.0	189.0	68.4	–	4.2	72.6
Investment in joint ventures and associates	–	–	–	23.8	23.8	53.2	–	–	53.2
Other intangible assets	–	2.1	–	–	2.1	–	–	–	–
Property, plant and equipment	15.1	2.2	4.5	–	21.8	–	–	0.8	0.8
Right of use assets	125.8	3.9	1.9	–	131.6	–	–	–	–
Deferred tax assets	18.8	0.5	0.3	–	19.6	–	–	–	–
Inventory	3.6	–	0.1	–	3.7	–	0.5	0.1	0.6
Trade and other receivables	46.5	31.0	9.3	–	86.8	–	–	–	–
Other current assets	–	–	–	–	–	–	0.7	11.1	11.8
Income tax receivable	1.5	2.9	–	–	4.4	–	–	–	–
Cash, cash equivalents and bank overdrafts	–	4.9	4.2	–	9.1	–	0.4	3.1	3.5
Lease liabilities	(129.7)	(5.4)	(2.0)	–	(137.1)	–	–	–	–
Deferred tax liability	(12.0)	–	–	–	(12.0)	–	–	–	–
Income tax payable	(1.0)	–	–	–	(1.0)	–	–	–	–
Trade and other payables	(39.6)	(13.9)	(9.9)	–	(63.4)	–	–	–	–
Other current liabilities	–	–	–	–	–	–	(1.0)	(8.2)	(9.2)
Provisions	(1.3)	–	(1.2)	–	(2.5)	–	–	(2.5)	(2.5)
Net assets disposed	28.1	92.7	51.3	103.8	275.9	121.6	0.6	8.6	130.8
Disposal costs	2.0	10.1	2.7	2.7	17.5	1.6	–	1.5	3.1
Cumulative currency translation	(7.3)	–	–	–	(7.3)	–	–	10.5	10.5
Recycle of hedge reserve	–	–	–	20.8	20.8	–	–	–	–
Profit/(loss) on disposal	(12.8)	188.9	(4.0)	(31.7)	140.4	(38.2)	(0.6)	(10.9)	(49.7)
Sale proceeds	10.0	291.7	50.0	95.6	447.3	85.0	–	9.7	94.7
Sale proceeds less cash disposed of	10.0	286.8	45.8	95.6	438.2	85.0	(0.4)	6.6	91.2
Less transaction costs	(2.0)	(10.1)	(2.7)	(2.7)	(17.5)	–	–	(0.6)	(0.6)
Net cash inflow/(outflow)	8.0	276.7	43.1	92.9	420.7	85.0	(0.4)	6.0	90.6

Total profit resulting from acquisitions and disposals is £172.8 million (2021: loss £49.7 million), comprising of £140.4 million profit on disposal and £32.4 million fair value gain on previously held interest in the NSM joint venture.

30. Transactions with non-controlling interests

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

31. 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. There are a number of contingent liabilities that arise in the normal course of business, including:

a) 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.

b) The nature of the Group's long-term contracts means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, including liabilities that arise on completion of contracts and on conclusion of relationships with joint ventures and associates. The Group takes account of the advice of experts, both internal and external, in making judgements on contractual issues and whether the outcome of negotiations will result in an obligation to the Group. The Directors do not believe that the outcome of these matters will result in any material adverse change in 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. In addition, certain overseas territories have offset obligations, which if not fully discharged during the contract may become a liability.

d) The Group is subject to corporate and other tax rules in the jurisdictions in which it operates. Changes in tax rates, tax reliefs and tax laws, or interpretation of the law, by the relevant tax authorities may result in financial and reputational damage to the Group. This may affect the Group's financial condition and performance.

   In addition, tax enforcement has become a higher priority for many tax authorities in jurisdictions in which the Group operates, which has led to an increase in tax audits, enquiries and challenges, or the testing through litigation of the boundaries of the correct interpretation of legislation. Tax authorities may also actively pursue additional taxes based on retroactive changes to tax laws and the Group may have disagreements with tax authorities which could result in a material restatement to the tax position. However, no such contingencies have a significant risk of giving rise to a material adjustment within the next financial year.

32. Capital and other financial commitments

Capital commitments

	31 March 2022 £m	31 March 2021 £m
Contracts placed for future capital expenditure not provided for in the financial statements	21.3	57.9

Subsidiary audit exemptions

The following UK subsidiary undertakings are exempt from the requirements of the Companies Act 2006 (the Act) relating to the audit of individual accounts by virtue of section 479A of the Act.

Legal entity name	Company number	Legal entity name	Company number
Babcock Southern Holdings Limited	**01915771**	Babcock Mission Critical Services Limited	**08010453**
Vosper Thornycroft (UK) Limited	**00070274**	Babcock Mission Critical Services UK Limited	**07527245**
Babcock Group (US) Investments Limited	**07445425**	Bond Aviation Topco Limited	**08493398**
Babcock Investments (Number Four) Limited	**05269128**	Babcock Defence & Security Holdings LLP	**OC376674**
Babcock Project Investments Limited	**03463927**	Babcock Defence and Security Investments Limited	**08132272**
Babcock US Investments Limited	**07422616**	Babcock International Support Services Limited	**03335786**
Babcock Defence Systems Limited	**02999029**	Babcock Airports Limited	**03954520**
Babcock Contractors Limited	**04540026**	Babcock Assessments Limited	**02881056**
Peterhouse Group Limited	**01517100**	Babcock Education Holdings Limited	**08132276**
Babcock Nuclear Limited	**05265567**	Babcock Critical Assets Holdings LLP	**OC376675**
Babcock Marine Limited	**02141109**	Babcock Education and Training Holdings LLP	**OC376676**
Babcock Project Services Limited	**04539887**	Cavendish Nuclear (Overseas) Limited	**05339062**
Babcock Marine and Technology Holdings Limited	**04539974**	Babcock Integrated Technology (Korea) Limited	**09566389**
Babcock Integration LLP	**OC356460**	Babcock Information Analytics and Security Limited	**02275471**
Babcock Mission Critical Services Topco Limited	**08338012**	Appledore Shipbuilders (2004) Limited	**02052982**

Babcock International Group PLC will guarantee all outstanding liabilities that these subsidiaries are subject to as at the financial year ended 31 March 2022 in accordance with section 479C of the Act, as amended by the Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012. In addition, Babcock International Group PLC will guarantee any contingent and prospective liabilities that these subsidiaries are subject to.

33. Related party transactions

Related party transactions for the year ended 31 March 2022 are:

2022	2022 Revenue to £m	2022 Purchases from £m	2022 Year-end debtor balance £m	2022 Year-end creditor balance £m
Joint ventures and associates				
First Swietelsky Operation and Maintenance	9.1	–	0.5	(1.5)
Ascent Flight Training (Management) Limited	3.3	–	0.1	–
Ascent Flight Training (Holdings) Limited	1.1	–	–	–
ALC (Superholdco) Limited	0.4	–	–	–
Rotary Wing Training Limited	3.6	–	0.7	–
Fixed Wing Training Limited	3.5	–	0.3	–
Advanced Jet Training Limited	1.8	–	0.2	–
Rear Crew Training Limited	1.1	–	0.2	–
AirTanker Services Limited	11.3	–	0.1	–
Alert Communications Limited	4.4	–	–	–
Naval Ship Management (Australia) Pty Limited	–	–	–	–
Cavendish Dounreay Partnership Limited	–	–	–	–
	39.6	–	2.1	(1.5)

2021 (restated*)	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	–	–	–
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	–	–	–	–
Cavendish Dounreay Partnership Limited	6.7	–	0.2	–
Duqm Naval Dockyard SAOC	0.2	(0.4)	–	–
	55.8	(0.4)	1.7	(0.4)

* The results for 31 March 2021 have been restated in line with IAS 24, due to related party transactions which were unnecessarily added into the disclosure in the prior year.

a) All transactions noted above arise in the normal course of business and on normal, arm's length commercial terms.

b) Defined benefit pension schemes. Please refer to note 27 for transactions with the Group defined benefit pension schemes.

c) Key management compensation is shown in note 7.

d) Transactions in employee benefits trusts are shown in note 26.

34. Events after the reporting period

On 19 July 2022, the Group announced the sale of its Aerial Emergency Services business in the Aviation operating segment for gross cash consideration of £115 million. This business provides aerial emergency medical services, firefighting and search & rescue to customers and communities in Italy, Spain, Portugal, Norway, Sweden and Finland. The disposal was made as part of the Group's targeted disposals programme.

35. 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 2022 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[1,10]

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, 8]

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
Spyrou Kyprianou, 47, 1st Floor, Mesa Geitona, 4004 Limassol, 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
103 Waterloo Street, Glasgow, Scotland, G2 7BW, United Kingdom

Babcock Defence & Security Holdings LLP

Babcock Defence and Security Investments Limited

Babcock Defence Systems Limited

Babcock Defense (USA) Incorporated
251 Little Falls Drive, Wilmington, Delaware 19808, United States

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 Engineering Limited*

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

Babcock Europe Finance Limited[2]
Trident Park, Notabile Gardens, No. 2 – Level 3, Mdina Road, Zone 2, Central Business District, Birkirkara CBD 2010, 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]
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Babcock Holdings Limited[10]

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, 41366 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]
Trident Park, Notabile Gardens, No. 2 – Level 3, Mdina Road, Zone 2, Central Business District, Birkirkara CBD 2010, 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
251 Little Falls Drive, Wilmington, Delaware 19808, 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

Babcock Korea Limited
72-1, Shinsan-ro, Saha-gu, Busan, 49434, South Korea

Babcock Land Defence 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]
Trident Park, Notabile Gardens, No. 2 – Level 3, Mdina Road, Zone 2, Central Business District, Birkirkara CBD 2010, Malta

Babcock Malta Finance Limited[3]
Trident Park, Notabile Gardens, No. 2 – Level 3, Mdina Road, Zone 2, Central Business District, Birkirkara CBD 2010, Malta

Babcock Malta Holdings (Number Two) Limited[3]
Trident Park, Notabile Gardens, No. 2 – Level 3, Mdina Road, Zone 2, Central Business District, Birkirkara CBD 2010, Malta

Babcock Malta Holdings Limited[3]
Trident Park, Notabile Gardens, No. 2 – Level 3, Mdina Road, Zone 2, Central Business District, Birkirkara CBD 2010, 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[6]
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

35. Group entities (continued)

Subsidiaries, wholly owned (continued)

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 Galicia SL
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

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

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

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

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

Babcock Mission Critical Services Leasing Limited

Babcock Mission Critical Services Ltd

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 Norway AS
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Nuclear Limited

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]
103 Waterloo Street, Glasgow, Scotland, G2 7BW, United Kingdom

Babcock Support Services s.r.l.
Corso Vercelli, 40, 20145, Milano, Italy

Babcock Training Limited

Babcock UK Finance

Babcock USA LLC
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Babcock US Investments (Number Two) LLC[2]
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Babcock US Investments Inc.[2]
251 Little Falls Drive, Wilmington, Delaware 19808, 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 (USA) Incorporated
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Cavendish Nuclear Japan KK
Regus Tokyo, Arca Central - Office 104, Arca Central Building 14F 1-2-1, Kinshi , Sumida-ku, Tokyo, Japan

Cavendish Nuclear Limited[5]

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*

Flagship Fire Fighting Training Limited

Heli Aviation China Limited*
Rooms 05-15, 13 A/F South Tower, World Finance Centre, Harbour City, 17 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong

iMAST Limited*

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

LGE IP Management Company Ltd
Rosyth Business Park, Rosyth, Dunfermline, Fife, Scotland, KY11 2YD, United Kingdom

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

Liquid Gas Equipment LLC[2]
251 Little Falls Drive, Wilmington, Delaware 19808, United States

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

Naval Ship Management (Australia) Pty Ltd
9, 70 Franklin Street, Adelaide, SA 5000, Australia

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[12]
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

Vosper Thornycroft (UK) Limited

35. 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%)[13]
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%)[13]
52 St Christopher Street, Valletta, VLT 1462, Malta

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%)
No. 9, Carrot Avenue, Adjacent Lizzy Sport Complex, East Legon, 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. Zedequias Manganhela, no 267, 1 Andar, Direito, Mozambique

Babcock Namibia Services Pty Ltd (90.0%)
Unit 3 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) Lim (46.81%)*
Unit G3 Victoria House, Plot 132 Independenc Avenue, Gaborone, Botswana

Babcock Plant Services (Pty) Ltd (64.82
Riley Road Office Park, 15E Riley Road, Bedford Gauteng, 2007, South Africa

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

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

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

Babcock Scandinavian Aviation Service (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) Limite (90%)[7]
Unit G3 Victoria House, Plot 132 Independenc Avenue, Gaborone, Botswana

Babcock Zambia Limited (90.0%)
16 Arusha, Town Centre, Ndola, Copper Belt, Z

Cognac Formation Aero (90.0%)
Base Aérienne 709 Cognac 16100 Châteaube France

INAER Helicopter Peru S.A.C. (In liquidation) (70.0%)
1118 Av. Los Conquistadores, Santa Cruz, San Lima, Peru

National Training Institute LLC (70.0%)
PO Box 267, MadinatQaboos, Sultanate of Om 115 Oman

35. Group entities (continued)

Joint ventures and associates (equity accounted):

ABC Electrification Ltd (33.3%)[11]
8th Floor, The Place, High Holborn, London, WC1V 7AA

AirTanker Services Limited (23.5%)[15]
AirTanker Hub RAF Brize Norton, Carterton, Oxfordshire, England, OX18 3LX, 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%)
The Special Economic Zone at Duqm, Al-Duqm, Al-Wusta'a, 3972 112, Oman

European Air-Crane S.p.A. (24.41%)
Via Vittorio Emanuele 11, 50134, Florence, Italy

FSP (2004) Limited (50.0%)[2]
Kintail House, 3 Lister Way, Hamilton International Park, Blantyre, G72 0FT, Scotland

Okeanus Vermogensverwaltungs GmbH & Co. KG (50.0%)
Vorsetzen 54, 20459, Hamburg, Germany

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.

Wholly owned subsidiaries with registered office at 5 Temple Square, Temple Street, Liverpool L2 5RH, United Kingdom, currently in Members Voluntary Liquidation:

Babcock Emergency Services Limited; Babcock Leaseco Limited; Babcock Technical Services Limited; HCTC Limited; INS Innovation Limited; KML (UK) Limited; Scimco Limited; Touchstone Learning & Skills Ltd; Westminster Education Consultants Limited.

Wholly owned subsidiary with registered office at 4 Atlantic Quay, 70 York Street, Glasgow, G2 8JX currently in Members Voluntary Liquidation:

First Engineering Holdings Limited

Joint venture, with registered office at 18-22 Lloyd Street, Manchester, M2 5WA United Kingdom, currently in Members Voluntary Liquidation:

ALC (Superholdco) Limited (50.0%)[15]

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 three types of preference shares.
9. Holding of ordinary and five types of preference shares.
10. Holding of two types of ordinary shares and two types of preference shares.
11. Holding of one type of ordinary share only, where more than one type of share is authorised or in issue.
12. Holding of two types of ordinary shares, where more than two types of share are authorised or in issue.
13. 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.
14. Year end 31 December.
15. Year end 30 June.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 March	Note	2022 £m	2021 (restated) £m
Non-current assets			
Investment in subsidiaries	6	2,466.5	2,303.5
Trade and other receivables	7	2,633.5	2,570.0
		5,100.0	4,873.5
Current assets			
Trade and other receivables	7	1,175.7	1,175.9
Cash and cash equivalents		337.1	115.0
		1,512.8	1,290.9
Total assets		6,612.8	6,164.4
Non-current liabilities			
Bank and other borrowings	8	819.4	1,283.1
Other financial liabilities	9	51.4	39.3
		870.8	1,322.4
Current liabilities			
Bank and other borrowings	8	502.5	203.3
Other financial liabilities	9	41.5	4.7
Trade and other payables	10	2,465.2	2,067.5
		3,009.2	2,275.5
Total liabilities		3,880.0	3,597.9
Net assets		2,732.8	2,566.5
Equity			
Called up share capital	11	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		757.0	590.7
Total equity		2,732.8	2,566.5

* In the year ended 31 March 2021, the financial information for the Company has been restated. Details of the restatement are contained in note 5. The presentation of the statement of financial position has been amended to more closely align to the Group statement of financial position.

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 £169.4 million (2021: £156.2 million loss).

The financial statements on pages 233 to 243 were approved by the Board of Directors on 28 July 2022 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 2020	303.4	873.0	768.8	30.6	763.1	2,738.9
Profit for the year (restated)	–	–	–	–	(156.2)	(156.2)
Other comprehensive income	–	–	–	–	(19.5)	(19.5)
Total comprehensive income (restated)	–	–	–	–	(175.7)	(175.7)
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	–	–	–	–	(172.4)	(172.4)
At 31 March 2021 (restated)	303.4	873.0	768.8	30.6	590.7	2,566.5
Profit for the year	–	–	–	–	169.4	169.4
Other comprehensive income	–	–	–	–	(8.6)	(8.6)
Total comprehensive income	–	–	–	–	160.8	160.8
Share-based payments	–	–	–	–	5.5	5.5
Tax on share-based payments	–	–	–	–	–	–
Net movement in equity	–	–	–	–	166.3	166.3
At 31 March 2022	303.4	873.0	768.8	30.6	757.0	2,732.8

* In the year ended 31 March 2021, the financial information for the Company have been restated. Details of the restatement are contained in note 5.

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.

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 2021:

- Interest Rate Benchmark Reform, Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

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 26 to the Group financial statements.

(b) 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 27 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. 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 investment grade counterparties as are investments of cash and cash equivalents.

Company guarantees
The Company has guaranteed or has joint and several liability for bank facilities with nil utilisation at 31 March 2022 (2021: nil) provided to certain Group companies. These guarantees are measured initially at their fair values, and subsequently measured at the higher of the expected credit loss and the amount initially recognised less cumulative amortisation.

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:

Critical accounting estimates – 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 cash flows expected to be generated by the subsidiaries, together with appropriate discounting of the cash flows. Note 5 provides information on key assumptions and sensitivity analyses performed.

3. Company profit
The Company has no employees other than the Directors.

The Company has taken advantage of the exemption granted by section 408 of the Companies Act 2006 whereby no individual profit and loss account of the Company is disclosed. The Company's profit for the financial year was £169.4 million (2021: loss £156.2 million).

Fees payable to the parent auditor and its associates in respect of the audit of the Company's financial statements were £1.8 million (2021: £0.7 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 £3.9 million (2021: £2.9 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 gain made by Directors from the exercise of Long Term Incentive Plans in 2022 as at the date of exercise was £nil million (2021: £0.1 million) and the net aggregate value of assets received by Directors in the year ended 31 March 2022 from Long Term Incentive Plans as calculated at the date of vesting was £nil million (2021: £0.1 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. Prior year restatement

31 March 2021 – Group statement of financial position (extract)

	31 March 2021 (previously published)	(i) Cross currency interest rate swap valuation	(ii) Impairment of investment in subsidiary undertakings	(iii) Tax	(iv) Balance sheet reclassification	31 March 2021 (restated)
Non-current assets						
Investment in subsidiary undertakings	2,466.5	–	(163.0)	–	–	2,303.5
Trade and other receivables	–	–	–	(12.6)	2,582.6	2,570.0
Total non-current assets*	2,466.5	–	(163.0)	(12.6)	2,582.6	4,873.5
Current assets						
Trade and other receivables	3,764.7	–	–	(6.2)	(2,582.6)	1,175.9
Total current assets*	3,879.7	–	–	(6.2)	(2,582.6)	1,290.9
Current liabilities						
Bank and other borrowings	(198.3)	(5.0)	–	–	–	(203.3)
Derivatives	(4.8)	0.1	–	–	–	(4.7)
Total current liabilities*	(2,270.6)	(4.9)	–	–	–	(2,275.5)
Equity						
Retained earnings	(777.4)	4.9	163.0	18.8	–	(590.7)
Total equity*	(2,753.2)	4.9	163.0	18.8	–	(2,566.5)

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

i. Cross currency interest rate swaps
The Group uses cross currency interest rate swaps to manage foreign currency and interest rate risk. Further detail is included in note 24.

During the year ended 31 March 2022 it was identified that the valuation methodology applied by the Group was not appropriate, as it did not incorporate the impact of credit risk. Additionally, the hedge effectiveness assessment did not account for the difference in timing between when the debt facility and derivative were entered into, and was therefore incorrect. Application of the appropriate valuation methodology and hedge effectiveness has resulted in an increase to bank and other borrowings of £5.0 million, a decrease to other financial liabilities of £0.1 million, an increase in the cash flow hedge reserve of £11.3 million and a decrease to retained earnings of £16.2 million.

ii. Impairment of investment in subsidiary undertakings
In the year ended 31 March 2022 it was identified that the prior year impairment assessment for the Company's investment in subsidiary undertakings incorrectly calculated the recoverable amount. Re-performance of this assessment using the appropriate recoverable amount results in an impairment to the Company's investment in subsidiary undertakings of £163.0 million, resulting in an investment value of £2,303.5 million. This impairment is reversed in full in the year ended 31 March 2022, as the impairment assessment for this year has sufficient headroom. Further detail is included in note 6.

The impairment does not affect cash and has been reversed in full during the year ended 31 March 2022, as the results of the impairment assessment resulted in sufficient headroom and were accompanied by indicators that the service potential of the investment had increased.

iii. Tax
Management have identified that the income tax receivable and deferred tax balances at 31 March 2021 were not recoverable. This has resulted in a decrease to income tax receivable of £6.2 million and a reduction in the deferred tax asset of £12.6 million.

iv. Balance sheet reclassification
In the prior year, amounts owed by subsidiary undertakings were presented as falling due within one year and classified within current assets. Based on the underlying terms of the agreement and considering the fact that these assets are not expected to be settled within the next 12 months the classification has been reassessed, and the amounts owed by subsidiary undertakings presented within non-current assets. The balance sheet and applicable note in the comparative period have been restated accordingly.

6. Investment in subsidiary undertakings

	31 March 2022 £m	31 March 2021 (restated) £m
Cost	2,466.5	2,466.5
Accumulated impairment	–	(163.0)
	2,466.5	2,303.5

Prior year impairment

In the year ended 31 March 2022 it was identified that the prior year impairment assessment for the Company's investment in subsidiary undertakings incorrectly calculated the recoverable amount. Re-performance of this assessment using the appropriate recoverable amount results in an impairment to the Company's investment in subsidiary undertakings of £163.0 million, resulting in an investment value of £2,303.5 million. This impairment is reversed in full in the year ended 31 March 2022, as the impairment assessment for this year has sufficient headroom. Further detail is included below.

Results of the impairment test for the year ended 31 March 2022

This impairment test for the year ended 31 March 2022 resulted in a reversal of the prior year impairment of £163.0 million, as the results of the impairment assessment resulted in sufficient headroom and were accompanied by indicators that the service potential of the investment had increased.

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 12 of the Group financial statements sets out further details in relation to how the value-in-use calculations are determined.

6. Investment in subsidiary undertakings (continued)

Impairment methodology (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 12 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 2022.

The discount rates and long-term growth rates used to determine the recoverable amount of the Company's investment in subsidiary undertakings are set out below.

	31 March 2022				31 March 2021			
	Aviation	Land	Marine	Nuclear	Aviation	Land	Marine	Nuclear
Pre-tax discount rate	11.3%	11.8%	11.3%	11.3%	12.0	11.0	11.0	11.0
Post-tax discount rate	8.5%	8.8%	8.5%	8.5%	9.0	8.25	8.25	8.25
Long-term growth rate	2.2%	2.2%	2.4%	2.0%	2.0	2.0	2.0	2.0

Sensitivity

The recoverable amount, headroom and carrying value of the Company's investment in subsidiary undertakings are set out in the table below:

£m	31 March 2022 £m	31 March 2021 (restated) £m
Carrying value	3,649.0	4,150.0
Headroom	405.0	–
Reversal of impairment/(impairment)	163.0	(163.0)
Recoverable amount	4,217.0	3,987.0

This assessment was prepared for the purposes of IAS 36 – Impairment of assets and does not reflect the internal valuation of the Group.

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 £405.0 million following reversal of impairment (2021: £163.0 million impairment). 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 the Company's investment in subsidiary undertakings. An increase to the pre-tax discount rate of 100 basis points would cause an impairment of £115.1 million. A decrease to the long-term growth rate of 50 basis points would reduce headroom by £199.5 million.

The Directors consider that key cash flow assumptions in the calculation of the recoverable value of the Company's investment in subsidiary undertakings include short-term cash flows. If the year-on-year growth is decreased by 15%, the value in use for the Company's investment in subsidiary undertakings decreases by £217.0 million.

7. Trade and other receivables

	31 March 2022 £m	31 March 2021 (restated) £m
Non-current		
Amounts due from subsidiary undertakings	2,628.4	2,566.2
Deferred tax	5.1	3.8
Total non-current trade and other receivables	2,633.5	2,570.0
Current		
Amounts due from subsidiary undertakings	241.9	257.9
Preference shares in a subsidiary undertaking	930.4	918.0
Prepayments	3.4	–
Total current trade and other receivables	1,175.7	1,175.9

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%.

Interest rates on amounts owed by subsidiary operations:

	Non-current		Current	
	31 March 2022 £m	31 March 2021 £m	31 March 2022 £m	31 March 2021 £m
EURIBOR + 4.0%	62.4	78.4	160.4	88.1
EURIBOR + 2.0%	–	12.1	–	–
SONIA + 4.0%	115.1	84.0	41.3	51.4
SONIA + 5.0%	–	140.0	–	–
USD LIBOR + 4.0%	5.7	5.8	–	1.5
STIBOR + 4%	19.4	1.8	3.3	7.2
BBSW + 4.0%	25.1	12.8	–	3.3
NIBOR + 4.0%	–	24.0	5.3	5.6
1.5%	0.7	–	8.5	–
4.5%	100.8	–	–	100.8
5.4%	–	1.9	1.9	–
Interest-free	2,299.2	2,205.4	21.2	–
	2,628.4	2,566.2	241.9	257.9

8. Bank and other borrowings

	31 March 2022 £m	31 March 2021 (restated) £m
Non-current		
Bank loans and overdrafts	819.4	1,283.1
Current		
Bank loans and other borrowings	502.5	203.3

The Company has £2,301.8 million (2021: £2,011.3 million) of committed borrowing facilities, of which £1,289.6 million (2021: £1,293.1 million) was drawn at the year end. The effective interest rates applying to bank loans and other borrowings were as follows:

	31 March 2022 %	31 March 2021 %
UK bank overdraft	1.1	1.1
UK bank borrowings	0.6	0.5
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	3.3	2.8
£300 million bond	1.9	1.9

9. Other financial liabilities

	31 March 2022 £m	31 March 2021 (restated) £m
Non-current		
Other financial liabilities – currency and interest rate swaps	51.4	39.3
Current		
Other financial liabilities – currency and interest rate swaps	41.5	4.7

Disclosures in respect of the fair value of other financial assets and liabilities are provided in note 24 to the Group accounts.

10. Trade and other payables

	31 March 2022 £m	31 March 2021 £m
Current		
Amounts due to subsidiary undertakings	2,455.6	2,059.3
Accruals and deferred income	9.6	8.2
	2,465.2	2,067.5

The amounts due to subsidiary undertakings are repayable on demand and £2,455.6 million (2021: £2,059.3 million) is interest-free.

11. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2021 and 31 March 2022	505,596,597	303.4
Allotted, issued and fully paid		
At 1 April 2019 and 31 March 2021	505,596,597	303.4

12. Contingent liabilities

(a) The Company has guaranteed or has joint and several liability for bank facilities with nil utilisation at 31 March 2022 (2021: 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 2022 these amounted to £396.5 million (2021: £329.7 million), of which the Company had counter-indemnified £378.9 million (2021: £307.1 million).

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

13. Group entities

See note 35 of the Group financial statements for further details.

14. Events after the reporting period

See note 34 of the Group financial statements for further details.

Financial calendar

Financial year end	31 March 2022
2021/22 full-year results announced	28 July 2022
Annual General Meeting	19 September 2022

Registered office and Company number

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Registered in England
Company number 02342138

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

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

ShareGift

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

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