Independent auditor's report to the members of Babcock International Group PLC

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 2023 and of the Group's loss 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 34 of the Group financial statements and Notes 1 to 13 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 4 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 judgement (Group);
- Type 31 Programme Estimates (Group);
- Carrying value of goodwill within the Aviation Sector (Group); and
- Disposal of the European Aerial Emergency Services (AES) businesses (Group).

Within this report, key audit matters are identified as follows:

! Newly identified

↑ Increased level of risk

↔ Similar level of risk

↓ Decreased level of risk

Materiality

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

Scoping

Our scope covered 31 components of the Group, all were subjected to a full-scope audit.
The components contribute 98% of revenue and 98% of absolute profit before tax. See section 7 for further details on our scoping.

Significant changes in our approach

Our audit approach is consistent with the previous year with the exception of the following:

- Given an onerous contract provision of £55 million has been recorded in the current year in respect of the Type 31 frigate contract, we have identified a new key audit matter in respect of this provision.
- Given the disposal during the year of part of the Group's European Aerial Emergency Services (AES) businesses, we have identified a new key audit matter. We have also increased the scope of the Canadian component to full scope to ensure we obtained sufficient audit evidence to support our opinion.
- In the prior year, we identified a key audit matter over the carrying value of property, plant and equipment (PP&E) and Right of Use (RoU) assets in the Aviation sector. Given the impairments in the prior year and the disposal of the AES businesses during the current period, the judgement associated with these assets has now reduced.
- In the prior year, we identified a key audit matter over the carrying value of goodwill in the Land and Aviation sector. Given the level of headroom and sensitivity of key assumptions in the Land CGU, we do not consider there to be a key audit matter associated with these valuations. We continue to identify the carrying value of goodwill in the Aviation sector as a key audit matter.
- In the prior year, we identified a key audit matter over the hedge effectiveness on foreign currency forward exchange contracts. This was due to the complexity in designating cash flow hedge relationships, prior year restatements and control deficiencies identified. During the year, management have discontinued almost all cash flow hedges and therefore there is now a reduced risk associated with the application of hedge accounting. As a result, we have not identified this item as a key audit matter.
- In the prior year, we identified a key audit matter over the valuation of retirement benefits and obligations. This key audit matter primarily focussed on three prior year errors which were identified and recorded. No such instances have occurred during the current year and as such, this item has been removed as a key audit matter.
- In the prior year, we identified a key audit matter associated with the carrying value of investments in subsidiaries in the Company only financial statements. This was primarily due to the prior period error identified and the subsequent reversal. Given the level of headroom and sensitivity of key assumptions in the investment valuation, we do not consider this item to be a key audit matter.

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; and
  - comparing contract margin and overhead cost assumptions to historical performance and the current macroeconomic environment;
- Evaluating the historical accuracy of forecasts prepared by the Directors;
- Assessing the sensitivity of the headroom in the Directors' forecasts;
- Comparing the risks management has identified in its 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 compliance calculation within the model;
- Evaluating the downside sensitivities in the context of the FY23 financial position;
- Assessing whether the Directors have considered and reflected the impact of climate risks and opportunities in the Group's going concern assessment; 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 year 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.

These 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 125 (Audit Committee report)

Key audit matter description	In the prior year, we identified a large number of errors and significant control deficiencies in the internal control environment. These were reported to those charged with governance and included as a key audit matter in our FY22 audit opinion. As outlined in the Audit Committee report on page 125, the Group has initiated a roadmap for internal control enhancement over its operational and financial controls. During the year the Company designed and implemented the "Blueprint Fundamental Control (BFC) improvements" in relation to significant financial reporting risk areas and risks associated with the prior year financial close reporting process. These were pinpointed to include project bid, project management, pensions, taxation, consolidation reporting and Treasury controls. During the year- end close period, we obtained an understanding of controls we deemed to be relevant for our audit. We consider the level of risk associated with this key audit matter has reduced from the prior year due to the progress made by management during the current period through the BFC improvements but the risk remains high. Our expectation when planning our FY23 audit approach was that deficiencies would still remain in the control environment including in the IT environment and the BFCs would not be operating fully throughout the year. As a result, we did not plan to rely on controls and undertook a fully substantive approach. This was a contributing factor to the extended time and effort required to complete the audit.
How the scope of our audit responded to the key audit matter	Our procedures to respond to this key audit matter included: • interacting with management and the Audit Committee to understand and challenge the actions they were taking as part of the internal controls enhancement programme to address the control deficiencies identified in the prior year; • performing walkthroughs on key accounting processes, with particular focus on long term contract accounting and the design of the Blueprint of Fundamental Control improvements; • obtaining an understanding of the general IT control environment; and • identifying relevant controls and evaluating those controls. 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. Given the large number of errors and significant control deficiencies identified in the prior year, together with the implementation of the Blueprint of Fundamental Controls improvements occurring towards the end of the FY23 financial year, we factored this within our audit plan accordingly. Additional procedures included: • increasing the level of component oversight; • expanding the types of journal entries that we selected for testing due to failures within the IT environment, that meant we were not able to rely on these controls; • involving fraud specialists to respond to our presumed risk of fraud associated with the management override of controls; • using data analytics specialists to complement our substantive testing over key areas such as the consolidation and contracts; and • maintaining the seniority in our engagement and review teams.
Key observations	Whilst the Group has made progress in responding to the control deficiencies identified, the internal controls enhancement programme is planned over a number of years and is not yet complete. A number of deficiencies and misstatements which are individually and collectively immaterial still remain present at year end. We consider that the design of BFCs are further advanced than sector level controls. We observed varied practice of implementation of contract review controls across sectors and the formal documentation of these controls, together with control enhancements occurring during the second half of the financial year such that we concluded the controls were not operating effectively throughout the year. We have identified some improvements in core ERP systems in the IT environment but continue to identify observations associated with privileged access controls and password controls.

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

Refer to page 129 (Audit Committee report), Group Income Statement, Note 1 (Basis of preparation and significant accounting policies), Note 16 (Trade and other receivables and contract assets) and Note 18 (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 Group's contract portfolio there are a number of contracts which extend over a number of years, with values in excess of £1billion, where there is a significant degree of judgement and which could lead to a material error within the financial statements. These judgements include estimating the amount of transformation cost savings on long term facilities management contracts; the impact of inflation on estimates of cost to complete; estimating the recovery of contractual entitlements from customers; estimating project completion dates on complex and technically challenging refit and maintenance projects; and schedule duration and contractual obligations on multiple ship deliveries which 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: 'Revenue from Customers with Contracts' ("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 contracts and, under IAS 37, the measurement of the provision for loss making contracts where there were cost increases and/or delays to the contract schedule. Given the level of judgement involved in estimating costs to complete on these 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, we identified this as an area for potential management bias. 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 which may 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 learner, efficiency and transformation savings and the impact of rising inflation. As a result of our risk assessment, we identified four contracts where we consider there to be the highest degree of judgement required in estimating the outturn margin position. These are: Type 31 Frigates; FMSP; Vanguard and DSG. In particular this year the T31 contract for the Design & Build of 5 Type 31 Frigates for the UK Royal Navy has been subject to a significant degree of change and cost increases. We have identified a separate key audit matter associated with the Type 31 Programme Estimates, see section 5.3 for further details.

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

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 did not rely on any controls for the purposes of our substantive testing. *Challenging management's assumptions and estimates* Our work included: • obtaining an understanding of the contract and its key terms; • 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; • assessing delivery progress and challenging key areas of estimation in overall contract revenue and cost; • performing a risk assessment to identify contracts where cost shifting could impact on the margin recorded and performing testing on contracts with characteristics of audit interest; • analysing historical contract performance and understanding the reason for in- year movements or changes; • performing site visits to inspect status of construction; • testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract, the associated contingencies and exit liabilities; • considering historical forecasting accuracy of costs, comparing to similar programmes, and challenging future cost expectations with reference to those data points; • recomputing the CCAs recorded by management; • obtaining evidence and assessing management's transformational savings assumptions; • examining external correspondence to assess the timeframe and contractual performance for delivery of the product or service and any judgements made in respect of these; • assessing the underlying inflation assumptions against competitors, the wider market and inflation rates; • examining internal and 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 judgements and claims and contractual entitlement relating to applicable regulations; • considering whether there were any indicators of management override of controls or bias in arriving at the reporting position; and • assessing the appropriateness of disclosures in the financial statements.
Key observations	The results of our testing were satisfactory. Through our testing of the contracts in relation to this key audit matter we consider the judgements made by the Group in recognising revenue and profit to be reasonable. We identified misstatements which were individually and collectively immaterial which had a net impact of reducing revenue and remain uncorrected.

5.3. Type 31 Programme Estimates (Group)

Refer to page 129 (Audit Committee report) and Note 1 (Basis of preparation and significant accounting policies)

Key audit matter description	
	The Type 31 contract is complex involving the construction of five ships over a multi-year build programme. The ability of the Group to determine future build cost and schedule duration estimates is critically dependant on the maturity of the ship design. Ship 1 is currently under construction. The Group is therefore required to make both operational and financial assumptions to estimate future costs over a number of years. The prediction of future events over extended periods contains inherent risk and the outcome is uncertain and involves a high degree of management estimation. During the year significant increases in forecast costs on the Type 31 programme were identified, which were not foreseen at contract inception. A contract dispute resolution process has been commenced over responsibility for some elements of these incremental costs, but management have assessed the contract outturn on the basis that these are not recovered given the early stage of negotiations. As a result, a £100m loss has been recorded in the year in relation to the contract, reflected through a £43m reversal of revenue, £2m asset impairment and the recognition of a £55m onerous contract provision. There is a risk that the provision recognised in respect of this contract does not appropriately cover the unavoidable future losses against the contract as required under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37") and the revenue and margin for this contract has been recognised in accordance with IFRS 15: 'Revenue from Customers with Contracts' ("IFRS 15"). We have identified a key audit matter in respect of the judgements applied in the assessment of unavoidable future cash flows used to determine the onerous contract provision. The key estimates relate to: • the ability of the Group to estimate build costs over the schedule and estimate efficiencies arising from the 'learner' effect through work over multiple ships. The 'learner' effect assumes similar activities will naturally be performed more efficiently over time due to continuous repetition, rather than through separate process improvements; • the ability of the Group to maintain or improve current operational performance through process efficiencies and improvements over the 5 ships; • the assessment of inflation on the build cost; and • the achievement of the build schedule to completion and final acceptance including compliance with contractual delivery dates and performance metrics. Material adjustments would arise if management assumptions differ from the time and cost it takes to complete the contract, which extends over a number of years. With c£1bn of estimated costs to go over the life of the contract, if actual recoveries or costs were to differ from those assumed by 5-10%, the potential impact on the contract outturn could be £50-£100m.

5.3. Type 31 Programme Estimates (Group) continued

How the scope of our audit responded to the key audit matter	As a result of our observations regarding the financial review controls over T31 (see 'key observations' section below), we have modified the nature, timing and extent of our audit procedures and performed site visits to inspect work performed to date and held discussions with various operational team members to obtain a detailed understanding of the build schedule and planned build activities and processes. We completed the following audit procedures: • Read the contract to obtain an understanding of the key contractual terms; • Obtained an understanding of relevant controls in place to review the financial performance of the T31 contract and forecast future revenue and costs and account for the onerous contract in the Group's financial statements; • Tested the maturity of the design by considering the number of completed engineering drawings versus the plan, and validating a sample of design changes to engineering sign off in the year; Specifically with regards to the testing of future build cost and schedule duration estimates we have: • Evaluated the reasonableness of future cash flow forecasts with reference to current performance (both in year and post year end to date) trend analysis, historical forecasting accuracy, and forecast operational improvements in the contract; • Challenged the forecast assumptions used by management with regards to future build costs by extrapolating current performance (adjusted for those costs not forecast to recur) to date and comparing against management's estimate. • Tested a sample of non-recurring costs by validating the nature of the costs incurred and obtaining supporting evidence for the individual items. In addition, a sample of forecast third party costs were agreed through to supplier contracts; • Validated the 'learner' build cost efficiency saving back to independent third party industry reports; • Challenged whether planned efficiency savings initiatives were within the Group's contractual ability to implement, its ability to reasonably assess their financial impact, and the forecast timing of their implementation; • Challenged management's forecast inflation assumptions by benchmarking against external third party forecast data; and • Challenged the forecast schedule assumptions with reference to current build progress versus forecast and the availability of skilled labour. Specifically, we have challenged management's assumptions for the average time and cost to manufacture and install categories of units and parts required to complete the ship. We have validated activities performed to date on a sample basis agreeing to time records and physical inspection of completed items on the ship. We have obtained explanations and supporting evidence for significant variances between current performance and forecast. We have also challenged the sufficiency of management's resourcing plans compared to the activities forecast to be performed and tested a sample of leavers/joiners post year end in order to determine whether the resourcing plan is being met. In addition, we have: • Evaluated management's forecast compliance with the contractual performance metrics by understanding the process for assessing compliance and the interdependencies between the metrics; • Evaluated the approach adopted in management's model to determine compliance with the requirements of IAS 37. This included considering a range of possibilities and that management had taken its 'best estimate' in determining the provision amount; • Tested the arithmetic accuracy of management's model; • Evaluated, in accordance with IAS 8, whether the current year loss provision represents a change in estimate and is therefore recognised in the appropriate period. • Evaluated the sensitivity analysis prepared by management and performing our own sensitivity calculations to assess the appropriateness of the provision recorded; and • Assessed the appropriateness of the Group's disclosures in respect of onerous contracts and their compliance with the requirements of IAS 37 including sensitivites.
Key observations	Management's control over the review of the financial performance on the contract was enhanced in the second half of the financial year and therefore did not operate throughout the year. In response, we have spent additional time with operational management, and have performed detailed substantive testing in accordance with the procedures set out above. Our procedures performed above identified a large number of critical judgements and estimates within management's estimation of the cost to complete, for example the ability of the Group to maintain or improver current operational performance levels and the completion of the build schedule to completion and final acceptance. As a result, we consider there is a large range of potential outcomes for the Type 31 programme, as discussed further within the "Key Sources of Estimation Uncertainty" section of Note 1. However, whilst highlighting the large range of potential outcomes for the programme, based on the work performed as outlined above we are satisfied that the judgements and estimates made by the Directors in determining the onerous contract provision recognised on Type 31 are reasonable, and in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Given the uncertainties in forecasting future unavoidable cashflows, the disclosure sensitivities in Note 1 provide important information to assess the impact of a reasonably possible change in key assumptions.

5.4. Carrying value of Goodwill within the Aviation sector (Group)

Refer to page 129 (Audit Committee report), Note 1 (Basis of preparation and significant accounting policies) and Note 10 (Goodwill)

Key audit matter description	The Group holds goodwill balances with a combined carrying value of £781.4m as at 31 March 2023 (2022: £783.4m). The Directors perform an impairment review of the carrying value of each Cash Generating Unit ('CGU') on an annual basis in line with the requirements of IAS 36. As described in Note 10 to the financial statements, goodwill is monitored at an operating segment level. The Directors have assessed that they do not consider there to be any reasonably possible changes in estimates that would result in impairment in goodwill across all CGUs. 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 1.9–2.1% (2022: 1.8-2.5%). 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 opportunities prior to release of tenders. The process includes consideration of risks and opportunities at contract and business level, and considered matters such as supply chain disruption, inflation and climate change. From our risk assessment procedures, we have identified a key audit matter in relation to the valuation of goodwill in the Aviation operating segment given the sensitivities of key assumptions and the historical inaccuracy of management's forecasts. This work focused on the 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' assessment of 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, 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 matters; • Engaged our valuations specialists to assess the discount rate; • Performed a 'stand-back' assessment, including consideration of enterprise value compared to the Directors' value in use; and • Assessed the appropriateness of the Group's disclosures in the financial statements.
Key observations	Consistent with prior year, our controls work highlighted that there was a lack of formalised documentation over model assumptions made with limited documented evidence of review. We are satisfied that the judgements applied and disclosures within the financial statements are appropriate.

5.5. Disposal of the European Aerial Emergency Services (AES) businesses !

Refer to page 130 (Audit Committee report), Note 28 Acquisition and disposal of subsidiaries, businesses and joint ventures and associates

Key audit matter description	As disclosed further in Note 28, the Group completed the disposal of part of its European AES business during the year. The disposal group was part of the Aviation operating segment and provided Aerial Emergency Services including medical, firefighting and search & rescue services to customers and communities, in Italy, Spain, Portugal, Norway, Sweden and Finland. The disposal completed on 28 February 2023. The Group received consideration of £187.1 million and has recognised a loss on disposal of £73.5m. As part of this disposal, the Group disposed of £243.7m of net assets, incurred £18.1m of disposal costs and recycled £1.2m of cumulative currency translation loss. The key judgements related to this key audit matter lie in the valuation of retained assets and obligations such as warranties and determination of the amount of foreign exchange balances to recycle from reserves which are included in the calculation of the loss on disposal.
How the scope of our audit responded to the key audit matter	Our procedures on the disposal included: • Obtaining an understanding of relevant controls, including management review controls, over the valuation of assets and obligations and determination of the amount of foreign exchange balances to recycle from reserves; • Agreeing the terms / validity of the disposal to the sale and purchase agreement (SPA); • Assessing that the AES business had been deconsolidated from the date control passed by evaluating the relevant SPA; • Assessing the disposal against the criteria of IFRS 5 to evaluate whether it is appropriate to not be classified as a discontinued operation; • Agreeing the cash consideration to bank statements; • Performing substantive analytical procedures over the net assets of the disposal Group at the date of disposal and agreeing this to the net assets included in management's calculation; • Assessing and Recalculating the recycling of retranslation differences to the income statement that were recorded in reserves prior to disposal; • Testing the transaction and other disposal related costs by agreeing a sample to supporting invoices; • Challenging the assumptions over the valuation of retained assets and obligations, which included assessing the accuracy and completeness of these items and considering contradictory evidence such as legal and tax due diligence reports; • Recalculating the loss on disposal; and • Evaluating the relevant disclosures regarding the disposal of the AES business within Note 28.
Key observations	We consider that the judgements taken by management and disclosures made within the financial statements in determining the total loss to be recognised are reasonable.

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:

<table>
<tr><th></th><th>Group financial statements</th><th>Company financial statements</th></tr>
<tr><td>Materiality</td><td>£15.6m (2022: £15.6m)</td><td>£61.7m (2022: £66.3m)</td></tr>
<tr><td>Basis for determining materiality</td><td>
The materiality has been determined by considering a range of possible benchmarks used by investors and other readers of the financial statements. Due to the continuing transition of the Babcock business following the contract profitability and balance sheet (CPBS) review and new management, and the absence of normalised financial performance, a method consistent with that of the previous period has been applied.
In particular, we considered: Revenue, Net Assets, Total assets, Profit before tax, Profit before tax excluding amortisation of acquired intangibles, business acquisition, merger and divestment related items, fair value movement on derivatives and related items as defined in Note 2 and cash generated from operations.
Our materiality represents:
<table>
<tr><th>Metric</th><th>FY23</th><th>FY22</th></tr>
<tr><td>Revenue</td><td>0.4%</td><td>0.4%</td></tr>
<tr><td>Net assets</td><td>4.2%</td><td>2.2%</td></tr>
<tr><td>Total assets</td><td>0.5%</td><td>0.3%</td></tr>
<tr><td>Profit before tax excluding amortisation of acquired intangibles, business acquisition, merger and divestment related items, fair value movement on derivatives and related items as defined in Note 2</td><td>12.1%</td><td>9.1%</td></tr>
</table>
</td><td>
1% of total assets (2022: 1%). A lower materiality of £12.5m was used for the purposes of the Group audit was based on 80% of Group materiality (2022: 80%).
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.
Where there were balances and transactions within the Company accounts that were within the scope of the auditof the Group financial statements, our procedures were undertaken using the lower materiality level 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.
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<tr><td>Rationale for the benchmark applied</td><td>
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 in the prior year.
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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.
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</table>

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% (2022: 60%) of Group materiality	60% (2022: 60%) of Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • The deficiencies identified in the control environment; • The de-centralised nature of the Group and lack of common controls and processes; and • The nature, volume and size of identified corrected and uncorrected misstatements identified in the prior year	

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 (2022: £780,000), 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 identify 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. Given the disposal of the European AES business, we have increased the scope of the Canadian component to full scope to ensure we obtained sufficient audit evidence to support our opinion. This resulted in 31 full scope components (2022: 29 components and 1 specified balances scope).

For all other reporting units not included in full 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.

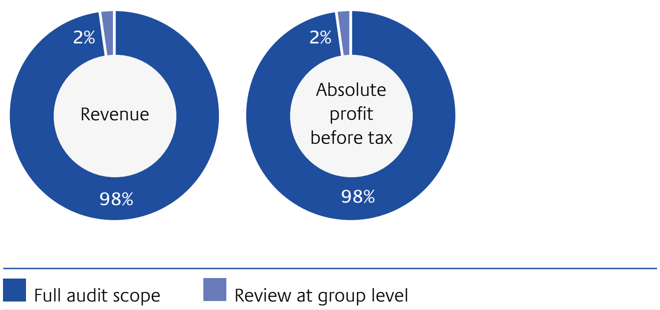
As each of the reporting units maintains separate financial records, we engaged component auditors from the Deloitte member firms in Australia, Canada, France and South Africa, to perform procedures under our direction and supervision. We have also involved component auditors from Spain, Italy, Norway and Sweden to perform work on the income statement for certain periods of Babcock ownership prior to disposal.

Excluding the Company, Component materiality ranged from £3.09m to £4.91m (2022: £3.09m to £4.91m)

Our audit approach ensured that we engaged 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 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 as 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 31 full scope components contribute the proportions of Group totals shown below.



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 a result of the deficiencies outlined in section 5.1 we did not rely on those controls in line with our planned approach.

7.3. Our consideration of climate-related risks

The Group has considered climate change risk as part of their risk assessment process when considering the principal risks and uncertainties facing the Group. This is set out in the strategic report on pages 63 to 73, and in Note 1 to the financial statements on page 182.

The areas of the financial statements that are notably impacted by climate-related considerations are associated with future forecasts in the medium to long term. These include considerations of the cash flows and growth rates used to determine the recoverable amount of goodwill. The Group also considered the potential impact on useful economic lives, disruption to key operating sites and supply chain.

We have performed the following procedures:

- assessed the key financial statement line items and estimates which are more likely to be materially impacted by climate change risks given the more notable impacts of climate change on the business are expected to arise in the medium to long term.
- challenged how the Directors considered climate change in their assessment of going concern based on our understanding of the business environment and by benchmarking relevant assumptions with market data.
- involved our Environmental Social and Governance (ESG) specialists in challenging the Group's climate principal risk assessments. ESG specialists were also involved in evaluating the ESG section of the annual report and assessing Task Force on Climate-related Financial disclosures (TCFD) on page 67 against the recommendations of the TCFD framework.
- assessed whether climate risk assumptions underpinning specific account balances were appropriately disclosed.
- read the climate risk disclosures included in the strategic report section of the annual report for consistency with the financial statements and our knowledge of the business environment.

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 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 Australia, South Africa and France 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 businesses 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 appropriate 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 ongoing deficiencies identified in the previous year, 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;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or
- error that was approved by the Board;
- 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;
- 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 management were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether management 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, fraud, 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. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override of controls.

We also 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 key long-term contracts with significant management judgement' and 'T31 programme Estimates' as a key audit matters 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.

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

- reviewing the financial statement disclosures and testing against 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 105;
- 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 104;
- the Directors' statement on fair, balanced and understandable requirement set out on page 158;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 157;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 127; and
- the section describing the work of the Audit Committee set out on page 124.

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 for the year ending 31 March 2022 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is two years, covering the years ended 31 March 2022 to 31 March 2023.

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.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements will 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 FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP

Statutory Auditor

London, UK
20 July 2023

Group income statement

For the year ended 31 March	Note	2023 £m	2022 £m[1]
Revenue	2,3	**4,438.6**	4,101.8
Operating costs		**(4,315.7)**	(4,040.6)
Goodwill impairment	10	**–**	(7.2)
(Loss)/profit resulting from acquisitions and disposals	28	**(77.4)**	172.8
Operating profit	2,3,4	**45.5**	226.8
Other income		**–**	6.2
Share of results of joint ventures and associates	2,3,14	**9.3**	20.1
Finance income	5	**21.9**	9.6
Finance costs	5	**(70.5)**	(80.4)
Profit before tax	2,4	**6.2**	182.3
Income tax expense	7	**(39.5)**	(14.4)
(Loss)/profit for the year		**(33.3)**	167.9
Attributable to:			
Owners of the parent		**(35.0)**	164.2
Non-controlling interest		**1.7**	3.7
(Loss)/earnings per share			
Basic	9	**(6.9)p**	32.5p
Diluted	9	**(6.9)p**	32.1p

1. The Group has re-presented the prior period income statement to combine Cost of revenue and Administration and distribution costs into Operating costs. Further information is included in note 1.

Group statement of comprehensive income

For the year ended 31 March	Note	2023 £m	2022 £m
(Loss)/profit for the year		**(33.3)**	167.9
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		**(0.5)**	0.2
Reclassification of cumulative currency translation reserve on disposal	28	**(1.2)**	(7.3)
Fair value adjustment of interest rate and foreign exchange hedges		**9.4**	(14.7)
Tax, including rate change impact, on fair value adjustment of interest rate and foreign exchange hedges		**(3.1)**	(1.0)
Hedging (losses)/gains reclassified to profit or loss		**(10.8)**	17.1
Reclassification of cumulative hedge reserve on disposal of joint venture		**–**	20.8
Share of other comprehensive income of joint ventures and associates	14	**4.7**	30.2
Tax, including rate change impact, on share of other comprehensive income of joint ventures and associates	14	**(1.2)**	(5.7)
Items that will not be reclassified to income statement			
Remeasurement of retirement benefit obligations	26	**(402.4)**	322.5
Tax on remeasurement of retirement benefit obligations	7	**100.8**	(64.2)
Other comprehensive (loss)/ income, net of tax		**(304.3)**	297.9
Total comprehensive (loss)/income		**(337.6)**	465.8
Total comprehensive (loss)/income attributable to:			
Owners of the parent		**(337.3)**	461.2
Non-controlling interest		**(0.3)**	4.6
Total comprehensive (loss)/ income		**(337.6)**	465.8

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 2021		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	25	–	–	–	–	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**
At 1 April 2022		**303.4**	**873.0**	**768.8**	**30.6**	**(1,241.4)**	**4.0**	**(56.4)**	**682.0**	**19.5**	**701.5**
Loss for the year		**–**	**–**	**–**	**–**	**(35.0)**	**–**	**–**	**(35.0)**	**1.7**	**(33.3)**
Other comprehensive (loss)/income		**–**	**–**	**–**	**–**	**(301.6)**	**(1.0)**	**0.3**	**(302.3)**	**(2.0)**	**(304.3)**
Total comprehensive income		**–**	**–**	**–**	**–**	**(336.6)**	**(1.0)**	**0.3**	**(337.3)**	**(0.3)**	**(337.6)**
Dividends		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2.2)**	**(2.2)**
Share-based payments	**25**	**–**	**–**	**–**	**–**	**9.4**	**–**	**–**	**9.4**	**–**	**9.4**
Tax on share-based payments		**–**	**–**	**–**	**–**	**(0.2)**	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Net movement in equity		**–**	**–**	**–**	**–**	**(327.4)**	**(1.0)**	**0.3**	**(328.1)**	**(2.5)**	**(330.6)**
At 31 March 2023		**303.4**	**873.0**	**768.8**	**30.6**	**(1,568.8)**	**3.0**	**(56.1)**	**353.9**	**17.0**	**370.9**

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

	Note	31 March 2023 £m	31 March 2022[1] £m
Assets			
Non-current assets			
Goodwill	10	**781.4**	783.4
Other intangible assets	11	**140.8**	176.7
Property, plant and equipment	12	**478.5**	710.6
Right of use assets	13	**159.1**	334.3
Investment in joint ventures and associates	14	**57.4**	54.3
Loan to joint ventures and associates	14	**9.5**	12.1
Retirement benefits surpluses	26	**94.8**	300.9
Other financial assets		**7.3**	10.0
Lease receivables	13, 21	**22.2**	24.1
Derivatives	21	**2.6**	–
Deferred tax asset	7	**112.2**	47.4
Trade and other receivables	16	**6.4**	9.7
		1,872.2	2,463.5
Current assets			
Inventories	15	**126.8**	142.7
Trade and other receivables	16	**506.9**	488.8
Contract assets	16	**322.5**	299.3
Income tax recoverable		**7.7**	25.4
Lease receivables	13, 21	**16.4**	23.3
Other financial assets		**1.4**	–
Derivatives	21	**4.3**	11.4
Cash and cash equivalents	17, 27	**451.7**	1,146.3
		1,437.7	2,137.2
Total assets		**3,309.9**	4,600.7
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	24	**303.4**	303.4
Share premium		**873.0**	873.0
Capital redemption and other reserves		**746.3**	747.0
Retained earnings		**(1,568.8)**	(1,241.4)
		353.9	682.0
Non-controlling interest		**17.0**	19.5
Total equity		**370.9**	701.5
Non-current liabilities			
Bank and other borrowings	19	**768.4**	847.7
Lease liabilities	13, 19	**178.9**	329.3
Trade and other payables	18	**0.9**	1.0
Deferred tax liabilities	7	**7.0**	9.6
Derivatives	21	**53.3**	59.3
Retirement benefit deficits	26	**156.2**	109.3
Provisions for other liabilities	20	**80.8**	60.3
		1,245.5	1,416.5
Current liabilities			
Bank and other borrowings	19	**19.6**	863.4
Lease liabilities	13, 19	**49.9**	104.8
Trade and other payables	18	**911.1**	888.1
Contract liabilities	18	**616.4**	518.3
Income tax payable		**15.8**	17.7
Derivatives	21	**12.8**	34.8
Provisions for other liabilities	20	**67.9**	55.6
		1,693.5	2,482.7
Total liabilities		**2,939.0**	3,899.2
Total equity and liabilities		**3,309.9**	4,600.7

1. The 2022 Group Statement of Financial Position has been revised under IFRS 3 for new information obtained about facts and circumstances that existed at the acquisition date during the permitted measurement period – see Note 23 for more detail.

The notes on pages 179 to 244 are an integral part of the consolidated financial statements. The Group financial statements on pages 175 to 244 were approved by the Board of Directors on 20 July 2023 and are signed on its behalf by:

David Lockwood OBE
Director

David Mellors
Director

Group cash flow statement

For the year ended 31 March	Note	2023 £m	2022 £m
Cash flows from operating activities			
(Loss)/profit for the year		**(33.3)**	167.9
Share of results of joint ventures and associates	14	**(9.3)**	(20.1)
Income tax expense	7	**39.5**	14.4
Finance income	5	**(21.9)**	(9.6)
Finance costs	5	**70.5**	80.4
Depreciation and impairment of property, plant and equipment	12	**77.0**	117.5
Depreciation and impairment of right of use assets	13	**91.3**	123.1
Amortisation and impairment of intangible assets	11	**37.1**	94.7
Goodwill impairment		**–**	7.2
Equity share-based payments		**9.4**	5.5
Net derivative fair value and currency movement through profit or loss		**(7.5)**	(0.9)
Loss/(profit) on disposal of subsidiaries, businesses and joint ventures and associates	28	**77.4**	(172.8)
Profit on disposal of property, plant and equipment		**(2.0)**	(1.5)
Loss/(profit) on disposal of right of use assets		**0.8**	(3.2)
Loss on disposal of intangible assets		**1.7**	0.7
Cash generated from operations before movement in working capital and retirement benefit payments		**330.7**	403.3
(Increase)/decrease in inventories		**(25.7)**	10.6
(Increase) in receivables		**(71.6)**	(85.2)
(Increase) in contract assets		**(54.2)**	(26.5)
Increase/(decrease) in payables		**131.4**	(202.0)
Increase in contract liabilities		**132.3**	124.2
Increase/(decrease) in provisions		**47.9**	(30.9)
Retirement benefit contributions in excess of current period expense		**(141.9)**	(151.7)
Cash generated from operations		**348.9**	41.8
Income tax (paid)/received		**(25.4)**	10.0
Interest paid		**(77.0)**	(54.9)
Interest received		**14.8**	9.9
Net cash flows from operating activities		**261.3**	6.8
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	28	**158.6**	420.7
Acquisition of subsidiaries, net of cash acquired		**–**	(15.5)
Dividends received from joint ventures and associates	14	**8.7**	41.6
Proceeds on disposal of property, plant and equipment		**38.5**	68.0
Proceeds on disposal of intangible assets		**0.4**	–
Purchases of property, plant and equipment		**(104.2)**	(190.8)
Purchases of intangible assets		**(20.9)**	(12.4)
Investment in joint ventures	14	**–**	(2.6)
Loans repaid by joint ventures and associates	14	**2.4**	31.0
Increase in loans to joint ventures and associates		**–**	(1.4)
Net cash flows from investing activities		**83.5**	338.6
Cash flows from financing activities			
Lease payments	27	**(108.5)**	(113.0)
Cash inflow from settlement of derivatives		**0.8**	–
Bank loans repaid	27	**(972.8)**	(31.7)
Loans raised and facilities drawn down	27	**416.6**	23.1
Dividends paid to non-controlling interest		**(2.2)**	(1.1)
Net cash flows from financing activities		**(666.1)**	(122.7)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(321.3)**	222.7
Cash, cash equivalents and bank overdrafts at beginning of year	27	**756.5**	530.9
Effects of exchange rate fluctuations	27	**(5.7)**	2.9
Cash, cash equivalents and bank overdrafts at end of year	27	**429.5**	756.5

Notes to the financial statements

1. Basis of preparation and significant accounting policies

Going concern

After making enquiries, the Directors, at the time of approving the financial statements, have a reasonable expectation that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future. As such, the consolidated financial statements have been prepared on a going concern basis – further detail on the key factors impacting the going concern assessment are set out in the Directors' report on page 104. The Board considered the period from 21 July 2023 to 30 September 2024 in its assessment of going concern.

Basis of preparation

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 2022:

The following standards and amendments to IFRS became effective for the annual reporting period beginning on 1 April 2022 and did not have a material impact on the consolidated financial statements:

- The Group has adopted the amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets'. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract.
- The Group has adopted the amendments to IAS 16, 'Property, plant and equipment'. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use and clarifies the meaning of 'testing whether an asset is functioning properly'.
- The Group has adopted the amendments to IFRS 3, 'Business Combinations'. The amendment relates to the identification of liabilities assumed and contingent assets acquired in a business combination.
- The Group has adopted the annual improvements to IFRS 2018 – 2020 cycle.

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 17, 'Insurance Contracts'. New standard effective from 1 January 2023.
- IAS 1, 'Presentation of Financial Statements'. Amendment effective from 1 January 2023.
- IFRS 3, 'Business Combinations'. Amendment effective from 1 January 2023.
- IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'. Amendment effective from 1 January 2023.
- IAS 12, 'Income Taxes'. 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.

Materiality

Various disclosures make reference to items considered as material or immaterial to the financial statements. The Group considers information to be material if omitting it or misstating it could influence decisions that users make on the basis of the financial information provided. Materiality is considered from both a quantitative and qualitative factor perspective. In addition to subsequent specific references to materiality, and in compliance with IFRS, certain disclosures have not been provided where the information resulting from that disclosure is not material.

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:

(a) 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.

(i) Acting as principal or agent

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 operating costs.

(ii) 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 3 and 10.

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

(b) 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:

(i) Revenue and profit recognition

The following represent the notable assumptions impacting upon revenue and profit recognition as a result of the Group's contracts with customers:

- **Stage of completion & costs to complete** – 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 with adjustments made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn. The most significant estimate of contract outturn relates to the Type 31 programme as outlined below.
- **Variable consideration** – the Group's contracts are often subject to variable consideration including performance-based penalties and incentives, gain/pain share arrangements and other items. Variable consideration is added to the transaction price only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised once the underlying uncertainty is resolved.
- **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 revenue and 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. The Group endeavours to include cost recovery mechanisms or index-linked pricing within its contracts with customers in order to mitigate any inflation risk arising from increasing employment and raw material costs. In the most significant contract where there is no mechanism to recover an increase in costs due to inflation, revenue and profit in the year would be impacted by £3-4 million for each 1% change in personnel costs.

Type 31 Programme estimates

During the year significant increases in forecast costs on the Type 31 programme were identified, which were not foreseen at contract inception. A dispute resolution process has commenced with the customer over responsibility for these incremental costs. We have reassessed the contract outturn on the basis that none of these are recovered, given the uncertainty at the early stage of the process. This has resulted in the recording of a £100m loss in the year, representing a £43m reversal of revenue, £2m asset impairment and the recognition of a £55m onerous contract provision. Determining the contract outturn, and therefore revenue and onerous contract provision recognised, requires assumptions and complex judgements to be made about future performance of the contract. The level of uncertainty in the estimates made in assessing the outturn is linked to the complexity of the underlying contract.

The key sources of estimates in assessing the outturn are:

- The results of the dispute resolution process, and any reimbursements agreed with the customer;
- The build costs over the production schedule and estimate of efficiencies arising from the 'learner' effect through performing work over multiple ships;
- The ability to maintain or improve operational performance through process efficiencies and improvements over the five ships;
- The impact of inflation on the build cost; and
- The achievement of the build schedule to completion and final acceptance.

These estimates are inter-related. The range of possible future outcomes in respect of assumptions made to determine the contract outturn could result in a material increase or decrease in revenue and the value of the onerous contract provision, and hence on the Group's profitability, in the next financial year. With c£1bn of estimated costs to go over the life of the contract, if actual recoveries or costs were to differ from those assumed by 5-10%, the potential impact on the contract outturn could be £50-£100m.

To mitigate this, comparisons of actual contract performance and previous forecasts used to assess the contract outturn are performed regularly, with consideration given to whether any revisions to assumptions are required. In the next financial year, design activities will be finalised and the construction of the first ship will be substantially complete. This will reduce the uncertainty over the contract outturn but a significant element will remain due to the substantial activity which extends over a further 4 years. In a major ship build programme of this nature, it is inherently possible that there may be changes in circumstances which cannot reasonably be foreseen at the present time.

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

(ii) Defined benefit pension schemes obligations

The Group's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit pension obligations is sensitive to the inflation, discount rate, actuarial and life expectancy 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, discount rate and life expectancy estimates, management is required to make an accounting judgement relating to the expected availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 26.

(iii) 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 recoverable amount of goodwill in the Aviation CGU 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 assessment of the recoverable value of goodwill in other CGUs is not considered a critical accounting estimate as a result of the headroom within these CGUs. The key assumptions in estimating the carrying value of goodwill are discount rate, long-term growth rate and growth rate in the short-term cash flows.

Inflation rates are incorporated into the impairment assessment through their inclusion within the growth rates in cash inflows and outflows and through the methodology by which discount rates are determined. Were inflation to impact upon all cash flows equally, an impairment assessment should be neutral to the impact of inflation. The Group has a number of protections and exposures to the impact of inflation across its portfolio of revenue arrangements and supply chain agreements resulting in an indirect impact of inflation on the impairment outturn.

The impact of climate change, including the risks as outlined in the TCFD disclosures on pages 67 to 73, have been considered in the determination of the cash flows and growth rates where applicable.

Further information on key assumptions and sensitivity analyses are included in note 10.

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.

(a) Revenue

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

(i) 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.

(ii) 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 (v) 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.

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

(a) Revenue (continued)

(ii) Determination of contract price (continued)

Variable consideration is estimated using either the expected value or the most likely amount and is added to the transaction price only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised once the underlying uncertainty is resolved. This judgement is made by suitably qualified and experienced personnel based on the contract terms, status of negotiations with customers and historical experience with customers and with similar contracts. As part of this judgement, variable consideration may be constrained until the uncertainty is resolved. In the case of unpriced variations these will be constrained to the extent that such variable consideration is not considered highly probable.

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.

(iii) 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.

(iv) 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 amount of revenue recognised (as measured by the methods described above) exceeds the amount of cash received from the customer then the difference will be held on the statement of financial position. This will typically be comprised of a mixture of contract assets and trade receivables. If the amount of cash collected together with amounts due under the contract but uncollected exceeds the amount of revenue recognised then the difference is also held on the statement of financial position as a contract liability. See section (viii) for further details on how contract assets and liabilities are recognised.

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 3, sale of goods at a point in time represents approximately 8% of Group revenues (2022: 6%). 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).

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

(a) Revenue (continued)

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/or 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 as provision. Further detail is included in the Provisions accounting policy.

(v) 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 may be required 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 (ii).

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.

(vi) Costs of obtaining a contract

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 and amortised on a straight-line basis. 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.

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

(a) Revenue (continued)

(vii) Costs to fulfil a contract

Costs to fulfil a contract which do not fall within the scope of another standard are recognised under IFRS 15 as an asset and amortised on a straight-line basis when 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.

(viii) 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.

(b) 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.

(c) 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.

(d) 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 onerous revenue contracts are recorded when it becomes probable that total remaining contract fulfilment costs will exceed total remaining revenue not yet recognised. Provisions for losses on contracts are recognised after impairment of any assets directly related to fulfilling the loss-making contract. Losses are determined on the basis of estimated results on completion of contracts and 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)

(e) Goodwill and intangible assets

(i) 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 10 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.

(ii) 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 on a straight-line basis 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 between one year to twenty 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.

(iii) 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.

(iv) 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 business unit.

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

(f) 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.

Items of property, plant and equipment are depreciated 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.

(g) 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.

(h) Net debt

Net debt, including loans to joint ventures and associates and lease receivables is an alternative performance measure of the Group and consists of the total of loans, including the interest rate and foreign exchange derivatives which hedge the loans, bank overdrafts, cash and cash equivalents, loans to joint ventures and associates, lease receivables and lease obligations. 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)

(i) 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 on a straight-line basis 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.

(j) 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.

(k) 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 30 for details of contingent liabilities.

(l) 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are treated as cash equivalents for the purpose of the cash flow statement. In the statement of financial position such overdrafts are presented as current bank and other borrowings.

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

(m) Taxation

(i) 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.

(ii) 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.

(n) Foreign currencies

(i) 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.

(ii) 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)

(o) 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.

(p) Finance income

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

(q) Employee benefits

(i) 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.

(ii) 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.

(iii) Holiday pay

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

(r) Financial instruments

(i) 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 22 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.

(ii) 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. Changes in the value of derivatives that are carried at fair value through profit or loss are recorded in the income statement.

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

(s) Fair value measurement

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

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

The carrying values of financial assets and liabilities which are not held at fair value in the Group statement of financial position 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.

(t) 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 debt factoring counterparty.

(u) 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 other 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.

(v) 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.

(w) Accounting policy change – Presentation of operating profit

In the year ended 31 March 2023 the Group has re-presented the income statement to combine Cost of revenue and Administration and distribution costs into Operating costs. The comparative period operating costs of £4,040.6 million were presented as Cost of revenue of £3,756.5 million and Administration and distribution costs of £284.1 million in the prior period annual report and financial statements. This change to presenting the costs of the Group by nature is deemed to be more informative for the users of the annual report and financial statements as it allows greater comparability of year-on-year trends.

2. Adjustments between statutory and underlying financial information

Definition of underlying measures and specific adjusting items

The Group provides alternative performance measures, including underlying operating profit, to enable users to have a more consistent view of 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 2022.

Underlying operating profit

In any given year the statutory measure of operating profit includes a number of items which the Group considers to either be one-off in nature or otherwise not reflective of underlying performance. Underlying operating profit therefore adjusts statutory operating profit to provide readers with a measure of business performance which the Group considers more consistently analyses the underlying performance of the Group by removing these one-off items that otherwise add volatility to performance.

2. Adjustments between statutory and underlying information (continued)

Underlying operating profit (continued)

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, large, infrequent restructuring programmes and fair value movements on derivatives. Transactions such as these may happen regularly and could significantly impact the statutory result in any given year. Adjustments to underlying operating profit may include both income and expenditure items.

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 forward rate contracts that are open during the period; 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 2023			Year ended 31 March 2022		
	Note	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Revenue	3	**4,438.6**	**–**	**4,438.6**	4,101.8	–	4,101.8
Operating profit/(loss)	3,4	**177.9**	**(132.4)**	**45.5**	237.7	(10.9)	226.8
Other income		**–**	**–**	**–**	6.2	–	6.2
Share of results of joint ventures and associates	14	**9.3**	**–**	**9.3**	20.1	–	20.1
Net finance costs	5	**(58.3)**	**9.7**	**(48.6)**	(61.2)	(9.6)	(70.8)
Profit/(loss) before tax		**128.9**	**(122.7)**	**6.2**	202.8	(20.5)	182.3
Income tax (expense)/benefit	7	**(37.7)**	**(1.8)**	**(39.5)**	(43.9)	29.5	(14.4)
Profit/(loss) after tax for the year		**91.2**	**(124.5)**	**(33.3)**	158.9	9.0	167.9

Earnings per share including underlying measures

	Year ended 31 March 2023			Year ended 31 March 2022		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Profit/(loss) after tax for the year	**91.2**	**(124.5)**	**(33.3)**	158.9	9.0	167.9
Amount attributable to owners of the parent	**89.5**	**(124.5)**	**(35.0)**	155.2	9.0	164.2
Amount attributable to non-controlling interests	**1.7**	**–**	**1.7**	3.7	–	3.7
Weighted average number of shares (m)	**505.4**		**505.4**	505.1		505.1
Effect of dilutive securities (m)	**9.5**		**9.5**	6.1		6.1
Diluted weighted average number of shares (m)	**514.9**		**514.9**	511.2		511.2
Basic EPS	**17.7p**		**(6.9)p**	30.7p		32.5p
Diluted EPS	**17.4p**		**(6.9)p**	30.4p		32.1p

2. Adjustments between statutory and underlying information (continued)

Details of specific adjusting items

The impact of specific adjusting items is set out below:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Amortisation of acquired intangibles	**(15.8)**	(21.4)
Business acquisition, merger and divestment related items	**(117.7)**	163.1
Fair value movement on derivatives and related items	**1.1**	–
Exceptional items	**–**	(118.8)
Restructuring	**–**	(33.8)
Adjusting items impacting operating profit/(loss)	**(132.4)**	(10.9)
Fair value movement on derivatives and related items	**9.7**	(9.6)
Adjusting items impacting loss before tax	**(122.7)**	(20.5)
Income tax benefit		
Amortisation of acquired intangibles	**4.1**	5.5
Business acquisition, merger and divestment related items	**(2.1)**	–
Restructuring	**–**	6.5
Fair value movement on derivatives and related items	**(2.6)**	2.5
Exceptional tax items and tax on exceptional items, including rate change impact	**(1.2)**	15.0
Income tax (expense)/benefit	**(1.8)**	29.5

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 loss relating to business acquisition, merger and divestment related items for the year ended 31 March 2023 was £117.7 million, consisting of a loss on the disposal of the Aerial Emergency Services business in Europe of £116.9 million, a loss on disposal of the Group's Civil Training business of £3.9 million and items relating to the disposal of the Oil & Gas business in Aviation of £3.1 million. Further detail is included in note 28.

The prior year included a total net gain of £163.1 million, consisting of a £172.8 million profit 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.

Restructuring

Major restructuring programmes are not anticipated to recur year-on-year and therefore are not considered to be indicative of underlying performance and hence removed from underlying operating profit.

In the prior period the Group 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 was 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.

Fair value movement on derivatives and related items

These are open forward currency contracts, taken out in the ordinary course of business to manage foreign currency exposures, where the transaction will occur in future periods. Hedge accounting under IFRS is not applied, however these do represent economic hedges. On maturity the currency contract will be closed and recognised in full within underlying operating profit at the same time as the hedged sale or purchase. The net result, at that time, will then more appropriately reflect the related sales price or supplier cost being hedged (which is fixed to ensure ultimately profitable outcomes).

2. Adjustments between statutory and underlying information (continued)

Fair value movement on derivatives and related items (continued)

Hedge ineffectiveness on debt and debt-related derivatives that are designated in a hedge relationship are also presented as a specific adjusting item in finance costs. This is presented as a specific adjusting item as this ineffectiveness is caused by a historic off-market designation, the transactions are considered by the Group to represent an economic hedge.

The fair value movement on lease-related derivatives and foreign exchange movements on lease liabilities are also presented as a specific adjusting item in finance costs, as hedge accounting under IFRS is also not applied to these transactions but are also considered by the Group to represent an economic hedge.

Tax

Tax comprises a charge of £1.2 million arising from the impact of the increase in the rate of corporation tax to 25% with effect from 1 April 2023.

In the prior year, tax included a £12.1 million credit in relation to exceptional items, and a credit of £2.9 million arising from the impact of the increase in the rate of corporation tax to 25%.

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 2023 £m	Year ended 31 March 2022 £m
Operating costs		
Impairment of goodwill	–	(7.2)
Impairment of acquired intangibles	–	(57.6)
Impairment of property, plant and equipment and aircraft fleet rationalisation	–	(58.8)
Release of onerous contract provisions	–	1.8
Release of provisions relating to the Italy fine and related costs	–	3.6
Other	–	(0.6)
Exceptional items – Group	–	(118.8)
Exceptional tax items and tax on exceptional items	–	15.0
Exceptional items – net of tax	–	(103.8)

Explanation of exceptional items

Impairment of goodwill

The prior year impairment test resulted in 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. The businesses to which this goodwill related were fully disposed in FY23 as detailed in note 28.

Impairment of acquired intangibles

In the prior year, an impairment of £57.6 million was recognised in the Aviation operating segment, due to changes in the forecast future business performance informed by the Group's disposal programme. The businesses to which this goodwill related were fully disposed in FY23 as detailed in note 28.

Impairment of property, plant and equipment

In the prior year, an impairment charge of £58.8 million was recognised on property, plant and equipment in the Aviation operating segment, due to changes in the forecast future business performance informed by the Group's disposal programme. The businesses to which this goodwill related were fully disposed in FY23 as detailed in note 28.

Onerous contracts

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

3. 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. In accordance with IFRS 8, the Africa operating segment is included in the Land reportable segment.

The table below presents the underlying results for each reportable segment in accordance with the definition of 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 2023	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	**1,439.6**	**1,179.2**	**1,017.1**	**802.7**	**–**	**4,438.6**
Underlying operating profit	**12.7**	**63.5**	**85.9**	**15.8**	**–**	**177.9**
Specific Adjusting Items (note 2)						
Amortisation of acquired intangibles	**(9.7)**	**–**	**(1.1)**	**(5.0)**	**–**	**(15.8)**
Business acquisition, merger and divestment related items	**–**	**–**	**(4.0)**	**(113.7)**	**–**	**(117.7)**
Fair value gain/(loss) on forward rate contracts to be settled in future periods	**2.8**	**0.1**	**0.1**	**(1.9)**	**–**	**1.1**
Operating profit/(loss)	**5.8**	**63.6**	**80.9**	**(104.8)**	**–**	**45.5**
Share of results of joint ventures and associates	**(1.2)**	**1.1**	**0.4**	**9.0**	**–**	**9.3**
IFRIC 12 investment income	**–**	**–**	**0.7**	**–**	**–**	**0.7**
Other net finance costs*	**–**	**–**	**–**	**–**	**(49.3)**	**(49.3)**
Profit/(loss) before tax	**4.6**	**64.7**	**82.0**	**(95.8)**	**(49.3)**	**6.2**

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
Restructuring costs	(8.6)	(5.5)	(16.9)	(2.8)	–	(33.8)
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
IFRIC 12 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

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

Revenues of £2.2 billion (2022: £2.0 billion) are derived from a single external customer. These revenues are attributable across all reportable segments.

3. Segmental information (continued)

Segment assets and liabilities

The reportable segment assets and liabilities at 31 March 2023 and 31 March 2022 and capital expenditure and lease principal payments for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure		Lease payments	
	2023 £m	2022 (restated) £m	2023 £m	2022 (restated) £m	2023 £m	2022 (restated) £m	2023 £m	2022 (restated) £m
Marine	**793.2**	775.8	**762.4**	604.2	**25.2**	41.8	**5.6**	6.4
Nuclear	**636.8**	561.1	**284.8**	271.6	**37.8**	56.9	**3.1**	3.4
Land	**638.2**	626.5	**379.1**	335.3	**3.6**	5.3	**13.9**	17.2
Aviation	**447.5**	997.8	**200.0**	321.5	**44.7**	90.3	**80.9**	82.3
Unallocated *	**794.2**	1,639.5	**1,312.7**	2,366.6	**13.8**	8.9	**5.0**	3.7
Group total	**3,309.9**	4,600.7	**2,939.0**	3,899.2	**125.1**	203.2	**108.5**	113.0

* 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 £38.9 million (2022: £68.0 million) are not included above, and are predominantly in the Aviation sector. See note 18 relating to the treatment of amounts payable in respect of capital expenditure.

The segmental analysis of joint ventures and associates is detailed in note 14.

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 2023 and 31 March 2022 is as follows:

	Depreciation of property, plant and equipment		Depreciation of right of use assets		Amortisation of intangible assets	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Marine	**15.9**	8.2	**5.2**	7.4	**12.7**	4.6
Nuclear	**22.8**	22.3	**2.6**	3.7	**0.2**	0.3
Land	**4.4**	4.4	**10.8**	12.5	**2.3**	2.6
Aviation	**23.6**	18.0	**57.7**	78.8	**5.5**	20.2
Unallocated	**5.4**	5.8	**5.4**	2.7	**7.4**	9.4
Group total	**72.1**	58.7	**81.7**	105.1	**28.1**	37.1

Segmental asset impairments

The segmental impairment on property, plant and equipment, right of use assets and intangible assets for the years ended 31 March 2023 and 31 March 2022 is as follows:

	Impairment of property, plant and equipment		Impairment of right of use assets		Impairment of intangible assets	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Marine	**–**	–	**–**	–	**–**	–
Nuclear	**–**	–	**–**	–	**–**	–
Land	**–**	–	**0.9**	–	**0.9**	–
Aviation	**4.9**	58.8	**8.7**	18.0	**2.3**	57.6
Unallocated	**–**	–	**–**	–	**5.8**	–
Group total	**4.9**	58.8	**9.6**	18.0	**9.0**	57.6

3. 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 2023 and 31 March 2022 is as follows:

	2023 £m	2022 (restated) £m
United Kingdom	**1,415.7**	1,260.3
Rest of Europe	**48.7**	548.0
Africa	**32.7**	69.7
North America	**13.6**	21.3
Australasia	**126.3**	189.8
Rest of World	**3.4**	2.0
Non-current segment assets	**1,640.4**	2,091.1
Retirement benefits	**94.8**	300.9
Lease receivables	**22.2**	24.1
Derivatives	**2.6**	–
Deferred tax asset	**112.2**	47.4
Total non-current assets	**1,872.2**	2,463.5

Geographic analysis of revenue

The geographic analysis of revenue by origin of customer for the years ended 31 March 2023 and 31 March 2022 is as follows:

	Revenue	
Geographic analysis	2023 £m	2022 £m
United Kingdom	**2,693.3**	2,593.5
Rest of Europe	**601.0**	546.8
Africa	**329.3**	318.9
North America	**188.1**	172.9
Australasia	**349.5**	218.6
Rest of World	**277.4**	251.1
Group total	**4,438.6**	4,101.8

The analysis of revenue for the years ended 31 March 2023 and 31 March 2022 is as follows:

	2023 £m	2022 £m
Sale of goods – transferred at a point in time	**352.5**	257.5
Sale of goods – transferred over time	**262.3**	258.1
Sale of goods	**614.8**	515.6
Provision of services – transferred over time	**3,822.1**	3,580.8
Rental income	**1.7**	5.4
Revenue	**4,438.6**	4,101.8

4. Operating profit for the year

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

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Raw materials, subcontracts and other bought-in items used	**1,857.1**	1,467.8
Change in inventories of finished goods and work-in-progress	**(2.8)**	17.8
Operating charges	**682.6**	682.4
Employee costs (note 6)	**1,567.1**	1,523.6
Depreciation of property, plant and equipment (note 12)	**72.1**	58.7
Depreciation of right-of-use assets (note 13)	**81.7**	105.1
Amortisation of intangible assets (note 11)		
• Acquired intangibles	**15.8**	21.4
• Other	**12.3**	15.7
Impairment of intangible assets (note 11)	**9.0**	57.6
Impairment of property, plant and equipment (note 12)	**4.9**	58.8
Impairment of right of use assets (note 13)	**9.6**	18.0
Impairment of goodwill	**–**	7.2
(Gain) on disposal of property, plant and equipment	**(2.0)**	(1.5)
Loss on disposal of intangible assets	**1.7**	0.7
Loss/(gain) on disposal of right-of-use assets	**0.8**	(3.2)
Net foreign exchange loss	**12.7**	10.5
Loss/(gain) on disposal of subsidiaries and joint ventures	**77.4**	(172.8)
(Gain)/loss on derivative instruments at fair value through profit or loss	**(6.9)**	7.2
Total operating charges	**4,393.1**	3,875.0

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:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £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	**2.4**	2.3
Fees payable to the parent auditor and its associates in respect of the audit of the Company's subsidiaries	**8.1**	4.3
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	**10.5**	7.1

5. Net finance costs

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	**29.6**	57.3
Lease interest and foreign exchange movements on lease liabilities	**21.7**	17.4
Amortisation of issue costs of bank loan	**3.3**	2.0
Retirement benefit interest cost	**–**	3.7
Other	**15.9**	–
Total finance costs	**70.5**	80.4
Finance income		
Bank deposits, loans and leases	**13.7**	8.8
IFRIC 12 Investment income	**0.7**	0.8
Retirement benefit interest income	**7.5**	–
Total finance income	**21.9**	9.6
Net finance costs	**48.6**	70.8

Net finance costs decreased to £48.6 million (2022: £70.8 million). The current year includes a one-off gain of £18 million relating to the valuation of interest rate swaps (within loans, overdrafts and associated interest rate hedges) and a £12 million cost relating to the factoring of receivables for the Mentor contract in France (within other finance costs).

6. Employee costs

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Wages and salaries	**1,289.2**	1,252.8
Social security costs	**141.3**	143.4
Share-based payments (note 25)	**9.4**	5.5
Pension costs – defined contribution plans (note 26)	**94.6**	83.4
Pension charges – defined benefit plans (note 26)	**32.6**	38.5
	1,567.1	1,523.6

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

	2023 Number	2022 Number
Marine	**6,270**	6,872
Nuclear	**6,421**	7,422
Land	**5,013**	5,996
Aviation	**8,172**	8,045
Central functions	**859**	640
	26,735	28,975

The reduction in average monthly number of people employed by the Group year-on-year is primarily attributable to the disposal activity in the current and prior period as detailed in note 28.

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 2023 £m	Year ended 31 March 2022 £m
Salaries	**11.8**	7.3
Share-based payments	**4.6**	1.9
	16.4	9.2

7. Taxation

Income tax expense

	Total Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Analysis of tax expense in the year		
Current tax		
• UK current year expense	**0.6**	1.9
• UK prior year (benefit)	**–**	(10.8)
• Overseas current year expense	**24.5**	19.3
• Overseas prior year expense	**2.9**	2.5
	28.0	12.9
Deferred tax		
• UK current year expense	**11.1**	17.5
• UK prior year (benefit)/expense	**(3.3)**	11.5
• Overseas current year expense/(benefit)	**3.6**	(25.3)
• Overseas prior year (benefit)/expense	**(1.1)**	0.7
• Impact of changes in tax rates	**1.2**	(2.9)
	11.5	1.5
Total income tax expense	**39.5**	14.4

The tax for the year is higher (2022: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Profit before tax	**6.2**	182.3
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2022: 19%)	**1.2**	34.6
Effects of:		
Expenses not deductible for tax purposes	**8.6**	2.4
Non-deductible write-off of goodwill	**–**	1.4
Re-measurement of deferred tax in respect of statutory rate changes	**1.2**	(2.9)
Difference in respect of share of results of joint ventures and associates' results	**(1.8)**	(2.1)
Prior year adjustments	**(1.5)**	3.9
Differences in respect of foreign rates	**5.8**	(0.4)
Unrecognised deferred tax movements	**9.0**	25.0
Deferred tax not previously recognised/derecognised	**–**	(8.1)
Non-taxable profits on disposals and non-deductible losses on disposals	**22.4**	(37.8)
Other	**(5.4)**	(1.6)
Total income tax expense/(benefit)	**39.5**	14.4

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

During the prior year the Group concluded discussions with certain tax authorities regarding prior year tax positions, resulting in a tax credit of £12.6 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 2023 the Group held uncertain tax provisions of £20.3 million (2022: £16.5 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, and from overseas tax as a consequence of local reliefs.

The increase in the UK rate of corporation tax to 25% with effect from 1 April 2023 was substantively enacted during the year ended 31 March 2022. The effect has been to increase the Group's net deferred tax asset by £23.1 million (2022: £1.4 million), comprising a charge to Income Statement of £1.1 million (2022: £2.9 million credit) and a credit to Other Comprehensive Income of £24.2 million (2022: £2.0 million charge). In the year ended 31 March 2022 there was also a credit to Equity of £0.5 million.

7. Taxation (continued)

Income tax expense (continued)

Recent developments in respect of the OECD inclusive Framework on Base Erosion and Profit Shifting (BEPS), which include the Pillar Two initiative introducing a global minimum rate of corporation tax, are applicable to the Group. Initial analysis indicates that UK legislation, announced on 23 March 2023, to implement this initiative will result in no material impact on the Group's tax charge. The Group continues to monitor this issue to quantify any impact and implement the increased tax reporting activities required to ensure compliance.

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 current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same Taxation Authorities:

	2023 £m	2022 £m
Deferred tax asset (restated – note 23)	**112.2**	47.4
Deferred tax liability	**(7.0)**	(9.6)
	105.2	37.8

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 2022 as previously stated	**(32.7)**	**(48.0)**	**101.5**	**16.6**	**37.4**
Prior period restatement (note 23)	**–**	**–**	**0.4**	**–**	**0.4**
At 1 April 2022 as restated	**(32.7)**	**(48.0)**	**101.9**	**16.6**	**37.8**
Income statement credit/(debit)	**(6.1)**	**(28.5)**	**23.7**	**0.5**	**(10.4)**
Tax credit/(debit) to other comprehensive income/equity	**–**	**76.6**	**–**	**(3.3)**	**73.3**
Transfer to income tax receivable	**–**	**–**	**–**	**(5.2)**	**(5.2)**
Disposal of subsidiary	**(1.5)**	**–**	**(6.3)**	**(6.5)**	**(14.3)**
Effect of changes in tax rates					
• Income statement	**(1.5)**	**(9.0)**	**9.5**	**(0.1)**	**(1.1)**
• Other comprehensive income/equity	**–**	**24.2**	**–**	**–**	**24.2**
Exchange differences	**0.9**	**–**	**(0.8)**	**0.8**	**0.9**
At 31 March 2023	**(40.9)**	**15.3**	**128.0**	**2.8**	**105.2**
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 (restated – note 23)	–	–	–	(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 as previously stated	(32.7)	(48.0)	101.5	16.6	37.4

The net deferred tax assets of £105.2 million (2022: £37.4 million) include deferred tax assets of £14.2 million (2022: £31.6 million) and deferred tax liabilities of £7.0 million (2022: £9.6 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.

7. Taxation (continued)

Deferred tax (continued)

Net deferred tax assets have been recognised in respect of operations in the following jurisdictions: United Kingdom (£97.9 million), Australia (£7.4 million) and New Zealand (£0.9 million). In the prior year net deferred tax assets were recognised in the following jurisdictions: United Kingdom (£15.4 million), Italy (£9.8 million), Australia (£8.9 million) and Spain (£3.5 million). The reductions in the deferred tax balances in Italy and Spain jurisdictions follows the exit from these geographies following the business disposals as detailed in note 28. The UK was in a net tax loss position for each of the years ended 31 March 2021, 31 March 2022 and 31 March 2023. The losses for the years ended 31 March 2021 and 2022 reflected the contract and profitability review carried out in 2021 and the restructuring of the business in 2022. The loss in the year ended 31 March 2023 was principally attributable to the provision in respect of the Type 31 contract. The Directors do not consider that the results for these periods are representative of future trading performance and are satisfied that these net deferred tax assets are recoverable based on future profit forecasts.

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 £257 million (2022: £291 million).

At the statement of financial position date, deferred tax assets of £128.0 million (2022: £101.5 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 £96.4 million (2022: £519 million). In addition to these amounts, UK capital losses of £92.0 million (2022: £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.

8. Dividends

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Final dividend for the year ended 31 March 2022 of nil (2021: nil p) per 60p share	–	–
Interim dividend for the year ended 31 March 2023 of nil (2022: nil p) per 60p share	–	–
	–	–

9. (Loss)/earnings per share

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

Number of shares

	2023 Number	2022 Number
Weighted average number of ordinary shares for the purpose of basic EPS	**505,391,563**	505,091,970
Effect of dilutive potential ordinary shares: share options	**9,528,985**	6,083,765
Weighted average number of ordinary shares for the purpose of diluted EPS	**514,920,548**	511,175,735

Earnings per share

	Year ended 31 March 2023			Year ended 31 March 2022		
	Loss attributable to shareholders £m	Basic per share Pence	Diluted per share Pence	Earnings attributable to shareholders £m	Basic per share Pence	Diluted per share Pence
(Loss)/earnings for the year	**(35.0)**	**(6.9)**	**(6.9)**	164.2	32.5	32.1

10. Goodwill

	31 March 2023 £m	31 March 2022 (restated) £m
Cost		
At 1 April	**2,312.7**	2,487.3
On disposal of subsidiaries (note 28)	**(488.0)**	(197.9)
Additions (note 28) (revised – note 23)	**–**	22.3
Exchange adjustments	**(1.4)**	1.0
At 31 March (restated – note 23)	**1,823.3**	2,312.7
Accumulated impairment		
At 1 April	**1,529.3**	1,531.0
On disposal of subsidiaries (note 28)	**(487.4)**	(8.9)
Impairment	**–**	7.2
Exchange adjustments	**–**	–
At 31 March	**1,041.9**	1,529.3
Net book value at 31 March (revised – note 23)	**781.4**	783.4

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

	31 March 2023 £m	31 March 2022 (restated) £m
Marine	**296.6**	297.7
Nuclear	**233.1**	233.1
Land	**218.0**	218.6
Aviation	**32.0**	32.0
Africa	**1.7**	2.0
	781.4	783.4

During the year, goodwill was tested for impairment at 31 March 2023 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.

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 £0.6 million through the disposal of part of the Aerial Emergency Services business in Aviation (£nil million) and the Civil Training business in Land (£0.6 million).

Results of goodwill impairment test

The current year impairment test results have not resulted in an impairment for any of the Group's cash generating units. 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 1.9 – 4.6% (2022: 1.8 – 2.5%). 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 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.

10. 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 were used to discount the estimated risk-adjusted cash flows. These pre-tax discount rates reflect the market assessment as at the period end date of the time value of money and the risks specific to the cash-generating units.

Country-specific long-term growth rates are determined based on external analyst assessments of long-term real GDP outlooks in the associated countries.

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

	31 March 2023				31 March 2022			
	Aviation	Land	Marine	Nuclear	Aviation	Land	Marine	Nuclear
Pre-tax discount rate	**13.1**	**13.1**	**13.1**	**12.4**	11.3	11.7	11.3	11.3
Post-tax discount rate	**9.8**	**9.8**	**9.8**	**9.3**	8.5	8.8	8.5	8.5
Long-term real growth rate	**2.1**	**2.1**	**2.0**	**1.9**	1.8	2.2	2.5	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. Expected future cash flows are also subject to estimation with regard to the impact of inflation – albeit a significant proportion of the Group's longer term revenue contracts include variable consideration in respect of inflation and therefore there is a natural offset on the impact of inflation on both costs and revenue.

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. Future international opportunities in shipbuilding.
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. Expansion of activities in key overseas territories.

Sensitivity

The value-in-use for Marine and Nuclear results in these operating segments having significant headroom. Assuming no change in the cash flows over the initial five-year period, it would require a long-term growth of nil combined with a discount rate in excess of 40% to reduce the headroom in these sectors to £nil. The Directors do not consider these to be plausible assumptions.

In the Aviation and Land sectors 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 2023	31 March 2022
	Aviation	Aviation
Pre-tax discount rate		
Increase of 200bps (2022: 100 bps)	**63.1**	30.2
Long-term growth rate		
Decrease of 50bps	**12.7**	12.5

Management have also identified the growth rate in the short-term cash flows in the Aviation operating segment as a key assumption. Annual growth in the underlying cash flows has been determined on a contract-by-contract basis based on our knowledge of the existing contract base and management judgement regarding future wins and losses. If the five-year compound growth rate for the Aviation operating segment decreased by 14% this would cause an impairment of the goodwill allocated to this sector.

11. 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 2022 (restated)	**1,095.3**	**222.6**	**27.6**	**1,345.5**
Additions	**–**	**18.1**	**3.4**	**21.5**
Reclassification from property, plant and equipment	**–**	**3.0**	**0.3**	**3.3**
Disposal of subsidiary undertakings (note 28)	**(237.0)**	**(4.9)**	**(13.9)**	**(255.8)**
Disposals at cost	**(2.0)**	**(7.4)**	**(3.0)**	**(12.4)**
Exchange adjustments	**4.7**	**(0.1)**	**0.6**	**5.2**
At 31 March 2023	**861.0**	**231.3**	**15.0**	**1,107.3**
Accumulated amortisation and impairment				
At 1 April 2022	**1,005.8**	**156.8**	**6.2**	**1,168.8**
Amortisation charge	**15.8**	**10.5**	**1.8**	**28.1**
Impairment	**–**	**9.0**	**–**	**9.0**
Disposal of subsidiary undertakings (note 28)	**(233.0)**	**(3.1)**	**(0.8)**	**(236.9)**
Disposals	**(2.0)**	**(6.6)**	**(1.7)**	**(10.3)**
Exchange adjustments	**7.8**	**(0.1)**	**0.1**	**7.8**
At 31 March 2023	**794.4**	**166.5**	**5.6**	**966.5**
Net book value at 31 March 2023	**66.6**	**64.8**	**9.4**	**140.8**
Cost				
At 1 April 2021 (previously stated)	1,031.5	189.3	26.1	1,246.9
Restatement	–	30.4	–	30.4
At 1 April 2021	1,031.5	219.7	26.1	1,277.3
On acquisition of subsidiaries (note 28) (restated – note 23)	63.0	–	–	63.0
Additions	–	7.0	4.4	11.4
Reclassification from property, plant and equipment	–	0.1	(1.6)	(1.5)
Reclassification	–	0.9	(0.9)	–
Disposal of subsidiary undertakings (note 28)	–	(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 (restated – note 23)	1,095.3	222.6	27.6	1,345.5
Accumulated amortisation and impairment				
At 1 April 2021 (previously stated)	927.5	115.0	4.5	1,047.0
Restatement	–	30.4	–	30.4
At 1 April 2021	927.5	145.4	4.5	1,077.4
Amortisation charge	21.4	13.9	1.8	37.1
Impairment (note 2)	57.6	–	–	57.6
Reclassification	–	0.1	(0.1)	–
Disposal of subsidiary undertakings (note 28)	–	(1.8)	–	(1.8)
Disposals	–	(1.0)	–	(1.0)
Exchange adjustments	(0.7)	0.2	–	(0.5)
At 31 March 2022	1,005.8	156.8	6.2	1,168.8
Net book value at 31 March 2022 (restated)	89.5	65.8	21.4	176.7

Acquired intangible amortisation charges for the year are recorded in operating costs.

During the year ended 31 March 2023, an error has been identified whereby fully amortised intangible assets were incorrectly presented net. These restatements have no impact on the total intangible assets balance nor on any other financial statement area. In addition, the carrying value of acquired intangibles – relationships as at 31 March 2022 has been revised by £1.0 million as described in Note 23 as a result of new information coming to light during the assessment period on the acquisition of a business.

11. Other intangible assets (continued)

Included in Internally generated software development costs and licences is £38.6 million (2022: £40.7 million) relating to the Group's ERP system, which is amortised over a 10 year period. Included in the acquired intangible balance is £52.3 million (2022: £63.6 million) relating to the acquisition of the NSM joint venture (refer to note 28 for further details). This will be fully amortised in 20 years.

In the prior year, 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. This asset was fully impaired.

12. 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 2022	**151.8**	**24.7**	**524.9**	**303.1**	**213.9**	**1,218.4**
On disposal of subsidiaries (note 28)	**(9.4)**	**(9.0)**	**(32.1)**	**(224.1)**	**(13.9)**	**(288.5)**
Additions	**0.4**	**0.2**	**33.2**	**27.8**	**48.3**	**109.9**
Transfer to intangible assets	**–**	**–**	**–**	**–**	**(3.3)**	**(3.3)**
Reclassification	**70.0**	**–**	**66.0**	**3.0**	**(139.0)**	**–**
Transfer from Right-of use-assets	**–**	**–**	**–**	**19.5**	**–**	**19.5**
Disposals	**(0.8)**	**–**	**(13.1)**	**(40.2)**	**(18.8)**	**(72.9)**
Capitalised borrowing costs	**–**	**–**	**–**	**–**	**0.6**	**0.6**
Exchange adjustments	**0.2**	**(0.7)**	**(7.9)**	**8.4**	**3.0**	**3.0**
At 31 March 2023	**212.2**	**15.2**	**571.0**	**97.5**	**90.8**	**986.7**
Accumulated depreciation						
At 1 April 2022	**70.7**	**11.1**	**373.2**	**52.3**	**0.5**	**507.8**
On disposal of subsidiaries (note 28)	**(2.9)**	**(0.5)**	**(14.3)**	**(33.9)**	**–**	**(51.6)**
Depreciation charge for the year	**7.1**	**1.5**	**45.4**	**18.1**	**–**	**72.1**
Impairment	**–**	**–**	**–**	**(0.8)**	**5.7**	**4.9**
Transfer from Right-of use-assets	**–**	**–**	**–**	**11.5**	**–**	**11.5**
Disposals	**(0.7)**	**–**	**(11.2)**	**(24.0)**	**(0.5)**	**(36.4)**
Exchange adjustments	**0.2**	**–**	**(2.5)**	**1.7**	**0.5**	**(0.1)**
At 31 March 2023	**74.4**	**12.1**	**390.6**	**24.9**	**6.2**	**508.2**
Net book value at 31 March 2023	**137.8**	**3.1**	**180.4**	**72.6**	**84.6**	**478.5**
Cost						
At 1 April 2021 (previously stated)	159.8	15.8	506.5	365.3	187.6	1,235.0
Restatement	(1.7)	1.6	17.7	(17.5)	(32.6)	(32.5)
At 1 April 2021	158.1	17.4	524.2	347.8	155.0	1,202.5
On acquisition of subsidiaries (note 28)	–	–	0.4	–	–	0.4
On disposal of subsidiaries (note 28)	(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	–	4.2	(1.1)	(0.5)	2.7
At 31 March 2022	151.8	24.7	524.9	303.1	213.9	1,218.4
Accumulated depreciation						
At 1 April 2021 (previously stated)	69.5	10.9	373.1	45.4	1.7	500.6
Restatement	(0.8)	0.6	(15.3)	(17.5)	0.5	(32.5)
At 1 April 2021	68.7	11.5	357.8	27.9	2.2	468.1
On disposal of subsidiaries (note 28)	(4.7)	(0.2)	(13.7)	(7.7)	–	(26.3)
Depreciation 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	0.1	–	1.8	0.2	(0.1)	2.0
At 31 March 2022	70.7	11.1	373.2	52.3	0.5	507.8
Net book value at 31 March 2022	81.1	13.6	151.7	250.8	213.4	710.6

12. Property, plant and equipment (continued)

In the year ended 31 March 2023 management identified that the prior period property, plant and equipment disclosure included a historic error which overstated historic cost and accumulated depreciation by £17.5 million (1 April 2021: £16.8 million). Additionally, an error has been identified in the classification of cost between asset categories in the prior period totalling £36.3 million and this has also been restated. These restatements have no impact on the total property, plant and equipment balance nor on any other financial statement area.

In the prior year, 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 impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base. The asset valuations have been calculated based on estimated discounted cash flows 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.

13. 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 2022	**127.3**	**64.7**	**383.0**	**575.0**
Additions	**37.1**	**9.8**	**67.7**	**114.6**
Transfer to Property, plant and equipment	**–**	**–**	**(19.5)**	**(19.5)**
Disposals	**(10.0)**	**(3.7)**	**(24.5)**	**(38.2)**
Disposal of subsidiaries (note 28)	**(11.5)**	**(3.5)**	**(269.8)**	**(284.8)**
Exchange adjustments	**(1.3)**	**0.4**	**1.1**	**0.2**
At 31 March 2023	**141.6**	**67.7**	**138.0**	**347.3**
Accumulated depreciation				
At 1 April 2022	**42.5**	**40.9**	**157.3**	**240.7**
Depreciation charge for the year	**20.5**	**9.1**	**52.1**	**81.7**
Impairment	**0.9**	**–**	**8.7**	**9.6**
Disposals	**(7.0)**	**(3.3)**	**(21.7)**	**(32.0)**
Disposal of subsidiaries (note 28)	**(6.9)**	**(1.3)**	**(94.6)**	**(102.8)**
Transfer to Property, plant and equipment	**–**	**–**	**(11.5)**	**(11.5)**
Exchange adjustments	**(0.5)**	**0.3**	**2.7**	**2.5**
At 31 March 2023	**49.5**	**45.7**	**93.0**	**188.2**
Net book value at 31 March 2023	**92.1**	**22.0**	**45.0**	**159.1**

13. Leases (continued)

Right of use assets (continued)

	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 28)	0.5	–	–	0.5
Disposals	(31.1)	(7.8)	(33.0)	(71.9)
Disposal of subsidiaries (note 28)	(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
Depreciation 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 28)	(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

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 2022	**434.1**
Additions	**117.0**
Disposals	**(5.3)**
Disposal of subsidiaries (note 28)	**(218.1)**
Exchange adjustments	**9.6**
Lease interest	**15.9**
Lease repayments	**(124.4)**
At 31 March 2023	**228.8**
Non-current lease liabilities	**178.9**
Current lease liabilities	**49.9**
At 31 March 2023	**228.8**

At 1 April 2021	612.3
Additions	93.8
Acquisition of subsidiaries (note 28)	0.5
Disposals	(22.6)
Disposal of subsidiaries (note 28)	(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

See note 22 for a maturity analysis of the contractual undiscounted lease payments.

13. Leases (continued)

Amounts recognised in the Group income statement

	2023 £m	2022 £m
Interest on lease liabilities	**15.9**	17.4
Right-of-use asset depreciation	**81.7**	105.1
Right-of-use asset impairment	**9.6**	18.0
Loss/(profit) on disposal of right-of-use asset	**0.8**	(3.2)

The total expense for short term and low value leases was £3.0 million (2022: £8.9 million). The expense is deemed approximate to the cash outflow for short term and low value leases.

Amounts recognised in the Group cash flow statement

	2023 £m	2022 £m
Total cash outflow for principal element of leases	**108.5**	113.0
Total cash outflow for interest element of leases	**15.9**	17.4
Total cash outflow for leases	**124.4**	130.4

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. There have been no new material lease arrangements as a lessor in the current year (2022: none).

Amounts recognised in the Group income statement

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Finance lease – interest income	**4.4**	3.1

Finance lease payments receivable

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Within one year	**20.3**	23.3
Greater than one year but less than two years	**14.0**	12.2
Greater than two years but less than three years	**9.1**	8.1
Greater than three years but less than four years	**2.4**	4.0
Greater than four years but less than five years	**–**	–
Greater than five years	**–**	–
Total undiscounted finance lease payments receivable	**45.8**	47.6
Impact of discounting	**(7.2)**	(0.2)
Finance lease receivable (net investment in the lease)	**38.6**	47.4

There was no material impairment of lease receivables in the year ended 31 March 2023 (2022: £nil).

The Group has minimal residual risk for underlying assets to which it retains the residual rights as all leases for which the Group acts as lessor are finance leases and therefore the asset has been leased for a term equivalent to the asset's useful economic life.

14. 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 (2023)	% interest held (2022)	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

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 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 2023		31 March 2022	
Summarised income statement extract (year ended)	**Ascent Flight Training (Holdings) Limited**	**AirTanker Services Limited**	Ascent Flight Training (Holdings) Limited	AirTanker Services Limited
Revenue	**171.2**	**181.7**	164.8	189.2
Depreciation and amortisation	**–**	**(11.5)**	–	(14.5)
Interest income	**4.4**	**0.3**	6.1	–
Interest expense	**(5.0)**	**–**	(6.2)	(0.3)
Income tax (expense)/benefit	**(3.5)**	**(2.3)**	(3.7)	(2.5)
Profit from continuing operations	**14.5**	**5.9**	15.4	6.5
Other comprehensive income	**7.0**	**–**	0.4	–
Total comprehensive income	**21.5**	**5.9**	15.8	6.5
Summarised statement of financial position				
Non-current assets	**29.2**	**72.3**	29.4	78.2
Current assets (excluding cash and cash equivalents)	**75.5**	**95.2**	101.5	69.0
Cash and cash equivalents	**69.2**	**71.9**	60.4	54.4
Non-current financial liabilities (excluding trade and other payables and provisions)	**(109.2)**	**(63.2)**	(137.5)	(49.3)
Current financial liabilities (excluding trade and other payables and provisions)	**–**	**–**	–	–
Current trade and other payables and provisions	**(10.4)**	**(74.9)**	(4.6)	(51.9)
Net assets	**54.3**	**101.3**	49.2	100.4
Ownership	**50.0%**	**23.5%**	50.0%	23.5%
Carrying value of investment	**27.2**	**23.8**	24.6	23.6

14. 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	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
At 1 April	**54.3**	73.5	**12.1**	42.1	**66.4**	115.6
Acquisition and disposal of joint ventures and associates (note 28)	**(1.0)**	(24.5)	**–**	–	**(1.0)**	(24.5)
Loans repaid by joint ventures and associates	**–**	–	**(2.4)**	(31.0)	**(2.4)**	(31.0)
Increase in loans to joint ventures and associates	**–**	–	**–**	1.4	**–**	1.4
Investment in joint ventures and associates	**–**	2.6	**–**	–	**–**	2.6
Share of profits	**9.3**	20.1	**–**	–	**9.3**	20.1
Interest accrued and capitalised	**–**	–	**1.0**	3.2	**1.0**	3.2
Interest received	**–**	–	**(1.2)**	(3.6)	**(1.2)**	(3.6)
Dividends received	**(8.7)**	(41.6)	**–**	–	**(8.7)**	(41.6)
Fair value adjustment of derivatives	**4.7**	30.2	**–**	–	**4.7**	30.2
Tax on fair value adjustment of derivatives	**(1.2)**	(5.7)	**–**	–	**(1.2)**	(5.7)
Foreign exchange	**–**	(0.3)	**–**	–	**–**	(0.3)
At 31 March	**57.4**	54.3	**9.5**	12.1	**66.9**	66.4

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

	2023 £m	2022 £m
Marine	**3.7**	4.8
Nuclear	**1.4**	0.3
Land	**0.2**	1.5
Aviation	**61.6**	59.8
Net book value	**66.9**	66.4

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 classified 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 has been no impairment to loans to joint ventures and associates during the year (2022: £nil). Total cumulative expected credit losses in respect of loans to joint ventures and associates are also £nil (2022: £nil) as the joint ventures and associates are considered to have low credit risk and as such impairment risk is considered minimal.

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.

15. Inventories

	31 March 2023 £m	31 March 2022 £m
Raw materials and spares	**58.6**	77.3
Work-in-progress	**7.2**	4.1
Finished goods and goods for resale	**61.0**	61.3
Total	**126.8**	142.7

Write-downs of inventories amounted to £5.4 million (2022: £15.8 million). These were recognised as an expense during the year ended 31 March 2023 and included in operating costs in the income statement.

16. Trade and other receivables and contract assets

	31 March 2023 £m	31 March 2022 £m
Non-current assets		
Costs to obtain a contract	**2.8**	8.9
Costs to fulfil a contract	**1.4**	0.8
Other debtors	**2.2**	–
Non-current trade and other receivables	**6.4**	9.7
Current assets		
Trade receivables	**307.3**	311.5
Less: provision for impairment of receivables	**(7.3)**	(14.6)
Trade receivables – net	**300.0**	296.9
Retentions	**6.0**	4.4
Amounts due from related parties (note 32)	**2.1**	2.0
Other debtors	**129.4**	106.2
Prepayments	**63.7**	71.1
Costs to obtain a contract	**0.6**	7.6
Costs to fulfil a contract	**5.1**	0.6
Current trade and other receivables	**506.9**	488.8
Contract assets	**322.5**	299.3
Current trade and other receivables and contract assets	**829.4**	788.1

Trade and other receivables are stated at amortised cost. Details of expected credit losses on trade receivables are provided in note 22, there has been no impairment to other receivables during the year ended 31 March 2023 (2022: £nil). Other debtors primarily comprise of receivables in respect of social security and other taxes.

In the year ended 31 March 2023, amortisation of costs to obtain a contract and costs to fulfil a contract totalled £5.0 million (2022: £2.8 million). An impairment of £1.6 million was recorded in relation to costs to obtain a contract or costs to fulfil a contract (2022: £nil).

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.

16. Trade and other receivables and contract assets (continued)

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

	Contract assets £m
31 March 2022	**299.3**
Disposal of subsidiary undertaking	**(34.6)**
Transfers from contract assets recognised at the beginning of the year to trade receivables	**(218.9)**
Increase due to work done not transferred from contract assets	**273.1**
Exchange adjustment	**3.6**
31 March 2023	**322.5**

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

During the year, the Group has recognised a reversal of £48.5 million of revenue in respect of performance obligations satisfied or partially satisfied in previous periods. This figure is significantly impacted by reductions in forecast margin on three of the Group's contracts – predominantly the loss on the T31 programme as described in note 1. The variance resulting from these three contracts is a result of movements in forecast cost to complete rather than a reversal of variable consideration previously seen as highly probable. Excluding these three contracts, the Group has recognised £4.7 million of additional revenue in the current year in respect of performance obligations satisfied or partially satisfied in previous periods.

At 31 March 2023, there is £6.7 billion (2022: £5.8 billion) of transaction price on contracts with customers that has been allocated to unsatisfied or partially satisfied performance obligations (note this metric has been prepared for IFRS 15 disclosure purposes and therefore does not align to the Group's contract backlog). Contract backlog is based on the full contractual term of the Group's agreements whilst the IFRS 15 disclosure may be a shorter contractual period in the event that the customer has the ability to exit contracts prior to the full term for non-substantive penalty payments. Management expects that 37.8% (2022: 40.5%) of the transaction price allocated to unsatisfied performance obligations as at 31 March 2023 will be recognised as revenue during the next reporting period. A further 46.3% (2022: 59.5%) of the transaction price allocated to unsatisfied performance obligations is expected to be recognised as revenue in years two to five after 31 March 2023.

Details on the Group's approach to assess credit risk are included in note 22.

17. Cash and cash equivalents

	31 March 2023 £m	31 March 2022 £m
Cash at bank and in hand	**221.7**	616.0
Short-term bank deposits	**230.0**	530.3
	451.7	1,146.3

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

	31 March 2023		31 March 2022	
Currency	Total £m	Floating rate £m	Total £m	Floating rate £m
Sterling	**319.8**	**319.8**	1,023.9	1,023.9
Euro	**7.6**	**7.6**	15.0	15.0
US Dollar	**15.7**	**15.7**	25.5	25.5
South African Rand	**45.3**	**45.3**	27.8	27.8
Canadian Dollar	**19.1**	**19.1**	12.2	12.2
Omani Rial	**5.7**	**5.7**	4.7	4.7
Australian Dollar	**25.1**	**25.1**	22.2	22.2
Norwegian Krone	**0.6**	**0.6**	1.4	1.4
Swedish Krona	**2.4**	**2.4**	6.5	6.5
New Zealand Dollar	**2.8**	**2.8**	1.0	1.0
Other currencies	**7.6**	**7.6**	6.1	6.1
	451.7	**451.7**	1,146.3	1,146.3

17. Cash and cash equivalents (continued)

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 is £nil (2022: £nil).

18. Trade and other payables and contract liabilities

	2023 £m	2022 £m
Current liabilities		
Contract liabilities	**616.4**	518.3
Trade creditors	**239.1**	164.7
Amounts due to related parties (note 32)	**0.8**	1.5
Other creditors	**41.6**	26.9
Other taxes and social security	**75.5**	76.6
Accruals	**554.1**	618.4
Trade and other payables	**911.1**	888.1
Trade and other payables and contract liabilities	**1,527.5**	1,406.4
Non-current liabilities		
Other creditors	**0.9**	1.0

Included in creditors is £12.9 million (2022: £6.7 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 2022	**518.3**
Revenue recognised that was included in the contract liability balance at the beginning of the year	**(377.5)**
Cash advanced	**509.8**
Disposal of subsidiary undertaking	**(31.9)**
Exchange adjustment	**(2.3)**
31 March 2023	**616.4**
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

19. Bank and other borrowings

	31 March 2023 £m	31 March 2022 £m
Current liabilities		
Bank loans and overdrafts due within one year or on demand		
Secured	**0.3**	0.4
Unsecured	**19.3**	863.0
	19.6	863.4
Lease obligations*	**49.9**	104.8
	69.5	968.2
Non-current liabilities		
Bank and other borrowings		
Secured	**21.0**	24.0
Unsecured	**747.4**	823.7
	768.4	847.7
Lease obligations*	**178.9**	329.3
	947.3	1,177.0

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

The reduction in unsecured current liabilities is a result of the repayment of the €550 million Eurobond in October 2022 and a reduction in usage of overdraft facilities.

The Group's overdraft totalled £21.5 million at 31 March 2023 (2022: £389.8 million). Included within bank loans and overdrafts due within one year is an offsetting £2.6 million in respect of amortisation of loan fees.

The Group has £3.1 million (2022: £3.5 million) of secured debt in the Land operating segment that is secured against a property owned by the Group and £18.2 million (2022: £20.9 million) of debt that is secured against contracts with customers, which will cede to the bank in the event of default.

Unsecured bank loans are subject to covenants which are tested six monthly on a rolling basis. Covenants comprise of Net Debt to EBITDA and Interest Cover. The Net Debt to EBITDA ratio must be lower than 3.5x at each testing date whilst the Interest Cover must be at least 4.0x at each testing date. There are no breaches in the Group's base case forecasts as prepared for going concern purposes.

Drawn facilities at the period end date primarily comprise the €550 million Eurobond and the £300 million UK bond.

Repayment details

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

	31 March 2023		31 March 2022	
	Loans and overdrafts £m	Lease obligations £m	Loans and overdrafts £m	Lease obligations £m
Within one year	**19.6**	**49.9**	863.4	104.8
Between one and two years	**0.3**	**40.6**	22.6	90.5
Between two and three years	**0.6**	**34.5**	0.6	67.9
Between three and four years	**300.6**	**23.4**	0.7	46.4
Between four and five years	**466.2**	**19.9**	356.4	38.7
Greater than five years	**0.7**	**60.5**	467.4	85.8
	788.0	**228.8**	1,711.1	434.1

19. Bank and other borrowings (continued)

The Group has entered into interest rate and currency swaps, details of which are included in note 21.

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

	31 March 2023			31 March 2022		
Currency	Total £m	Floating rate £m	Fixed rate £m	Total £m	Floating rate £m	Fixed rate £m
Sterling	**439.0**	**16.4**	**422.6**	832.1	405.6	426.5
Euro*	**515.4**	**87.2**	**428.2**	1,181.1	252.8	928.3
US Dollar	**5.9**	**0.4**	**5.5**	44.4	19.1	25.3
South African Rand	**25.1**	**18.3**	**6.8**	30.0	20.8	9.2
Canadian Dollar	**6.0**	**–**	**6.0**	7.5	0.7	6.8
Australian Dollar	**22.3**	**–**	**22.3**	28.2	1.5	26.7
Norwegian Krone	**–**	**–**	**–**	4.7	3.9	0.8
Swedish Krona	**–**	**–**	**–**	15.6	–	15.6
New Zealand Dollar	**1.0**	**–**	**1.0**	0.2	–	0.2
South Korean Won	**0.8**	**–**	**0.8**	1.2	–	1.2
Botswana Pula	**0.2**	**–**	**0.2**	0.2	–	0.2
Other	**1.1**	**0.8**	**0.3**	–	–	–
	1,016.8	**123.1**	**893.7**	2,145.2	704.4	1,440.8

* €550 million (2022: €1,100 million) has been swapped into Sterling, with €135 million (2022: €275 million) equivalent into floating rates and €415 million (2022: €825 million) equivalent into fixed rates. This is included in the Euro amount above. The split above includes the impact of hedging.

The weighted average interest rate of Sterling fixed rate borrowings is 1.9% (2022: 1.9%). The weighted average period for which these interest rates are fixed is 3.5 years (2022: 4.6 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.

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

	31 March 2023 %	31 March 2022 %
UK bank overdraft	**5.4**	1.1
UK bank borrowings	**–**	1.4
8-year Eurobond September 2027– fixed	**2.9**	2.9
8-year Eurobond September 2027 – floating	**6.3**	3.3
8-year Eurobond October 2022	**–**	1.8
£300 million bond 2026	**1.9**	1.9
Other borrowings	**5.5 – 9.8**	4.8 – 6.9
Leases obligations	**3.7 – 17.2**	2.2 – 11.8

Borrowing facilities

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

	31 March 2023 £m	31 March 2022 £m
Expiring in less than one year	**–**	–
Expiring in more than one year but not more than five years	**1,152.8**	1,012.2
	1,152.8	1,012.2

Bank loans include £nil million (2022: £12.5 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 €nil million at 31 March 2023 (2022: €128.5 million).

20. 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 1 April 2021	**67.1**	**35.8**	**20.0**	**21.5**	**1.1**	**145.5**
On disposal of subsidiaries (note 28)	–	(1.3)	–	(1.2)	–	(2.5)
On acquisition of subsidiaries (note 28) (restated – note 23)	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**
Prior period adjustment (note 23)	2.4	–	–	–	–	2.4
At 31 March 2022 as restated	**53.5**	**39.7**	**0.3**	**21.0**	**1.4**	**115.9**
On disposal of subsidiaries (note 28)	(8.5)	(1.2)	–	(5.8)	(0.1)	(15.6)
Reclassification	(1.0)	1.4	–	(4.3)	3.9	–
Net charge/(release) to income statement	76.0	10.4	–	8.4	(0.6)	94.2
Utilised in year	(20.2)	(19.2)	(0.3)	(4.8)	(1.8)	(46.3)
Unwinding of discount	–	0.2	–	–	–	0.2
Foreign exchange	0.6	(0.8)	–	0.6	(0.1)	0.3
At 31 March 2023	**100.4**	**30.5**	**–**	**15.1**	**2.7**	**148.7**

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. Onerous contracts relate to expected future losses on contracts with customers – notably T31 as outlined in note 1.

b) Employee benefits and business reorganisation costs relate to business restructuring activities including announced redundancies in addition to employee benefits including long-term sickness. The net charge to the employee benefits and reorganisation provision comprises a charge in the year of £12.8 million and a release of £2.4 million.

c) Italian anti-trust fines pertain to historic court rulings in respect of the Babcock Mission Critical Services Italia SpA subsidiary. The majority of this provision was paid in the prior year with remaining amounts paid in FY23.

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 2023 £m	31 March 2022 £m
Current	**67.9**	55.6
Non-current	**80.8**	60.3
	148.7	115.9

Included within provisions is £6.9 million (2022: £7.4 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.

21. Financial instruments and fair value measurement

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

31 March 2023 (£m)	Financial assets at fair value	Financial assets at amortised cost	Financial liabilities at fair value	Financial liabilities at amortised cost	Total carrying amount	Fair value
Non-current financial assets						
Loans to joint ventures and associates	**–**	**9.5**	**–**	**–**	**9.5**	**9.5**
Financial assets	**–**	**7.3**	**–**	**–**	**7.3**	**7.3**
Derivatives	**2.6**	**–**	**–**	**–**	**2.6**	**2.6**
Lease receivables	**–**	**22.2**	**–**	**–**	**22.2**	**22.2**
Current financial assets						
Trade and other receivables *	**1.5**	**345.1**	**–**	**–**	**346.6**	**346.6**
Lease receivables	**–**	**16.4**	**–**	**–**	**16.4**	**16.4**
Derivatives	**4.3**	**–**	**–**	**–**	**4.3**	**4.3**
Cash and cash equivalents	**–**	**451.7**	**–**	**–**	**451.7**	**451.7**
Non-current financial liabilities						
Bank and other borrowings	**–**	**–**	**–**	**(768.4)**	**(768.4)**	**(670.3)**
Derivatives	**–**	**–**	**(53.3)**	**–**	**(53.3)**	**(53.3)**
Current financial liabilities						
Bank and other borrowings			**–**	**(19.6)**	**(19.6)**	**(19.6)**
Trade and other payables *	**–**	**–**	**–**	**(511.1)**	**(511.1)**	**(511.1)**
Derivatives	**–**	**–**	**(12.8)**	**–**	**(12.8)**	**(12.8)**
Net financial assets / (financial liabilities)	**8.4**	**852.2**	**(66.1)**	**(1,299.1)**	**(504.6)**	**(406.5)**

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

31 March 2022 (£m)	Financial assets at fair value	Financial assets at amortised cost	Financial liabilities at fair value	Financial liabilities at amortised cost	Total carrying amount	Fair value
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.

21. 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 or Level 3 using the fair value hierarchy. There were no transfers between levels during the period. Additional disclosures in respect of financial assets measured using Level 3 techniques are not provided as such assets are not material.

The fair values of financial instruments held at fair value have been determined based on available market information at the period end 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 period end 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 period end rates.

Financial assets and liabilities in the Group's Consolidated statement of financial position 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. Amortised cost items whose fair value or carrying value approximate to fair value are at Level 2 in the fair value hierarchy. 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 cross-currency swap contracts to hedge the foreign currency risk on debt issued by the Group. These are formally designated in cash flow hedge relationships and hedge ineffectiveness is recognised immediately in the income statement.

Fair value hedges

The Group maintains cross-currency interest rate 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.

22. 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 2023, the Group had 83% fixed rate debt (2022: 66%) and 17% floating rate debt (2022: 34%) based on gross debt, including lease liabilities, of £1,016.8 million (2022: £2,290.1 million).

22. Financial risk management (continued)

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

	31 March 2023			31 March 2022		
	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	**451.7**	**–**	**–**	1,146.3	–	–
Bank and other borrowings	**69.5**	**40.9**	**906.4**	968.2	113.1	1,063.9

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 2023		Year ended 31 March 2022	
	Change in interest rate	Effect on profit before tax £m	Change in interest rate	Effect on profit before tax £m
GBP	**3.0%**	**3.1**	0.5%	3.7

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

	Year ended 31 March 2023			Year ended 31 March 2022		
Hedging instruments (£m)	Notional principal amount	Carrying amount of hedging instrument	Change in fair value of hedging instrument used for calculating hedge ineffectiveness	Notional principal amount	Carrying amount of hedging instrument	Change in fair value of hedging instrument used for calculating hedge ineffectiveness
Cross currency interest rate swap[1]	**246.7**	**(38.7)**	**(4.1)**	246.7	(34.6)	(14.6)

1. The Group has entered into three cross-currency interest rate swaps to convert €275 million of fixed rate (1.375%) debt to GBP debt linked to SONIA. This matures on 13 September 2027. Additionally, as part of the Group's financial risk management response in relation to interest rate risk, the group has entered into further interest rate swaps to fix interest rate on floating rate sterling debt – ie, the aggregated exposure that was created with €140 million fixed rate debt and the cross-currency swaps which receive Euro fixed and pay GBP floating. These new interest rate swaps were not designated in the hedge relationship and therefore they are accounted for at fair value through profit and loss.

	Year ended 31 March 2023				Year ended 31 March 2022			
Hedged item (£m)	Carrying amount of hedged item	Accumulated fair value adjustments	Change in fair value used for calculating ineffectiveness	Amount of ineffectiveness recognised in the income statement	Carrying amount of hedged item	Accumulated fair value adjustments	Change in fair value used for calculating ineffectiveness	Amount of ineffectiveness recognised in the income statement
Debt	**241.7**	**30.6**	**7.3**	**3.2**	234.8	22.7	13.7	(0.9)

Ineffectiveness is included in the income statement in finance costs.

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.
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. During the year ended 31 March 2023 the Group has repaid a €550 million facility. No new facilities have been entered into.

22. Financial risk management (continued)

The contracted cash outflows on bank and other borrowings, derivatives and lease liabilities 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 2023					
Bank and other borrowings	**74.2**	**45.2**	**847.9**	**72.9**	**1,040.2**
Derivatives cash outflows settled gross	**28.7**	**145.4**	**198.8**	**1,503.3**	**1,876.2**
Undiscounted lease payments	**54.6**	**44.9**	**80.5**	**72.2**	**252.2**
At 31 March 2022					
Bank and other borrowings	968.2	113.1	510.7	553.2	2,145.2
Derivatives cash outflows settled gross	555.7	300.5	246.4	549.6	1,652.2
Derivatives cash outflows settled net	–	–	–	0.4	0.4
Undiscounted lease payments	115.6	100.6	172.0	106.3	494.5

The impact of discounting for lease payments is £23.4 million (2022: £60.4 million) resulting in lease liabilities of £228.8 million (2022: £434.1 million). Other financial liabilities not included in the table above such as trade and other payables are all expected to be settled within one year.

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.

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 economically hedged using foreign exchange forward contracts.

22. Financial risk management (continued)

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

Hedging instruments (£m)	Nominal amount	Carrying value	Maturity	Hedged rate	Change in fair value used for calculating hedge effectiveness	Change in fair value recognised in other comprehensive income	Amount reclassified from cash flow hedge reserve to finance cost	Ineffectiveness recognised in profit and loss (finance cost)
	Year ended 31 March 2023							
Hedge instrument: Cross currency swap	**€275m**	**(£8.2)**	**13/09/27**	**1.152**	**(9.5)**	**(9.5)**	**(10.0)**	**–**
Hedged item: EUR-denominated debt	**€275m**	**£241.7**	**13/09/27**	**N/A**	**10.0**	**N/A**	**N/A**	**N/A**

As outstanding cash flow hedges matured in 2023, the amount previously recognised in the hedging reserve has been reclassified to the income statement. Any new derivatives executed to hedge purchases and sales in foreign currencies have been treated as economic hedges with the fair value changes recognised in the income statement rather than through other comprehensive income and therefore disclosure has not been provided on such items.

Hedging instruments (£m)	Nominal amount	Carrying value	Maturity	Hedged rate	Change in fair value used for calculating hedge effectiveness	Change in fair value recognised in other comprehensive income	Amount reclassified from cash flow hedge reserve to finance cost	Ineffectiveness recognised in profit and loss (finance cost)
	Year ended 31 March 2022							
Hedge instrument: Cross currency swap	€275m	(17.7)	13/09/27	1.152	2.8	(2.4)	3.3	(0.4)
Hedged item: EUR-denominated debt	€275m	231.7	13/09/27	N/A	(2.4)	N/A	N/A	N/A

Hedging instruments (£m)	Maturity date	Weighted average hedged rate	Change in value of instruments	Change in value of item	Carrying value of derivative	Notional amount
			Year ended 31 March 2022			
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**	20/11/2023	0.9387	1.0	(1.0)	1.0	22.1
Hedging forecast purchases/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
Cash flow hedges			(2.9)	2.9	(2.7)	244.1

** Individually immaterial items.

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 2023			Year ended 31 March 2022		
	Change in foreign currency rate	**Effect on profit before tax £m**	**Effect on other components of equity £m**	Change in foreign currency rate	Effect on profit before tax £m	Effect on other components of equity £m
EUR *	**5%**	**1.5**	**1.5**	5%	0.8	0.8
ZAR	**5%**	**(2.0)**	**(2.0)**	5%	(1.6)	(1.6)
AUD	**5%**	**(0.4)**	**(0.4)**	5%	(1.6)	(1.6)
CAD	**5%**	**(0.4)**	**(0.4)**	5%	(0.5)	(0.5)

* This sensitivity analysis excludes the impact of the disposal of the Group's Aerial Emergency Services business, as this is a one-off transaction which is not expected to re-occur.

Under the Group's economic hedging policy, the terms of the forward contracts are arranged to align with the expected timing, currency and amounts of the hedged items. The Group typically enters into forward contracts 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.

22. Financial risk management (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations to the Group, which would result in a loss for the Group. Credit risk arises from trade and other receivables, cash and cash equivalents, investments and derivative financial instruments.

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 £7.4 million (2022: £14.6 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.

The Group's counterparty credit rating is as follows:

	31 March 2023	31 March 2022
AA- or higher	**8.0%**	15.3%
A+ to A-	**45.0%**	78.7%
BBB+ to BB-	**11.0%**	6.0%

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. Forward-looking factors are applied to homogenous groups of receivables which share characteristics and are based on an estimate of how corporate failure rates may change relative to historic levels given the current economic environment.

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:

	2023 £m	2022 £m
Balance at 1 April	**(14.6)**	(14.0)
Charged to the income statement	**(1.7)**	(1.0)
Receivables written off during the year as uncollectable	**–**	–
Unused amounts reversed	**2.0**	0.7
Disposal of businesses	**7.4**	–
Exchange differences	**(0.4)**	(0.3)
Balance at 31 March	**(7.3)**	(14.6)

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

22. Financial risk management (continued)

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 2023			Year ended 31 March 2022		
	Gross £m	Provision £m	Net £m	Gross £m	Provision £m	Net £m
Not past due	**291.3**	**–**	**291.3**	298.0	(1.1)	296.9
Up to 90 days overdue	**3.7**	**(0.1)**	**3.6**	7.4	(7.4)	–
Past 90 days overdue	**12.3**	**(7.2)**	**5.1**	6.1	(6.1)	–
	307.3	**(7.3)**	**300.0**	311.5	(14.6)	296.9

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.

For contract assets the expected credit loss provision is immaterial as the probability of default is insignificant. No expected loss provision has been recorded in respect of loans to joint ventures and associates.

Offsetting financial assets and liabilities

	Year ended 31 March 2023			Year ended 31 March 2022		
	Balance sheet £m	Amounts not offset[1] £m	Net balances £m	Balance sheet £m	Amounts not offset[1] £m	Net balances £m
Assets						
Cash and cash equivalents	**451.0**	**(18.9)**	**432.1**	1,146.3	(388.9)	757.4
Derivatives	**6.9**	**(6.9)**	**–**	11.4	(11.4)	–
Liabilities						
Bank and other borrowings	**(18.9)**	**18.9**	**–**	(863.4)	388.9	(474.5)
Derivatives	**(66.1)**	**6.9**	**(59.2)**	(94.1)	11.4	(82.7)

1 The Group has the legal right of offset within certain of its banking arrangements, however there is no intention to net settle these balances shortly after the period end and therefore these have been presented gross in accordance with IAS 32. The Group also has derivative assets and liabilities with the same financial institutions which also have offset language to allow for net settlement, however the Group has no intention to net settle and therefore the IAS 32 criteria are not satisfied and the derivative asset and derivative liabilities have been presented gross in the statement of financial position.

Capital risk

Capital risk is the risk that the entity may not be able to continue as a going concern. The capital structure of the Group consists of net debt (borrowings disclosed in note 19 after deducting cash and cash equivalents) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests as disclosed in note 24. The Group is not subject to any externally imposed capital requirements.

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 statement of financial position 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 has entered into an overdraft facility of £50 million. No other new facilities have been entered into.

23. Revisions to historic acquisitions within the IFRS 3 measurement period

Under IFRS 3, when new information obtained about facts and circumstances that existed at the acquisition date arises within the measurement period, the Group is required to adjust amounts recognised through the acquisition accounting. Post-acquisition, we have determined that assumptions used to calculate a pain/gain share provision in respect of the Naval Ship Management (Australia) Pty Limited ('NSM') acquisition did not reflect the facts and circumstances at the acquisition date. This has resulted in an increase to provisions of £2.4 million at 31 March 2022. The reduction in net assets acquired has increased the goodwill by £1.0 million, increased acquired intangibles by £1.0 million, increased deferred tax assets by £0.4 million at 31 March 2022.

31 March 2022 – Group statement of financial position (extract)

	31 March 2022 (previously published)	(iii) Acquisition accounting adjustment	31 March 2022 (restated)
Assets			
Non-current assets			
Goodwill	**782.4**	1.0	783.4
Other intangible assets	**175.7**	1.0	176.7
Deferred tax asset	**47.0**	0.4	47.4
Total non-current assets *	**2,461.1**	2.4	2,463.5
Liabilities			
Current liabilities			
Provisions	**(53.2)**	(2.4)	(55.6)
Current liabilities *	**(2,480.3)**	(2.4)	(2,482.7)
Equity			
Retained earnings	**(1,241.4)**	–	(1,241.4)
Total equity *	**701.5**	–	701.5

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

24. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2022 and 31 March 2023	**505,596,597**	**303.4**
Allotted, issued and fully paid		
At 1 April 2021 and 31 March 2022	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 2023 that are capable of being met on exercise or vesting by the issue of new shares. They represent outstanding awards granted under the Company's executive share plans. The awards were granted directly by the Company and satisfied by the Trustees of the Babcock Employee Share Trust (BEST) – a total of 10,346,859 shares (2022: 9,945,822 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.

24. Share capital (continued)

Potential issues of ordinary shares (continued)

Grant date	Type	Exercise period	2023 Number	2022 Number
13 June 2018	DBP[3]	13/06/2021 – 13/06/2022	–	23,335
13 June 2019	DBP[2]	13/06/2021 – 13/06/2022	–	14,668
13 June 2019	DBP[3]	13/06/2022 – 13/06/2023	**22,971**	224,369
13 June 2019	PSP[1]	13/06/2022 – 13/06/2023	–	2,330,777
13 June 2019	PSP[1]	13/06/2024 – 13/06/2025	–	803,839
3 August 2020	DBP[2]	03/08/2022 – 03/08/2023	**44,300**	146,306
3 August 2020	DBP[3]	03/08/2023 – 03/08/2024	**109,929**	109,929
13 August 2020	DBP[2]	13/08/2022 – 13/08/2023	–	8,474
13 August 2020	DBP[3]	13/08/2023 – 13/08/2024	**192,096**	192,096
1 December 2020	PSP[1]	01/12/2025 – 01/12/2026	**1,389,984**	1,389,984
1 December 2020	PSP[1]	01/12/2023 – 01/12/2024	**1,470,518**	1,653,975
24 August 2021	PSP[1]	24/08/2026 – 24/08/2027	**769,165**	769,165
24 September 2021	DBP[3]	24/09/2024 – 24/09/2025	**45,312**	45,312
24 September 2021	PSP[1]	24/09/2024 – 24/09/2025	**1,368,274**	1,606,889
24 September 2021	PSP[1]	24/09/2026 – 24/09/2027	**553,389**	626,704
1 August 2022	DBP[4]	01/08/2022 – 01/08/2023	**551,420**	–
1 August 2022	DBP[3]	01/08/2022 – 01/08/2025	**218,895**	–
1 August 2022	PSP[1]	01/08/2022 – 01/08/2025	**2,191,017**	–
1 August 2022	PSP[1]	01/08/2022 – 01/08/2027	**1,419,589**	–
			10,346,859	9,945,822

Options granted to Directors are summarised in the Remuneration report on pages 131 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.
4. DBP – Award issued without matching shares, has one-year vesting period.

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

	31 March 2023		31 March 2022	
	Shares newly issued by the Company	Shares bought in the market	Shares newly issued by the Company	Shares bought in the market
BEST	–	**69,517**	–	398,036
Total	–	**69,517**	–	398,036

A reconciliation of PSP and DBP movements is shown below:

	31 March 2023 Number '000	31 March 2022 Number '000
Outstanding at 1 April	**9,946**	10,438
Granted	**4,492**	3,222
Exercised	**(350)**	(263)
Forfeited/lapsed	**(3,741)**	(3,451)
Outstanding at 31 March	**10,347**	9,946
Exercisable at 31 March	**67**	38

The weighted average share price for awards exercised during the year was 339.1p per share (2022: 319.3p per share). The weighted average fair value of awards granted in the year was 327.1p per share (2022: 312.3p per share)

During the year 21,362 ordinary shares (2022: nil shares) were acquired or subscribed for through the Babcock Employee Share Trust ('the Trust'). The Trust holds shares to be used towards satisfying awards made under the Company's employee share schemes. During the year ended 31 March 2023, 349,881 shares (2022: 263,427 shares) were disposed of by the Trust resulting from options exercised. At 31 March 2023, the Trust held a total of 69,517 ordinary shares (2022: 398,036 ordinary shares) at a total market value of £207,717 (2022: £1,291,682) representing 0.01% (2022: 0.08%) 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.

24. Share capital (continued)

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.

25. Share-based payments

The charge to the income statement has been based on the assumptions below and is based on the binomial model as adjusted,

allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report.

During the year the total charge relating to employee share-based payment plans was £9.4 million (2022: £5.5 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £7.6 million (2022: £4.5 million).

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

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
2022 PSP	2,302,009	351.4	19.0%	4.0	100.0%	–	351.4	55.0%	01/08/22
2022 PSP	613,078	351.4	19.0%	6.0	100.0%	–	316.3	55.0%	01/08/22
2022 PSP	806,511	351.4	19.0%	6.0	100.0%	168.7	316.3	55.0%	01/08/22
2022 DBP	218,895	351.4	19.0%	4.0	100.0%	–	351.4	55.0%	01/08/22
2022 DBP	551,420	351.4	19.0%	2.0	100.0%	–	351.4	55.0%	01/08/22
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 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

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

The vesting period and the expected life of PSP awards are three years. The vesting period and expected life of DBP awards was one year for awards made in August 2022 and two years for previous, other than for Executives where the vesting period is three years. The holders of all awards receive dividends.

PSP awards for 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.

25. Share-based payments (continued)

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.

For PSP awards made in August 2022, 3,318,343 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 403,255 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

There are no performance conditions attached to the DBP.

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

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 140,340 matching shares (2022: 159,494 matching shares) at a cost of £0.4 million (2022: £0.5 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year no matching shares were purchased on the open market (2022: 4,784 matching shares) and 1,055 matching shares vested (2022: 2,823 matching shares) leaving a balance of 5,918 matching shares (2022: 6,973 matching shares).

26. Retirement benefits and liabilities

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Defined contribution schemes	**94.6**	83.4

Defined benefit schemes

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

	31 March 2023 £m	31 March 2022 £m
Retirement benefits – funds in surplus	**94.8**	300.9
Retirement benefits – funds in deficit	**(156.2)**	(109.3)
	(61.4)	191.6

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). Each of these schemes is predominantly a final salary plan in which future pension levels are defined relative to number of years' service and final salary. Retirement age varies by scheme. The nature of these schemes is that the employees only contribute whilst they active employees of a scheme, with the employer paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the Group with the trustees of each scheme who are advised by independent, qualified actuaries.

The Group 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, and as such, it is assumed that the entire cost of the Railways Scheme is met by 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.

26. Retirement benefits and liabilities (continued)

Defined benefit scheme risks

Through its defined benefit pension schemes, the Group is exposed to a number of risks, the most notable of which are as follows:

Risk	Mitigation
Asset volatility – discount rates (determined with reference to AA corporate bond yields) are used to determine expected returns on plan assets. Asset yields which vary from this expected return will result in an increase or decrease in the overall surplus/deficit. Following the 23 September 2022 UK 'mini budget', gilt yields increased at an unprecedented rate causing significant market turmoil – increasing the asset volatility risk during the year.	Pension scheme assets are held in a diversified portfolio of assets in order to minimize risk arising from asset return volatility. Investments are well diversified, such that failure of any singular investment would not have a material impact on the overall level of assets. The asset investment strategy is agreed following consultation between the Group and the plan Trustees. The Group and the plan Trustees monitor the schemes closely – especially during periods of significant turmoil and will maintain a diversified investment strategy intended to minimize asset volatility.
Inflation – the majority of pension scheme obligations are index-linked and therefore exposed to inflation risk. Increasing inflation will lead to higher liabilities. Inflation assumptions as applied to pension obligations are a long-term assessment of inflation over the life of the scheme.	The plan Trustees asset management policy includes investing in inflation hedging assets such as inflation linked bonds to mitigate this risk .
Life expectancy – the majority of obligations are to provide benefits for the life of the member and therefore changes in life expectancy of the scheme participants will impact the liability position.	The Group monitors the risk of increasing life expectancy and will, from time to time, take out longevity swaps to mitigate this risk – the most recent of which was in 2009.
Interest rate – movements in corporate bond yields will result in a change to the plan liabilities. Similarly, movements in gilt yields in isolation will have an impact on the schemes funding positions.	The trustee's asset management policy includes investing in bonds and therefore any impact on change in bond yields on the plan liabilities is partially offset by returns on assets. The asset portfolio invests in assets which increase in value as interest rates decrease and thus the schemes holdings are designed to hedge against interest rate risk for most of the funded liabilities.
Salary increases – changes in long-term salary increases will impact the final salary position on which pension benefits are determined.	In 2019, the Group closed the Babcock International Group Pension Scheme to future accrual for some employees; and, in 2020, closed the Rosyth Royal Dockyard Pension Scheme to future accrual for all employees.

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 Devonport Royal Dockyard Scheme as at 31 March 2023 and the actuarial valuation of the Babcock Rail Ltd section of the Railways Pension Scheme as at 31 December 2022 have 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	31/03/2022	31/03/2021	31/12/2019
Number of active members at above date	1,607	308	–	180
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Attained age
Results of formal actuarial valuation:				
Value of assets	£1,894m	£1,529m	£946m	£271m
Level of funding	90%	105%	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.

26. Retirement benefits and liabilities (continued)

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

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme	Other	Total
Future service contribution rate	21.6%	30.3%	N/A	12.48%	14.0% - 48.0%	–
Future service cash contributions	£12.1m	£3.2m	–	£0.5m	£2.3m	£18.1m
Deficit contributions	£18.6m	£13.7m	£12.4m	£1.5m	£1.6m	£47.8m
Additional longevity swap payments	£7.3m	£3.6m	£4.3m	–	–	£15.2m
Expected employer cash costs for 2023/24	£38.0m	£20.5m	£16.7m	£2.0m	£3.9m	£81.1m
Expected salary sacrifice contributions	£5.8m	£0.4m	–	£0.5m	£0.8m	£7.5m
Expected total employer contributions	£43.8m	£20.9m	£16.7m	£2.5m	£4.7m	£88.6m

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 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 2023 by independent qualified actuaries for IAS 19 purposes, on a best estimate basis, using the following assumptions:

March 2023	**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	**3.0%**	**3.0%**	**–**	**0.5%**
Rate of increase in pensions (past service)	**2.8%**	**3.2%**	**3.3%**	**2.9%**
Discount rate	**4.8%**	**4.8%**	**4.8%**	**4.8%**
Inflation rate (RPI) – year 1	**6.9%**	**6.9%**	**6.9%**	**6.9%**
Inflation rate (RPI) – thereafter	**3.3%**	**3.3%**	**3.3%**	**3.3%**
Inflation rate (CPI) – year 1	**4.7%**	**4.7%**	**4.7%**	**4.7%**
Inflation rate (CPI) – thereafter	**2.8%**	**2.8%**	**2.8%**	**2.8%**
Weighted average duration of cash flows (years)	**13**	**12**	**13**	**13**
Total life expectancy for current pensioners aged 65 (years) – male	**85.5**	**86.3**	**84.4**	**85.0**
Total life expectancy for current pensioners aged 65 (years) – female	**87.5**	**88.9**	**86.8**	**87.3**
Total life expectancy for future pensioners currently aged 45 (years) – male	**86.2**	**86.8**	**85.6**	**86.0**
Total life expectancy for future pensioners currently aged 45 (years) – female	**88.5**	**89.4**	**88.1**	**88.5**

March 2022				
Rate of increase in pensionable salaries	3.4%	3.4%	–	0.5%
Rate of increase in pensions (past service)	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

26. Retirement benefits and liabilities (continued)

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

	2023				2022			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets								
Growth assets								
Equities	**(3.1)**	**10.6**	**26.6**	**34.1**	31.6	14.3	30.6	76.5
Property funds	**301.7**	**0.2**	**5.9**	**307.8**	364.0	0.1	5.1	369.2
High yield bonds/emerging market debt	**–**	**–**	**0.4**	**0.4**	44.1	–	0.4	44.5
Absolute return and multi-strategy funds	**6.0**	**148.0**	**17.5**	**171.5**	46.0	182.9	31.8	260.7
Low-risk assets								
Bonds	**1,227.7**	**95.5**	**45.1**	**1,368.3**	1,924.1	77.2	77.5	2,078.8
Matching assets*	**1,524.7**	**1.4**	**21.7**	**1,547.8**	2,094.0	1.3	101.8	2,197.1
Longevity swaps and annuities	**(231.8)**	**–**	**(10.1)**	**(241.9)**	(283.5)	–	(10.2)	(293.7)
Fair value of assets	**2,825.2**	**255.7**	**107.1**	**3,188.0**	4,220.3	275.8	237.0	4,733.1
Percentage of assets quoted	**79%**	**100%**	**70%**	**80%**	84%	100%	46%	82%
Percentage of assets unquoted	**21%**	**–**	**30%**	**20%**	16%	–	54%	18%
Present value of defined benefit obligations								
Active members	**450.7**	**45.7**	**21.7**	**518.1**	756.0	65.7	35.8	857.5
Deferred pensioners	**686.6**	**65.3**	**34.7**	**786.6**	1,066.2	93.5	132.7	1,292.4
Pensioners	**1,773.6**	**130.5**	**40.6**	**1,944.7**	2,170.4	167.9	53.3	2,391.6
Total defined benefit obligations	**2,910.9**	**241.5**	**97.0**	**3,249.4**	3,992.6	327.1	221.8	4,541.5
Net (liabilities)/assets recognised in the statement of financial position	**(85.7)**	**14.2**	**10.1**	**(61.4)**	227.7	(51.3)	15.2	191.6

* The matching assets for the Babcock International Group Pension Scheme, Devonport Royal Dockyard Pension Scheme and Rosyth Royal Dockyard Pension Scheme primarily comprise a "Liability Driven Investment" portfolio for each scheme, which invest in gilts, Network Rail bonds, gilt repurchase agreements, interest rate and inflation swaps, asset swaps and cash, on a segregated basis. For the Babcock International Group Pension Scheme and the Devonport Royal Dockyard Pension Scheme, there are also investments in investment grade credit, via both segregated portfolios and pooled investment vehicles. The various segregated portfolios and pooled investment vehicle each utilise 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 matching portfolios; 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 £2,580 million (2022: £3,966 million) and associated repurchase agreement liabilities of £1,055 million (2022: £1,872 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:

	2023				2022			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Current service cost	**21.7**	**1.3**	**2.8**	**25.8**	25.7	2.0	3.4	31.1
Incurred expenses	**6.2**	**0.5**	**0.1**	**6.8**	6.6	0.5	0.3	7.4
Total included within operating profit	**27.9**	**1.8**	**2.9**	**32.6**	32.3	2.5	3.7	38.5
Net interest (credit)/cost	**(8.5)**	**1.4**	**(0.4)**	**(7.5)**	1.5	2.1	0.1	3.7
Total included within income statement	**19.4**	**3.2**	**2.5**	**25.1**	33.8	4.6	3.8	42.2

26. Retirement benefits and liabilities (continued)

Amounts recorded in the Group statement of comprehensive income

	Year ended 31 March 2023				Year ended 31 March 2022			
	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	**(1,437.0)**	**(17.1)**	**(79.0)**	**(1,533.1)**	77.0	13.1	(1.7)	88.4
Experience (losses)/gains arising on scheme liabilities	**(135.6)**	**(18.0)**	**(9.3)**	**(162.9)**	(70.6)	14.2	2.4	(54.0)
Changes in assumptions on scheme liabilities	**1,111.2**	**101.2**	**81.2**	**1,293.6**	238.8	27.4	21.9	288.1
At 31 March	**(461.4)**	**66.1**	**(7.1)**	**(402.4)**	245.2	54.7	22.6	322.5

Analysis of movement in the Group statement of financial position

	Year ended 31 March 2023				Year ended 31 March 2022			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets (including reimbursement rights)								
At 1 April	**4,220.3**	**275.8**	**237.0**	**4,733.1**	4,123.7	265.6	234.3	4,623.6
Interest on assets	**113.4**	**7.3**	**5.4**	**126.1**	82.3	5.2	4.7	92.2
Actuarial (loss)/gain on assets	**(1,437.0)**	**(17.1)**	**(79.0)**	**(1,533.1)**	77.0	13.1	(1.7)	88.4
Employer contributions	**167.4**	**2.5**	**4.6**	**174.5**	182.5	2.6	5.1	190.2
Employee contributions	**0.1**	**–**	**–**	**0.1**	0.2	–	–	0.2
Benefits paid	**(239.0)**	**(12.8)**	**(4.8)**	**(256.6)**	(245.4)	(10.7)	(5.4)	(261.5)
Settlements	**–**	**–**	**(56.1)**	**(56.1)**	–	–	–	–
At 31 March	**2,825.2**	**255.7**	**107.1**	**3,188.0**	4,220.3	275.8	237.0	4,733.1
Present value of benefit obligations								
At 1 April	**3,992.6**	**327.1**	**221.8**	**4,541.5**	4,290.0	369.6	242.9	4,902.5
Service cost	**21.7**	**1.3**	**2.8**	**25.8**	25.6	2.0	3.5	31.1
Incurred expenses	**6.2**	**0.5**	**0.1**	**6.8**	6.6	0.5	0.3	7.4
Interest cost	**105.0**	**8.7**	**4.9**	**118.6**	83.8	7.3	4.8	95.9
Employee contributions	**0.1**	**–**	**–**	**0.1**	0.2	–	–	0.2
Experience loss/(gain)	**135.6**	**18.0**	**9.3**	**162.9**	70.6	(14.2)	(2.4)	54.0
Actuarial (gain)/loss – demographics	**(38.2)**	**(3.6)**	**(1.7)**	**(43.5)**	(11.5)	(3.5)	–	(15.0)
Actuarial (gain)/loss – financial	**(1,073.1)**	**(97.7)**	**(79.3)**	**(1,250.1)**	(227.3)	(23.9)	(21.9)	(273.1)
Benefits paid	**(239.0)**	**(12.8)**	**(4.8)**	**(256.6)**	(245.4)	(10.7)	(5.4)	(261.5)
Settlements	**–**	**–**	**(56.1)**	**(56.1)**	–	–	–	–
At 31 March	**2,910.9**	**241.5**	**97.0**	**3,249.4**	3,992.6	327.1	221.8	4,541.5
Net (deficit)/surplus at 31 March	**(85.7)**	**14.2**	**10.1**	**(61.4)**	227.7	(51.3)	15.2	191.6

The movement in net deficits for the year ended 31 March 2023 is as a result of the movement in assets and liabilities shown above.

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 2023 and the changes to the Group income statement for the year to March 2024, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2023 £m	Income statement 2024 £m
Initial assumptions	**3,249.4**	**25.0**
Discount rate assumptions increased by 0.5%	**(192.1)**	**(11.5)**
Discount rate assumptions decreased by 0.5%	**211.1**	**10.5**
Inflation rate assumptions increased by 0.5%	**145.7**	**7.8**
Inflation rate assumptions decreased by 0.5%	**(137.2)**	**(7.4)**
Total life expectancy increased by half a year	**60.2**	**3.0**
Total life expectancy decreased by half a year	**(60.2)**	**(3.0)**
Salary increase assumptions increased by 0.5%	**13.3**	**0.9**
Salary increase assumptions decreased by 0.5%	**(12.8)**	**(0.9)**

26. Retirement benefits and liabilities (continued)

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. There have been no changes in the methodology for the calculation of the sensitivities since the prior year.

27. Changes in net debt including loans to joint ventures and associates and lease receivables

	31 March 2022 £m	Cash flow £m	Additional leases £m	Other non-cash movement[1] £m	Clarification of net debt definition[2] £m	Changes in fair value £m	Exchange movement £m	31 March 2023 £m
Cash and bank balances	**1,146.3**	**(687.9)**	**–**	**–**	**–**	**–**	**(6.7)**	**451.7**
Bank overdrafts	**(389.8)**	**366.6**	**–**	**–**	**–**	**–**	**1.0**	**(22.2)**
Cash, cash equivalents and bank overdrafts	**756.5**	**(321.3)**	**–**	**–**	**–**	**–**	**(5.7)**	**429.5**
Debt	**(1,321.3)**	**556.2**	**–**	**(1.6)**	**–**	**37.2**	**(36.3)**	**(765.8)**
Derivatives hedging Group debt	**(29.3)**	**(0.8)**	**–**	**–**	**–**	**21.8**	**–**	**(8.3)**
Lease liabilities	**(434.1)**	**108.5**	**(117.0)**	**223.4**	**–**	**–**	**(9.6)**	**(228.8)**
Changes in liabilities from financing arrangements	**(1,784.7)**	**663.9**	**(117.0)**	**221.8**	**–**	**59.0**	**(45.9)**	**(1,002.9)**
Lease receivables	**47.4**	**(31.9)**	**28.5**	**–**	**–**	**–**	**(5.4)**	**38.6**
Loans to joint ventures and associates	**12.1**	**(2.4)**	**–**	**(0.2)**	**–**	**–**	**–**	**9.5**
Derivatives hedging interest on Group debt	**–**	**–**	**–**	**–**	**(36.1)**	**(3.0)**	**–**	**(39.1)**
Net debt	**(968.7)**	**308.3**	**(88.5)**	**221.6**	**(36.1)**	**56.0**	**(57.0)**	**(564.4)**

1. Other non-cash movements predominantly relate to the disposal of lease liabilities and associated lease receivables as part of the disposal transactions described in note 28.
2. During the year the definition of net debt has been clarified, resulting in the inclusion of the interest rate swap hedging Group debt, which was excluded in the prior year.

	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)
Derivatives hedging Group debt	(19.1)	–	–	–	(10.2)	–	(29.3)
Lease liabilities	(612.3)	113.0	(93.8)	159.2	–	(0.2)	(434.1)
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
Loans to joint ventures and associates	42.1	(29.6)	–	(0.4)	–	–	12.1
Net debt	(1,352.4)	277.8	(51.9)	156.8	(11.8)	12.8	(968.7)

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

Acquisitions

There have been no acquisitions in the year ended 31 March 2023.

In the prior year, the Group acquired the remaining 50% of Naval Ship Management (Australia) Pty Limited on 15 March 2022. 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 were as follows:

	Year ended 31 March 2022 (restated) 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	0.7
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	(3.7)
Net identifiable assets acquired	(19.1)
Goodwill	22.3
Intangible assets	63.0
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 for the year ended 31 March 2022. 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 £63.0 million, relating to customer relationships, and goodwill of £22.3 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. Post-acquisition, we determined that assumptions used to calculate a pain/gain share provision did not reflect the facts and circumstances at the acquisition date. This resulted in an increase to provisions of £2.4 million at 31 March 2022. The reduction in net assets acquired has increased the goodwill by £1.0 million, increased acquired intangibles by £1.0 million, increased deferred tax assets by £0.4 million at 31 March 2022. Further detail is included in note 23.

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

Disposals

Year ended 31 March 2023

On 19 July 2022, the Group announced it had entered into a sale and purchase agreement to dispose of part of its aerial emergency services business in Europe. The disposal group was part of the Aviation sector and provided Aerial Emergency Services, including medical, firefighting and search & rescue to customers and communities, in Italy, Spain, Portugal, Norway, Sweden and Finland. The disposal completed on 28 February 2023. The Group received consideration of £187.1 million.

On 1 September 2022, the Group entered into a sale and purchase agreement to dispose of its Civil Training business. The disposal group was part of the Land sector and the disposal completed on 1 February 2023. The Group received consideration of £5.5 million.

	Year ended 31 March 2023			
	Aerial Emergency Services £m	Civil Training £m	Other £m	Total £m
Goodwill	–	0.6	–	0.6
Investment in joint ventures and associates	1.0	–	–	1.0
Other intangible assets	18.9	–	–	18.9
Property, plant and equipment	236.8	0.1	–	236.9
Right of use assets	182.0	–	–	182.0
Deferred tax assets	20.6	–	–	20.6
Other non-current assets	4.4	–	–	4.4
Inventory	35.4	–	–	35.4
Trade and other receivables	99.5	9.4	–	108.9
Derivatives	4.2	–	–	4.2
Income tax receivable	1.5	–	–	1.5
Cash, cash equivalents and bank overdrafts	10.5	2.6	–	13.1
Other non-current liabilities	(0.2)	–	–	(0.2)
Bank and other borrowings	(1.6)	–	–	(1.6)
Lease liabilities	(218.1)	–	–	(218.1)
Deferred tax liability	(6.3)	–	–	(6.3)
Income tax payable	(0.6)	–	–	(0.6)
Trade and other payables	(128.7)	(4.6)	–	(133.3)
Other current liabilities	–	–	–	–
Provisions	(15.6)	–	–	(15.6)
Net assets disposed	243.7	8.1	–	251.8
Cumulative currency translation loss	(1.2)	–	–	(1.2)
Total	242.5	8.1	–	250.6
Consideration	187.1	5.5	–	192.6
Disposal costs	(18.1)	(1.3)	–	(19.4)
Net consideration after disposal costs	169.0	4.2	–	173.2
Loss on disposal	(73.5)	(3.9)	–	(77.4)
Disposal related items	(43.4)	–	3.1	(40.3)
Business acquisition, merger and divestment related items	(116.9)	(3.9)	3.1	(117.7)
Sale proceeds	187.1	5.5	–	192.6
Sale proceeds less cash disposed of	176.6	2.9	–	179.5
Less non-cash proceeds	–	(1.5)	–	(1.5)
Less transaction costs	(18.1)	(1.3)	–	(19.4)
Net cash inflow	158.5	0.1	–	158.6

Disposal related items in relation to the Aerial Emergency Services disposal include asset impairments for assets not disposed but relating to the Aerial Emergency Services businesses whose carrying value exceeded recoverable amount following the disposal transaction along with provisions for certain warranty related items.

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

Disposals

Year ended 31 March 2022

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 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 million.

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 March 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.

	Year ended 31 March 2022				
	Oil and Gas business £m	Frazer-Nash Consultancy £m	Power £m	AirTanker £m	Total £m
Goodwill	0.4	64.5	44.1	80.0	189.0
Investment in joint ventures and associates		–	–	23.8	23.8
Other intangible assets	–	2.1	–	–	2.1
Property, plant and equipment	15.1	2.2	4.5	–	21.8
Right of use assets	125.8	3.9	1.9	–	131.6
Deferred tax assets	18.8	0.5	0.3	–	19.6
Other non-current assets	–	–	–	–	–
Inventory	3.6	–	0.1	–	3.7
Trade and other receivables	46.5	31.0	9.3	–	86.8
Derivatives	–	–	–	–	–
Income tax receivable	1.5	2.9	–	–	4.4
Cash, cash equivalents and bank overdrafts	–	4.9	4.2	–	9.1
Other non-current liabilities	–	–	–	–	–
Bank and other borrowings	–	–	–	–	–
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	–	–	–	–	–
Provisions	(1.3)	–	(1.2)	–	(2.5)
Net assets disposed	28.1	92.7	51.3	103.8	275.9
Disposal costs	2.0	10.1	2.7	2.7	17.5
Cumulative currency translation loss	(7.3)	–	–	–	(7.3)
Recycle of hedge reserve	–	–	–	20.8	20.8
(Loss)/profit on disposal	(12.8)	188.9	(4.0)	(31.7)	140.4
Sale proceeds	10.0	291.7	50.0	95.6	447.3
Sale proceeds less cash disposed of	10.0	286.8	45.8	95.6	438.2
Less non-cash proceeds					
Less transaction costs	(2.0)	(10.1)	(2.7)	(2.7)	(17.5)
Net cash inflow	8.0	276.7	43.1	92.9	420.7

29. Transactions with non-controlling interests

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

30. 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:

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.

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.

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.

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.

Corporate rules in those jurisdictions may also extend to compensatory trade agreements, or economic offset rules, where we may have to commit to use local content in delivering programmes of work. Delivery of offset is also subject to interpretations of law and agreement with local authorities, which we monitor closely but may give rise to financial and reputational damage to the Group if not undertaken appropriately.

31. Capital and other financial commitments

Capital commitments

	31 March 2023 £m	31 March 2022 £m
Contracts placed for future capital expenditure not provided for in the financial statements	**7.8**	21.3

31. Capital and other financial commitments (continued)

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
Appledore Shipbuilders (2004) Ltd	02052982	Babcock Management Ltd	00107414
Babcock Airports Ltd	03954520	Babcock Marine (Devonport) Limited	02959785
Babcock Assessments Limited	02881056	Babcock Marine Limited	02530351
Babcock Contractors Limited	01398475	Babcock Marine Shipbuilding Limited	14302509
Babcock Critical Assets Holdings LLP	OC376675	Babcock Mission Critical Services Leasing Ltd	04635275
Babcock Defence & Security Holdings LLP	OC376674	Babcock Mission Critical Services Ltd	08010453
Babcock Defence and Security Investments Ltd	08132272	Babcock Mission Critical Services Topco Ltd	08338012
Babcock Defence Systems Limited	01199791	Babcock Mission Critical Services UK Ltd	07527245
Babcock Education & Training Holdings LLP	OC376676	Babcock MSS Limited	01996548
Babcock Education and Skills Limited	03494815	Babcock Nuclear Limited	01603273
Babcock Education Holdings Ltd	08132276	Babcock Project Investments Ltd	03463927
Babcock Fire Services Limited	03707192	Babcock Project Services Limited	02888133
Babcock Fire Training (Avonmouth) Ltd	04168329	Babcock Services Group Ltd	03939840
Babcock Group (US Investments) Ltd	07445425	Babcock Southern Holdings Ltd	01915771
Babcock Information Analytics and Security Limited	02275471	Babcock US Investments Ltd	07422616
Babcock Integrated Technology (Korea) Ltd	09566389	Bond Aviation Topco Limited	08493398
Babcock Integration LLP	OC356460	Flagship Fire Fighting Training Ltd	03700728
Babcock International Support Services Limited	03335786	LGE IP Management Company Ltd	SC695940
Babcock Investments (Fire Services) Limited	04380306	Peterhouse Group Ltd	01517100
Babcock Investments (Number Four) Ltd	05269128	Vosper Thornycroft (UK) Ltd	00070274
Babcock Investments Ltd	00165086		

Babcock International Group PLC will guarantee all outstanding liabilities that these subsidiaries are subject to as at the financial year ended 31 March 2023 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.

32. Related party transactions

Related party transactions for the year ended 31 March 2023 are:

2023	2023 Revenue to £m	2023 Purchases from £m	2023 Year-end debtor balance £m	2023 Year-end creditor balance £m
Joint ventures and associates				
First Swietelsky Operation and Maintenance	**9.0**	**–**	**0.4**	**(0.4)**
Ascent Flight Training (Management) Limited	**0.9**	**–**	**0.3**	**–**
Ascent Flight Training (Holdings) Limited	**–**	**–**	**0.2**	**–**
Rotary Wing Training Limited	**4.1**	**–**	**–**	**–**
Fixed Wing Training Limited	**3.1**	**(0.2)**	**–**	**(0.4)**
Advanced Jet Training Limited	**1.3**	**–**	**0.3**	**–**
Rear Crew Training Limited	**0.8**	**–**	**–**	**–**
AirTanker Services Limited	**13.7**	**–**	**0.1**	**–**
Alert Communications Limited	**7.4**	**–**	**0.5**	**–**
Duqm Naval Dockyard SAOC	**–**	**–**	**0.3**	**–**
	40.3	**(0.2)**	**2.1**	**(0.8)**

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	–	0.6	–
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	–	–	–
	39.6	–	2.0	(1.5)

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 26 for transactions with the Group defined benefit pension schemes.

c) Key management compensation is shown in note 6.

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

33. Events after the reporting period

There were no events after the reporting period which would materially impact the balances reported in this Annual Report.

34. 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 2023 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[1,4]
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, 9]
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 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[8]
251 Little Falls Drive, Wilmington, Delaware 19808, United States
Babcock Holdings Limited[4]
Babcock Information Analytics and Security Holdings Limited*
Babcock Information Analytics and Security Limited[6]
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 Limited[6]
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[2]
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[6]
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

34. Group entities (continued)

Subsidiaries, wholly owned (continued)

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

Babcock Mission Critical Services Design and Completions Limited

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

Babcock Mission Critical Services Leasing Limited

Babcock Mission Critical Services Ltd

Babcock Mission Critical Services Onshore Limited

Babcock Mission Critical Services Topco Ltd[2]

Babcock Mission Critical Services UK Limited

Babcock MSS Limited

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 Services Group Limited

Babcock Services Limited

Babcock Southern Careers Limited*[3]

Babcock Southern Holdings Limited[7]

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 Training Limited

Babcock UK Finance

Babcock USA LLC[2]
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[6]

Babcock Vehicle Engineering Limited[5]

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[6]

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[6]

Chepstow Insurance Limited
PO Box 155, Mill Court, La Charroterie, St Peter Port, GY1 4ET, Guernsey

Devonport Royal Dockyard Limited[11]
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

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

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

34. 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%)[8]
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 (90.0%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Financial Services (Pty) Ltd (90.0%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Learning and Development Partnership LLP (80.1%)

Babcock MCS Ghana Limited (90.0%)
No. 9, Carrot Avenue, Adjacent Lizzy Sport Complex, East Legon, Accra, Ghana

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

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

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) Limited (46.81%)*
Unit G3 Victoria House, Plot 132 Independence Avenue, Gaborone, Botswana

Babcock Plant Services (Pty) Ltd (64.82%)[6]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock TCM Plant (Proprietary) Limited (90.0%)[8]
Unit G3 Victoria House, Plot 132 Independence Avenue, Gaborone, Botswana

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

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

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

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%)[14]
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

FSP (2004) Limited (50.0%)[2]
8 Stephenson Place, Hamilton International Technology Park, Blantyre, G72 0LH, 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:

Babcock Civil Infrastructure Limited; Babcock Infrastructure Holdings LLP; 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[2]; Babcock Leaseco Limited; Babcock Technical Services Limited; HCTC Limited; KML (UK) 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 four types of ordinary shares.
5. Holding of six types of ordinary shares.
6. Holding of ordinary and preference shares.
7. Holding of ordinary and deferred shares.
8. Holding of ordinary and redeemable preference shares.
9. Holding of ordinary and three types of preference shares.
10. Holding of ordinary and five types of preference shares.
11. Holding of 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. Statutory year end 31 December, however consolidated based on the financial performance for the period from 1 April 2022 to 31 March 2023.
15. Statutory year end 30 June however, consolidated based on the financial performance for the period from 1 April 2022 to 31 March 2023.

Company statement of financial position

As at 31 March	Note	2023 £m	2022 £m
Non-current assets			
Investment in subsidiaries	5	**3,449.5**	2,466.5
Trade and other receivables	6	**2,585.5**	2,633.5
		6,035.0	5,100.0
Current assets			
Trade and other receivables	6	**236.7**	1,175.7
Cash and cash equivalents		**150.4**	337.1
		387.1	1,512.8
Total assets		**6,422.1**	6,612.8
Non-current liabilities			
Bank and other borrowings	7	**744.4**	819.4
Other financial liabilities	8	**47.4**	51.4
		791.8	870.8
Current liabilities			
Bank and other borrowings	7	**–**	502.5
Other financial liabilities	8	**–**	41.5
Trade and other payables	9	**2,893.5**	2,465.2
		2,893.5	3,009.2
Total liabilities		**3,685.3**	3,880.0
Net assets		**2,736.8**	2,732.8
Equity			
Called up share capital	10	**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		**761.0**	757.0
Total equity		**2,736.8**	2,732.8

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 loss (2022: profit) for the financial year was £4.3 million (2022: £169.4 million).

The financial statements on pages 243 to 251 were approved by the Board of Directors on 20 July 2023 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 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
Loss for the year	**–**	**–**	**–**	**–**	**(4.3)**	**(4.3)**
Other comprehensive income[1]	**–**	**–**	**–**	**–**	**(1.5)**	**(1.5)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(5.8)**	**(5.8)**
Share-based payments	**–**	**–**	**–**	**–**	**9.4**	**9.4**
Tax on share-based payments	**–**	**–**	**–**	**–**	**0.4**	**0.4**
Net movement in equity	**–**	**–**	**–**	**–**	**4.0**	**4.0**
At 31 March 2023	**303.4**	**873.0**	**768.8**	**30.6**	**761.0**	**2,736.8**

1. Other comprehensive income comprises fair value adjustment on debt related derivatives of £9.5 million and hedging gains/(losses) reclassified to profit or loss of £10.0 million.

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

Notes to the Company financial statements

1. General information

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

2. Significant accounting policies

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

Basis of accounting

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken:

- 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.

The financial statements have been prepared on a going concern basis using the historical cost convention, as modified by the revaluation of certain financial instruments. 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.

After making enquiries, the Directors, at the time of approving the financial statements, 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.

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 25 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 26 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 2023 (2022: £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.

Critical accounting judgements

There are not considered to be any critical accounting judgements in respect of the Company for the current period.

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 loss (2022: profit) for the financial year was £4.3 million (2022: £169.4 million).

Fees payable to the parent auditor and its associates in respect of the audit of the Company's financial statements were £1.9 million (2022: £1.8 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 £3.1 million (2022: £3.9 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 2023 as at the date of exercise was £nil (2022: £nil) and the net aggregate value of assets received by Directors in the year ended 31 March 2023 from Long Term Incentive Plans as calculated at the date of vesting was £nil (2022: £nil million); these amounts are calculated on a different basis from the valuation of share plan benefits under Schedule 8 (2013) in the Remuneration report.

5. Investment in subsidiary undertakings

	31 March 2023 £m	31 March 2022 £m
Cost at 1 April	**2,466.5**	2,466.5
Additions – preference shares converted into investments	**983.0**	–
Cost at 31 March	**3,449.5**	2,466.5

Investment additions relate wholly to the conversion of preference shares in subsidiary undertakings, which matured by mutual agreement of both parties on 31 March 2023.

At 31 March 2023, the carrying amount of the Company's net assets of £2,747.3 million exceeded the Group's market capitalisation of £1.5 billion (2022: £1.6 billion). As a result, management performed an impairment test of the Company's major investments in line with the requirements of IAS 36 *'Impairment of assets'*.

Results of the impairment test for the year ended 31 March 2023

This impairment test for the year ended 31 March 2023 did not result in an impairment.

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

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 10 of the Group financial statements.

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 2023				31 March 2022			
	Aviation	Land	Marine	Nuclear	Aviation	Land	Marine	Nuclear
Pre-tax discount rate	**13.1**	**13.1**	**13.1**	**12.4**	11.3	11.8	11.3	11.3
Post-tax discount rate	**9.8**	**9.8**	**9.8**	**9.3**	8.5	8.8	8.5	8.5
Long-term growth rate	**2.1**	**2.1**	**2.0**	**1.9**	2.2	2.2	2.4	2.0

Sensitivity

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. Reasonably possible changes in estimates are those that 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.

Reasonably possible assumptions for the pre-tax discount rate and long-term growth rate for 2023 were considered to be 200 basis points (2022: 100 bps) and 50 bps (2022: 50 bps) respectively. Significant headroom exists under these reasonably possible sensitivities.

In the prior year it was noted that an increase to the pre-tax discount rate of 100 basis points would have caused an impairment of £115.1 million and a decrease to the long-term growth rate of 50 basis points would have reduced headroom by £199.5 million.

6. Trade and other receivables

	31 March 2023 £m	31 March 2022 £m
Non-current		
Amounts due from subsidiary undertakings	**2,581.7**	2,628.4
Deferred tax	**3.8**	5.1
Total non-current trade and other receivables	**2,585.5**	2,633.5
Current		
Amounts due from subsidiary undertakings	**236.6**	241.9
Preference shares in a subsidiary undertaking	**–**	930.4
Prepayments	**0.1**	3.4
Total current trade and other receivables	**236.7**	1,175.7

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.

The Group has performed an assessment of expected credit loss for intercompany balances at 31 March 2023 and as a result of this exercise the Company has recorded a lifetime expected credit loss provision under IFRS 9 in relation to certain amounts due from subsidiary undertakings. This provision has been recorded due to a significant increase in assessed credit risk, as indicated by a change in liquid assets as a result of the disposal of the Aerial Emergency Services business. This is based on the value-in-use of the counterparty and its subsidiaries, as well as the availability of liquid assets that could be used to repay the intercompany balance at the reporting date. In assessing whether an expected credit loss is required, historical default rates are reviewed and adjusted for forecast future economic conditions. This assessment has been prepared for the purpose of IFRS 9 and does not reflect the Group's commercial assessment of recoverability of intercompany balances.

Of the preference shares in a subsidiary undertaking, the B preference shares of USD500 million matured during the year by mutual agreement of both parties and carried interest at 5.64%. The remaining preference shares in subsidiary undertakings were Euro-denominated preference shares, totalling €652 million, carrying a coupon rate of EURIBOR + 4.0%. All preference shares were converted into investments on 31 March 2023 (see note 6).

Interest rates on amounts owed by subsidiary operations:

	Non-current		Current	
	31 March 2023 £m	31 March 2022 £m	31 March 2023 £m	31 March 2022 £m
EURIBOR + 4.0%	**24.4**	62.4	**152.7**	160.4
EURIBOR + 2.0%	**13.1**	–	**–**	–
EURIBOR + 1.5%	**–**	–	**5.4**	–
EURIBOR + 0.0%	**–**	–	**0.8**	–
SONIA + 4.0%	**89.7**	115.1	**29.2**	41.3
USD LIBOR + 4.0%	**5.8**	5.7	**–**	–
STIBOR + 4%	**–**	19.4	**6.8**	3.3
BBSW + 1.5%	**23.9**	–	**–**	
BBSW + 4.0%	**–**	25.1	**–**	–
NIBOR + 4.0%	**–**	–	**6.7**	5.3
1.5%	**–**	0.7	**–**	8.5
4.5%	**–**	100.8	**–**	–
5.4%	**–**	–	**–**	1.9
Interest-free	**2,424.7**	2,299.2	**64.2**	21.2
	2,581.6	2,628.4	**2,139.7**	241.9

7. Bank and other borrowings

	31 March 2023 £m	31 March 2022 £m
Non-current		
Bank loans and other borrowings	**744.4**	819.4
Current		
Bank loans and other borrowings	**–**	502.5

The reduction in current bank and other borrowings is a result of the repayment of the €550 million Eurobond in October 2022.

The Company has £1,968.0 million (2022: £2,301.8 million) of committed borrowing facilities, of which £768.4 million (2022: £1,289.6 million) was drawn at the year end. The effective interest rates applying to bank loans and other borrowings were as follows:

	31 March 2023 %	31 March 2022 %
UK bank overdraft	**5.4**	1.1
UK bank borrowings	**–**	0.6
8-year Eurobond October 2022	**–**	1.8
8-year Eurobond September 2027 – fixed	**2.9**	2.9
8-year Eurobond September 2027 – floating	**6.3**	3.3
£300 million bond 2026	**1.9**	1.9

8. Other financial liabilities

	31 March 2023 £m	31 March 2022 £m
Non-current		
Other financial liabilities – currency and interest rate swaps	**47.4**	51.4
Current		
Other financial liabilities – currency and interest rate swaps	**–**	41.5

Disclosures in respect of the fair value of other financial assets and liabilities are provided in note 21 to the Group accounts.

9. Trade and other payables

	31 March 2023 £m	31 March 2022 £m
Current		
Amounts due to subsidiary undertakings	**2,887.6**	2,455.6
Accruals and deferred income	**5.9**	9.6
	2,893.5	2,465.2

The amounts due to subsidiary undertakings are repayable on demand and £2,887.6 million (2022: £2,455.6 million) is interest-free.

10. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2022 and 31 March 2023	**505,596,597**	**303.4**
Allotted, issued and fully paid		
At 1 April 2021 and 31 March 2022	505,596,597	303.4

11. Contingent liabilities

(a) The Company has guaranteed or has joint and several liability for bank overdraft facilities that are shared across multiple Group companies with utilisation of £18.9 million at 31 March 2023 (2022: £383.6 million).

(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 2023 these amounted to £257.8 million (2022: £396.5 million), of which the Company had counter-indemnified £249.2 million (2022: £378.9 million).

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

12. Group entities

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

13. Events after the reporting period

See note 33 of the Group financial statements for further details.

Shareholder information

Financial calendar

Financial year end	31 March 2023
2022/23 full-year results announced	20 July 2023
Annual General Meeting	28 September 2023

Registered office and Company number

33 Wigmore Street
London, W1U 1QX

Registered in England
Company number 02342138

Registrars

Link Group
Central Square
29 Wellington Street
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www.babcock-shares.com

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

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

www.babcock-shares.com

ShareGift

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

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