



## ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2019 - GENERELL INFORMASJON

### Enheten

Organisasjonsnummer: 921 975 848  
Organisasjonsform: Aksjeselskap  
Foretaksnavn: BABCOCK SCANDINAVIAN ENGINEERING AS  
Forretningsadresse: Rådhusgata 3  
9008 TROMSØ

### Regnskapsår

Årsregnskapets periode: 21.11.2018 - 31.03.2019

### Konsern

Morselskap i konsern: Nei

### Regnskapsregler

Regler for små foretak benyttet: Ja  
Benyttet ved utarbeidelsen av årsregnskapet til selskapet: IFRS

### Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Marius Martin Hansen  
Dato for fastsettelse av årsregnskapet: 30.09.2019

### Grunnlag for avgivelse

År 2019: Årsregnskapet er elektronisk innlevert  
År 2018: Tall er hentet fra elektronisk innlevert årsregnskap fra 2019

*Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.*

Brønnøysundregistrene, 01.09.2021



## Resultatregnskap

Beløp i: NOK	Note	2019	2018
<b>RESULTATREGNSKAP</b>			
<b>Kostnader</b>			
Annen driftskostnad	5	6 050	
<b>Sum kostnader</b>		<b>6 050</b>	
<b>Driftsresultat</b>		<b>-6 050</b>	
<b>Netto finans</b>			
<b>Ordinært resultat før skattekostnad</b>		<b>-6 050</b>	<b>0</b>
Skattekostnad på ordinært resultat	4	0	
<b>Ordinært resultat etter skattekostnad</b>		<b>-6 050</b>	<b>0</b>
<b>Årsresultat</b>		<b>-6 050</b>	<b>0</b>



## Balanse

Beløp i: NOK	Note	2019	2018
<b>BALANSE - EIENDELER</b>			
<b>Anleggsmidler</b>			
<b>Immaterielle eiendeler</b>			
Sum anleggsmidler		0	0
<b>Omløpsmidler</b>			
<b>Varer</b>			
<b>Fordringer</b>			
Andre fordringer	6	258 273	
Sum fordringer		258 273	
<b>Bankinnskudd, kontanter og lignende</b>			
Bankinnskudd, kontanter og lignende		28 450	
Sum bankinnskudd, kontanter og lignende		28 450	
Sum omløpsmidler		286 723	0
SUM EIENDELER		286 723	0
<b>BALANSE - EGENKAPITAL OG GJELD</b>			
<b>Egenkapital</b>			
<b>Innskutt egenkapital</b>			
Selskapskapital	3	30 000	
Annen innskutt egenkapital		-5 570	
Sum innskutt egenkapital		24 430	
<b>Opptjent egenkapital</b>			
Udekket tap		6 050	
Sum opptjent egenkapital		-6 050	
Sum egenkapital		18 380	0



## Balanse

<b>Beløp i: NOK</b>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Sum langsiktig gjeld</b>		<b>0</b>	<b>0</b>
<b>Kortsiktig gjeld</b>			
Annen kortsiktig gjeld	3	268 343	
<b>Sum kortsiktig gjeld</b>		<b>268 343</b>	
<b>Sum gjeld</b>		<b>268 343</b>	<b>0</b>
<b>SUM EGENKAPITAL OG GJELD</b>		<b>286 723</b>	<b>0</b>



## Independent auditors' report to the members of Babcock International Group PLC

### Report on the audit of the financial statements

#### Opinion

In our opinion:

- Babcock International Group PLC's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2019 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Company balance sheet as at 31 March 2019; the Group income statement and statement of comprehensive income, the Group cash flow statement, and the Group and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

#### Basis for opinion

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

#### Independence

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

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

Other than those disclosed in the Directors' report, we have provided no non-audit services to the Group or the Company in the period from 1 April 2018 to 31 March 2019.

#### Our audit approach

##### Overview

##### Materiality

- Overall Group materiality: £26 million (2018: £26 million), based on 5% of profit before tax, adjusted for amortisation of acquired intangible assets and exceptional items.
- Overall Company materiality: £25 million (2018: £20 million), based on a restricted allocation of component materiality for the purposes of our group audit.

##### Audit scope

- We conducted our audit work over the complete financial information for 26 of the largest and higher risk reporting components located in the UK, Europe and South Africa, including one financially significant component, Devonport, and one joint venture, Holdfast Training Services Limited.
- In addition, we performed the audit of specific balances and transactions at one further reporting component and for the Group's share of the results of four joint ventures, selected based on their relative contribution to the Group results.
- Where the operating businesses were located outside the UK, we worked together with our network firms located in the relevant territories to ensure we had sufficient evidence upon which to base our audit opinion.
- Taken together, the reporting components and central functions where we performed our audit work accounted for 80% of Group revenue and 72% of Group profit before tax, adjusted for amortisation of acquired intangibles and exceptional items, which included 81% of the Group's share of results of joint ventures and associates. We also performed work over amortisation of acquired intangibles and exceptional items. Overall, our audit work accounted for 86% of the Group profit before tax.

##### Key audit matters

- Contract accounting and revenue/profit recognition (Group);
- Goodwill impairment (Group);
- Valuation of defined benefit pension liabilities (Group); and
- Presentation of exceptional items (Group).



## The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

## Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related (but were not limited) to; aviation and nuclear industry legislation and regulation, defence contracting, taxation, anti-bribery and corruption legislation, and health and safety, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manipulation of results to achieve performance targets through improper revenue/profit recognition, given the judgemental nature of contract accounting (included as a key audit matter), and inappropriate recording of costs or expenses given the complex nature of the industries in which the Group operates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work.

Our audit procedures included, but were not limited to: understanding management's policies and processes; enquiries of management; testing journals and central adjustments; review of correspondence with legal advisors and enquiries of legal counsel; review of correspondence with regulators, and review of internal audit reports. We also agreed financial statement disclosures to underlying supporting documentation and performed a review of component auditor's working papers. Our testing of balances and transactions (in addition to those listed as key audit matters below) focussed on areas that are subject to estimation and judgement, to understand thematically any issues within the Group and evaluate whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

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

## Key audit matters

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

## Independent auditors' report to the members of Babcock International Group PLC continued

### Key audit matter

#### Contract accounting and revenue/profit recognition (Group)

Refer to notes 1 and 3 of the Group financial statements and to the Report of the Audit and Risk Committee on page 96.

The Group's business involves entering into contractual relationships with customers to provide a range of services with a significant proportion of the Group's revenues and profits derived from long term contracts.

Due to the contracting nature of the business, revenue and profit recognition involves a significant degree of judgement and a number of assumptions to be made, including to:

- Estimate total contract costs;
- Estimate the stage of completion of the contract;
- Forecast the profit margin, after consideration of additional revenue relating to cost and time completion incentive targets;
- Forecast contract variations and the outcome of disputes/claims, depending on stage of negotiation or agreement with the customer; and
- Appropriately provide for loss making contracts.

*There is a broad range of acceptable outcomes resulting from these estimates and judgements that could lead to different revenue and profit being reported in the financial statements.*

### How our audit addressed the key audit matter

We read the relevant clauses within new and amended key contracts and discussed each with management to obtain a full understanding of the specific terms and risks, which informed our consideration as to whether revenue and profit for these contracts were appropriately recognised.

We evaluated the design, implementation and operation of controls designed to address the accuracy and timing of revenue recognised in the financial statements, including:

- Contract reviews, which are performed by management, reviewed and signed off at both a Group and Sector level, and include the estimation of total costs, stage of completion, profit margin and profitability; and
- Transactional controls that underpin the production of underlying contract related cost balances, including the purchase to pay and payroll cycles.

We found the controls to be satisfactory for the purposes of our audit.

We performed procedures for a sample of contracts, based on quantitative and qualitative factors including size and risk. These procedures varied according to the facts and circumstances of the contract and the relevant areas of judgement and estimation uncertainty. Where applicable, we:

- Attended management's contract review meetings and, through discussions with the contract project teams, we obtained an understanding of the performance and status of the contracts;
- Evaluated management's positions through the examination of externally generated evidence, such as customer correspondence (including the validation of any incentives or contract variations), acceptance certificates and/or milestone agreements;
- Performed procedures over management's models, testing the mathematical accuracy and agreeing amounts back to underlying contracts;
- Discussed and understood management's estimates for total contract costs and forecast costs to complete, including taking into account the historical accuracy of such estimates;
- Evaluated any correspondence in respect of customer disputes/claims, including discussion with internal legal counsel at a Group and component level;
- Compared management's position on the recognition of any cost and time completion incentive target amounts with the actual costs incurred and current progress of the contract;
- Evaluated the work performed by external experts on which management placed reliance;
- Evaluated management's calculations of provisions for onerous commitments, where these relate to a contract; and
- Agreed contract positions to amounts recognised in the financial statements, including amounts due from/to customers for contract work on the balance sheet, and considered the valuation and recoverability of asset balances and the completeness of liability balances.

Our testing did not identify any factors that management had not taken into account in their estimates of the total contract costs, stage of completion and expected profit margin of each contract (including the expected losses on loss making contracts). Overall, we consider the contract positions taken by management to be reasonable.

We assessed the related disclosures, including those required under IFRS 15, contained in the Group financial statements, and consider them to be appropriate.



## Key audit matter

### Valuation of defined benefit pension liabilities (Group)

Refer to note 25 of the Group financial statements and to the Report of the Audit and Risk Committee on page 96. The Group operates a number of defined benefit pension plans, giving rise to net and gross pension liabilities of £28m (2018: £5m) and £4,610m (2018: £4,740m) respectively, which are significant in the context of the overall balance sheet of the Group.

The valuation of pension liabilities requires judgement and technical expertise in choosing appropriate assumptions such as salary increases, mortality rates, discount rates and inflation levels. Management engaged external actuarial specialists to assist them in selecting appropriate assumptions and to calculate the liabilities.

*Inappropriate selection of assumptions or methodologies for calculating the pension liabilities could result in a material difference in the value of the liabilities.*

### Goodwill impairment (Group)

Refer to note 11 of the Group financial statements and to the Report of the Audit and Risk Committee on page 96. The Group has goodwill of £2,584m (2018: £2,601m), principally related to the acquisitions of the VT Group in 2010 and Avincis in 2015, which is subject to an annual impairment review. No impairment charge has been recorded against these balances in the current financial year.

The impairment assessments used to support the carrying value of the Group's four goodwill cash generating units ("CGUs") involves the application of subjective judgement about future business performance. We considered certain assumptions made by management in the value in use calculations supporting the impairment assessments to be key areas of judgement, including the forecast cash flows, the short and longer term growth rates and the discount rates applied.

*Changes to the key assumptions used by management could result in the calculated value in use being lower than the carrying value of the CGU, therefore indicating an impairment.*

## How our audit addressed the area of focus

We used our actuarial specialists to assess whether the assumptions used in calculating the pension liabilities were reasonable, by:

- Assessing whether salary increases and mortality rate assumptions were consistent with the specifics of each plan and, where applicable, with relevant UK industry benchmarks;
- Verifying that the discount and inflation rate assumptions were consistent with our internally developed benchmarks, based on national data and other companies' recent external reporting; and
- Reviewing the calculations prepared by external actuaries to assess the consistency of the assumptions used.

Based on our procedures, we found no exceptions and overall considered management's key assumptions to be within acceptable ranges.

We assessed the related disclosures included in the Group financial statements, and consider them to be appropriate.

We evaluated management's cash flow forecasts, and the process by which they were determined and approved.

This included confirming that the forecasts were consistent with the latest Board approved budgets and checking the mathematical accuracy of the underlying calculations, with no exceptions identified.

We evaluated the inputs included in the value in use calculations, and challenged the key assumptions, by obtaining evidence including in respect of:

- The growth rates used in the cash flow forecasts, by comparing them with historical results, economic forecasts and our understanding of the related Sector's order book and pipeline;
- The key market-related assumptions, including discount rates and long term growth rates, by benchmarking these against external data, using our valuation expertise; and
- The reliability of cash flow forecasts, through a review of actual past performance and comparison to previous forecasts.

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

Our work found that management's assessment that there were no material impairments to be reasonable, and considered management's key assumptions to be within reasonable ranges.

We assessed the related disclosures included in the Group financial statements, including the sensitivities provided in respect of the Aviation Sector CGU, and consider them to be appropriate.



Independent auditors' report to the members of Babcock International Group PLC  
continued

**Key audit matter**

**Presentation of exceptional items (Group)**

Refer to notes 1 and 5 of the Group financial statements and to the Report of the Audit and Risk Committee on page 96. The Group has recognised net exceptional items, before tax, related to business reorganisation, capacity restructuring, exits and disposals and one-off pension items (including GMP equalisation) of £161m for the year ended 31 March 2019.

These costs comprise impairment of assets (£39m), onerous lease provisions (£42m), exit costs (£21m), capacity restructuring costs (£43m) and one-off pension items (£31m), offset by a profit on disposal of subsidiaries of £15m.

As required by accounting standards, management performed impairment assessments of the assets, having identified impairment indicators arising from the Group's strategic decision to reshape the Oil and Gas business. The determination of the recoverable amount of tangible assets requires judgements, particularly management's view on determining an appropriate asset market value, or key inputs and assumptions made in cash flow forecasts, including long-term growth rates, where value in use calculations were used to determine the level of impairment required.

Provisions for onerous lease contracts were recorded in respect of underperforming assets, where management identified that the expected future cash inflows were lower than the contractual lease obligations. The provisions were calculated based on the judgements applied by management in determining the expected future cash inflows over the remaining lease terms compared to the contractual lease obligations.

Determining the business capacity restructuring and exit costs required management to make judgements over the key inputs and assumptions, including the amount and timing of expected costs that will be incurred.

As with the valuation of defined benefit pension liabilities above, the methodology and assumptions applied to calculate one-off pension items – in particular for Guaranteed Minimum Pension ('GMP') equalisation – requires judgement and technical expertise.

*Changes to the key assumptions used by management could result in the calculated impairment charge, onerous lease provision, or business capacity restructuring and exit costs being different to those reported in the financial statements.*

*Another specific area of focus was to assess whether the items identified by management as exceptional met the definition in the Group's accounting policy and have been treated consistently, as the identification of such items requires judgement by management.*

**How our audit addressed the area of focus**

We considered management's programme for the business reorganisation, capacity restructuring, exits and disposals.

We agreed the carrying value of tangible assets that were assessed for impairment to underlying financial records. We considered management's view on the appropriate asset fair value by reference to available external market data, including alternative sources of information. Where applicable, we tested the discounted cash flow models used by management to determine the amount of asset impairment required, and checked the accuracy of the calculations. We assessed the cash flow forecasts through a review of actual past performance and comparison with previous forecasts, and understanding the commercial prospects of the assets, including, where possible, comparison of assumptions with external data sources.

We tested the accuracy and completeness of the data used by management in the onerous lease calculations by agreeing key inputs, such as the cash flow forecasts for individual leases, to underlying lease contracts.

We assessed the key inputs and assumptions used by management in calculating business exit and capacity restructuring costs. Where appropriate, on a sample basis we validated the inputs and assumptions to internal and external data sources, such as payroll records, internal and external announcements, and correspondence received from third parties. We evaluated whether the inputs and assumptions were appropriate based on the evidence available, and whether the costs and provisions recorded met the requirements of the applicable accounting standards.

We assessed whether the methodology and assumptions used in calculating the GMP equalisation and other one-off pension items were reasonable, which we found to be appropriate.

We challenged management's rationale for the designation of certain items as exceptional and assessed such items against the Group's accounting policy, considering the nature and value of these items.

We assessed the appropriateness and completeness of the disclosures included in the Group financial statements, and checked that these reflected the output of management's calculations and positions taken, noting no significant deviations from our expectations. We also considered whether there were items that were recorded within underlying profit that we determined to be exceptional in nature and should have been reported within 'exceptional items'. No such material items were identified.

We determined that there were no key audit matters applicable to the Company to communicate in our report.



## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is primarily structured and managed across four Sectors: Marine, Land, Aviation and Cavendish Nuclear. The Group financial statements are a consolidation of multiple reporting components, including both operating businesses and central functions.

The Group's reporting components vary significantly in size and we identified 26 components that, in our view, required an audit of their complete financial information due to their size and/or risk. This included one component, Devonport, whose results were individually financially significant to the Group, and one joint venture, Holdfast Training Services. Specific risk-based audit procedures were performed at one further reporting component and over the Group's share of the results of four joint ventures. In scope reporting components, including joint ventures, were based in six countries: the UK, France, Spain, Italy, South Africa and Canada.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those locations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. We issued formal, written instructions to component auditors setting out the work to be performed by each of them and maintained regular communication throughout the audit cycle.

The Group engagement leader and senior members of the Group team undertook visits to eight components in the UK, France and South Africa during the audit, including the Group's only financially significant component, Devonport. Senior team members also attended the Devonport and the four Sector clearance meetings in person. During both the site visits and the clearance meetings, the findings reported by all component teams were discussed. The Group team also evaluated the sufficiency of the audit evidence obtained through discussions with, and review of the work performed by, component teams.

This, together with additional procedures performed at the Group level (including audit procedures over material head office entities, pensions, impairment assessments, financial statement disclosures, tax, treasury, share based payments and consolidation adjustments), gave us the evidence we needed for our opinion on the financial statements as a whole. Taken together, the reporting components and functions where we performed our audit work accounted for 80% of Group revenue and 72% of Group profit before tax adjusted for amortisation of acquired intangibles, which included 81% of the Group's share of results of joint ventures and associates. We also performed work over amortisation of acquired intangibles and exceptional items. Overall, our audit work accounted for 86% of the Group profit before tax.



## Independent auditors' report to the members of Babcock International Group PLC continued

### Materiality

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

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

	Group financial statements	Company financial statements
<b>Overall materiality</b>	£26 million (2018: £26 million).	£25 million (2018: £20 million).
<b>How we determined it</b>	5% of profit before tax, adjusted for amortisation of acquired intangibles assets and exceptional items.	We calculated a stand-alone materiality of £61 million (2018: £59 million) for the Company financial statements, based on 1% of total assets.  We restricted this to £25 million, based on our calculation and allocation of component materiality for the group audit.
<b>Rationale for benchmark applied</b>	Given the contractual nature of the business, we adjusted for amortisation of acquired intangible assets and exceptional items, as this better reflects the underlying performance and nature of operations. We consider an adjusted measure to be one of the principal considerations for the members of Babcock International Group PLC in assessing the recurring financial performance of the Group.	The results of procedures performed over balances and transactions contributing to the Group's overall results were used to support our group opinion.  We consider a total asset measure to reflect the nature of the Company, which primarily acts as a holding company for the Group's investments.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1 million to £25 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £1.0 million (Group audit) (2018: £1.2 million) and £1.0 million (Company audit) (2018: £1.2 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Going concern

In accordance with ISAs (UK) we report as follows:

#### Reporting obligation

We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

We are required to report if the Directors' statement relating to Going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

#### Outcome

We have nothing material to add or to draw attention to. As not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

We have nothing to report.



## Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report. (CA06)

### The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 70 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 70 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)



## Independent auditors' report to the members of Babcock International Group PLC continued

### Reporting on other information (continued)

#### Other Code provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 138, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 96 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

#### Directors' remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

### Responsibilities for the financial statements and the audit

#### Responsibilities of the Directors for the financial statements

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

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

#### Auditors' responsibility for the audit of the financial statements

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

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### Use of this report

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



## Other required reporting

### Companies Act 2006 exception reporting

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

- we have not 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
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit and Risk Committee, we were originally appointed by the members to audit the financial statements for the year ended 31 March 2003 and subsequent financial periods. Following an audit tender, we were reappointed by the members on 25 May 2016 to audit the financial statements for the year ended 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement is 17 years, covering the years ended 31 March 2003 to 31 March 2019.

### John Waters (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

21 May 2019



## Group income statement

For the year ended 31 March 2019	Note	2019		2018	
		£m	Total £m	£m	Total £m
<b>Revenue<sup>1</sup></b>	3		<b>4,474.8</b>		4,659.6
Cost of revenue			<b>(3,928.3)</b>		(3,971.7)
<b>Gross profit</b>			<b>546.5</b>		687.9
Distribution expenses			<b>(11.9)</b>		(12.8)
Administration expenses			<b>(338.1)</b>		(304.5)
<b>Operating profit before share of results of joint ventures and associates</b>	3, 4		<b>196.5</b>		370.6
Share of results of joint ventures and associates	3, 14		<b>83.8</b>		68.5
<b>Group and joint ventures and associates</b>					
Operating profit before amortisation of acquired intangibles			<b>559.3</b>		554.6
Investment income			<b>29.1</b>		30.0
Underlying operating profit <sup>2</sup>	3		<b>588.4</b>		584.6
Amortisation of acquired intangibles	5		<b>(101.0)</b>		(103.9)
Exceptional items	5		<b>(160.8)</b>		-
Group investment income			<b>(1.3)</b>		(1.9)
Joint ventures and associates finance costs			<b>(24.1)</b>		(22.2)
Joint ventures and associates income tax expense			<b>(20.9)</b>		(17.5)
<b>Operating profit</b>			<b>280.3</b>		439.1
<b>Finance costs</b>					
Investment income	3		<b>1.3</b>		1.9
Retirement benefit interest	25		<b>0.3</b>		(2.3)
Finance costs	6		<b>(62.7)</b>		(61.9)
Finance income	6		<b>16.0</b>		14.3
			<b>(45.1)</b>		(48.0)
<b>Profit before tax</b>	3		<b>235.2</b>		391.1
Income tax expense	8		<b>(35.4)</b>		(53.4)
<b>Profit for the year</b>			<b>199.8</b>		337.7
<b>Attributable to:</b>					
Owners of the parent			<b>199.4</b>		336.3
Non-controlling interest			<b>0.4</b>		1.4
			<b>199.8</b>		337.7
<b>Earnings per share</b>					
Basic	10		<b>39.5p</b>		66.6p
Diluted			<b>39.4p</b>		66.5p

1. Revenue does not include the Group's share of revenue from joint ventures and associates of £685.8 million (2018: £703.2 million).

2. Including IFRIC 12 investment income but before exceptional items and amortisation of acquired intangibles.



## Group statement of comprehensive income

For the year ended 31 March 2019	Note	2019 £m	2018 £m
Profit for the year		<b>199.8</b>	337.7
<b>Other comprehensive income</b>			
<b>Items that may be subsequently reclassified to income statement</b>			
Currency translation differences		<b>(31.0)</b>	(25.9)
Fair value adjustment of interest rate and foreign exchange hedges		<b>(0.5)</b>	(7.5)
Tax on fair value adjustment of interest rate and foreign exchange hedges		<b>0.4</b>	1.2
Hedging gains reclassified to profit or loss		<b>(1.3)</b>	1.4
Fair value adjustment of joint ventures and associates derivatives	14	<b>1.8</b>	24.3
Tax, including rate change impact, on fair value adjustment of joint ventures and associates derivatives	14	<b>(0.3)</b>	(7.4)
<b>Items that will not be reclassified to income statement</b>			
Remeasurement of retirement benefit obligations	25	<b>(58.4)</b>	49.7
Tax on remeasurement of retirement benefit obligations		<b>10.4</b>	(10.3)
Impact of change in UK tax rates		<b>(0.4)</b>	1.9
<b>Other comprehensive income, net of tax</b>		<b>(79.3)</b>	27.4
<b>Total comprehensive income</b>		<b>120.5</b>	365.1
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		<b>122.3</b>	363.6
Non-controlling interest		<b>(1.8)</b>	1.5
<b>Total comprehensive income</b>		<b>120.5</b>	365.1

Financial statements

## Group statement of changes in equity

For the year ended 31 March 2019	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Owners of the parent £m	Non-controlling interest £m	Total equity £m
<b>At 31 March 2017</b>	303.4	873.0	768.8	30.6	757.9	(86.5)	22.6	2,669.8	22.4	2,692.2
Total comprehensive income	-	-	-	-	377.5	12.0	(25.9)	363.6	1.5	365.1
Dividends	-	-	-	-	(143.9)	-	-	(143.9)	(3.8)	(147.7)
Share-based payments	-	-	-	-	6.4	-	-	6.4	-	6.4
Tax on share-based payments	-	-	-	-	1.9	-	-	1.9	-	1.9
Transactions with non-controlling interests	-	-	-	-	(0.7)	-	-	(0.7)	(2.0)	(2.7)
Own shares and other	-	-	-	-	(4.2)	-	-	(4.2)	-	(4.2)
Net movement in equity	-	-	-	-	237.0	12.0	(25.9)	223.1	(4.3)	218.8
<b>At 31 March 2018</b>	<b>303.4</b>	<b>873.0</b>	<b>768.8</b>	<b>30.6</b>	<b>994.9</b>	<b>(74.5)</b>	<b>(3.3)</b>	<b>2,892.9</b>	<b>18.1</b>	<b>2,911.0</b>
Total comprehensive income	-	-	-	-	151.0	0.1	(28.8)	122.3	(1.8)	120.5
Dividends	-	-	-	-	(150.5)	-	-	(150.5)	(2.8)	(153.3)
Share-based payments	-	-	-	-	2.4	-	-	2.4	-	2.4
Tax on share-based payments	-	-	-	-	2.4	-	-	2.4	-	2.4
Transactions with non-controlling interests (note 30)	-	-	-	-	(2.0)	-	-	(2.0)	3.9	1.9
Net movement in equity	-	-	-	-	3.3	0.1	(28.8)	(25.4)	(0.7)	(26.1)
<b>At 31 March 2019</b>	<b>303.4</b>	<b>873.0</b>	<b>768.8</b>	<b>30.6</b>	<b>998.2</b>	<b>(74.4)</b>	<b>(32.1)</b>	<b>2,867.5</b>	<b>17.4</b>	<b>2,884.9</b>

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 balance sheet

As at 31 March 2019	Note	2019 £m	2018 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	11	2,584.2	2,600.9
Other intangible assets	12	448.9	529.3
Property, plant and equipment	13	1,014.3	1,028.4
Investment in joint ventures and associates	14	153.2	119.3
Loan to joint ventures and associates	14	42.5	27.8
Retirement benefits	25	226.9	240.1
Trade and other receivables	17	9.3	6.7
IFRIC 12 financial assets		15.5	17.8
Other financial assets	21	93.8	76.0
Deferred tax asset	15	150.9	104.0
		<b>4,739.5</b>	4,750.3
<b>Current assets</b>			
Inventories	16	196.5	181.4
Trade and other receivables	17	907.8	1,060.1
Income tax recoverable		11.1	15.4
Other financial assets	21	48.0	27.5
Cash and cash equivalents	18, 27	275.2	286.3
		<b>1,438.6</b>	1,570.7
<b>Total assets</b>		<b>6,178.1</b>	6,321.0
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	23	303.4	303.4
Share premium		873.0	873.0
Capital redemption and other reserves		692.9	721.6
Retained earnings		998.2	994.9
		<b>2,867.5</b>	2,892.9
Non-controlling interest		17.4	18.1
<b>Total equity</b>		<b>2,884.9</b>	2,911.0
<b>Non-current liabilities</b>			
Bank and other borrowings	20	1,357.6	1,485.2
Trade and other payables	19	2.0	2.3
Deferred tax liabilities	15	103.2	112.8
Other financial liabilities	21	9.3	5.0
Retirement liabilities	25	254.9	245.1
Provisions for other liabilities	22	40.5	61.1
		<b>1,767.5</b>	1,911.5
<b>Current liabilities</b>			
Bank and other borrowings	20	53.9	38.1
Trade and other payables	19	1,381.4	1,392.1
Income tax payable		22.1	21.7
Other financial liabilities	21	4.9	11.9
Provisions for other liabilities	22	63.4	34.7
		<b>1,525.7</b>	1,498.5
<b>Total liabilities</b>		<b>3,293.2</b>	3,410.0
<b>Total equity and liabilities</b>		<b>6,178.1</b>	6,321.0

The notes on pages 156 to 207 are an integral part of the consolidated financial statements. The Group financial statements on pages 152 to 207 were approved by the Board of Directors on 21 May 2019 and are signed on its behalf by:

**A Bethel**  
Director

**F Martinelli**  
Director



## Group cash flow statement

For the year ended 31 March 2019	Note	2019 €m	2018 €m
<b>Cash flows from operating activities</b>			
Operating profit before amortisation of acquired intangible and exceptional items		452.5	468.7
Amortisation of acquired intangible and exceptional items	5	(256.0)	(98.1)
<b>Operating profit before share of results of joint ventures and associates</b>	3	<b>196.5</b>	370.6
Depreciation and impairment of property, plant and equipment		123.1	91.3
Amortisation of intangible assets		110.0	111.1
Investment income	3	1.3	1.9
Equity share-based payments		2.4	6.4
Profit on disposal of subsidiaries, businesses and joint ventures and associates	29	(14.8)	–
Profit on disposal of property, plant and equipment		(5.4)	(4.1)
Loss on disposal of intangible assets		0.3	–
<b>Cash generated from operations before movement in working capital</b>		<b>413.4</b>	577.2
Increase in inventories		(34.0)	(19.5)
Decrease/(increase) in receivables		138.8	(137.4)
Increase in payables		4.1	102.6
Increase/decrease in provisions		10.7	(27.7)
Retirement benefit contributions in excess of income statement		(25.1)	(47.3)
<b>Cash generated from operations</b>		<b>507.9</b>	447.9
Income tax paid		(74.0)	(74.3)
Interest paid		(63.1)	(67.9)
Interest received		15.6	14.3
<b>Net cash flows from operating activities</b>		<b>386.4</b>	320.0
<b>Cash flows from investing activities</b>			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	29	29.5	(0.2)
Dividends received from joint ventures and associates		44.6	42.9
Proceeds on disposal of property, plant and equipment		78.5	70.0
Purchases of property, plant and equipment		(194.3)	(150.4)
Purchases of intangible assets		(32.7)	(32.3)
Investment in, loan movements and interest received from joint ventures and associates	14	(14.6)	(1.5)
<b>Net cash flows from investing activities</b>		<b>(89.0)</b>	(71.5)
<b>Cash flows from financing activities</b>			
Dividends paid	9	(150.5)	(143.9)
Finance lease principal payments	27	(26.4)	(27.5)
Finance lease assets issued and repaid	27	(19.4)	9.6
Bank loans repaid	27	(103.4)	(88.4)
Loans raised		–	121.9
Dividends paid to non-controlling interest		(2.8)	(3.8)
Transactions with non-controlling interest	30	(0.5)	(5.3)
Movement on own shares		–	(4.2)
<b>Net cash flows from financing activities</b>		<b>(303.0)</b>	(141.6)
<b>Net (decrease)/increase in cash, cash equivalents and bank overdrafts</b>		<b>(5.6)</b>	106.9
<b>Cash, cash equivalents and bank overdrafts at beginning of year</b>		<b>286.3</b>	185.6
Effects of exchange rate fluctuations		(5.5)	(6.2)
<b>Cash, cash equivalents and bank overdrafts at end of year</b>	27	<b>275.2</b>	286.3

## Notes to the Group financial statements

### 1. Basis of preparation and significant accounting policies

#### Basis of preparation

The consolidated financial statements have been prepared on a going concern basis, as set out in the Directors' report on page 138, and in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments. Babcock International Group PLC is listed on the London Stock Exchange and is incorporated and domiciled in the UK.

#### Significant accounting policies

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

#### New and amended standards adopted by the Group

The Group applied the following standards and amendments for the first time for the period beginning on 1 April 2018:

- IFRS 9: 'Financial instruments'
- IFRS 15: 'Revenue from contracts with customers'

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

The following standards and amendments to IFRSs became effective for the period beginning on 1 April 2018 and did not have a material impact on the consolidated financial statements:

- IFRIC 22: Foreign Currency Transactions and Advance Consideration;
- Classification and Measurement of Share-Based Payment Transactions – Amendments to IFRS 2;
- Annual Improvements 2014-2016 Cycle; and
- Transfers of Investment Property – Amendments to IAS 40.

#### (a) IFRS 9

The Group adopted IFRS 9 from 1 April 2018. In accordance with the transition provisions in the Standard, comparatives have not been restated.

##### Classification of financial assets

IFRS 9 requires the use of two criteria to determine the classification of financial assets: the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The Standard goes on to identify three categories of financial assets – amortised cost; fair value through profit or loss (FVTPL); and fair value through other comprehensive income (FVOCI).

The adoption of IFRS 9 has not impacted the measurement of the Group's financial assets: derivative financial assets continue to be held at FVTPL (except those subject to hedge accounting) and the Group's other financial assets continue to be held at amortised cost.

##### Impairment of financial assets

IFRS 9 introduces an expected credit loss approach to impairment. The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and contract assets.

No material adjustments to the Group's impairment provisions were made on transition to IFRS 9. The majority of trade receivables are with government, government backed institutions or blue chip corporations and as such credit risk is considered small. Where an appropriate approach was already applied to establish impairment provisions, the inclusion of specific expected credit loss considerations did not have a material impact.

##### Hedge accounting

Updated IFRS 9 hedge accounting requirements have not had a material impact on the Group, but additional disclosure requirements have been met.

#### (b) IFRS 15

The Group adopted IFRS 15: 'Revenue from contracts with customers' from 1 April 2018 using the fully retrospective approach. The accounting policies have been updated to reflect the five-step approach to revenue recognition required by IFRS 15. This resulted in no impact on the cumulative amount of revenue recognised at 1 April 2018 or for the year ended 31 March 2019.

Following adoption of IFRS 15, capitalised contract costs are now presented separately within trade and other receivables. These amounts were previously included within amounts due from customers for contract work.



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

### Basis of consolidation

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

#### (a) Subsidiaries

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

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

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

#### (b) Joint ventures and associates

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

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

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

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

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

### Critical accounting estimates and judgements

In the course of preparation of the financial statements no judgements have been made in applying the Group's accounting policies, other than those involving estimates, that have had a material effect on the amounts recognised in the financial statements. The application of the Group's accounting policies requires the use of estimates and the inherent uncertainty in certain forward looking estimates may result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates in relation to these financial statements are considered below:

- Revenue and profit recognition

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

## Notes to the Group financial statements continued

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

### Critical accounting estimates (continued)

- Defined benefit pension schemes defined benefit obligations

The Group's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit obligations. Further information on the key assumptions and sensitivities is included at note 25.

- Deferred tax

The Group has carried forward losses for tax purposes in a number of jurisdictions and has recognised deferred tax assets to the extent that it is considered that the losses will be utilised. That assessment is reached by prudently estimating the future taxable profits in the jurisdictions in question (or the particular company in question, where the utilisation of losses is entity-restricted) and assessing these against the jurisdiction-specific rules around the carry forward and utilisation of tax losses. In circumstances where the Group considers that either of those tests (future profitability or future availability of carried forward losses) might not be passed, no deferred tax asset is recognised to that extent. Further information on the level of tax losses recognised and unrecognised is given in note 15.

- The carrying value of goodwill

Goodwill is tested annually for impairment, in accordance with IAS 36, and the impairment assessment is based on assumptions in relation to the cashflows expected to be generated by cash generating units, together with appropriate discounting of the cashflows. Whilst the Group does not believe that a reasonably possible change in assumptions could generate a material impairment in the coming financial year, the carrying value of goodwill is included as a critical accounting estimate as a result of the significance of the goodwill held and the inherent judgemental nature of impairment testing. Note 11 provides information on key assumptions and sensitivity analyses performed.

### Revenue

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

#### (a) Performance obligations

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

#### (b) Allocation of contract price to performance obligations

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

#### (c) Revenue and profit recognition

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

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

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



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

### Revenue (continued)

#### (c) Revenue and profit recognition (continued)

Where the Group satisfies performance obligations over time, revenue is recognised using costs incurred as a proportion of total estimated costs to assess stage of completion, but with the stage of completion and revenue assessed in relation to each performance obligation. In some circumstances the Group also uses an output based earned value approach, as an indicator, to validate the cost based input approach and this approach uses suitably qualified and experienced Group personnel to assess the stage of completion of performance obligations.

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

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

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

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

#### (d) Costs of obtaining a contract

Pre-contract costs are recognised as expenses as incurred, except that directly attributable costs incurred from the point that it can be reliably expected that a contract will be obtained, typically at preferred bidder stage, are recognised as an asset in Capitalised contract costs and amortised to cost of revenue over the life of the contract provided that the contract is expected to result in future net cash inflows.

#### (e) Contract mobilisation costs

Post-contract award but pre-contract operational start-up mobilisation costs are recognised as an asset in capitalised contract costs and amortised to cost of revenue over the life of the contract. These mobilisation costs are included within the contract value and relate to ensuring that assets and resources are mobilised as necessary to support delivery of performance obligations in accordance with contract requirements.

#### (f) Principal versus agent considerations

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

### Exceptional items

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

### Transactions with non-controlling interest

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

## Notes to the Group financial statements continued

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

#### Provisions

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

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

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

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

A provision is made where operating leases are deemed to be onerous.

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

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

#### Goodwill and intangible assets

##### (a) Goodwill

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

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

Annual impairment reviews are performed as outlined in note 11.

##### (b) Acquired intangibles

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

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

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

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

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

##### (c) Research and development

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

##### (d) Computer software

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

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



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

### Property, plant and equipment (PPE)

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

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

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

### Net debt

Net debt consists of the total of loans, bank overdrafts, cash and cash equivalents, joint venture and associate loans and finance leases granted or received plus any derivatives whose objective is to fair value hedge the underlying debt. This will include swaps of the currency of the debt into the functional currency of the company carrying the debt and fair value hedges.

### Leases

Assets under finance leases are capitalised and the outstanding capital element of instalments is included in borrowings. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where these are shorter.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

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

### Inventory and work in progress

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

### Taxation

#### (a) Current income tax

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

#### (b) Deferred income tax

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

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

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

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



## Notes to the Group financial statements continued

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

#### Foreign currencies

##### (a) Functional and presentational currency

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

##### (b) Transactions and balances

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

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

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

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

#### Finance costs

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

#### Employee benefits

##### (a) Pension obligations

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

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

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

##### (b) Share-based compensation

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

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

##### (c) Holiday pay

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

#### Financial instruments

##### (a) Financial assets and liabilities at amortised cost

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

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

##### (b) Derivative financial instruments

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



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

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

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

### Service concession arrangements

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

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

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

### 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 Group designates certain derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

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

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

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair values is recognised in the income statement immediately.

### Dividends

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

### Standards, amendments and interpretations to published standards

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2019 or later periods but which the Group has not early adopted.

**(a) Standards, amendments and interpretations that are not yet effective and the impact on the Group's operations is currently being assessed but is not expected to be significant:**

- IFRS 17, 'Insurance Contracts', May 2017 issue, effective 1 April 2021.
- IAS 1, 'Presentation of Financial Statements', and IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', October 2018 amendments regarding the definition of material, effective 1 April 2020.
- IFRS 3, 'Business Combinations', October 2018 amendment to clarify the definition of a business, effective 1 April 2020.
- IAS 28, 'Investments in Associates and Joint Ventures', October 2017 amendment, effective 1 April 2019.
- 2017 Annual improvements, effective 1 April 2019.

**Notes to the Group financial statements continued**
**1. Basis of preparation and significant accounting policies (continued)**

(b) Standards, amendments and interpretations that are not yet effective and the impact on the Group's operations is currently being assessed:

- IFRS 16, 'Leases', became effective on 1 April 2019, replacing IAS 17, 'Leases', and the Group has adopted the new standard from 1 April 2019. The modified retrospective transition approach has been adopted so prior year financial information will not be restated. The new standard requires almost all leases to be recognised on the balance sheet with a right-of-use asset capitalised and depreciated over the estimated lease term with a corresponding liability that will reduce over the same period. The operating lease charge that was previously recognised in the income statement under IAS 17 will be replaced by depreciation and interest expenses. Details of the estimated impact of IFRS 16 on the financial statements are disclosed in note 31.
- IAS 19, 'Employee Benefits', May 2018 amendment, effective 1 April 2019.

**2. Financial risk management**

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

**Capital availability**

The Company defines capital as shareholder equity plus net debt but in addition considers available financial capital which adds committed undrawn facilities to capital as a measure.

<b>Objective on available financial capital</b>	To ensure an appropriate level of capital and available financial capital to maintain operational flexibility and meet financial obligations whilst funding the Group's organic and acquisitive growth. The Group seeks to maintain the necessary headroom to cover the peaks and troughs in its working capital cycle, and sufficient liquidity to see it through any periods of tightened liquidity in the market.	
<b>Policy</b>	The Board aims to maintain a balance between equity and debt capital which optimises the Group's cost of capital whilst allowing access to both equity and debt capital markets at optimum pricing when appropriate. The Group, in considering its capital structure and financial capital, views net debt to EBITDA at circa two times or below as being steady state and sustainable in normal market and economic conditions. This level may be tempered in periods of market volatility and economic and/or political uncertainty. This is not to rule out acquisition spikes above two times, as illustrated by previous acquisitions, but only to the extent that the Group can see a clear path to reducing net debt to EBITDA back to circa two times or below within a reasonable time frame.	
<b>Performance</b>	The gearing, interest cover and net debt to EBITDA ratios, used by the Group to evaluate capital, are set out below. These align with the Group's key performance indicators as set out and defined on pages 26 and 27. Net debt to EBITDA improved to 1.4 times in 2019 (2018: 1.6 times), demonstrating further progress in reducing gearing, both through the pay down of debt and increasing profits attributable to shareholders.	
	<b>2019</b>	2018
Interest cover	<b>14.9</b>	14.5
Net debt to EBITDA	<b>1.4x</b>	1.6x
Gearing	<b>33%</b>	38%
	The Group has interest cover and net debt to EBITDA covenants that utilise JV dividends rather than share of JV profits included in the Group's key performance indicators and these ratios are below covenanted levels. The reduced gearing leaves sufficient headroom for bolt-on acquisitions and funding of organic growth. The Group considers that capital markets remain accessible, if or when required.	

**Financial risk management**

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

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

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

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

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



## 2. Financial risk management (continued)

### Management of capital

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

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

A range of gearing and liquidity ratios are used to monitor and measure capital structure and performance, including: Net debt to EBITDA (defined as net debt divided by underlying earnings before interest, tax, depreciation and amortisation), Gearing (defined as net debt, divided by shareholders funds, excluding retirement benefit deficits or surpluses), ROIC (defined as underlying operating profit divided by net debt and by shareholder funds excluding retirement benefit deficits or surpluses) and interest cover (defined as underlying earnings before interest, tax, depreciation and amortisation divided by net Group finance costs). These ratios are discussed under the Financial review.

Through the monitoring of these metrics it remains the Group's intention to ensure the business is prudently funded, balancing risk and price on the capital markets and retaining sufficient flexibility to fund future organic and acquisitive growth.

### Foreign exchange risk

The functional and presentational currency of Babcock International Group PLC and its UK subsidiaries is Sterling. The Group has exposure primarily to EUR, USD, ZAR and increasingly AUD, CAD, NOK, OMR and SEK. The USD exposure arises firstly through the US\$500 million US Private Placements which are swapped into Sterling and secondly, through a number of activities in the Babcock Mission Critical Services business, where it has some revenue and costs denominated in USD. The EUR exposure is largely due to the activities of the Babcock Mission Critical Services business in Europe, where both translational and transactional exposure exists. The ZAR exposure arises from the activities of Babcock's subsidiaries in South Africa where both translational and transactional exposure exist. The increasing AUD, CAD, NOK, OMR and SEK exposure arises from the activities of Babcock's subsidiaries in those countries where both transactional and translational exposure exists.

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

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

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

The largest foreign exchange exposure of Group entities on the net monetary position against their respective functional currencies results from exposure of Euro to US Dollars, being £15.2 million (2018: Euro to US Dollars £25.7 million).

The pre-tax effect on profit and equity, increase or decrease, if the rates moved up or down by an appropriate percentage volatility, assuming all other variables remained constant, would in total be £0.5 million (2018: £0.2 million). The reasonable shifts in exchange rates are based on historical volatility and range from 10% for Sterling and US Dollars; 15% for Euro and Omani Rial; and 25% for Canadian and Australian Dollars and South African Rand.

## Notes to the Group financial statements continued

### 2. Financial risk management (continued)

#### Interest rate risk

The fair values of debt, and related hedging instruments are affected by movements in interest rates. The following table illustrates the sensitivity in interest rate-sensitive instruments and associated debt to a hypothetical parallel shift of the forward interest rate curves of  $\pm 50$ bp (2018:  $\pm 50$ bp), with pre-tax effect annualised and an additional shift in variable rates for the floating rate element of the gross debt. All other variables are held constant. The Group believes  $\pm 50$ bp is an appropriate measure of volatility at this time.

	2019		2018	
	£m +50bp	£m -50bp	£m +50bp	£m -50bp
Net results for the year	(2.0)	2.0	(2.3)	2.3
Equity	1.9	(1.9)	2.1	(2.1)

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

<b>Objective</b>	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.
<b>Policy</b>	Interest hedging and the monitoring of the mix between fixed and floating rates are the responsibility of the treasury department, and are subject to the policy and guidelines set by the Board.
<b>Performance</b>	As at 31 March 2019, the Group had 74% fixed rate debt (2018: 69%) and 26% floating rate debt (2018: 31%) based on gross debt including derivatives of £1,336.4 million (2018: £1,475.6 million). For further information see note 21.

#### Liquidity risk

Liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines (see note 20).

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

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

<b>Objective</b>	With debt as a key component of available capital, the Group seeks to ensure that there is an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.
<b>Policy</b>	All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required. It remains the Group's policy to ensure the business is prudently funded and that sufficient headroom is maintained on its facilities to fund its future growth.
<b>Performance</b>	The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective. The Group's main debt facilities include: a £750 million Revolving Credit Facility maturing in December 2021, a £40 million loan note maturing in January 2020, US\$500 million US private placement notes maturing in March 2021, a EUR 550 million Eurobond maturing in October 2022, a £100 million Term Debt Facility maturing in August 2020 and a £300 million ten year Sterling bond maturing in October 2026. These debt facilities provide the Group with total available committed banking facilities and loan notes of £1.97 billion and sufficient sources of liquidity and headroom to meet the Group's ongoing commitments. For further information see note 20.



## 2. Financial risk management (continued)

### Liquidity risk (continued)

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

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
<b>At 31 March 2019</b>				
Bank and other borrowings*	62.9	424.1	632.6	316.3
Derivative financial instruments	(1.2)	74.1	(4.7)	(1.5)
Trade and other payables**	1,142.6	0.5	0.4	0.8
<b>At 31 March 2018</b>				
Bank and other borrowings*	47.0	81.9	1,095.8	322.5
Derivative financial instruments	(7.5)	(1.5)	50.3	(1.2)
Trade and other payables**	1,141.4	0.6	0.4	0.9

\* Includes fixed rate committed interest

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

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

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
<b>At 31 March 2019</b>				
Forward derivative contracts – hedges:				
– outflow	392.6	418.0	117.9	16.2
– inflow	391.4	493.3	113.6	15.1
Forward derivative contracts – held for trading:				
– outflow	–	–	–	–
– inflow	–	–	–	–
<b>At 31 March 2018</b>				
Forward derivative contracts – hedges:				
– outflow	461.3	141.5	360.1	17.5
– inflow	443.5	140.0	409.8	16.9
Forward derivative contracts – held for trading:				
– outflow	1.2	–	–	–
– inflow	1.3	–	–	–

**Notes to the Group financial statements continued**
**3. Segmental information**

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

**Marine** – through life support of submarines, naval ships and infrastructure in the UK and internationally.

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

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

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

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

2019	Marine £m	Land £m	Aviation £m	Nuclear £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,706.6	1,620.2	1,135.5	698.3	–	5,160.6
Less: joint ventures and associates revenue	20.3	60.2	139.6	465.7	–	685.8
<b>Revenue</b>	<b>1,686.3</b>	<b>1,560.0</b>	<b>995.9</b>	<b>232.6</b>	<b>–</b>	<b>4,474.8</b>
Operating profit/(loss) before share of results of joint ventures and associates	178.6	42.3	(25.0)	21.6	(21.0)	196.5
Exceptional items	33.6	17.7	86.4	4.9	18.2	160.8
Acquired intangible amortisation	4.7	44.1	45.7	0.7	–	95.2
Operating profit*	216.9	104.1	107.1	27.2	(2.8)	452.5
IFRIC 12 investment income – Group	0.3	1.0	–	–	–	1.3
Share of operating profit – joint ventures and associates	3.3	39.5	27.0	37.0	–	106.8
Share of IFRIC 12 investment income – joint ventures and associates	–	1.4	26.4	–	–	27.8
<b>Underlying operating profit</b>	<b>220.5</b>	<b>146.0</b>	<b>160.5</b>	<b>64.2</b>	<b>(2.8)</b>	<b>588.4</b>
Share of finance costs – joint ventures and associates	(0.4)	(0.1)	(23.6)	–	–	(24.1)
Share of tax – joint ventures and associates	(1.3)	(7.1)	(5.3)	(7.2)	–	(20.9)
Acquired intangible amortisation – Group	(4.7)	(44.1)	(45.7)	(0.7)	–	(95.2)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.0)	(3.8)	–	–	(5.8)
Net finance costs – Group	–	–	–	–	(46.4)	(46.4)
Exceptional items	(33.6)	(17.7)	(86.4)	(4.9)	(18.2)	(160.8)
<b>Profit before tax</b>	<b>180.5</b>	<b>75.0</b>	<b>(4.3)</b>	<b>51.4</b>	<b>(67.4)</b>	<b>235.2</b>

\* Before amortisation of acquired intangibles and exceptional items.



## 3. Segmental information (continued)

2018	Marine £m	Land £m	Aviation £m	Nuclear £m	Unallocated £m	Total £m
Revenue including joint ventures and associates	1,788.9	1,849.1	1,022.1	702.7	–	5,362.8
Less: joint ventures and associates revenue	22.4	88.7	101.0	491.1	–	703.2
<b>Revenue</b>	<b>1,766.5</b>	<b>1,760.4</b>	<b>921.1</b>	<b>211.6</b>	<b>–</b>	<b>4,659.6</b>
Operating profit/(loss) before share of results of joint ventures and associates	225.6	59.7	58.9	30.1	(3.7)	370.6
Acquired intangible amortisation	5.3	47.5	44.2	1.1	–	98.1
Operating profit*	230.9	107.2	103.1	31.2	(3.7)	468.7
IFRIC 12 investment income – Group	0.4	1.5	–	–	–	1.9
Share of operating profit – joint ventures and associates	3.8	29.9	14.6	37.6	–	85.9
Share of IFRIC 12 investment income – joint ventures and associates	–	1.5	26.6	–	–	28.1
<b>Underlying operating profit</b>	<b>235.1</b>	<b>140.1</b>	<b>144.3</b>	<b>68.8</b>	<b>(3.7)</b>	<b>584.6</b>
Share of finance costs – joint ventures and associates	–	(0.9)	(21.3)	–	–	(22.2)
Share of tax – joint ventures and associates	(1.3)	(5.4)	(3.7)	(7.1)	–	(17.5)
Acquired intangible amortisation – Group	(5.3)	(47.5)	(44.2)	(1.1)	–	(98.1)
Share of acquired intangible amortisation – joint ventures and associates	–	(2.0)	(3.8)	–	–	(5.8)
Net finance costs – Group	–	–	–	–	(49.9)	(49.9)
<b>Profit before tax</b>	<b>228.5</b>	<b>84.3</b>	<b>71.3</b>	<b>60.6</b>	<b>(53.6)</b>	<b>391.1</b>

\* Before amortisation of acquired intangibles and exceptional items.

Inter divisional revenue is immaterial.

Revenues of £2.2 billion (2018: £2.4 billion) are derived from a single external customer. These revenues are attributable across all sectors.

The segment assets and liabilities at 31 March 2019 and 31 March 2018 and capital expenditure for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Marine	<b>1,041.2</b>	1,062.8	<b>546.0</b>	589.6	<b>52.3</b>	44.8
Land	<b>1,673.2</b>	1,744.0	<b>515.5</b>	529.9	<b>16.2</b>	22.8
Aviation	<b>2,466.9</b>	2,561.7	<b>408.3</b>	367.1	<b>141.4</b>	80.2
Nuclear	<b>163.2</b>	163.4	<b>26.7</b>	36.3	<b>6.4</b>	0.1
Unallocated	<b>833.6</b>	789.1	<b>1,796.7</b>	1,887.1	<b>10.7</b>	34.8
<b>Group total</b>	<b>6,178.1</b>	6,321.0	<b>3,293.2</b>	3,410.0	<b>227.0</b>	182.7

Capital expenditure represents additions to property, plant and equipment and intangible assets. Proceeds from the sale of assets totalled £78.5 million (2018: £70.0 million). Proceeds are in the main within the Aviation section. See note 19 relating to the treatment of amounts payable in respect of capital expenditure.

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

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



## Notes to the Group financial statements continued

### 3. Segmental information (continued)

The segmental depreciation on tangible assets and amortisation of intangible assets for the years ended 31 March 2019 and 31 March 2018 is as follows:

	Depreciation		Amortisation of intangible assets	
	2019 £m	2018 £m	2019 £m	2018 £m
Marine	28.5	30.3	9.8	11.2
Land	17.9	17.7	46.2	49.4
Aviation	39.9	36.0	46.6	45.1
Nuclear	0.6	1.3	0.8	1.2
Unallocated	6.9	6.0	6.6	4.2
<b>Group total</b>	<b>93.8</b>	<b>91.3</b>	<b>110.0</b>	<b>111.1</b>

The geographic analysis for non-current assets by location of those assets for the years ended 31 March 2019 and 31 March 2018 is as follows:

	2019 £m	2018 £m
United Kingdom	2,827.3	2,817.9
Rest of Europe	1,171.7	1,226.7
Africa	34.2	45.9
North America	7.0	6.2
Australasia	175.0	176.2
Rest of World	37.2	39.5
<b>Non-current segment assets</b>	<b>4,252.4</b>	<b>4,312.4</b>
Retirement benefits	226.9	240.1
IFRIC 12 financial assets	15.5	17.8
Other financial assets	93.8	76.0
Tax	150.9	104.0
<b>Total non-current assets</b>	<b>4,739.5</b>	<b>4,750.3</b>

The geographic analysis by origin of customer for the years ended 31 March 2019 and 31 March 2018 is as follows:

Geographic analysis	Revenue	
	2019 £m	2018 £m
United Kingdom	2,954.3	3,159.0
Rest of Europe	649.4	586.1
Africa	353.6	413.5
North America	181.3	205.8
Australasia	189.2	162.8
Rest of World	147.0	132.4
<b>Group total</b>	<b>4,474.8</b>	<b>4,659.6</b>

The analysis of revenue for the years ended 31 March 2019 and 31 March 2018 is as follows:

	2019 £m	2018 £m
Sales of goods – transferred at a point in time	635.7	615.4
Sale of goods – transferred over time	61.8	25.8
<b>Sale of goods</b>	<b>697.5</b>	<b>641.2</b>
Provision of services – transferred over time	3,768.6	4,010.3
Rental income	8.7	8.1
<b>Revenue</b>	<b>4,474.8</b>	<b>4,659.6</b>

The sale of goods at a point in time is mainly in the Land sector. This includes revenue subject to judgement as to whether the Group operates as principal or agent. The sale of goods over time is in the Marine sector. Provision of services over time is across all sectors. Further disaggregation of revenue is set out in the Strategic report on page 6.



## 4. Operating profit for the year

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

	2019 £m	2018 £m
Employee costs (note 7)	<b>1,611.6</b>	1,588.3
Inventories		
– cost of inventories recognised as an expense	<b>504.5</b>	444.0
– increase/(decrease) in inventory provisions	<b>(5.9)</b>	1.8
Depreciation of property, plant and equipment (PPE)		
– owned assets	<b>81.0</b>	81.7
– under finance leases	<b>12.8</b>	9.6
	<b>93.8</b>	91.3
Amortisation of intangible assets		
– acquired intangibles	<b>95.2</b>	98.1
– other	<b>14.8</b>	13.0
	<b>110.0</b>	111.1
Impairment of goodwill	–	–
Profit on disposal of property plant and equipment	<b>(5.4)</b>	(4.1)
Loss on disposal of intangible assets	<b>0.3</b>	–
Operating lease rentals payable		
– property	<b>32.4</b>	30.0
– vehicles, plant and equipment	<b>124.4</b>	115.4
Research and development	<b>0.4</b>	1.0
Trade receivables charged	<b>1.6</b>	1.3
Net foreign exchange (gain)/loss	<b>(5.9)</b>	16.1

In addition to the vehicle operating lease rentals above is £53.5 million (2018: £53.6 million) for the Phoenix contract where the leases are directly on behalf of and benefit to the customer.

### Services provided by the Group's auditor and network firms

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

	2019 £m	2018 £m
<b>Audit fees:</b>		
Fees payable to the parent auditor and its associates for the audit of the parent company's individual and consolidated financial statements	<b>0.6</b>	0.4
<b>Fees for other services:</b>		
Fees payable to the parent auditor and its associates in respect of the audit of the Company's subsidiaries	<b>1.9</b>	1.8
Audit related services	–	0.2
Other non-audit services	–	0.1
<b>Total fees paid to the Group's auditor and network firms</b>	<b>2.5</b>	2.5



## Notes to the Group financial statements continued

### 5. Exceptional items and acquired intangible amortisation

	Group		Joint ventures and associates		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Oil and Gas <sup>1</sup>						
– Asset impairment	39.0	–	–	–	39.0	–
– Onerous lease provisions	42.1	–	–	–	42.1	–
Oil and Gas – total	81.1	–	–	–	81.1	–
Capacity restructuring <sup>2</sup>	42.4	–	–	–	42.4	–
Exit <sup>3</sup>	21.4	–	–	–	21.4	–
Profit on disposal of subsidiaries and businesses (note 29)	(14.8)	–	–	–	(14.8)	–
Pension GMP equalisation and bulk transfer <sup>4</sup>	30.7	–	–	–	30.7	–
<b>Exceptional items<sup>5</sup></b>	<b>160.8</b>	–	–	–	<b>160.8</b>	–
Exceptional tax items and tax on exceptional items <sup>6</sup>	(16.7)	–	–	–	(16.7)	–
<b>Exceptional items – net of tax</b>	<b>144.1</b>	–	–	–	<b>144.1</b>	–
<b>Acquired intangible amortisation</b>	<b>95.2</b>	98.1	<b>5.8</b>	5.8	<b>101.0</b>	103.9
Tax on acquired intangibles amortisation	(20.4)	(21.1)	(1.1)	(1.1)	(21.5)	(22.2)
<b>Acquired intangible amortisation – net of tax</b>	<b>74.8</b>	77.0	<b>4.7</b>	4.7	<b>79.5</b>	81.7

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

1. During the period the Oil and Gas business was reshaped to reflect the current market and to allow for the resultant business to optimise future cashflows. Assets and leases were marked to current market value to allow for sale, sub lease or alternate use. The total exceptional charge is £81.1 million and the cash costs are expected to be offset by tax effects and proceeds from the disposal of assets. Refer to notes 13 and 17 for the asset impairments, and there are also minor impairments to inventory. Refer to note 22 for the onerous lease provisions.
2. Capacity reduction and restructuring costs reflect the rightsizing, restructuring and closure of businesses across the sectors including Appledore, Rail and Magnox. Refer to note 22 for related provision movements.
3. The Group continued with its strategy of exiting small, low margin businesses. The costs of exiting renewables, mining and construction, scaling down powerlines (South Africa), mobile telecom, infrastructure and cabling are reflected within exit costs. Refer to note 13 for related asset write downs.
4. On 26 October, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The past service costs totalling £25.9 million reflect our estimate of the extent to which the judgment crystallises additional liabilities for our pension schemes.  
The Group also recognised a £4.8 million one off cost for settlement of a pension scheme liability (note 25).
5. £88.9 million of the exceptional charge has been charged through Cost of revenue and the balance of £71.9 million through Administration expenses.
6. The tax credit of £16.7 million on exceptional items includes a charge of £10.0 million as a result of a reorganisation in anticipation of Brexit.



## 6. Net finance costs

	2019 £m	2018 £m
<b>Finance costs</b>		
Loans, overdrafts and associated interest rate hedges	41.9	42.7
Finance leases	5.3	5.4
Amortisation of issue costs of bank loan	1.4	1.7
Other	14.1	12.1
<b>Total finance costs</b>	<b>62.7</b>	<b>61.9</b>
<b>Finance income</b>		
Bank deposits, loans and finance leases	16.0	14.3
<b>Total finance income</b>	<b>16.0</b>	<b>14.3</b>
<b>Net finance costs</b>	<b>46.7</b>	<b>47.6</b>

## 7. Employee costs

	2019 £m	2018 £m
Wages and salaries	1,319.2	1,306.6
Social security costs	159.9	162.4
Share-based payments (note 24)	2.4	6.4
Pension costs – defined contribution plans (note 25)	69.5	65.6
Pension charges – defined benefit plans (note 25)	60.6	47.3
	<b>1,611.6</b>	<b>1,588.3</b>

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

	2019 Number	2018 Number
Operations	30,554	30,950
Administration and management	4,735	4,477
	<b>35,289</b>	<b>35,427</b>

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 key cash-generating units. The employees would typically report to the Chief Executive. The key management figures given below include Directors.

	2019 £m	2018 £m
Salaries	10.3	10.8
Post-employment benefits	–	–
Share-based payments	0.2	1.4
	<b>10.5</b>	<b>12.2</b>



Notes to the Group financial statements continued

8. Income tax expense

	Total	
	2019	2018
	£m	£m
<b>Analysis of tax charge in the year</b>		
Current tax		
- UK current year charge	51.6	67.3
- UK prior year charge	11.6	-
- Overseas current year charge	22.8	26.0
	<b>86.0</b>	<b>93.3</b>
Deferred tax		
- UK current year credit	(33.6)	(22.3)
- Overseas current year credit	(1.3)	(18.4)
- Overseas prior year credit	(17.0)	-
- Impact of change in UK tax rate	1.3	1.3
- Impact of change in French (2018: French) tax rate	-	(0.5)
	<b>(50.6)</b>	<b>(39.9)</b>
<b>Total income tax expense</b>	<b>35.4</b>	<b>53.4</b>

The tax for the year is lower (2018: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2019	2018
	£m	£m
<b>Profit before tax</b>	<b>235.2</b>	<b>391.1</b>
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2018: 19%)	44.7	74.3
Effects of:		
Expenses not deductible for tax purposes	0.4	0.5
Re-measurement of deferred tax re change in UK tax rate	1.3	1.3
Re-measurement of deferred tax re change in French (2018: French) tax rate	-	(0.5)
Difference in respect of joint venture results	(15.9)	(13.0)
Differences in respect of foreign rates and UK consortium relief rates	3.4	(5.1)
Adjustments in respect of earlier years	(5.4)	-
Other (including effect of exceptional items at effective tax rate)	6.9	(4.1)
<b>Total income tax expense</b>	<b>35.4</b>	<b>53.4</b>

In the UK 2015 Budget it was announced that the UK corporation tax rate would reduce to 19% from April 2017. It was announced in the 2016 UK Budget that it will be further reduced to 18% from April 2020. It was subsequently announced in the 2017 budget that it will be reduced to 17% from April 2020. As a result of this change, UK deferred tax balances have been remeasured at 17% as this is the tax rate that will apply on reversal. As a result a charge of £1.3 million has been taken to the income statement in respect of the remeasurement of year end UK deferred tax balances to 17%. A further £0.4 million has been debited to reserves in respect of the remeasurement of year end UK deferred tax balances to 17%.

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



## 9. Dividends

	2019 £m	2018 £m
Final dividend for the year ended 31 March 2018 of 22.65p (2017: 21.65p) per 60p share	<b>115.5</b>	109.2
Interim dividend for the year ended 31 March 2019 of 7.10p (2018: 6.85p) per 60p share	<b>35.0</b>	34.7
	<b>150.5</b>	143.9

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 March 2019 of 22.9p (2018: 22.65p) per share which will absorb an estimated £115.7 million (2018: £114.3 million) of shareholders' equity. It will be paid on 9 August 2019 to shareholders who are on the register of members on 5 July 2019. These financial statements do not reflect this dividend payable which is subject to approval at the Annual General Meeting on 18 July 2019. The full year declared dividend per share is 30.0p per 60p ordinary share (2018: 29.5p per 60p ordinary share).

## 10. Earnings per share

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

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

### Number of shares

	2019 Number	2018 Number
Weighted average number of ordinary shares for the purpose of basic EPS	<b>505,165,728</b>	504,881,495
Effect of dilutive potential ordinary shares: share options	<b>947,702</b>	858,150
Weighted average number of ordinary shares for the purpose of diluted EPS	<b>506,113,430</b>	505,739,645

### Earnings

	2019 Earnings £m	2019 Basic per share Pence	2019 Diluted per share Pence	2018 Earnings £m	2018 Basic per share Pence	2018 Diluted per share Pence
Earnings from continuing operations	<b>199.4</b>	<b>39.5</b>	<b>39.4</b>	336.3	66.6	66.5
Add back:						
Amortisation of acquired intangible assets, net of tax	<b>79.5</b>	<b>15.7</b>	<b>15.7</b>	81.7	16.2	16.2
Exceptional items, net of tax	<b>144.1</b>	<b>28.5</b>	<b>28.5</b>	–	–	–
Impact of change in statutory tax rates	<b>1.3</b>	<b>0.3</b>	<b>0.3</b>	0.8	0.2	0.2
<b>Earnings before amortisation, exceptional items and other</b>	<b>424.3</b>	<b>84.0</b>	<b>83.9</b>	418.8	83.0	82.9



## Notes to the Group financial statements continued

### 11. Goodwill

	2019 £m	2018 £m
<b>Cost</b>		
<b>At 1 April</b>	<b>2,608.0</b>	2,615.9
On disposal of subsidiaries (note 29)	(9.4)	–
Exchange adjustments	(9.6)	(7.9)
<b>At 31 March</b>	<b>2,589.0</b>	2,608.0
<b>Accumulated impairment</b>		
<b>At 1 April</b>	<b>7.1</b>	7.1
On disposal of subsidiaries (note 29)	(2.3)	–
Impairment	–	–
<b>At 31 March</b>	<b>4.8</b>	7.1
<b>Net book value at 31 March</b>	<b>2,584.2</b>	2,600.9

During the year, goodwill was tested for impairment in accordance with IAS 36. The recoverable amount of the Group's goodwill was assessed by reference to value-in-use calculations derived from the three-year budgeted cash flows, and extrapolated cash flows thereafter based on an estimated growth rate of 3.0% (2018: 3.0%). The process by which the budget is prepared, reviewed and approved benefits from historical experience, visibility of long-term work programmes in relation to elements of the work undertaken for the UK government, available government spending information (both UK and overseas) and the Group's order book and bid pipeline.

A pre-tax discount rate in the range 9.5% to 10.5% (2018: 8.5% to 9.8%) was used in the value-in-use calculations. The Group's weighted average cost of capital post-tax is approximately 7.8% to 8.6% (2018: 7.0% to 8.0%).

Goodwill is allocated to the Group's cash-generating units (CGUs) as presented below. These align with the Group's operating segments and represent the lowest level in the Group at which goodwill is monitored.

	2019 £m	2018 £m
Marine	524.3	522.4
Land	889.7	900.0
Aviation	1,100.2	1,108.5
Nuclear	70.0	70.0
	<b>2,584.2</b>	2,600.9

Key assumptions in relation to the cashflows included in the value in use models are set out below:

Marine	Continuing delivery of work programmes with the UK Ministry of Defence.
Land	Continuing demand for large scale vehicle fleet management, equipment support and training from both military and civil customers, noting that significant elements of equipment support and training are the subject of long-term contracts.
Aviation	Continuing delivery of long-term contracts with the UK Ministry of Defence and growth in aerial emergency services worldwide where the Group has a number of leadership positions.
Nuclear	Continuing delivery of opportunities in the civil nuclear decommissioning programme together with maintenance of ongoing spend in provision of nuclear engineering services to operational power stations, and some growth in support of the UK new build programme.

The value in use calculations present significant headroom in respect of all the operating segments. Sensitivity analyses were carried out for each of the segments in relation to constraining the rate of growth of the budget cashflows by 28%, reducing the long-term growth rate by 1% and increasing the discount rate used in the value in use calculations by 1%. In each case significant headroom remained for each segment. The sensitivities were also applied in the aggregate and in this case a marginal amount of headroom remained for Aviation and significant headroom remained for the other segments.



## 12. Other intangible assets

	Acquired intangibles – relationships £m	Acquired intangibles – brands £m	Acquired intangibles – total £m	Software development costs and licences £m	Development costs and other £m	Total £m
<b>Cost</b>						
<b>At 1 April 2018</b>	<b>1,174.4</b>	<b>23.9</b>	<b>1,198.3</b>	<b>153.0</b>	<b>8.0</b>	<b>1,359.3</b>
Additions	–	–	–	21.4	10.8	32.2
Disposals at cost	–	–	–	(2.3)	–	(2.3)
Exchange adjustments	(4.9)	(0.2)	(5.1)	(0.1)	(0.2)	(5.4)
<b>At 31 March 2019</b>	<b>1,169.5</b>	<b>23.7</b>	<b>1,193.2</b>	<b>172.0</b>	<b>18.6</b>	<b>1,383.8</b>
<b>Accumulated amortisation and impairment</b>						
<b>At 1 April 2018</b>	<b>751.5</b>	<b>19.7</b>	<b>771.2</b>	<b>57.9</b>	<b>0.9</b>	<b>830.0</b>
Amortisation charge	94.6	0.6	95.2	14.3	0.5	110.0
Amortisation on disposals	–	–	–	(1.9)	–	(1.9)
Exchange adjustments	(2.8)	(0.1)	(2.9)	(0.2)	(0.1)	(3.2)
<b>At 31 March 2019</b>	<b>843.3</b>	<b>20.2</b>	<b>863.5</b>	<b>70.1</b>	<b>1.3</b>	<b>934.9</b>
<b>Net book value at 31 March 2019</b>	<b>326.2</b>	<b>3.5</b>	<b>329.7</b>	<b>101.9</b>	<b>17.3</b>	<b>448.9</b>
<b>Cost</b>						
At 1 April 2017	1,175.3	23.9	1,199.2	123.4	6.2	1,328.8
Additions	–	–	–	30.1	1.7	31.8
Disposals at cost	–	–	–	(0.3)	–	(0.3)
Exchange adjustments	(0.9)	–	(0.9)	(0.2)	0.1	(1.0)
At 31 March 2018	1,174.4	23.9	1,198.3	153.0	8.0	1,359.3
<b>Accumulated amortisation and impairment</b>						
At 1 April 2017	655.3	19.2	674.5	45.8	0.5	720.8
Amortisation charge	97.5	0.6	98.1	12.7	0.3	111.1
Amortisation on disposals	–	–	–	(0.3)	–	(0.3)
Exchange adjustments	(1.3)	(0.1)	(1.4)	(0.3)	0.1	(1.6)
At 31 March 2018	751.5	19.7	771.2	57.9	0.9	830.0
Net book value at 31 March 2018	422.9	4.2	427.1	95.1	7.1	529.3

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



Notes to the Group financial statements continued

13. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Assets in course of construction £m	Total £m
<b>Cost</b>						
<b>At 1 April 2018</b>	<b>124.9</b>	<b>35.4</b>	<b>614.0</b>	<b>625.4</b>	<b>90.0</b>	<b>1,489.7</b>
On disposal of subsidiaries (note 29)	(0.7)	(0.1)	(22.8)	–	–	(23.6)
Additions	4.2	3.6	45.8	100.7	47.5	201.8
Disposals	(2.9)	(0.8)	(14.2)	(76.9)	(16.3)	(111.1)
Reclassification	–	–	0.1	4.7	(4.8)	–
Capitalised borrowing costs	–	–	1.7	–	–	1.7
Exchange adjustments	(0.4)	(0.1)	(9.4)	(9.6)	(2.9)	(22.4)
<b>At 31 March 2019</b>	<b>125.1</b>	<b>38.0</b>	<b>615.2</b>	<b>644.3</b>	<b>113.5</b>	<b>1,536.1</b>
<b>Accumulated depreciation</b>						
<b>At 1 April 2018</b>	<b>56.8</b>	<b>9.1</b>	<b>327.5</b>	<b>67.9</b>	<b>–</b>	<b>461.3</b>
On disposal of subsidiaries (note 29)	(0.2)	(0.1)	(18.3)	–	–	(18.6)
Charge for the year	5.0	1.5	63.6	23.7	–	93.8
Impairment*	–	–	–	29.3	–	29.3
Disposals	(1.2)	(0.6)	(13.8)	(22.3)	–	(37.9)
Exchange adjustments	–	(0.1)	(4.5)	(1.5)	–	(6.1)
<b>At 31 March 2019</b>	<b>60.4</b>	<b>9.8</b>	<b>354.5</b>	<b>97.1</b>	<b>–</b>	<b>521.8</b>
<b>Net book value at 31 March 2019</b>	<b>64.7</b>	<b>28.2</b>	<b>260.7</b>	<b>547.2</b>	<b>113.5</b>	<b>1,014.3</b>
<b>Cost</b>						
At 1 April 2017	117.4	32.4	568.3	598.1	112.8	1,429.0
Additions	8.0	4.6	61.5	44.7	23.7	142.5
Disposals	(0.7)	(1.9)	(16.3)	(27.8)	(38.6)	(85.3)
Reclassification	–	–	0.2	9.3	(9.5)	–
Capitalised borrowing costs	–	0.2	1.6	–	–	1.8
Exchange adjustments	0.2	0.1	(1.3)	1.1	1.6	1.7
At 31 March 2018	124.9	35.4	614.0	625.4	90.0	1,489.7
<b>Accumulated depreciation</b>						
At 1 April 2017	50.1	7.2	282.1	52.7	–	392.1
Charge for the year	6.5	2.2	58.8	23.8	–	91.3
Disposals	–	(0.3)	(12.6)	(6.6)	–	(19.5)
Exchange adjustments	0.2	–	(0.8)	(2.0)	–	(2.6)
At 31 March 2018	56.8	9.1	327.5	67.9	–	461.3
Net book value at 31 March 2018	68.1	26.3	286.5	557.5	90.0	1,028.4

\* The Group impaired eight owned helicopters as a result of the reshaping of our Oil and Gas business, as set out in note 5.

The assets have been written down using market values to estimate fair value less costs of disposal observing Level 2 inputs. The eight assets have been written down to a combined recoverable amount of £39 million.

A capitalisation rate of 3% (2018: 3%) was used to determine the amount of borrowing costs eligible for capitalisation.

Assets held under finance leases have the following net book value within 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
<b>2019</b>						
Cost	–	–	45.1	113.3	–	158.4
Aggregate depreciation	–	–	(18.0)	(24.8)	–	(42.8)
Net book value	–	–	27.1	88.5	–	115.6
<b>2018</b>						
Cost	–	–	49.5	157.0	–	206.5
Aggregate depreciation	–	–	(14.7)	(28.3)	–	(43.0)
Net book value	–	–	34.8	128.7	–	163.5



## 14. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
<b>At 1 April</b>	<b>119.3</b>	71.9	<b>27.8</b>	32.3	<b>147.1</b>	104.2
Disposal of joint ventures and associates (note 29)	<b>(6.6)</b>	(1.8)	–	–	<b>(6.6)</b>	(1.8)
Loans repaid by joint ventures and associates	–	–	<b>(2.3)</b>	(4.5)	<b>(2.3)</b>	(4.5)
Investment in joint ventures and associates	–	6.9	<b>10.8</b>	–	<b>10.8</b>	6.9
Share of profits	<b>83.8</b>	68.5	–	–	<b>83.8</b>	68.5
Interest accrued and capitalised	–	–	<b>6.5</b>	0.9	<b>6.5</b>	0.9
Interest received	–	–	<b>(0.3)</b>	(0.9)	<b>(0.3)</b>	(0.9)
Dividends received	<b>(44.6)</b>	(42.9)	–	–	<b>(44.6)</b>	(42.9)
Fair value adjustment of derivatives	<b>1.8</b>	24.3	–	–	<b>1.8</b>	24.3
Tax on fair value adjustment of derivatives	<b>(0.3)</b>	(7.4)	–	–	<b>(0.3)</b>	(7.4)
Foreign exchange	<b>(0.2)</b>	(0.2)	–	–	<b>(0.2)</b>	(0.2)
<b>At 31 March</b>	<b>153.2</b>	119.3	<b>42.5</b>	27.8	<b>195.7</b>	147.1

Included within investment in joint ventures and associates is goodwill of £1.2 million (2018: £1.2 million).

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

	2019 £m	2018 £m
Marine	<b>6.0</b>	7.0
Land	<b>77.4</b>	49.1
Aviation	<b>70.2</b>	65.6
Nuclear	<b>42.1</b>	25.4
Net book value	<b>195.7</b>	147.1

Financial statements



Notes to the Group financial statements continued

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

Included within joint ventures and associates are:

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit/(loss)* £m	Total comprehensive income/(loss) £m	% interest held
<b>2019</b>							
Holdfast Training Services Limited	United Kingdom	46.3	(3.6)	80.6	28.4	23.6	74%
ALC (Superholdco) Limited	United Kingdom	19.1	-	19.3	11.3	8.3	50%
AirTanker Limited	United Kingdom	409.3	(390.6)	42.5	13.4	10.2	13%
AirTanker Services Limited	United Kingdom	32.9	-	43.7	5.0	3.1	22%
Ascent Flight Training (Holdings) Limited	United Kingdom	113.5	(98.7)	61.5	5.0	5.3	50%
Naval Ship Management (Australia) Pty Limited	Australia	5.2	(4.1)	23.7	4.2	2.9	50%
Cavendish Dounreay Partnership Limited	United Kingdom	39.4	(19.8)	110.5	7.8	6.2	50%
Cavendish Fluor Partnership Limited	United Kingdom	102.6	(80.2)	390.8	28.9	23.4	65%
ABC Electrification Limited	United Kingdom	2.6	-	50.7	(0.2)	(0.2)	33%
Other		21.8	-	33.9	3.0	1.0	
		<b>792.7</b>	<b>(597.0)</b>	<b>857.2</b>	<b>106.8</b>	<b>83.8</b>	
<b>2018</b>							
Holdfast Training Services Limited	United Kingdom	40.1	(14.0)	77.4	18.4	14.8	74%
ALC (Superholdco) Limited	United Kingdom	18.6	-	20.1	10.9	7.4	50%
AirTanker Limited	United Kingdom	421.0	(410.2)	29.9	4.0	2.6	13%
AirTanker Services Limited	United Kingdom	29.8	-	41.3	4.4	2.7	22%
Ascent Flight Training (Holdings) Limited	United Kingdom	116.5	(104.7)	48.0	3.1	5.2	50%
Naval Ship Management (Australia) Pty Limited	Australia	5.0	(4.3)	26.5	4.3	3.0	50%
Helidax S.A.S.	France	30.2	(24.7)	8.6	3.2	1.3	50%
Cavendish Dounreay Partnership Limited	United Kingdom	38.2	(24.8)	118.5	5.8	4.7	50%
Cavendish Fluor Partnership Limited	United Kingdom	100.1	(88.2)	395.6	31.8	25.8	65%
ABC Electrification Limited	United Kingdom	2.9	-	69.4	0.2	0.2	33%
Other		20.2	(4.6)	64.3	(0.2)	0.8	
		<b>822.6</b>	<b>(675.5)</b>	<b>899.6</b>	<b>85.9</b>	<b>68.5</b>	

\* Before amortisation of acquired intangibles.

Joint ventures and associates revenue excluding Group sub-contract revenue is £685.8 million (2018: £703.2 million).

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

None (2018: non) of the joint ventures or associates had material amounts of other comprehensive income or profits from discontinued operations and therefore the total comprehensive income noted in the table above is in line with profits from continuing operations.

Holdfast Training Services Limited and Cavendish Fluor Partnership Limited are equity accounted as unanimous decisions making is required over key decisions which drive the relevant activities of the business. Both the Holdfast Training Services Limited and Cavendish Fluor Partnership Limited joint arrangements are shown as joint ventures as the Group has the right to net assets of the joint arrangement rather than separate rights and obligations to the assets and liabilities of the joint arrangement respectively. Holdfast Training Services Limited and Cavendish Fluor Partnership Limited had other comprehensive income of £nil in the year (2018: £nil).

AirTanker Limited is shown as an associate due to the level of management input and the relative share ownership. AirTanker benefitted from an improved cumulative margin position in the year.

The Cavendish Fluor Partnership Limited is deemed material to the Group. All the assets and liabilities are current. Of the assets shown above £1.8 million (2018: £6.2 million) was cash and cash equivalents. During the year dividends of £12.9 million (2018: £24.2 million) were received. The retained profit is after income tax expense of £5.5 million (2018: £6.0 million).



## 15. Deferred tax

	2019 £m	2018 £m
Deferred tax asset	150.9	104.0
Deferred tax liability	(103.2)	(112.8)
	<b>47.7</b>	<b>(8.8)</b>

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

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
<b>At 1 April 2018</b>	<b>(8.0)</b>	<b>0.8</b>	<b>41.4</b>	<b>(43.0)</b>	<b>(8.8)</b>
Income statement credit	-	11.4	-	11.8	23.2
Exceptional credit at 19%	3.4	-	-	5.8	9.2
Exceptional credit at 17%	2.2	-	-	0.1	2.3
Prior year adjustment	-	-	17.0	-	17.0
Tax credit to equity	-	10.4	-	2.8	13.2
Transfer (to)/from corporation tax	-	(17.4)	13.8	(3.4)	(7.0)
Effect of change in UK tax rate					
- income statement	(0.2)	-	-	(1.1)	(1.3)
- equity	-	(0.5)	-	0.1	(0.4)
Exchange differences	-	-	-	0.3	0.3
<b>At 31 March 2019</b>	<b>(2.6)</b>	<b>4.7</b>	<b>72.2</b>	<b>(26.6)</b>	<b>47.7</b>
At 1 April 2017	(8.0)	17.8	37.7	(69.0)	(21.5)
Income statement credit	-	9.4	3.7	27.7	40.8
Tax credit to equity	-	(10.3)	-	3.1	(7.2)
Transfer to corporation tax	-	(18.1)	-	(2.6)	(20.7)
Effect of change in UK tax rate					
- income statement	-	-	-	(1.3)	(1.3)
- equity	-	2.0	-	(0.1)	1.9
Effect of change in Italian tax rate					
- income statement	-	-	-	0.5	0.5
Exchange differences	-	-	-	(1.3)	(1.3)
At 31 March 2018	(8.0)	0.8	41.4	(43.0)	(8.8)

The net deferred tax assets of £47.7 million includes deferred tax assets of £99.1 million and deferred tax liabilities of £69.1 million in respect of the Group's non-UK operations.

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

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



## Notes to the Group financial statements continued

### 15. Deferred tax (continued)

Deferred tax expected to be recovered within 12 months:

	2019 £m	2018 £m
Deferred tax liability	(21.5)	(19.6)
	<b>(21.5)</b>	<b>(19.6)</b>

At the balance sheet date, deferred tax assets of £72.0 million (2018: £41.4 million) have been recognised in respect of unused tax losses available for carry forward. This is out of a total potential deferred tax asset in respect of unutilised tax losses (excluding capital losses) of approximately £80 million.

### 16. Inventories

	2019 £m	2018 £m
Raw materials and spares	87.9	65.6
Work-in-progress	7.7	5.7
Finished goods and goods for resale	100.9	110.1
<b>Total</b>	<b>196.5</b>	<b>181.4</b>

### 17. Trade and other receivables

	2019 £m	2018 (restated) £m
<b>Current assets</b>		
Trade receivables	255.5	283.1
Less: provision for impairment of receivables	(6.0)	(4.9)
<b>Trade receivables – net</b>	<b>249.5</b>	<b>278.2</b>
Amounts due from customers for contract work	266.0	409.3
Accrued income	133.2	118.5
Capitalised contract costs	62.9	53.5
<b>Contract assets</b>	<b>462.1</b>	<b>581.3</b>
Retentions	9.1	9.4
Amounts due from related parties (note 34)	11.4	13.3
Other debtors	99.0	115.1
Prepayments	76.7	62.8
	<b>907.8</b>	<b>1,060.1</b>
<b>Non-current assets</b>		
Other debtors	9.3	6.7

Trade and other receivables are stated at amortised cost.



## 17. Trade and other receivables (continued)

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

	Amounts due from customers for contract work £m	Accrued income £m	Capitalised contract costs £m	Contract assets £m
<b>31 March 2018</b>	<b>462.8</b>	<b>118.5</b>	<b>–</b>	<b>581.3</b>
Reclassification – IFRS 15 adoption	(53.5)	–	53.5	–
<b>1 April 2018 – restated</b>	<b>409.3</b>	<b>118.5</b>	<b>53.5</b>	<b>581.3</b>
Transfers from contract assets recognised at the beginning of the year to receivables	(394.7)	(112.5)	–	(507.2)
Increase due to work done not transferred from contract assets	264.5	128.5	–	393.0
Amounts capitalised	–	–	26.5	26.5
Amortisation of contract assets	–	–	(8.7)	(8.7)
Write down of contract assets*	(14.4)	–	(6.3)	(20.7)
Other	–	(1.0)	–	(1.0)
Exchange adjustment	1.3	(0.3)	(2.1)	(1.1)
<b>31 March 2019</b>	<b>266.0</b>	<b>133.2</b>	<b>62.9</b>	<b>462.1</b>
31 March 2017	222.4	124.4	–	346.8
Reclassification – IFRS 15 adoption	(31.2)	–	31.2	–
31 March 2017 – restated	191.2	124.4	31.2	346.8
Transfers from contract assets recognised at the beginning of the year to receivables	(182.4)	(124.0)	–	(306.4)
Increase due to work done not transferred from contract assets	401.4	117.9	–	519.3
Amounts capitalised	–	–	29.5	29.5
Amortisation of contract assets	–	–	(6.1)	(6.1)
Exchange adjustment	(0.9)	0.2	(1.1)	(1.8)
31 March 2018	409.3	118.5	53.5	581.3

\* As discussed in note 5, amounts due from customers have been written down in relation to the exit of small low margin businesses and capitalised contract costs have been written down as a result of the reshaping of our Oil and Gas business. Further to this, minor amounts in other debtors have been written down in relation to both the reshaping of our Oil and Gas business and the exit of small, low margin businesses.

Under IFRS 15, contract mobilisation costs and costs of obtaining contracts are no longer presented within an overall contract balance with customers. These have therefore been reclassified at the date of transition to IFRS 15 (1 April 2018) from Amounts due from customers for contract work to a separate category called Capitalised contract costs.

No material revenue was recognised in 2019 from performance obligations satisfied in previous periods, arising from changes in stage of completion, or transaction price allocation (2018: No material revenue).

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



Notes to the Group financial statements continued

17. Trade and other receivables (continued)

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

	2019 £m	2018 £m
<b>Balance at 1 April*</b>	<b>(4.9)</b>	(6.1)
Provision for receivables impairment	<b>(1.6)</b>	(1.3)
Receivables written off during the year as uncollectable	<b>0.2</b>	0.2
Unused amounts reversed	<b>0.2</b>	2.3
Exchange differences	<b>0.1</b>	–
<b>Balance at 31 March</b>	<b>(6.0)</b>	(4.9)

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

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

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

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

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

18. Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	<b>275.0</b>	277.3
Short-term bank deposits (overnight)	<b>0.2</b>	9.0
	<b>275.2</b>	286.3

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

Currency	2019		2018	
	Total £m	Floating rate £m	Total £m	Floating rate £m
Sterling	<b>66.4</b>	<b>66.4</b>	62.2	62.2
Euro	<b>72.7</b>	<b>72.7</b>	83.6	83.6
US Dollar	<b>5.7</b>	<b>5.7</b>	13.4	13.4
South African Rand	<b>69.4</b>	<b>69.4</b>	65.7	65.7
Canadian Dollar	<b>36.8</b>	<b>36.8</b>	32.9	32.9
Omani Rial	<b>5.6</b>	<b>5.6</b>	6.5	6.5
Australian Dollar	<b>1.2</b>	<b>1.2</b>	3.3	3.3
Norwegian Krone	<b>1.9</b>	<b>1.9</b>	–	–
Swedish Krone	<b>3.2</b>	<b>3.2</b>	2.9	2.9
New Zealand Dollar	<b>0.1</b>	<b>0.1</b>	6.8	6.8
Brazilian Real	<b>6.0</b>	<b>6.0</b>	4.4	4.4
Other currencies	<b>6.2</b>	<b>6.2</b>	4.6	4.6
	<b>275.2</b>	<b>275.2</b>	286.3	286.3

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

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



## 19. Trade and other payables

	2019 £m	2018 £m
<b>Current liabilities</b>		
Contract cost accruals	<b>188.5</b>	179.9
Amounts due to customers for contract work	<b>192.8</b>	173.4
Deferred income	<b>40.0</b>	60.0
<b>Contract liabilities</b>	<b>421.3</b>	413.3
Trade creditors	<b>510.6</b>	545.3
Amounts due to related parties (note 34)	<b>1.0</b>	0.8
Other creditors	<b>63.9</b>	84.6
Other taxes and social security	<b>125.6</b>	119.6
Accruals	<b>259.0</b>	228.5
	<b>1,381.4</b>	1,392.1
<b>Non-current liabilities</b>		
Other creditors	<b>2.0</b>	2.3

Included in creditors is £19.5 million (2018: £10.8 million) relating to capital expenditure which has therefore not been included in working capital movements within the cashflow.

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

	Contract cost accrual £m	Amounts due to customers for contract work £m	Deferred income £m	Contract liabilities £m
<b>31 March 2018</b>	<b>179.9</b>	<b>173.4</b>	<b>60.0</b>	<b>413.3</b>
Revenue recognised that was included in the contract liability balance at the beginning of the year	–	(143.8)	(56.4)	(200.2)
Increase due to cash received, excluding amounts recognised as revenue	–	168.5	37.4	205.9
Amounts accrued	183.7	–	–	183.7
Amounts utilised	(167.2)	–	–	(167.2)
Disposal	(6.0)	(4.1)	–	(10.1)
Exchange adjustment	(1.9)	(1.2)	(1.0)	(4.1)
<b>31 March 2019</b>	<b>188.5</b>	<b>192.8</b>	<b>40.0</b>	<b>421.3</b>
31 March 2017	186.0	180.4	66.9	433.3
Revenue recognised that was included in the contract liability balance at the beginning of the year	–	(168.2)	(66.9)	(235.1)
Increase due to cash received, excluding amounts recognised as revenue	–	161.4	60.1	221.5
Amounts accrued	181.0	–	–	181.0
Amounts utilised	(185.3)	–	–	(185.3)
Exchange adjustment	(1.8)	(0.2)	(0.1)	(2.1)
31 March 2018	179.9	173.4	60.0	413.3



Notes to the Group financial statements continued

20. Bank and other borrowings

	2019 £m	2018 £m
<b>Current liabilities</b>		
<b>Bank loans and overdrafts due within one year or on demand</b>		
Secured	0.3	2.0
Unsecured	38.3	20.3
	<b>38.6</b>	22.3
Finance lease obligations*	15.3	15.8
	<b>53.9</b>	38.1
<b>Non-current liabilities</b>		
<b>Bank and other borrowings</b>		
Secured	22.0	38.9
Unsecured	1,285.1	1,371.0
	<b>1,307.1</b>	1,409.9
Finance lease obligations*	50.5	75.3
	<b>1,357.6</b>	1,485.2

\* Finance leases are secured against the assets to which they relate.

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

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

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

Currency	2018		
	Total £m	Floating rate £m	Fixed rate £m
Sterling	576.3	200.8	375.5
Euro	558.3	36.1	522.2
US Dollar*	354.9	212.9	142.0
South African Rand	33.8	33.8	-
	1,523.3	483.6	1,039.7

\* US\$500 million (2018: US\$500 million) has been swapped into Sterling, with US\$300 million (2018: US\$300 million) equivalent into floating rates and US\$200 million (2018: US\$200 million) equivalent into fixed rate. This is included in the US Dollar amount above.

The weighted average interest rate of Sterling fixed rate borrowings is 2.3%. The weighted average period for which these interest rates are fixed is four years.

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

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

Total borrowings	1 year £m	1-5 years £m	>5 years £m	Total £m
<b>As at 31 March 2019</b>	<b>352.6</b>	<b>753.9</b>	<b>305.0</b>	<b>1,411.5</b>
As at 31 March 2018	415.4	317.9	790.0	1,523.3



## 20. Bank and other borrowings (continued)

The effective interest rates at the balance sheet dates were as follows:

	2019 %	2018 %
UK bank overdraft	1.3	1.3
UK bank borrowings	2.4	1.6
US private placement – fixed	6.0	6.0
US private placement – floating	3.1	2.9
Eurobond	1.8	1.8
£300 million bond	1.9	1.9
Other borrowings	4.8 – 9.7	4.8 – 9.4
Finance leases	0.4 – 9.0	0.7 – 9.0

### Repayment details

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

	2019		2018	
	Loans and overdrafts £m	Finance lease obligations £m	Loans and overdrafts £m	Finance lease obligations £m
Within one year	38.6	15.3	22.3	15.8
Between one and two years	382.2	19.2	40.0	17.5
Between two and five years	623.2	23.5	1,067.6	43.8
Greater than five years	301.7	7.8	302.3	14.0
	<b>1,345.7</b>	<b>65.8</b>	1,432.2	91.1

### Borrowing facilities

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

	2019 £m	2018 £m
Expiring in less than one year	4.6	64.0
Expiring in more than one year but not more than five years	778.2	722.3
	<b>782.8</b>	786.3

The minimum lease payments under finance leases fall due as follows:

	2019 £m	2018 £m
Not later than one year	18.8	20.3
Later than one year but not more than five years	46.3	68.4
More than five years	8.0	14.5
	<b>73.1</b>	103.2
Future finance charges on finance leases	(7.3)	(12.1)
Present value of finance lease liabilities	<b>65.8</b>	91.1



Notes to the Group financial statements continued

21. Other financial assets and liabilities

Financial instruments and finance leases granted

	Fair value			
	Assets		Liabilities	
	2019 £m	2018 £m	2019 £m	2018 £m
<b>Non-current</b>				
US private placement – currency and interest rate swaps	75.2	47.7	1.0	–
Interest rate hedge	–	1.5	0.8	0.9
Other currency hedges	2.0	3.5	7.5	4.1
<b>Financial derivatives</b>	<b>77.2</b>	<b>52.7</b>	<b>9.3</b>	<b>5.0</b>
Finance leases granted	16.6	23.3	–	–
<b>Total non-current other financial assets and liabilities</b>	<b>93.8</b>	<b>76.0</b>	<b>9.3</b>	<b>5.0</b>
<b>Current</b>				
Interest rate hedge	–	–	0.1	0.2
Other currency hedge	3.7	4.3	4.8	11.7
<b>Financial derivatives</b>	<b>3.7</b>	<b>4.3</b>	<b>4.9</b>	<b>11.9</b>
Finance leases granted	44.3	23.2	–	–
<b>Total current other financial assets and liabilities</b>	<b>48.0</b>	<b>27.5</b>	<b>4.9</b>	<b>11.9</b>

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

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

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

The Group entered into a facility to sell its finance lease debtors on the FOMEDEC equipment supply contract. The Group analysed the terms of the facility and considers that the facility transfers substantially all the risks and rewards associated with the finance lease debtors. Finance lease debtors are derecognised at the date they are discounted by the bank. At 31 March 2019 the non-recourse balance was £137 million which will be recovered over approximately four years.

**Interest rate hedges**

The notional principal amount of outstanding interest rate swap contracts at 31 March 2019 included £6.3 million of UK interest rate swaps and interest rate swaps in relation to the US\$500 million US\$ to GBP cross-currency swap.

The Group held the following interest rate hedges at 31 March 2019:

	Amount £m	Fixed payable %	Floating receivable %	Maturity
<b>Hedged</b>				
Interest rate swap	4.7	4.745	Six month LIBOR	31/3/2029
	Amount US\$m	Amount at swapped rates £m	Swap %	Maturity
<b>Hedged</b>				
Cross currency and interest rate swap	200.0	122.9	Fixed 5.64% US\$ to fixed 5.95% GBP	17/3/2021
Cross currency and interest rate swap	300.0	184.3	Fixed 5.64% US\$ to floating three-month LIBOR + margin GBP	17/3/2021
<b>Total cross currency and interest rate swap</b>	<b>500.0</b>	<b>307.2</b>		

**Finance leases granted**

In South Africa the Group operates its own finance company to facilitate the sale of DAF vehicles. It obtains external borrowings and sells vehicles on finance leases to external customers. At the year end the present value of the minimum lease receivable amounted to £24.4 million (2018: £37.2 million), these were split as £7.8 million (2018: £13.9 million) due within one year and £16.6 million (2018: £23.3 million) between one and five years. In addition there is £36.5 million due within one year in respect of our FOMEDEC contract.



## 21. Other financial assets and liabilities (continued)

### Fair values of non-current borrowings and loans

The fair values of non-current borrowings and loans at the balance sheet date were:

	2019		2018	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Fair value of non-current borrowings and loans</b>				
Long-term borrowings	(1,357.6)	(1,404.6)	(1,485.2)	(1,531.8)
Loan to joint venture	42.5	42.5	27.8	27.8
	<b>(1,315.1)</b>	<b>(1,362.1)</b>	(1,457.4)	(1,504.0)

Fair values of long-term borrowings are based on cash flows discounted using a rate of 4% to 5% (2018: 4% to 5%).

## 22. Provisions for other liabilities

	Insurance provisions (a) £m	Contract/ warranty (b) £m	Employee benefits and business reorganisation costs (c) £m	Property and other (d) £m	Expected credit losses £m	Total provisions £m
<b>At 1 April 2018</b>	<b>1.0</b>	<b>12.8</b>	<b>45.7</b>	<b>36.3</b>	–	<b>95.8</b>
On disposal of subsidiaries (Note 29)	–	(0.7)	–	(0.2)	–	(0.9)
(Released)/charged to income statement	(0.5)	(2.3)	60.7	(2.9)	0.4	55.4
Utilised in year	–	(0.8)	(40.9)	(3.8)	–	(45.5)
Foreign exchange	–	(0.2)	(0.2)	(0.4)	(0.1)	(0.9)
<b>At 31 March 2019</b>	<b>0.5</b>	<b>8.8</b>	<b>65.3</b>	<b>29.0</b>	<b>0.3</b>	<b>103.9</b>

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

	2019 £m	2018 £m
Current	63.4	34.7
Non-current	40.5	61.1
	<b>103.9</b>	<b>95.8</b>

- (a) The insurance provisions arise in the Group's captive insurance companies, Chepstow Insurance Limited, Peterhouse Insurance Limited and VT Insurance Services Limited. They relate to specific claims assessed in accordance with the advice of independent actuaries.
- (b) The contract/warranty provisions relate to onerous contracts and warranty obligations on completed contracts and disposals.
- (c) The employee benefits and reorganisation costs arise mainly in relation to acquired businesses, personnel related costs and payroll taxes. £59.4 million of provisions were recognised in the year in respect of exceptional costs. At March 2019 there remains £26.7 million of provisions in respect of the reshaping of our Oil and Gas business (see note 5). In relation to capacity reductions and restructuring, as discussed in note 5, there remains £12.7 million in provisions at March 2019.
- (d) Property and other in the main relate to provisions for onerous leases, dilapidation costs and contractual obligations in respect of infrastructure.

Included within provisions is £9 million expected to be utilised over approximately ten years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.



## Notes to the Group financial statements continued

### 23. Share capital

	Ordinary shares of 60p Number	Total £m
<b>Allotted, issued and fully paid</b>		
<b>At 1 April 2018 and 31 March 2019</b>	<b>505,596,597</b>	<b>303.4</b>
Allotted, issued and fully paid		
At 1 April 2017 and 31 March 2018	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 2019 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 either by the Trustees of the Babcock Employee Share Trust (BEST) – a total of 7,747,703 shares (2018: 8,023,002 shares) – or the Trustees of the Peterhouse Employee Share Trust (PEST) – a total of nil shares (2018: 4,085 shares). The Company decides from time to time whether to satisfy the awards by way of a fresh issue of shares (either to the award holder or to the employee share trust) or by way of financing the employee share trusts to purchase already issued shares in the market. This decision is made according to available headroom within the dilution limits contained in the relevant share plan rules and what the Directors consider to be in the best interest of the Company at the time.

Grant date	Type	Exercise period	2019 Number	2018 Number
14 June 2014	PSP <sup>1</sup>	12/06/2017 – 12/06/2018	–	55,731
29 January 2015	PSP <sup>1</sup>	29/01/2018 – 29/01/2019	–	3,761
14 June 2014	DBMP <sup>2</sup>	12/06/2017 – 12/06/2018	–	34,162
11 June 2015	PSP <sup>1</sup>	11/06/2018 – 11/06/2019	<b>23,897</b>	1,512,199
2 November 2015	PSP <sup>1</sup>	02/11/2018 – 02/11/2019	–	27,388
11 June 2015	DBMP <sup>2</sup>	11/06/2018 – 11/06/2019	<b>24,279</b>	900,438
15 June 2016	DBP <sup>4</sup>	15/06/2019 – 15/06/2020	<b>62,845</b>	62,845
15 June 2016	DBP <sup>3</sup>	15/06/2018 – 15/06/2019	–	14,714
15 June 2016	PSP <sup>1</sup>	15/06/2019 – 15/06/2020	<b>1,786,612</b>	1,951,615
12 October 2016	PSP <sup>1</sup>	12/10/2019 – 12/10/2020	<b>27,578</b>	27,578
15 June 2016	DBMP <sup>2</sup>	15/06/2019 – 15/06/2020	<b>444,648</b>	474,699
14 June 2017	DBP <sup>3</sup>	14/06/2019 – 14/06/2020	<b>91,284</b>	103,246
14 June 2017	DBP <sup>4</sup>	14/06/2020 – 14/06/2021	<b>179,263</b>	186,949
14 June 2017	PSP <sup>1</sup>	14/06/2020 – 14/06/2021	<b>1,507,664</b>	1,769,338
14 June 2017	PSP <sup>1</sup>	14/06/2022 – 14/06/2023	<b>839,723</b>	902,424
13 June 2018	DBP <sup>3</sup>	13/06/2020 – 13/06/2021	<b>84,207</b>	–
13 June 2018	DBP <sup>4</sup>	13/06/2021 – 13/06/2022	<b>187,433</b>	–
13 June 2018	PSP <sup>1</sup>	14/06/2021 – 14/06/2022	<b>1,628,113</b>	–
13 June 2018	PSP <sup>1</sup>	14/06/2023 – 14/06/2024	<b>860,157</b>	–
			<b>7,747,703</b>	8,027,087

Options granted to Directors are summarised in the Remuneration report on pages 101 to 131 and are included in the outstanding options set out above.

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



## 23. Share capital (continued)

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

	2019		2018	
	Shares newly issued by the Company	Shares bought in the market	Shares newly issued by the Company	Shares bought in the market
BEST	–	<b>239,862</b>	–	1,051,973
PEST	–	–	2,748	15,000
<b>Total</b>	–	<b>239,862</b>	2,748	1,066,973

A reconciliation of PSP and DBMP movements is shown below:

	2019	2018
	Number '000	Number '000
<b>Outstanding at 1 April</b>	<b>8,027</b>	7,425
Granted	<b>2,838</b>	3,016
Exercised	<b>(830)</b>	(800)
Forfeited/lapsed	<b>(2,287)</b>	(1,614)
<b>Outstanding at 31 March</b>	<b>7,748</b>	8,027
<b>Exercisable at 31 March</b>	<b>48</b>	94

The weighted average share price for awards exercised during the year was 832.3p per share (2018: 856.3p per share).

During the year no ordinary shares (2018: 600,000 shares) were acquired or subscribed for through either the Babcock Employee Share Trust or the Peterhouse Employee Share Trust (together 'the Trusts'). The Trusts hold shares to be used towards satisfying awards made under the Company's employee share schemes. During the year ended 31 March 2019, 829,859 shares (2018: 799,726 shares) were disposed of by the Trusts resulting from options exercised. At 31 March 2019, the Trusts held between them a total of 239,862 ordinary shares (2018: 1,069,721 ordinary shares) at a total market value of £1,183,719 (2018: £7,154,294) representing 0.05% (2018: 0.21%) of the issued share capital at that date. The Company elected to pay dividends to the Babcock Employee Share Trust at the rate of 0.001p per share during the year, though full dividends were paid in respect of shares held by the Peterhouse Employee Share Trust. The Company meets the operating expenses of the Trusts. In July 2018 the Peterhouse Employee Share Trust was closed and the remaining 13,663 ordinary shares were transferred to the Babcock Employee Share Trust.

The Trusts enable 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 schemes. The Trusts are discretionary settlements for the benefit of employees within the Group. The Company is excluded from benefiting under them. They are controlled and managed outside the UK and each has a single corporate trustee which is an independent trustee services organisation. The right to remove and appoint the trustees rests ultimately with the Company. The trustee of the Babcock Employee Share Trust is required to waive both voting rights and dividends payable on any share in the Company in excess of 0.001p, unless otherwise directed by the Company, but the trustee of the Peterhouse Employee Share Trust does not have the power to waive dividends due on Babcock ordinary shares and therefore receives the full amount of any dividends declared.

**Notes to the Group financial statements continued**
**24. Share-based payments**

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

During the year the total charge relating to employee share-based payment plans was £2.4 million (2018: £6.4 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £2.0 million (2018: £5.2 million).

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

**DBMP, PSPs and DBP<sup>1</sup>**

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS/ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS/ROCE Pence	Correlation %	Grant or modification date
2018 PSP	860,157	856.0	14.0%	6.0	–	370.9	856.0	56%	13/06/18
2018 PSP	1,699,32	856.0	14.0%	4.0	–	370.9	856.0	56%	13/06/18
2018 DBP	187,433	856.0	14.0%	4.0	100%	–	856.0	56%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100%	–	856.0	56%	13/06/18
2017 PSP	902,424	905.5	15.0%	6.0	–	131.2	905.5	46%	14/06/17
2017 PSP	1,769,33	905.5	15.0%	4.0	–	131.2	905.5	46%	14/06/17
2017 DBP	186,949	905.5	15.0%	4.0	100%	–	905.5	46%	14/06/17
2017 DBP	103,246	905.5	15.0%	3.0	100%	–	905.5	46%	14/06/17
2016 DBMP Matching	479,065	974.5	14.0%	4.0	13%	379.1	974.5	46%	15/06/16
2016 PSP	2,085,42	974.5	14.0%	4.0	15%	389.9	974.5	46%	15/06/16
2016 DBP	14,714	974.5	14.0%	3.0	100%	–	974.5	46%	15/06/16
2016 DBP	62,845	974.5	14.0%	4.0	100%	–	974.5	46%	15/06/16
2016 PSP	27,578	991.0	14.0%	3.75	15%	396.4	991.0	46%	12/10/16

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

The DBMP Matching and PSP awards are split evenly between the performance criteria of TSR, EPS and ROCE, except that in 2015 the PSP awards were split evenly between TSR and EPS. 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 92,772 matching shares (2018: 79,475 matching shares) at a cost of £0.6 million (2018: £0.6 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year 82 matching shares vested (2018: nil) leaving a balance of 918 matching shares (2018: 1,000 matching shares).

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



## 25. Retirement benefits and liabilities

### Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	2019 £m	2018 £m
Defined contribution schemes	<b>69.5</b>	65.6

### Defined benefit schemes

Balance sheet assets and liabilities recognised are as follows:

	2019 £m	2018 £m
Retirement benefits – funds in surplus	<b>226.9</b>	240.1
Retirement benefits – funds in deficit	<b>(254.9)</b>	(245.1)
	<b>(28.0)</b>	(5.0)

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

The key risks in all of the defined benefit schemes relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases, and the discount rate used to value the liabilities. The Principal schemes have mitigated some of these risks by taking out longevity swaps in respect of pensioners and their spouses at the time, through a common investment strategy which has significantly hedged the interest rate and inflation risk through derivative instruments, and introduced benefit changes in 2014 and 2015 impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of members' contributions.

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

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

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
Date of last formal completed actuarial valuation	31/03/2017	31/03/2016	31/03/2015	31/12/2016
Number of active members at above date	2,241	1,103	829	279
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Projected unit
Results of formal actuarial valuation:				
Value of assets	£1,860.8m	£1,230.0m	£714.0m	£253.9m
Level of funding	91%	91%	74%	90%

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



## Notes to the Group financial statements continued

### 25. Retirement benefits and liabilities (continued)

The Group's cash contribution rates payable to the schemes are 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	23.7%	29.9%	21.5%	11.1%	–	–
Future service cash contributions	£15.8m	£8.5m	£4.4m	£0.7m	£1.2m	£30.6m
Deficit contributions	£18.6m	£8.5m	£17.5m	£1.3m	£1.3m	£47.2m
Longevity swap payments	£7.3m	£3.6m	£4.4m	–	–	£15.3m
<b>Expected employer cash costs for 2019/20</b>	<b>£41.7m</b>	<b>£20.6m</b>	<b>£26.3m</b>	<b>£2.0m</b>	<b>£2.5m</b>	<b>£93.1m</b>
Expected salary sacrifice contributions	£5.7m	£1.1m	£1.8m	£1.2m	£0.2m	£10.0m
<b>Expected total employer contributions</b>	<b>£47.4m</b>	<b>£21.7m</b>	<b>£28.1m</b>	<b>£3.2m</b>	<b>£2.7m</b>	<b>£103.1m</b>

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

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

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

The latest full actuarial valuations of the Group's defined benefit pension schemes have been updated to 31 March 2019 by independent qualified actuaries for IAS 19 purposes, on a best estimate basis, using the following assumptions:

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
March 2019				
Rate of increase in pensionable salaries	2.3%	2.3%	2.3%	2.3%
Rate of increase in pensions (past service)	2.2%	3.0%	3.3%	2.2%
Discount rate	2.4%	2.4%	2.4%	2.4%
Inflation rate (RPI)	3.2%	3.2%	3.2%	3.2%
Inflation rate (CPI)	2.1%	2.1%	2.1%	2.1%
Weighted average duration of cashflows (years)	17	16	18	17
Total life expectancy for current pensioners aged 65 (years)	85.6	86.7	84.7	85.7
Total life expectancy for future pensioners currently aged 45 (years)	86.6	87.7	85.7	86.8
March 2018				
Rate of increase in pensionable salaries	2.2%	2.2%	2.2%	2.2%
Rate of increase in pensions (past service)	2.2%	2.9%	3.2%	2.2%
Discount rate	2.6%	2.6%	2.6%	2.6%
Inflation rate (RPI)	3.1%	3.1%	3.1%	3.1%
Inflation rate (CPI)	2.0%	2.0%	2.0%	2.0%
Weighted average duration of cashflows (years)	17	15	17	18
Total life expectancy for current pensioners aged 65 (years)	86.1	87.2	85.2	86.1
Total life expectancy for future pensioners currently aged 45 (years)	87.2	88.2	86.3	87.4



## 25. 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:

	2019				2018			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
<b>Fair value of plan assets</b>								
Growth assets								
Equities	1,267.4	15.0	24.9	1,307.3	892.2	15.7	64.8	972.7
Property	337.2	5.6	1.9	344.7	305.5	7.8	7.9	321.2
Absolute return and multi-strategy funds	127.6	192.1	18.8	338.5	78.5	158.6	16.1	253.2
Low risk assets								
Bonds	822.9	33.3	98.3	954.5	1,165.3	57.7	95.1	1,318.1
Matching assets*	1,736.7	0.6	87.0	1,824.3	1,869.7	–	168.0	2,037.7
Active position on longevity swaps	(187.1)	–	–	(187.1)	(168.0)	–	–	(168.0)
<b>Fair value of assets</b>	<b>4,104.7</b>	<b>246.6</b>	<b>230.9</b>	<b>4,582.2</b>	<b>4,143.2</b>	<b>239.8</b>	<b>351.9</b>	<b>4,734.9</b>
Percentage of assets quoted	100%	100%	100%	100%	100%	100%	100%	100%
Percentage of assets unquoted	–	–	–	–	–	–	–	–
<b>Present value of defined benefit obligations</b>								
Active members	1,075.0	93.7	113.5	1,282.2	1,257.1	91.1	201.2	1,549.4
Deferred pensioners	947.4	86.2	63.8	1,097.4	929.0	83.8	88.3	1,101.1
Pensioners	2,037.9	131.2	61.5	2,230.6	1,879.7	123.9	85.6	2,089.2
<b>Total liabilities</b>	<b>4,060.3</b>	<b>311.1</b>	<b>238.8</b>	<b>4,610.2</b>	<b>4,065.8</b>	<b>298.8</b>	<b>375.1</b>	<b>4,739.7</b>
<b>Deficit/(surplus)</b>	<b>(44.4)</b>	<b>64.5</b>	<b>7.9</b>	<b>28.0</b>	<b>(77.4)</b>	<b>59.0</b>	<b>23.2</b>	<b>4.8</b>
Present value of unfunded obligations	–	–	–	–	–	–	0.2	0.2
<b>Net liabilities/(assets) recognised in the balance sheet</b>	<b>(44.4)</b>	<b>64.5</b>	<b>7.9</b>	<b>28.0</b>	<b>(77.4)</b>	<b>59.0</b>	<b>23.4</b>	<b>5.0</b>

\* The matching assets aim to hedge the liabilities and consist of gilts, repos, cash and swaps. They are shown net of repurchase obligations of £1,655 million (2018: £1,977 million).

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

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

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

	2019				2018			
	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	34.2	2.7	2.0	38.9	37.7	3.2	2.4	43.3
Incurred expenses	3.4	0.2	0.2	3.8	3.7	0.2	0.1	4.0
Past service costs	24.3	1.0	0.6	25.9	–	–	–	–
Settlements*	4.8	–	(12.8)	(8.0)	–	–	–	–
<b>Total included within operating profit</b>	<b>66.7</b>	<b>3.9</b>	<b>(10.0)</b>	<b>60.6</b>	<b>41.4</b>	<b>3.4</b>	<b>2.5</b>	<b>47.3</b>
Net interest (credit)/cost	(2.3)	1.5	0.5	(0.3)	0.3	1.6	0.4	2.3
<b>Total included within income statement</b>	<b>64.4</b>	<b>5.4</b>	<b>(9.5)</b>	<b>60.3</b>	<b>41.7</b>	<b>5.0</b>	<b>2.9</b>	<b>49.6</b>

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



Notes to the Group financial statements continued

25. Retirement benefits and liabilities (continued)

On 26 October, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The past service costs totalling £26.0 million reflect our estimate of the extent to which the judgment crystallises additional liabilities for our pension schemes.

The settlement cost for the Principal schemes is due to a transfer of liability for members who were previously in the Principal Civil Service Pension Scheme back into that scheme.

The settlement credit for the other schemes is due to the termination of a contract that included employees in a section of the local government pension schemes. Responsibility for those employees' pension entitlements has now passed back to the local authority. When the contract was terminated, the fair value of plan assets was greater than the present value of defined benefit obligations and the Group was not liable for that difference.

Amounts recorded in the Group statement of comprehensive income

	2019				2018			
	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	110.3	6.1	20.8	137.2	53.5	(1.5)	8.8	60.8
Experience (losses)/gains arising on scheme liabilities	(35.7)	(5.5)	3.0	(38.2)	(35.8)	–	6.2	(29.6)
Changes in assumptions on scheme liabilities	(131.6)	(5.1)	(20.7)	(157.4)	33.2	4.9	(19.6)	18.5
<b>At 31 March</b>	<b>(57.0)</b>	<b>(4.5)</b>	<b>3.1</b>	<b>(58.4)</b>	<b>50.9</b>	<b>3.4</b>	<b>(4.6)</b>	<b>49.7</b>

Analysis of movement in the Group balance sheet

	2019				2018			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
<b>Fair value of plan assets (including reimbursement rights)</b>								
<b>At 1 April</b>	<b>4,143.2</b>	<b>239.8</b>	<b>351.9</b>	<b>4,734.9</b>	<b>4,088.9</b>	<b>241.4</b>	<b>345.9</b>	<b>4,676.2</b>
Interest on assets	105.5	6.1	3.8	115.4	105.3	6.2	4.3	115.8
Actuarial gain/(loss) on assets	110.3	6.1	20.8	137.2	53.5	(1.5)	8.8	60.8
Employer contributions	88.4	4.4	2.7	95.5	92.4	4.2	2.8	99.4
Employee contributions	0.4	–	0.1	0.5	0.5	–	0.2	0.7
Benefits paid	(301.4)	(9.8)	(28.2)	(339.4)	(197.4)	(10.5)	(10.1)	(218.0)
Settlements	(41.7)	–	(120.2)	(161.9)	–	–	–	–
<b>At 31 March</b>	<b>4,104.7</b>	<b>246.6</b>	<b>230.9</b>	<b>4,582.2</b>	<b>4,143.2</b>	<b>239.8</b>	<b>351.9</b>	<b>4,734.9</b>
<b>Present value of benefit obligations</b>								
<b>At 1 April</b>	<b>4,065.8</b>	<b>298.8</b>	<b>375.1</b>	<b>4,739.7</b>	<b>4,113.1</b>	<b>303.0</b>	<b>364.4</b>	<b>4,780.5</b>
Service cost	34.2	2.7	2.0	38.9	37.7	3.2	2.4	43.3
Incurred expenses	3.4	0.2	0.2	3.8	3.7	0.2	0.1	4.0
Interest cost	103.2	7.6	4.3	115.1	105.6	7.8	4.7	118.1
Employee contributions	0.4	–	0.1	0.5	0.5	–	0.2	0.7
Experience loss/(gain)	35.7	5.5	(3.0)	38.2	35.8	–	(6.2)	29.6
Actuarial (gain)/loss – demographics	(35.4)	(9.3)	(2.5)	(47.2)	(0.8)	(1.2)	2.1	0.1
Actuarial loss/(gain) – financial	167.0	14.4	23.2	204.6	(32.4)	(3.7)	17.5	(18.6)
Benefits paid	(301.4)	(9.8)	(28.2)	(339.4)	(197.4)	(10.5)	(10.1)	(218.0)
Past service costs	24.3	1.0	0.6	25.9	–	–	–	–
Settlements	(36.9)	–	(133.0)	(169.9)	–	–	–	–
<b>At 31 March</b>	<b>4,060.3</b>	<b>311.1</b>	<b>238.8</b>	<b>4,610.2</b>	<b>4,065.8</b>	<b>298.8</b>	<b>375.1</b>	<b>4,739.7</b>
Present value of unfunded obligations	–	–	–	–	–	–	0.2	0.2
<b>Net deficit/(surplus) at 31 March</b>	<b>(44.4)</b>	<b>64.5</b>	<b>7.9</b>	<b>28.0</b>	<b>(77.4)</b>	<b>59.0</b>	<b>23.4</b>	<b>5.0</b>

The movement in net deficits for the year ending 31 March 2019 is as a result of the movement in assets and liabilities shown above.



## 25. Retirement benefits and liabilities (continued)

The changes to the Group balance sheet at March 2019 and the charges to the Group income statement for the year to March 2020, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2019 £m	Income statement 2020 £m
Initial assumptions	4,610.2	43.3
Discount rate assumptions increased by 0.5%	(355.8)	(19.3)
Discount rate assumptions decreased by 0.5%	355.8	7.7
Inflation rate assumptions increased by 0.5%	284.9	9.3
Inflation rate assumptions decreased by 0.5%	(257.4)	(8.6)
Total life expectancy increased by half a year	91.1	2.7
Total life expectancy decreased by half a year	(91.1)	(2.7)
Salary increase assumptions increased by 0.5%	58.2	2.5
Salary increase assumptions decreased by 0.5%	(58.2)	(2.5)

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 balance sheet values would increase or decrease by the same amount as the change in the defined benefit obligations.

## 26. Movement in net debt

	2019 £m	2018 £m
(Decrease)/increase in cash in the year	(5.6)	106.9
Cash flow from the increase in debt and lease financing	(27.4)	(43.7)
Change in net funds resulting from cash flows	(33.0)	63.2
New finance leases – granted	176.6	28.1
Movement in joint venture and associate loans	14.7	(4.5)
Foreign currency translation differences	(1.0)	(28.3)
Movement in net debt in the year	157.3	58.5
Net debt at the beginning of the year	(1,115.0)	(1,173.5)
<b>Net debt at the end of the year</b>	<b>(957.7)</b>	<b>(1,115.0)</b>

## 27. Changes in net debt

	31 March 2018 £m	Cash flow £m	Disposal of subsidiaries £m	New finance leases £m	Exchange movement £m	31 March 2019 £m
Cash and bank balances	286.3	(35.1)	29.5	–	(5.5)	275.2
Bank overdrafts	–	–	–	–	–	–
<b>Cash, cash equivalents and bank overdrafts</b>	<b>286.3</b>	<b>(35.1)</b>	<b>29.5</b>	<b>–</b>	<b>(5.5)</b>	<b>275.2</b>
Debt	(1,432.2)	103.4	–	–	(16.9)	(1,345.7)
Finance leases – received	(91.1)	26.4	–	–	(1.1)	(65.8)
Finance leases – granted	46.5	(157.2)	–	176.6	(5.0)	60.9
	(1,476.8)	(27.4)	–	176.6	(23.0)	(1,350.6)
Net debt before derivatives and joint ventures and associates loans	(1,190.5)	(62.5)	29.5	176.6	(28.5)	(1,075.4)
Net debt derivative	47.7	–	–	–	27.5	75.2
Joint ventures and associates loans	27.8	14.7	–	–	–	42.5
<b>Net debt</b>	<b>(1,115.0)</b>	<b>(47.8)</b>	<b>29.5</b>	<b>176.6</b>	<b>(1.0)</b>	<b>(957.7)</b>

## Notes to the Group financial statements continued

### 28. Acquisitions

There were no acquisitions in the year nor in the previous year.

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

In September 2018 the Group disposed of its media business for £28.7 million, which resulted in a profit of £14.0 million. In the second half of the year three further disposals were made for a total consideration of £11.4 million, which resulted in a profit on disposal of £0.8 million.

During the previous year the Group disposed of its schools infrastructure business, which resulted in a loss of £0.9 million.

During both the current and previous years the Group paid certain accrued costs on previously disposed of businesses of £0.8 million (2018: £2.0 million).

	2019					2018			
	Babcock Media Services £m	Babcock 4S Limited £m	Powerlines £m	Helidax S.A.S £m	Previously disposed of business £m	Total £m	Schools Infrastructure business £m	Previously disposed of business £m	Total £m
Goodwill	7.1	–	–	–	–	7.1	–	–	–
Investment in joint ventures and associates	–	–	–	6.6	–	6.6	1.8	–	1.8
Property, plant and equipment	1.4	–	3.6	–	–	5.0	–	–	–
Inventory	7.4	–	–	–	–	7.4	–	–	–
Current assets	4.0	0.5	–	–	–	4.5	–	–	–
Cash, cash equivalents and bank overdrafts	2.6	4.9	–	–	–	7.5	–	–	–
Current liabilities	(9.6)	(2.2)	–	–	–	(11.8)	0.3	–	0.3
Provisions	–	(0.9)	–	–	–	(0.9)	–	–	–
<b>Net assets disposed</b>	<b>12.9</b>	<b>2.3</b>	<b>3.6</b>	<b>6.6</b>	<b>–</b>	<b>25.4</b>	2.1	–	2.1
Disposal costs	1.8	1.3	–	–	–	3.1	0.6	–	0.6
Deferred consideration	–	–	(3.2)	–	–	(3.2)	–	–	–
Profit on disposal of subsidiary	14.0	(1.5)	(0.1)	2.4	–	14.8	(0.9)	–	(0.9)
<b>Sale proceeds</b>	<b>28.7</b>	<b>2.1</b>	<b>0.3</b>	<b>9.0</b>	<b>–</b>	<b>40.1</b>	1.8	–	1.8
Sale proceeds less cash disposed of	26.1	(2.8)	0.3	9.0	–	32.6	1.8	–	1.8
Less costs paid in the period	(1.8)	(0.5)	–	–	(0.8)	(3.1)	–	(2.0)	(2.0)
<b>Net cash inflow/(outflow)</b>	<b>24.3</b>	<b>(3.3)</b>	<b>0.3</b>	<b>9.0</b>	<b>(0.8)</b>	<b>29.5</b>	1.8	(2.0)	(0.2)

### 30. Transactions with non-controlling interests

In September 2018, one of the Group's subsidiaries in South Africa, Babcock Ntuthuko Engineering, issued an additional 2.9% of its share capital to its non-controlling interest partner for £1.9 million. It also issued further restricted shares, which employ Notional Vendor Financing, to give the non-controlling interest partner 48.5% of the business. However, for as long as the Notional Vendor Amount is greater than zero the holders of the restricted shares shall not be entitled to receive any distributions.

In November 2018 Cognac Formation Aero France was created with a 10% non-controlling interest and the FOMEDEC business was transferred into this company.

During the previous year the put option in respect of the non-controlling interest in Scandinavian AirAmbulance AB was exercised resulting in the Group paying £5.3 million plus deferring a further payment of £2.4 million for a year, in order to acquire the balance of the share capital in that company. The £2.4 million was paid in the year to March 2019.

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

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



### 31. Operating lease commitments – minimum lease payments

	2019		2018	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
<b>Commitments under non-cancellable operating leases payable:</b>				
Within one year	29.5	121.5	29.9	126.9
Later than one year and less than five years	78.8	320.6	82.3	287.0
After five years	33.1	102.0	61.6	114.2
	<b>141.4</b>	<b>544.1</b>	173.8	528.1

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Group also leases plant and machinery under non-cancellable operating leases.

Included within the above are £496.9 million (2018: £389.5 million) of operating lease commitments which are matched in time to customer contracts and are directly attributable to them.

#### Adoption of IFRS 16, 'Leases'

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

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

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

The following practical expedients have been adopted on transition:

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

The financial impact of adopting the new standard may change from the current estimates detailed below due to:

- Changes in the Group's lease portfolio, with leases ending and starting frequently throughout the year
- Changes in assumptions relating to lease end dates and future lease payment amounts
- Foreign exchange differences

#### Impact on financial statements

On 1 April 2019:

- The Group will recognise a lease liability of £605.7 million and a right-of-use asset of £559.2million, with a corresponding debit to retained earnings of £20.1 million net of a deferred tax asset of £5.0 million and a debit to provisions of £21.4 million in respect of onerous leases
- The vast majority of the lease liability relates to property and aircraft

For the year ending 31 March 2020:

- Operating profit is expected to increase by approximately £25 million as the depreciation charge is estimated to be lower than the operating lease charge under IAS 17. However, the increase in finance costs is expected to offset this, causing an immaterial increase in profit before tax
- EBITDA is expected to increase by an estimated £150 million

The adoption of IFRS 16 does not impact the lending covenants of the Group's existing facilities as they are based on accounting standards applicable when the facilities were granted.



Notes to the Group financial statements continued

### 31. Operating lease commitments – minimum lease payments (continued)

#### Adoption of IFRS 16, 'Leases' (continued)

The impact on the Group balance sheet at 1 April 2019 is reflected below:

	€m
<b>Non-current assets</b>	
Right-of-use assets	559.2
Deferred tax asset	5.0
<b>Total assets</b>	564.2
<b>Equity and liabilities</b>	
Retained earnings	(20.1)
<b>Total equity</b>	(20.1)
<b>Non-current liabilities</b>	
Lease liabilities	510.6
Provisions	(6.7)
<b>Total non-current liabilities</b>	503.9
<b>Current liabilities</b>	
Lease liabilities	95.1
Provisions	(14.7)
<b>Total current liabilities</b>	80.4
<b>Total equity and liabilities</b>	564.2

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

	€m
Operating lease commitments at 31 March 2019	685.5
Effect of discounting	(82.8)
Change in assessment of lease term	3.0
<b>IFRS lease liability at 1 April 2019</b>	<b>605.7</b>

### 32. Contingent liabilities

(a) In February 2019, the Italian Competition Authority (the ICA) notified Babcock Mission Critical Services Italia SpA (BMCS Italia) of its decision to fine a number of companies, which provide helicopter services in Italy for anti-trust violations and are members of the Italian Helicopter Association (the Association). The ICA found that a number of companies, but not BMCS Italia, had engaged in bid-rigging activities in the aerial rotary wing fire-fighting sector, a sector in which BMCS Italia does not operate. At the same time, the ICA, after investigation, found that there was no bid-rigging in the helicopter emergency medical services sector, the sector in which BMCS Italia does operate. However, during the course of its investigation, the ICA became aware of a publicly available "tariff list" produced by the Association since 2001 and, on the basis of the list, decided to fine the members of the Association, including BMCS Italia. The fine for BMCS Italia was €51 million.

BMCS Italia has appealed the ICA's decision and has reasonable grounds to believe the court will either overturn the fine altogether or substantially reduce it. Accordingly, no provision for settlement has been made as at 31 March 2019 as the Directors do not believe any likely settlement will be material.

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

(c) 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.

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

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



### 33. Capital and other financial commitments

	2019 £m	2018 £m
Contracts placed for future capital expenditure not provided in the financial statements	<b>12.2</b>	11.8

### 34. Related party transactions

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

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

Financial statements



Notes to the Group financial statements continued

34. Related party transactions (continued)

2018	2018 Revenue to £m	2018 Purchases from £m	2018 Year end debtor balance £m	2018 Year end creditor balance £m
<b>Joint ventures and associates</b>				
Holdfast Training Services Limited	72.0	–	0.3	–
ABC Electrification Limited	–	–	3.8	–
First Swietelsky Operation and Maintenance	10.5	–	0.5	(0.8)
FSP (2004) Limited	–	(0.3)	–	–
Ascent Flight Training (Management) Limited	0.5	–	–	–
Ascent Flight Training Holdings Limited	0.8	–	–	–
Fixed Wing Training Limited	9.6	–	–	–
Rear Crew Training Limited	4.2	–	–	–
AirTanker Services Limited	9.1	–	0.5	–
Alert Communications Limited	7.3	–	0.7	–
ALC (Superholdco) Limited	–	–	5.3	–
Naval Ship Management (Australia) Pty Limited	4.6	–	–	–
Cura Classis (UK) Limited	3.7	–	–	–
Cura Classis (US) LLC	5.0	–	–	–
Cura Classis Canada (Hold Co) Inc.	12.9	–	–	–
Cavendish Dounreay Partnership Limited	3.9	–	0.3	–
Cavendish Fluor Partnership Limited	32.3	(0.2)	0.6	–
Cavendish Bocard Nuclear Limited	2.4	–	0.3	–
Duqm Naval Dockyard SAOC	–	–	1.0	–
	178.8	(0.5)	13.3	(0.8)

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

(b) Defined benefit pension schemes.

Please refer to note 25 for transactions with the Group defined benefit pension schemes.

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

(d) Transactions in employee benefits trusts are shown in note 24.

35. Post balance sheet events

Details on dividends are given in note 9. There are no further material events subsequent to 31 March 2019 that require disclosure.



## 36. Group entities

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 31 March 2019 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. No subsidiary undertakings have been excluded from the consolidation.

### Subsidiaries: Incorporated in the United Kingdom, wholly owned:

Air Power International Limited\*  
110 Queen Street, Glasgow, G1 3HD, Scotland  
Airwork Limited  
Alstec Automation Limited\*  
Alstec Defence Limited\*  
Alstec Limited\*  
Appledore Shipbuilders (2004) Limited<sup>7</sup>  
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG  
Armstrong Technology Associates Limited  
Babcock (UK) Holdings Limited<sup>5</sup>  
Babcock 1 234 Limited\*  
Babcock 2010 Limited\*  
Babcock Aerospace Limited  
Babcock Airports Limited  
Babcock Assessments Limited  
Babcock Aviation Services (Holdings) Limited<sup>5, 14</sup>  
Babcock Brazil Investments Limited  
Babcock Careers Guidance Limited\*<sup>11</sup>  
Babcock Civil Infrastructure Limited  
Babcock Communications Limited  
Babcock Contractors Limited\*  
Babcock Corporate Secretaries Limited\*  
Babcock Corporate Services Limited  
Babcock Critical Assets Holdings LLP  
Babcock Critical Services Limited  
110 Queen Street, Glasgow, G1 3HD, Scotland  
Babcock Defence & Security Holdings LLP  
Babcock Defence and Security Investments Limited  
Babcock Defence Systems Limited\*  
Babcock Design & Technology Limited\*  
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland  
Babcock DSG Ltd  
Babcock Education & Training Holdings LLP  
Babcock Education and Skills Limited  
Babcock Education Holdings Limited  
Babcock Emergency Services Limited

Babcock Engineering Assessments Limited<sup>8</sup>  
Babcock Engineering Limited  
Babcock Environmental Services Limited  
Babcock Finance Limited\*  
Babcock Fire Services (SW) Limited  
Babcock Fire Services Limited  
Babcock Fire Training (Avonmouth) Limited  
Babcock Group (US Investments) Limited  
Babcock Group International Limited  
Babcock Group Limited\*  
Babcock Holdings Limited<sup>20</sup>  
Babcock Information Analytics and Security Holdings Limited\*  
Babcock Information Analytics and Security Limited<sup>10</sup>  
Babcock Infrastructure Holdings LLP  
Babcock Integrated Technology (Korea) Limited  
Babcock Integrated Technology Limited  
Babcock Integration LLP  
Babcock International Limited<sup>10</sup>  
Babcock International Middle East Limited  
Babcock International Support Services Limited  
Babcock Investments (Fire Services) Limited  
Babcock Investments (Number Eight) Limited  
Babcock Investments (Number Four) Limited  
Babcock Investments (Number Nine) Limited  
Babcock Investments (Number Three) Limited  
Babcock Investments Limited  
Babcock IP Management (Number One) Limited  
Babcock IP Management (Number Two) Limited

Babcock Land Limited  
Babcock Leaseco Limited\*  
Babcock Lifeskills Limited\*  
Babcock Managed Security Services Limited\*<sup>11</sup>  
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<sup>7</sup>  
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG  
Babcock Marine (Rosyth) Limited  
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland  
Babcock Marine Holdings (UK) Limited<sup>10</sup>  
Babcock Marine Limited\*  
Babcock Marine Products Limited\*  
Babcock Marine Training Limited<sup>7</sup>  
Babcock Mission Critical Services Design and Completions Limited  
Babcock Mission Critical Services Leasing Limited  
Babcock Mission Critical Services Ltd  
Babcock Mission Critical Services Offshore Limited  
Babcock Mission Critical Services Onshore Limited  
Babcock Mission Critical Services Topco Ltd<sup>7</sup>  
Babcock Mission Critical Services UK Limited  
Babcock MSS Limited  
Babcock Networks Limited  
Babcock Nominees Limited\*  
Babcock Nuclear Limited\*  
Babcock Overseas Investments Limited  
Babcock Partner No 6 Limited\*  
Babcock Partner No 7 Limited\*  
Babcock Partners No 2010 Limited\*  
Babcock Power Maintenance Limited\*  
Babcock Project Investments Limited

**Notes to the Group financial statements continued**
**36. Group entities (continued)**
**Subsidiaries: Incorporated in the United Kingdom, wholly owned – continued:**

Babcock Project Services Limited <sup>*,7</sup>	Certas Limited*	Gibraltar Investments (No. 7) Limited <sup>7</sup>
Babcock Rail Limited	Chart Distribution Services Limited*	HCTC Limited*
Babcock Services Group Limited	Chart Services Limited*	Hiberna Contract Services Limited*
Babcock Services Limited <sup>*,17</sup>	110 Queen Street, Glasgow, G1 3HD, Scotland	Hiberna Limited*
Babcock Skills Development and Training Limited	Chart Storage & Transportation Limited*	Hiberna Network Solutions Limited*
Babcock Southern Careers Limited <sup>*,8</sup>	Context Information Security Limited	INS Innovation Limited*
Babcock Southern Holdings Limited <sup>11</sup>	11 Westferry Circus, London, E14 4HD	KML (UK) Limited*
Babcock SSD Services Limited	Costpool Limited*	Learning21 Limited*
Babcock Support Services (Investments) Limited	Defence SCS Limited*	Liquid Gas Equipment Limited
Babcock Support Services Limited <sup>15</sup>	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG	Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland
Babcock Systems Limited*	Devonport Management Limited*	Locam Limited*
Babcock Technical Services Limited*	Devonport Royal Dockyard Limited <sup>5</sup>	Lincoln House, Wellington Crescent, Fradley Park, Lichfield, Staffordshire, WS13 8RZ
Babcock Training Limited	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG	Marine Engineering & Fabrications (Holdings) Limited*
Babcock Transmission Limited <sup>*,7</sup>	Devonport Royal Dockyard Pension Trustees Limited*	Marine Engineering & Fabrications Limited*
Babcock Trustees Limited*	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG	Merlin Communications Group Limited <sup>17</sup>
Babcock UK Finance	Eve Construction Limited*	Merlin Orfordness Limited*
Babcock US Investments Limited	Eve Developments Limited*	Municipal Vehicle Hire Limited*
Babcock Vehicle Engineering Limited <sup>9</sup>	Eve Group Limited*	Northern Cable Installations Limited*
Babcock Welbeck Limited*	Eve NCI Limited*	Peterhouse Group Limited
Babcock Woodall-Duckham (Overseas) Limited <sup>*,18</sup>	Eve Power Limited*	Peterhouse5 (Shorco) Limited <sup>7</sup>
Babcock2 Limited	Eve Transmission Limited*	Peterhouse6 (IETG) Limited*
Babcock-Moxey Limited*	FBM Babcock Marine Holdings (UK) Limited*	Port Babcock Rosyth Ltd*
BCRA Chesterfield Limited <sup>*,18</sup>	FBM Babcock Marine Limited*	Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland
BIL Solutions Limited	FBM Marine International (UK) Limited*	Rosyth Royal Dockyard Limited <sup>19</sup>
BMH (2002) Limited*	First Engineering Holdings Limited	Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland
BNS Nuclear Services Limited*	Kintail House, 3 Lister Way, Hamilton International Park, Blantyre, G72 0FT, Scotland	Rosyth Royal Dockyard Pension Trustees Limited*
BNS Pension Trustees Limited*	First Engineering Limited*	Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland	First Fire and Rescue Service Limited*	SBRail Limited*
BNS Pensions Limited*	First Fire and Rescue Service No 2 Limited*	Scimco Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland	First Projects Limited*	Skills2Learn Ltd
Bond Aviation Leasing Limited	Flagship Fire Fighting Training Limited	St. Helen's Securities Limited*
Bond Aviation Topco Limited <sup>10</sup>	FN Consultancy Limited*	Strachan & Henshaw Limited*
Bond Mission Critical Services PLC	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG	The Stirling Boiler Company Ltd*
British Nuclear Services Limited*	FNC Group Limited*	110 Queen Street, Glasgow, G1 3HD, Scotland
Brooke Marine Shipbuilders Limited*	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG	Touchstone Learning & Skills Limited*
Cavendish Nuclear (Overseas) Limited	FNC Limited*	Transfleet Distribution Limited*
Cavendish Nuclear Limited <sup>10</sup>	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG	Transfleet Truck Rentals Limited*
Cavendish Nuclear Manufacturing Limited	Frazer-Nash Consultancy Group Limited <sup>7</sup>	UKAEA Limited
	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG	Vosper-ManTech Limited <sup>*,7</sup>
	Frazer-Nash Consultancy Limited <sup>13</sup>	Vosper Thornycroft (UK) Limited
	Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG	Westminster Education Consultants Limited*
	FW 1B SPV Limited <sup>*,11</sup>	



## 36. Group entities (continued)

### Subsidiaries: Incorporated overseas, wholly owned:

AUH-Bidco Pty Limited\*\*  
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

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

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

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

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

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

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

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

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

Babcock Communications Cyprus Limited  
10 Diomidou St, Alpha Mega Building,  
3<sup>rd</sup> Floor, Office 401, CY2024, Nicosia, Cyprus

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

Babcock Europe Finance Limited<sup>7</sup>  
Verdala Business Centre, Level 1, LM Complex,  
Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Holdings (USA) Incorporated<sup>12</sup>  
332 Loockerman Square, Ste. L-100 Dover,  
Delaware, United States

Babcock Integrated Technology GmbH  
Berliner Platz 12, 41061, Moenchgladbach, Germany

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

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

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

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

Babcock International Holdings Limited<sup>7</sup>  
Verdala Business Centre, Level 1, LM Complex,  
Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

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

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

Babcock International US Inc  
21001 Great Mills Road, Lexington Park, Maryland  
DE 20653, United States

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

Babcock Korea Limited  
Regus Busan Jungang-Dong Centre, Office 706,  
7F PanOcean Building, 102 Jungang-Daero, Jung-  
gu, Busan, 48938, Republic of Korea

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

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

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

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

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

Babcock Malta Finance  
(Number Two) Limited<sup>8</sup>  
Verdala Business Centre, Level 1, LM Complex,  
Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Finance Limited<sup>8</sup>  
Verdala Business Centre, Level 1, LM Complex,  
Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Holdings  
(Number Two) Limited<sup>8</sup>  
Verdala Business Centre, Level 1, LM Complex,  
Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

Babcock Malta Holdings Limited<sup>8</sup>  
Verdala Business Centre, Level 1, LM Complex,  
Brewery Street, Mriehel, Birkirkara, BKR 3000, Malta

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

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

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

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

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

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

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

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

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

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

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

Babcock Networks Ireland Limited\*\*  
Unit 2, Red Cow Interchange Estate, Ballymounth,  
Dublin, 22, Ireland

Babcock Norway AS\*  
Rådhusgata 3, 9008 TROMSØ, Norway

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

Babcock Oman LLC  
Al Raid Business Centre, Qurum, PO Box 2315,  
Muscat, PC130, Oman

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

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

Babcock Support Services (Canada) Inc.  
45 O'Connor Street, Suite 1500,  
Ottawa ON K1P 1A4, Canada

Babcock Support Services (USA) LLC  
251 Little Falls Drive, Wilmington, DE 19808,  
United States

Babcock Support Services GmbH  
Berliner Platz 12, 41061,  
Moenchengladbach, Germany

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

Babcock US Investments (Number Two) LLC<sup>7</sup>  
160 Greentree Drive, Suite 101, Dover, Kent County,  
DE 19904, United States

Babcock US Investments Inc.<sup>7</sup>  
160 Greentree Drive, Suite 101, Dover, Kent County,  
DE 19904, United States

BMH Technologies (Holdings) GmbH\*\*.<sup>7</sup>  
Berliner Platz 12, 41061,  
Moenchengladbach, Germany

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

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

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

Context Information Security GmbH  
Ernst-Ludwig-Ring 2, Bad Nauheim, 61231,  
Amtsgericht Friedberge (Hessen), Germany



## Notes to the Group financial statements continued

### 36. Group entities (continued)

#### Incorporated overseas, wholly owned – continued:

Context Information Security LLC<sup>7</sup>  
2711 Centerville Road, Suite 400, Wilmington DE  
19808, United States

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

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

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

INAER Helicopter Australia Pty Ltd\*\*  
Level 9, 70 Franklin Street,  
Adelaide SA 5000, Australia

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

INAER Helicopter Peru S.A.C.\*\*.3  
Av. De La Floresta No 497 Int., Lima, Peru

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

National Training Institute LLC<sup>4</sup>  
PO Box 267, Madinat Qaboos, Sultanate of Oman,  
115, Oman

Peterhouse GmbH  
Berliner Platz 12, 41061,  
Moenchengladbach, Germany

PHG Insurance Limited  
St Martin's House, Le Bordinge, St Peter Port,  
GY1 4AU, Guernsey

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

Strachan & Henshaw, Inc\*  
155 Federal Street, Suite 700, Boston  
MA 02110, United States

VT Communications GmbH\*\*  
Mainzer Landstrasse 16, 60325,  
Frankfurt Am Main, Germany

VT Insurance Services Limited  
St Martins House, Le Bordinge, St Peter Port,  
Guernsey, GY1 4AU

#### Subsidiaries: partly owned:

Airwork Technical Services  
& Partners LLC (51%)

PO Box 248 (located at Muaskar Al Murtafa'a  
(MAM) Garrison), Muscat, 100, Sultanate of Oman

Babcock Africa (Pty) Limited (90%)<sup>1, 12</sup>  
Riley Road Office Park, 15E Riley Road,  
Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Holdings (Pty) Ltd (90%)<sup>1, 10</sup>  
Riley Road Office Park, 15E Riley Road,  
Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Services (Pty) Ltd (90%)<sup>1</sup>  
Riley Road Office Park, 15E Riley Road,  
Bedfordview, Gauteng, 2007, South Africa

Babcock Aviation Services Holdings  
International Limited (49.82%)<sup>2, 16</sup>  
Verdala Business Centre, Level 1, LM Complex,  
Brewery Street, Mriehel, Birkirkara , BKR 3000, Malta

Babcock Dyncorp Limited (56%)<sup>6</sup>  
Babcock Education and Training  
(Pty) Ltd (90%)<sup>1</sup>

Riley Road Office Park, 15E Riley Road,  
Bedfordview, Gauteng, 2007, South Africa

Babcock Emergencias Aéreas España  
Holding, S.L.U. (49.82%)<sup>2</sup>

Avenida de Burgos, 17, 7a planta, 28036,  
Madrid, Spain

Babcock Financial Services (Pty) Ltd (90%)<sup>1</sup>  
Riley Road Office Park, 15E Riley Road,  
Bedfordview, Gauteng, 2007, South Africa

Babcock Holdings (Italy) S.p.A. (49.82%)<sup>2</sup>  
Piazza Castello 26, 20121, Milan, Italy

Babcock Learning and Development  
Partnership LLP (80.1%)

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

Babcock MCS Mozambique, Limitada (90%)<sup>1</sup>  
Sala no. 2022, 1 Andar, Terminal A, Aeroporto  
Internacional do Maputo, Distrito Urbano2,  
Mozambique

Babcock Mission Critical Services  
(Ireland) Limited (49.82%)<sup>2</sup>

13-18 City Quay, Dublin 2, Ireland

Babcock Mission Critical Services  
España SAU (49.82%)<sup>2</sup>

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

Babcock Mission Critical Services  
France SA (49.82%)<sup>2</sup>

Lieu dit le Portaret, 83340,  
Le Cannet-des-Maures, France

Babcock Mission Critical Services  
Galicia SL (91.1%)

Lugar Lavacolla-Aeropuerto Santiago, S/N, C.P.,  
15820, Santiago de Compostela, A Coruna, Spain

Babcock Mission Critical Services  
Italia S.p.A. (49.82%)<sup>2</sup>

Piazza Castello no. 26, 20121, Milan, Italy

Babcock Mission Critical Services  
Portugal, Unipessoal, LDA (49.82%)<sup>2</sup>

Heliporto de Salemas, Lousa, 2670-769, Lisboa,  
Loures, Portugal

Babcock Mission Critical Services,  
Scandinavia AB (49.82%)<sup>2, 7</sup>

Ashurst Advokatbyrå AB, PO Box 71 24 10387,  
Stockholm, Sweden

Babcock Moçambique Limitada (90%)<sup>1</sup>  
Av. Samora Macel 3380/ 1, Mozambique

Babcock Namibia Services Pty Ltd (90%)<sup>1</sup>  
Unit 5, Ground Floor, Dr Agostinho Neto Road,  
Ausspanplatz, Windhoek, Namibia

Babcock Ntuthuko Aviation (Pty)  
Limited (66.78%)<sup>\*, 1</sup>

Riley Road Office Park, 15E Riley Road,  
Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Engineering  
(Proprietary) Limited (64.95%)<sup>1</sup>

Riley Road Office Park, 15E Riley Road,  
Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Powerlines  
(Proprietary) Limited (65.2%)<sup>\*, 1</sup>

Unit G3, Victoria House, Plot 132, Independence  
Avenue, Gaborone, Botswana

Babcock Plant Services (Pty) Ltd (64.83%)<sup>1, 10</sup>  
Riley Road Office Park, 15E Riley Road,  
Bedfordview, Gauteng, 2007, South Africa

Babcock SAA FW AB (49.82%)<sup>\*, 2</sup>

Flygstationsvägen 4, 972 54, Luleå, Sweden

Babcock Scandinavian  
AirAmbulance AB (49.82%)<sup>2</sup>

Lägervägen 3, 832 56, Frosön, Sweden

Babcock Scandinavian  
AirAmbulance AS (49.82%)<sup>2</sup>

Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Scandinavian  
Aviation Services AS (49.82%)<sup>2</sup>

Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Scandinavian  
Engineering AS (49.82%)<sup>2</sup>

Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Scandinavian Holding AS (49.82%)<sup>2</sup>

Rådhusgata 3, 9008 TROMSØ, Norway

Babcock TCM Plant (Proprietary)  
Limited (90%)<sup>1, 12</sup>

Unit G3, Victoria House, Plot 132, Independence  
Avenue, Gaborone, Botswana

Capital Careers Limited (88.3%)<sup>\*</sup>

Cognac Formation Aero (90%)  
Lieu dit le Portaret, 83340,  
Le Cannet des Maures, France

Surrey Careers Services Limited (94.1%)<sup>10</sup>

## 36. Group entities (continued)

### Joint ventures and associates (equity accounted):

ABC Electrification Ltd (33.3%)<sup>6</sup>  
8th Floor, The Place, High Holborn,  
London, WC1V 7AA

Advanced Jet Training Holdings  
Limited (50%)

Advanced Jet Training Limited (50%)

AirTanker Finance Limited (13.3%)<sup>21</sup>

6th Floor, London Wall, London, EC2Y 5EB

AirTanker Holdings Limited (13.3%)<sup>21</sup>

6th Floor, London Wall, London, EC2Y 5EB

AirTanker Limited (13.3%)<sup>21</sup>

6th Floor, London Wall, London, EC2Y 5EB

AirTanker Services Limited (22.3%)<sup>21</sup>

Airtanker Hub RAF Brize Norton, Carterton,  
Oxfordshire, OX18 3LX

ALC (FMC) Limited (50%)<sup>21</sup>

3th Floor, Chancery Exchange, 10 Furnival Street,  
London, EC4A 1AB

ALC (Holdco) Limited (50%)<sup>21</sup>

3th Floor, Chancery Exchange, 10 Furnival Street,  
London, EC4A 1AB

ALC (SPC) Limited (50%)<sup>21</sup>

3th Floor, Chancery Exchange, 10 Furnival Street,  
London, EC4A 1AB

ALC (Superholdco) Limited (50%)<sup>21</sup>

3th Floor, Chancery Exchange, 10 Furnival Street,  
London, EC4A 1AB

Alert Communications (2006)

Limited (20%)<sup>10</sup>

Alert Communications (Holdings)

Limited (20%)

Alert Communications Group Holdings

Limited (20%)

Alert Communications Limited (20%)

Ascent Flight Training (Holdings)

Limited (50%)

Ascent Flight Training (Management)

Limited (50%)

Ascent Flight Training (Services)

Limited (50%)

Cavendish Bocard Nuclear Limited (51%)

Cavendish Dounreay Partnership

Limited (50%)<sup>6</sup>

Cavendish Fluor Partnership Limited (65%)

Cura Classis (Canada) Inc. (48%)

44 Chipman Hill, Suite 1000, PO Box 7289, Stn.  
"A", Saint John, NB E2L 2A9, Canada

Cura Classis (UK) Limited (48%)

Cura Classis (US) Hold Co LLC (48%)  
251 Little Falls Drive, Wilmington, DE 19808,  
United States

Cura Classis (US) LLC (48%)

251 Little Falls Drive, Wilmington, DE 19808,  
United States

Cura Classis Canada (Hold Co) Inc. (48%)<sup>19</sup>

44 Chipman Hill, Suite 1000, PO Box 7289, Stn.  
"A", Saint John, NB E2L 2A9, Canada

Cura Classis UK (Hold Co) Limited (48%)

Debut Services (South West) Limited (50%)

20 Triton Street, Regent's Place, London, NW1 3BF

Debut Services Limited (15%)

20 Triton Street, Regent's Place, London, NW1 3BF

Dounreay Site Restoration Limited (50%)<sup>7</sup>

Building D2003, Dounreay, Thurso, Caithness,  
KW14 7TZ, Scotland

Duqm Naval Dockyard SAOC (49%)

Wadi Say, Al-Duqm, Al-Wusta'a, 3972 112, Oman

European Air-Crane S.p.A. (24.41%)

Via Duca D'Aosta no. 20, 50129, Florence, Italy

Fixed Wing Training Holdings Limited (50%)

Fixed Wing Training Limited (50%)

FSP (2004) Limited (50%)<sup>7</sup>

Kintail House, 3 Lister Way, Hamilton International  
Park, Blantyre, G72 0FT, Scotland

Holdfast Training Services Limited (74%)

Magnox Limited (65%)<sup>7</sup>

Oldbury Technical Centre, Oldbury Naite,  
Thornbury, South Gloucestershire, BS35 1RG

Naval Ship Management

(Australia) Pty Ltd (50%)

Level 10, 40 Miller Street, North Sydney, NSW  
2060, Australia

Rear Crew Training Holdings Limited (50%)

Rear Crew Training Limited (50%)

Research Sites Restoration Limited (65%)<sup>7, 7</sup>

Oldbury Technical Centre, Oldbury Naite,  
Thornbury, Bristol, United Kingdom

Rotary Wing Training Limited (50%)

S.I.M.A. Società Italiana de Manutenzioni

Aeronautiche SpA (14.65%)

Via Duca D'Aosta no. 20, 50129, Florence, Italy

### Notes

\* Dormant entity.

\*\* In liquidation.

- The Group's interest in Babcock Africa Holdings (Pty) Limited, and its subsidiaries, held via ordinary and preference shares, carries 90% of the voting rights, and the right to substantially all of the distributable profits.
- The Group's interest in Babcock Aviation Services Holdings International Limited, and its subsidiaries, carries 49.82% of the voting rights.
- The Group's interest in INAER Helicopter Peru S.A.C. carries 70% of the voting rights, and the rights to substantially all distributable profits.
- The Group's interest in National Training Institute LLC carries over 70% of the voting rights, and the rights to substantially all distributable profits.
- 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.
- Holding of one type of ordinary share only, where more than one type of share is authorised or in issue.
- Holding of two types of ordinary shares.
- Holding of three types of ordinary shares.
- Holding of six types of ordinary shares.
- Holding of ordinary and preference shares.
- Holding of ordinary and deferred shares.
- Holding of ordinary and redeemable preference shares.
- Holding of ordinary and two types of preference shares.
- Holding of ordinary and three types of preference shares.
- Holding of ordinary and five types of preference shares.
- Holding of one type of ordinary share and one type of preference share, where more than one type of ordinary share and preference share are authorised or in issue.
- Holding of two types of ordinary and one type of preference share.
- Holding of two types of ordinary and one type of redeemable preference share.
- Holding of two types of ordinary shares, where more than two types of share are authorised or in issue.
- Holding of two types of ordinary shares and two types of preference shares.
- Year end 31 December.



**Vedlegg til innsendelse av årsregnskapet.**

Selskapets årsregnskap inngår i konsernregnskapet til Babcock International Group Plc (registrert i UK)

Se vedlagte konsernregnskap.

Viser for øvrig til kommunikasjon med Brreg:

**Fra:** RR- pb. Svar <[rrsvar@brreg.no](mailto:rrsvar@brreg.no)>

**Sendt:** torsdag 20. februar 2020 12:16

**Til:** Frantzen, IngerLise <[IngerLise.Frantzen@babcockinternational.com](mailto:IngerLise.Frantzen@babcockinternational.com)>

**Emne:** CAUTION: External email - SV: Melding fra kontaktskjema - for blant annet 921975848

Hei,

Før ny innsending må det krysses av i hovedskjemaet at selskapene følger regnskapsreglene for små foretak, og at IFRS er benyttet. I tillegg må det gå frem av årsregnskapet eller et vedlegg hvorfor det ikke er utarbeidet konsernregnskap.

Med vennlig hilsen

**Torunn Merethe Skogmo**  
konsulent

**Brønnøysundregistrene**  
avdeling registerforvaltning  
T: 7500 7500 •  
[brreg.no](http://brreg.no)



**Brønnøysundregistrene**

**Fra:** Firmapost <[firmapost@brreg.no](mailto:firmapost@brreg.no)>

**Sendt:** torsdag 20. februar 2020 09:02

**Til:** RR- pb. Svar <[rrsvar@brreg.no](mailto:rrsvar@brreg.no)>

**Emne:** VS: Melding fra kontaktskjema

**Fra:** [ingerlise.frantzen@babcockinternational.com](mailto:ingerlise.frantzen@babcockinternational.com)

<[ingerlise.frantzen@babcockinternational.com](mailto:ingerlise.frantzen@babcockinternational.com)>

**Sendt:** torsdag 20. februar 2020 09:00

**Til:** Firmapost <[firmapost@brreg.no](mailto:firmapost@brreg.no)>

**Emne:** Melding fra kontaktskjema



**Organisasjonsnummer/saksnummer:**

916059116

**Firmanavn/navn:**

BABCOCK SCANDINAVIAN AIRAMBULANCE AS

**Adresse:**

Rådhusgata 3

**Postnr/poststed:**

9008 TROMSØ

**E-post:**

[ingerlise.frantzen@babcockinternational.com](mailto:ingerlise.frantzen@babcockinternational.com)

**Telefon:**

90866553

**Melding:**

Vi har utfordringer med å få regnskapet for 2019 godkjent. Vi avlegger regnskap etter IFRS pga. krav fra vårt morselskap. Vi er imidlertid innenfor definisjonen for små foretak. Vi har dermed ikke avlagt årsberetning for regnskapsåret, men vi får ikke godkjent regnskapet pga. krav om årsberetning. Vi har tidligere vært i telefonisk kontakt med regnskapsregisteret og fått bekreftet at fritaket for årsberetning gjelder selv om regnskapet avlegges etter IFRS så lenge vi er innenfor definisjonen små foretak. Hva gjør vi videre for å få regnskapet godkjent? Kan vi legge ved et vedlegg som forklarer situasjonen? Dette gjelder også to andre selskaper i konsernet, Babcock Scandinavian Holding AS (org.nr. 921 975 856) og Babcock Scandinavian Enigneering AS (org.nr. 971 975 848). Det siste selskapet Babcock Scandinavian Aviation Services AS (org.nr. 971 975 864) har allerede fått godkjent sitt regnskap, og vi har gjort det på samme måte med innsendelsen av de andre selskapene.

Fint om dere kan ta kontakt slik at vi kommer oss videre i denne prosessen.

Mvh

Inger Lise Frantzen



## Organisasjon

Babcock Scandinavian Engineering AS er et privat aksjeselskap registrert i Norge. Selskapets hovedkontor er lokalisert i Rådhusgata 3, 9008 Tromsø. Virksomhet er å eie og drive en flysimulator og drive vedlikehold av luftfartøy.

Selskapet er stiftet 21. november 2018 og regnskapet for Babcock Scandinavian Engineering AS omfatter perioden fra stiftelse og frem til til 31. mars 2019. Regnskapet ble vedtatt i styremøte den 12. september 2019. Selskapets årsregnskap inngår i konsernregnskapet til Babcock International Group Plc (registrert i UK).

## Vesentlige regnskapsprinsipper

### Grunnlag for utarbeidelse av årsregnskapet

Regnskapet til Babcock Scandinavian Engineering AS er avlagt i samsvar med internasjonale regnskapsstandarder (IFRS) som er vedtatt av EU og obligatoriske for regnskapsår påbegynt 1. april 2018 eller senere, samt norske opplysningskrav som følger av regnskapsloven per 31. mars 2019. Selskapets funksjonelle- og presentasjonsvaluta er norske kroner. Alle tall i årsregnskapet er i hele norske kroner (NOK) om ikke annet fremgår særskilt.

### Klassifisering av eiendeler og gjeld

Selskapet skiller mellom omløpsmidler og anleggsmidler ved presentasjon av eiendeler i balanseoppsstillingen. På samme måte skilles det mellom kortsiktige og langsiktige forpliktelser.

Selskapet klassifiserer en eiendel som et omløpsmiddel når det:

- Forventer å realisere eiendelen eller har til hensikt å selge eller forbruke den i foretakets ordinære driftssyklus
- Primært holder eiendelen for omsetning
- Forventer å realisere eiendelen innen tolv måneder etter rapporteringsperioden

eller

- Eiendelen er i form av kontanter eller en kontantekvivalent, med mindre eiendelen er underlagt en begrensning som gjør at den ikke kan veksles eller benyttes til å gjøre opp en forpliktelse i minst tolv måneder etter rapporteringsperioden.

Alle andre eiendeler klassifiseres som anleggsmidler, inkl. utsatt skattefordel.

Konsernet klassifiserer gjeld som kortsiktig når forpliktelsen:

- Forventes å bli gjort opp i foretakets ordinære driftssyklus
- Primært holder forpliktelsen for omsetning
- Forfaller til oppgjør innen tolv måneder etter rapporteringsperioden

eller

- Konsernet ikke har en ubetinget rett til å utsette oppgjøret av forpliktelsen i minst tolv måneder etter rapporteringsperioden.

Alle andre forpliktelser klassifiseres som langsiktig gjeld, inkl. utsatt skatt.



Babcock Scandinavian Engineering AS

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## **Inntektsskatt**

Inntektsskatt består av periodeskatt og endring i utsatt skatt. Forpliktelser og eiendeler ved utsatt skatt er beregnet på alle forskjeller mellom regnskapsmessig og skattemessig verdi på eiendeler og gjeld.

En eiendel ved utsatt skatt er regnskapsført når det er sannsynlig at selskapet vil ha tilstrekkelige skattemessige overskudd i senere perioder til å nyttiggjøre skattefordelen. Selskapene regnskapsfører tidligere ikke regnskapsført eiendel ved utsatt skatt i den grad det har blitt sannsynlig at selskapet kan benytte seg av den utsatte skattefordelen. Likeledes vil selskapet redusere eiendel ved utsatt skatt i den grad selskapet ikke lenger anser det som sannsynlig at det kan nyttiggjøre seg av den utsatte skattefordelen.

Forpliktelser og eiendeler ved utsatt skatt er målt basert på forventet fremtidig skattesats hvor det har oppstått midlertidige forskjeller.

Forpliktelser og eiendeler ved utsatt skatt føres opp til nominell verdi og er klassifisert som anleggsmiddel (langsiktig forpliktelse) i balansen. Periodeskatt og eiendeler eller forpliktelser ved utsatt skatt er regnskapsført direkte mot egenkapitalen i den grad skattepostene relaterer seg til egenkapitaltransaksjoner.

## **Kontanter og kontantekvivalenter**

Kontanter inkluderer kontanter i kasse og bankbeholdning. Kontantekvivalenter er kortsiktig likvide investeringer som omgående kan konverteres til kontanter med et kjent beløp, og med maksimal løpetid på 3 måneder. Midler som opprinnelig er bundet i mer enn 3 måneder inngår ikke i kontanter og kontantekvivalenter.

## **Gjeld og egenkapital**

Finansielle instrumenter er klassifisert som gjeld eller egenkapital i overensstemmelse med den underliggende økonomiske realiteten.

## **Hendelser etter balansedagen**

Ny informasjon etter balansedagen om selskapets finansielle stilling på balansedagen er hensyntatt i årsregnskapet. Hendelser etter balansedagen som ikke påvirker selskapets finansielle stilling på balansedagen, men som vil påvirke selskapets finansielle stilling i fremtiden er opplyst om dersom dette er vesentlig.

## **Note 2 - Aksjonær og aksjekapital**

Selskapets aksjekapital består av 30 000 aksjer hver pålydende NOK 1, til sammen NOK 30 000. Alle aksjer har like stemme- og utbytterettigheter. Alle aksjene eies av Babcock Scandinavian AirAmbulance AS

## **Note 3 - Gjeld til nærstående foretak**

Selskapet har et kortsiktig lån til morselskapet på NOK 262 648.



Babcock Scandinavian Engineering AS

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## Note 4 - Skatt

<b>Årets skattekostnad</b>	<b>2019</b>
(For perioden som avsluttes 31.mars)	
Resultatført skatt på ordinært resultat	
Betalbar skatt	-
Endring i utsatt skattefordel	-
<b>Skattekostnad på ordinært resultat</b>	<b>-</b>
Skattepliktig inntekt:	
Ordinært resultat før skatt	-6 050
Permanente forskjeller	-
Endring midlertidige forskjeller	0
<b>Skattepliktig inntekt</b>	<b>-6 050</b>
Betalbar skatt i balansen	
Betalbar skatt på årets resultat	0
<b>Sum betalbar skatt i balansen</b>	<b>0</b>

## Note 5 - Lønnskostnader

Det er ikke utbetalt lønnsytelser til daglig leder eller andre ledende personer i virksomheten

Selskapet har ingen ansatte og er ikke pålagt å ha noen OTP ordning

### Revisor

Godtgjørelse til revisor utgjør NOK 0

## Note 6 - Andre kortsiktige fordringer

Fordring gjelder forskuddsbetaling på NOK 258 273 for kommende leveranse



Babcock Scandinavian Engineering AS

## Oppstilling over endringer i egenkapital

	Aksjekapital	Innskutt annen EK	Udekket tap	Sum	
Egenkapital pr. 21.11.2018	30 000	-	5 570	-	24 430
Resultat for perioden	-	-	6 050	-	6 050
Egenkapital pr. 31.03.2019	30 000	-	5 570	6 050	18 380

## Kontantstrømoppstilling

For perioden som avsluttes 31.mars	Note	2019
<b>Kontantstrømmer fra operasjonelle aktiviteter</b>		
Resultat før skattekostnad		-6 050
Poster klassifisert som investerings-/finansieringsaktiviteter		<u>-6 050</u>
Netto kontantstrøm fra operasjonelle aktiviteter		0
<b>Kontantstrømmer fra investeringsaktiviteter</b>		
Utbetalinger ved kjøp av varige driftsmidler	6	<u>-258 273</u>
Netto kontantstrøm fra investeringsaktiviteter		-258 273
<b>Kontantstrømmer fra finansieringsaktiviteter</b>		
Innbetalinger ved opptak av ny kortsiktig gjeld	3	268 343
Innbetaling av egenkapital	2	30 000
Tilbakebetaling av egenkapital		<u>-5 570</u>
Netto kontantstrøm fra finansieringsaktiviteter		292 773
<b>Netto endring i kontanter og kontantekvivalenter</b>		28 450
Beholdning av kontanter og kontantekvivalenter ved periodens begynnelse		0
<b>Beholdning av kontanter og kontantekvivalenter ved periodens slutt</b>		<u>28 450</u>

Side 6



Babcock Scandinavian Engineering AS

## Oppstilling over endringer i egenkapital

	Aksjekapital	Innskutt annen EK	Udekket tap	Sum	
Egenkapital pr. 21.11.2018	30 000	-	5 570	-	24 430
Resultat for perioden	-	-	6 050	-	6 050
Egenkapital pr. 31.03.2019	30 000	-	5 570	6 050	18 380

## Kontantstrømoppstilling

For perioden som avsluttes 31.mars Note 2019

### Kontantstrømmer fra operasjonelle aktiviteter

Resultat før skattekostnad	-6 050
Poster klassifisert som investerings-/finansieringsaktiviteter	-6 050
Netto kontantstrøm fra operasjonelle aktiviteter	0

### Kontantstrømmer fra investeringsaktiviteter

Utbetalinger ved kjøp av varige driftsmidler	6	-258 273
Netto kontantstrøm fra investeringsaktiviteter		-258 273

### Kontantstrømmer fra finansieringsaktiviteter

Innbetalinger ved opptak av ny kortsiktig gjeld	3	268 343
Innbetaling av egenkapital	2	30 000
Tilbakebetaling av egenkapital		-5 570
Netto kontantstrøm fra finansieringsaktiviteter		292 773
<b>Netto endring i kontanter og kontantekvivalenter</b>		<b>28 450</b>
Beholdning av kontanter og kontantekvivalenter ved periodens begynnelse		0
<b>Beholdning av kontanter og kontantekvivalenter ved periodens slutt</b>		<b>28 450</b>

Side 6



Til generalforsamlingen i Babcock Scandinavian Engineering AS

## *Uavhengig revisors beretning*

### *Uttalelse om revisjonen av årsregnskapet*

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#### *Konklusjon*

Vi har revidert Babcock Scandinavian Engineering AS' årsregnskap som består av balanse per 31. mars 2019, resultatregnskap, totalresultat, oppstilling over endringer i egenkapital og kontantstrømpoppstilling for regnskapsåret avsluttet per denne datoen og noter til årsregnskapet, herunder et sammendrag av viktige regnskapsprinsipper.

Etter vår mening er det medfølgende årsregnskapet avgitt i samsvar med lov og forskrifter og gir et rettviseende bilde av selskapets finansielle stilling per 31. mars 2019, og av dets resultater og kontantstrømmer for regnskapsåret avsluttet per denne datoen i samsvar med International Financial Reporting Standards som fastsatt av EU.

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#### *Grunnlag for konklusjonen*

Vi har gjennomført revisjonen i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder de internasjonale revisjonsstandardene International Standards on Auditing (ISA-ene). Våre oppgaver og plikter i henhold til disse standardene er beskrevet i Revisors oppgaver og plikter ved revisjon av årsregnskapet. Vi er uavhengige av selskapet slik det kreves i lov og forskrift, og har overholdt våre øvrige etiske forpliktelser i samsvar med disse kravene. Etter vår oppfatning er innhentet revisjonsbevis tilstrekkelig og hensiktsmessig som grunnlag for vår konklusjon.

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#### *Andre forhold*

Vi har ikke mottatt pålitelige revisjonsbevis for at årsregnskap er styrebehandlet og godkjent innen seks måneder etter regnskapsårets slutt. Dette leder oss til den konklusjon at selskapets årsregnskap er avlagt etter utløpet av lovens frist for avholdelse av ordinær generalforsamling.

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#### *Styrets og daglig leders ansvar for årsregnskapet*

Styret og daglig leder (ledelsen) er ansvarlig for å utarbeide årsregnskapet i samsvar med lov og forskrifter, herunder for at det gir et rettviseende bilde i samsvar med International Financial Reporting Standards som fastsatt av EU. Ledelsen er også ansvarlig for slik internkontroll som den finner nødvendig for å kunne utarbeide et regnskap som ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil.

Ved utarbeidelsen av årsregnskapet må ledelsen ta standpunkt til selskapets evne til fortsatt drift og opplyse om forhold av betydning for fortsatt drift. Forutsetningen om fortsatt drift skal legges til grunn for årsregnskapet med mindre ledelsen enten har til hensikt å avvike selskapet eller legge ned virksomheten, eller ikke har noe realistisk alternativ til dette.

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap



Uavhengig revisors beretning - Babcock Scandinavian Engineering AS

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*Revisors oppgaver og plikter ved revisjonen av årsregnskapet*

Vårt mål med revisjonen er å oppnå betryggende sikkerhet for at årsregnskapet som helhet ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil, og å avgi en revisjonsberetning som inneholder vår konklusjon. Betryggende sikkerhet er en høy grad av sikkerhet, men ingen garanti for at en revisjon utført i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder ISA-ene, alltid vil avdekke vesentlig feilinformasjon som eksisterer. Feilinformasjon kan oppstå som følge av misligheter eller utilsiktede feil. Feilinformasjon blir vurdert som vesentlig dersom den enkeltvis eller samlet med rimelighet kan forventes å påvirke økonomiske beslutninger som brukerne foretar basert på årsregnskapet.

For videre beskrivelse av revisors oppgaver og plikter vises det til:

<https://revisorforeningen.no/revisjonsberetninger>

*Uttalelse om andre lovmessige krav*

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*Konklusjon om registrering og dokumentasjon*

Basert på vår revisjon av årsregnskapet som beskrevet ovenfor, og kontrollhandlinger vi har funnet nødvendig i henhold til internasjonal standard for attestasjonsoppdrag (ISAE) 3000 «Attestasjonsoppdrag som ikke er revisjon eller forenklet revisorkontroll av historisk finansiell informasjon», mener vi at ledelsen har oppfylt sin plikt til å sørge for ordentlig og oversiktlig registrering og dokumentasjon av selskapets regnskapsopplysninger i samsvar med lov og god bokføringskikk i Norge.

Tromsø, 28. januar 2020

**PricewaterhouseCoopers AS**

Ørjan Renø  
Statsautorisert revisor