20221202098886

Babcock Mission Critical Services, Scandinavia AB
556962-2391

ÅRSREDOVISNING
2021/2022

Styrelsen för Babcock Mission Critical Services, Scandinavia AB får härmed avge

Årsredovisningen omfattar

	Sida
- förvaltningsberättelse	2
- resultaträkning	3
- balansräkning	4
- tilläggsupplysningar	6
- underskrifter	7

FASTSTÄLLELSEINTYG
Undertecknad styrelseledamot intygar härmed, dels att denna kopia av årsredovisningen överensstämmer med originalet, dels att resultat- och balansräkningen fastställs på årsstämma den 30 NOVEMBER ..... 2022.
Stämman beslutade tillika godkänna styrelsens förslag till resultatdisposition.

Stockholm den

Marius Hansen
Mauris Hansen

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20221202098887

ÅRSREDOVISNING
2021/2022

Styrelsen för Babcock Mission Critical Services, Scandinavia AB får härmed avge årsredovisning för räkenskapsåret 2021-04-01--2022-03-31.

Årsredovisningen omfattar	Sida
- förvaltningsberättelse	2
- resultaträkning	3
- balansräkning	4
- tilläggsupplysningar	6
- underskrifter	7

20221202098888

Babcock Mission Critical Services, Scandinavia AB
556962-2391

FÖRVALTNINGSBERÄTTELSE

Årsredovisningen är upprättad i svenska kronor, SEK.

Allmänt om verksamheten

Bolagets verksamhet innefattar att vara ägare till Babcock Scandinavian AirAmbulance koncernen.

Väsentliga händelser under och efter räkenskapsåret

Bolaget har ingen operativ verksamhet och har inte nämnvärt berörts av geopolitiska förändringar eller ökad inflation.

Moderbolag

Bolaget ägs av Bond Mission Critical Services PLC med registreringsnummer 08493316.
Bond Mission Critical Services PLC är helägt av Bond Aviation Group LTD, vars yttersta koncernmoder är Babcock International Group PLC. Bolaget upprättar inte koncernredovisning enligt ÅRL 7:2.
Övergripande koncernredovisning upprättas av Babcock International Group PLC, 33 Wigmore Street, Longon W1U 1QX, England, registreringsnummer 2342138. Företaget är noterat på London Stock Exchange.

Flerårsjämförelse

Bolagets ekonomiska utveckling i sammandrag.

	2021/2022	2020/2021	2019/2020	2018/2019	2017/2018
Nettoomsättning	0	0	0	0	0
Resultat efter fin poster	-77 982	-119 900 000	0	44 260	0

Eget kapital

	Aktiekapital	Överkursfond	Fritt eget kapital
Belopp vid årets ingång enligt fastställd balansräkning	72 143	258 883 597	-165 038 744
Årets resultat			-77 982
	72 143	258 883 597	-165 116 726

Förslag till vinstdisposition

Till årsstämmans förfogande står följande vinstmedel	
Från föregående år balanserade vinst	-165 038 744
Överkursfond	258 883 597
Årets resultat	-77 982
	93 766 871
Styrelsen förslag till dispostion	
Balanseras i ny räkning	93 766 871
	93 766 871

Resultat och ställning

Beträffande bolagets ställning i övrigt hänvisas till efterföljande balans- och resultaträkning med tillhörande tilläggsupplysningar.

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Babcock Mission Critical Services, Scandinavia AB
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RESULTATRÄKNING

	Not	2021-04-01 2022-03-31	2020-04-01 2021-03-31
Rörelsekostnader			
Övriga externa kostnader		-77 982	0
Summa rörelsekostnader		-77 982	0
Rörelseresultat		**-77 982**	**0**
Finansiella poster			
Resultat från andelar i koncernföretag		0	-80 900 000
Finansiella poster		0	-80 900 000
Resultat efter finansiella poster		**-77 982**	**-80 900 000**
Bokslutsdispositioner			
Lämnade koncernbidrag		0	-66 500 000
Summa bokslutsdispositioner		0	-66 500 000
Resultat före skatt		-77 982	-147 400 000
Skatter			
Skatt på årets resultat		0	0
Årets resultat		**-77 982**	**-147 400 000**

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Babcock Mission Critical Services, Scandinavia AB
556962-2391

BALANSRÄKNING

	Not	31/03/2022	31/03/2021
TILLGÅNGAR			
Anläggningstillgångar			
Finansiella anläggningstillgångar			
Aktier i dotterbolag	1	80 600 000	80 600 000
Fordringar hos koncernföretag	2	241 218 000	241 218 000
Summa finansiella anläggningstillgångar		**321 818 000**	**321 818 000**
Summa anläggningstillgångar		**321 818 000**	**321 818 000**
Kortfristiga placeringar			
Kassa och bank			
Kassa och bank		158 232	159 559
Summa kassa och bank		**158 232**	**159 559**
Summa omsättningstillgångar		**158 232**	**159 559**
SUMMA TILLGÅNGAR		**321 976 232**	**321 977 559**

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Babcock Mission Critical Services, Scandinavia AB
556962-2391

BALANSRÄKNING

	Not	31/03/2022	31/03/2021
Eget kapital			
Bundet eget kapital			
Aktiekapital (72 143 aktier)		72 143	72 143
Summa bundet eget kapital		**72 143**	**72 143**
Fritt eget kapital			
Överkursfond		258 883 597	258 883 597
Balanserat resultat		-165 038 744	-17 638 744
Årets resultat		-77 982	-147 400 000
Summa fritt eget kapital		**93 766 871**	**93 844 853**
Summa eget kapital		**93 839 014**	**93 916 996**
Skulder			
Skulder till koncernföretag		228 060 563	228 060 563
Övriga upplupna skulder		76 655	0
Summa skulder		**228 137 218**	**228 060 563**
SUMMA EGET KAPITAL OCH SKULDER		**321 976 232**	**321 977 559**

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Babcock Mission Critical Services, Scandinavia AB
556962-2391

TILLÄGGSUPPLYSNINGAR

Redovisnings- och värderingsprinciper

Årsredovisningen har upprättats i enlighet med BFNAR 2016:10 Årsredovisning i mindre aktiebolag.
Redovisningsprinciperna är oförändrade jämfört med föregående år.

Koncernredovisning

Bolaget upprättar inte koncernredovisning enligt ÅRL 7:2. Övergripande koncernredovisning upprättas av Babcock International Group PLC, 33 Wigmore Street, London W1U 1QX, England, registreringsnummer 2342138.

Övriga fordringar och skulder

Övriga fordringar och skulder beräknas till det värde som förväntas in-, eller utflyta.

Not 1 Andelar i koncern-eller intresseföretag m fl

	31/03/2022	31/03/2021
Ingående anskaffningsvärde	161 500 000	61 500 000
Förvärv under året	0	100 000 000
Försäljningar under året	0	0
Utgående ackumulerade anskaffningsvärden	161 500 000	161 500 000
Nedskrivningar	0	-80 900 000
Ackumulerade nedskrivningar	0	0
Utgående restvärde	80 600 000	80 600 000

Redovisat värde på aktier i dotterbolag

Företagets namn	Kapital-andel	Org nr	Kapital- och röst-rättsandel	Redovisat värde
Babcock Scandinavia Air Ambulance AB	100%	556617-7084	100,0%	72 500 000
Babcock SAA FW AB	100%	556292-3663	100,0%	8 100 000
				80 600 000

Not 2 Fordringar hos koncernföretag

Ingående balans	241 218 000	241 218 000
Årets nettoförändring; ökning(+)/minskning(-)	0	0
Summa	241 218 000	241 218 000

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Babcock Mission Critical Services, Scandinavia AB
556962-2391

Stockholm 2022- 11-30

Simon Lampkin
Styrelsens Ordförande

Kevin Garvey
Styrelseledamot

Luis Francisco Inigo Moreno-Ventas
Styrelseledamot

Inés González Canal
Styrelseledamot

Marius Hansen
Styrelseledamot

Vår revisionsberättelse har lämnats 2022- 11-30
Deloitte AB

Pontus Pålsson
Auktoriserad revisor

20221202098 94

Babcock Mission Critical Services, Scandinavia AB
556962-2391

Stockholm 2022- 11-30

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Styrelseledamot

Inés González Canal
Styrelseledamot

Marius Hansen
Styrelseledamot

Vår revisionsberättelse har lämnats 2022-
Deloitte AB

Pontus Pålsson
Auktoriserad revisor

Classification:IN-CONFIDENCE LIMITED CIRCULATION

20221202098 95

Babcock Mission Critical Services, Scandinavia AB
556962-2391

Stockholm 2022-11-30

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Inés González Canal
Styrelseledamot

Marius Hansen
Styrelseledamot

Vår revisionsberättelse har lämnats 2022-
Deloitte AB

Pontus Pålsson
Auktoriserad revisor

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Deloitte.

REVISIONSBERÄTTELSE

Till bolagsstämman i Babcock Mission Critical Services, Scandinavia AB
organisationsnummer 556962-2391

Rapport om årsredovisningen

Uttalanden

Vi har utfört en revision av årsredovisningen för Babcock Mission Critical Services, Scandinavia AB för räkenskapsåret 2021-04-01 - 2022-03-31.

Enligt vår uppfattning har årsredovisningen upprättats i enlighet med årsredovisningslagen och ger en i alla väsentliga avseenden rättvisande bild av Babcock Mission Critical Services, Scandinavia ABs finansiella ställning per den 31 mars 2022 och av dess finansiella resultat för året enligt årsredovisningslagen. Förvaltningsberättelsen är förenlig med årsredovisningens övriga delar.

Vi tillstyrker därför att bolagsstämman fastställer resultaträkningen och balansräkningen.

Grund för uttalanden

Vi har utfört revisionen enligt International Standards on Auditing (ISA) och god revisionssed i Sverige. Vårt ansvar enligt dessa standarder beskrivs närmare i avsnittet *Revisorns ansvar*. Vi är oberoende i förhållande till Babcock Mission Critical Services, Scandinavia AB enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Övriga upplysningar

Revisionen av årsredovisningen för räkenskapsåret 2021-04-01 - 2022-03-31 har utförts av en annan revisor som lämnat en revisionsberättelse daterad 29 september 2021 med omodifierade uttalanden i Rapport om årsredovisningen.

Styrelsens ansvar

Det är styrelsen som har ansvaret för att årsredovisningen upprättas och att den ger en rättvisande bild enligt årsredovisningslagen. Styrelsen ansvarar även för den interna kontroll som den bedömer är nödvändig för att upprätta en årsredovisning som inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag.

Vid upprättandet av årsredovisningen ansvarar styrelsen för bedömningen av bolagets förmåga att fortsätta verksamheten. Den upplyser, när så är tillämpligt, om förhållanden som kan påverka förmågan att fortsätta verksamheten och att använda antagandet om fortsatt drift. Antagandet om fortsatt drift tillämpas dock inte om beslut har fattats om att avveckla verksamheten.

Revisorns ansvar

Våra mål är att uppnå en rimlig grad av säkerhet om huruvida årsredovisningen som helhet inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag, och att lämna en revisionsberättelse som innehåller våra uttalanden. Rimlig säkerhet är en hög grad av säkerhet, men är ingen garanti för att en revision som utförs enligt ISA och god revisionssed i Sverige alltid kommer att upptäcka en väsentlig felaktighet om en sådan finns. Felaktigheter kan uppstå på grund av oegentligheter eller misstag och anses vara väsentliga om de enskilt eller tillsammans rimligen kan förväntas påverka de ekonomiska beslut som användare fattar med grund i årsredovisningen.

Som del av en revision enligt ISA använder vi professionellt omdöme och har en professionellt skeptisk inställning under hela revisionen. Dessutom:

- identifierar och bedömer vi riskerna för väsentliga felaktigheter i årsredovisningen, vare sig dessa beror på oegentligheter eller misstag, utformar och utför granskningsåtgärder bland annat utifrån dessa risker och inhämtar revisionsbevis som är tillräckliga och ändamålsenliga för att utgöra en grund för våra uttalanden. Risken för att inte upptäcka en väsentlig felaktighet till följd av oegentligheter är högre än för en väsentlig felaktighet som beror på misstag, eftersom oegentligheter kan innefatta agerande i maskopi, förfalskning, avsiktliga utelämnanden, felaktig information eller åsidosättande av intern kontroll.
- skaffar vi oss en förståelse av den del av bolagets interna kontroll som har betydelse för vår revision för att utforma granskningsåtgärder som är lämpliga med hänsyn till omständigheterna, men inte för att uttala oss om effektiviteten i den interna kontrollen.
- utvärderar vi lämpligheten i de redovisningsprinciper som används och rimligheten i styrelsens uppskattningar i redovisningen och tillhörande upplysningar.
- drar vi en slutsats om lämpligheten i att styrelsen använder antagandet om fortsatt drift vid upprättandet av årsredovisningen. Vi drar också en slutsats, med grund i de inhämtade revisionsbevisen, om huruvida det finns någon väsentlig osäkerhetsfaktor som avser sådana händelser eller förhållanden som kan leda till betydande tvivel om bolagets förmåga att fortsätta verksamheten. Om vi drar slutsatsen att det finns en väsentlig osäkerhetsfaktor, måste vi i revisionsberättelsen fästa uppmärksamheten på upplysningarna i årsredovisningen om den väsentliga osäkerhetsfaktorn eller, om sådana upplysningar är otillräckliga, modifiera uttalandet om årsredovisningen. Våra slutsatser baseras på de

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revisionsbevis som inhämtas fram till datumet för revisionsberättelsen. Dock kan framtida händelser eller förhållanden göra att ett bolag inte längre kan fortsätta verksamheten.

- utvärderar vi den övergripande presentationen, strukturen och innehållet i årsredovisningen, däribland upplysningarna, och om årsredovisningen återger de underliggande transaktionerna och händelserna på ett sätt som ger en rättvisande bild.

Vi måste informera styrelsen om bland annat revisionens planerade omfattning och inriktning samt tidpunkten för den. Vi måste också informera om betydelsefulla iakttagelser under revisionen, däribland de eventuella betydande brister i den interna kontrollen som vi identifierat.

Rapport om andra krav enligt lagar och andra författningar

Uttalanden

Utöver vår revision av årsredovisningen har vi även utfört en revision av styrelsens förvaltning för Babcock Mission Critical Services, Scandinavia AB för räkenskapsåret 2021-04-01 - 2022-03-31 samt av förslaget till dispositioner beträffande bolagets vinst eller förlust.

Vi tillstyrker att bolagsstämman disponerar vinsten enligt förslaget i förvaltningsberättelsen och beviljar styrelsens ledamöter ansvarsfrihet för räkenskapsåret.

Grund för uttalanden

Vi har utfört revisionen enligt god revisionssed i Sverige. Vårt ansvar enligt denna beskrivs närmare i avsnittet *Revisorns ansvar*. Vi är oberoende i förhållande till Babcock Mission Critical Services, Scandinavia AB enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Styrelsens ansvar

Det är styrelsen som har ansvaret för förslaget till dispositioner beträffande bolagets vinst eller förlust. Vid förslag till utdelning innefattar detta bland annat en bedömning av om utdelningen är försvarlig med hänsyn till de krav som bolagets verksamhetsart, omfattning och risker ställer på storleken av bolagets egna kapital, konsolideringsbehov, likviditet och ställning i övrigt.

Styrelsen ansvarar för bolagets organisation och förvaltningen av bolagets angelägenheter. Detta innefattar bland annat att fortlöpande bedöma bolagets ekonomiska situation och att tillse att bolagets organisation är utformad så att bokföringen, medelsförvaltningen och bolagets ekonomiska angelägenheter i övrigt kontrolleras på ett betryggande sätt.

Revisorns ansvar

Vårt mål beträffande revisionen av förvaltningen, och därmed vårt uttalande om ansvarsfrihet, är att inhämta revisionsbevis för att med en rimlig grad av säkerhet kunna bedöma om någon styrelseledamot i något väsentligt avseende:

- företagit någon åtgärd eller gjort sig skyldig till någon försummelse som kan föranleda ersättningsskyldighet mot bolaget, eller
- på något annat sätt handlat i strid med aktiebolagslagen, årsredovisningslagen eller bolagsordningen.

Vårt mål beträffande revisionen av förslaget till dispositioner av bolagets vinst eller förlust, och därmed vårt uttalande om detta, är att med rimlig grad av säkerhet bedöma om förslaget är förenligt med aktiebolagslagen.

Rimlig säkerhet är en hög grad av säkerhet, men ingen garanti för att en revision som utförs enligt god revisionssed i Sverige alltid kommer att upptäcka åtgärder eller försummelser som kan föranleda ersättningsskyldighet mot bolaget, eller att ett förslag till dispositioner av bolagets vinst eller förlust inte är förenligt med aktiebolagslagen.

Som en del av en revision enligt god revisionssed i Sverige använder vi professionellt omdöme och har en professionellt skeptisk inställning under hela revisionen. Granskningen av förvaltningen och förslaget till dispositioner av bolagets vinst eller förlust grundar sig främst på revisionen av räkenskaperna. Vilka tillkommande granskningsåtgärder som utförs baseras på vår professionella bedömning med utgångspunkt i risk och väsentlighet. Det innebär att vi fokuserar granskningen på sådana åtgärder, områden och förhållanden som är väsentliga för verksamheten och där avsteg och överträdelser skulle ha särskild betydelse för bolagets situation. Vi går igenom och prövar fattade beslut, beslutsunderlag, vidtagna åtgärder och andra förhållanden som är relevanta för vårt uttalande om ansvarsfrihet. Som underlag för vårt uttalande om styrelsens förslag till dispositioner beträffande bolagets vinst eller förlust har vi granskat om förslaget är förenligt med aktiebolagslagen.

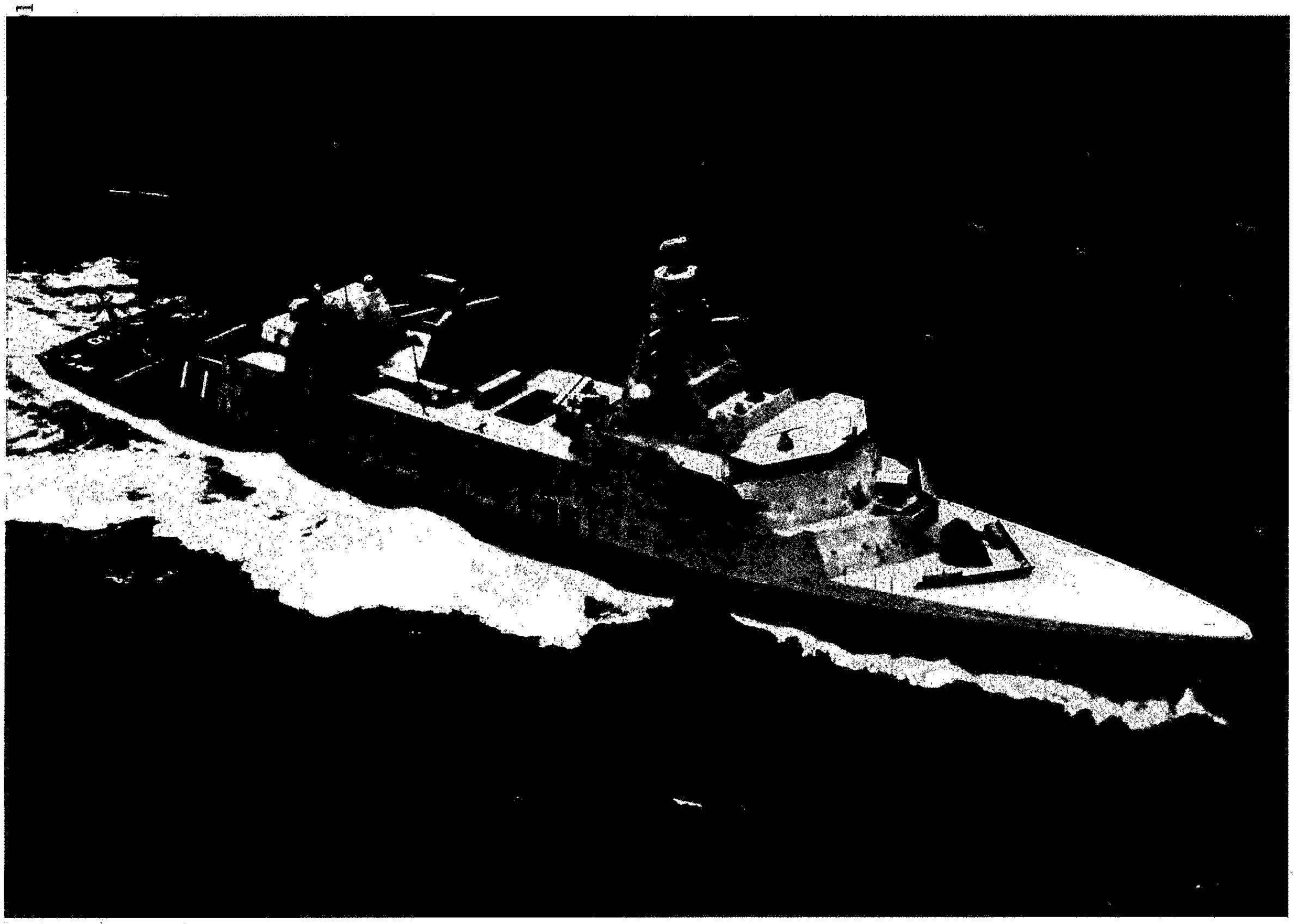
Stockholm den 30/11 2022

Deloitte AB

Pontus Pålsson
Auktoriserad revisor

11200854

babcock™



Returning to strength

→ **ANNUAL REPORT AND FINANCIAL STATEMENTS 2022**

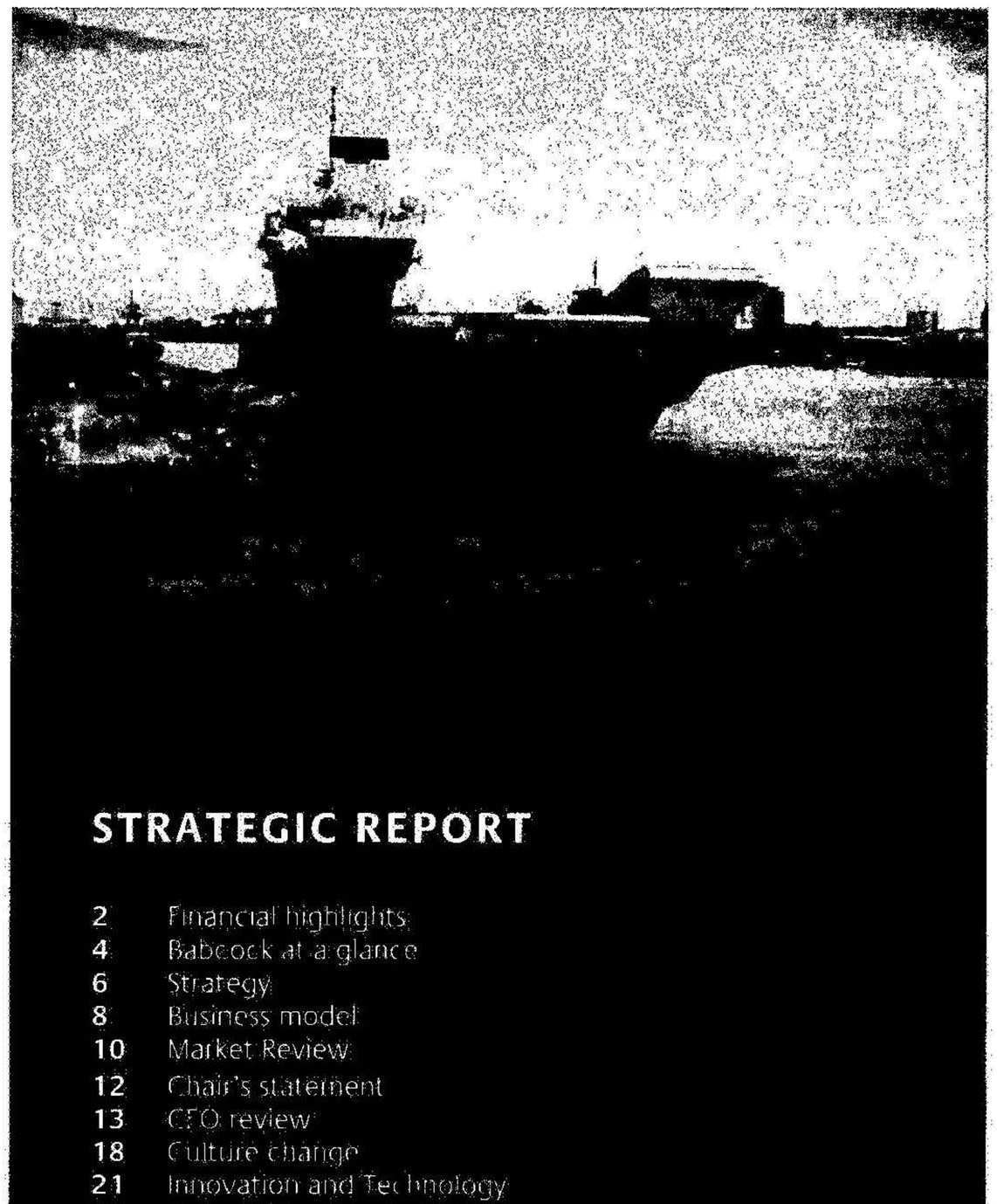
Babcock is an international defence company operating in our focus countries of the UK, Australasia, Canada, France and South Africa, with exports to additional markets with potential to become focus countries.

Our Purpose, *to create a safe and secure world, together*, defines our strategy. We support and enhance our customers' defence and security capabilities and critical assets through a range of product and service solutions. We meet our customers' requirements of value for money, increased availability, modernisation and flexibility.

We made excellent progress in our first year of turnaround; securing the balance sheet and focusing the Group through portfolio alignment and by reorganising around a new operating model and people strategy.

Supported by our ESG strategy, we are now better positioned to take advantage of the opportunities created by the strengthening global market for defence.

Please scan this code to watch a video explaining how our purpose informs all that we do and how the work we deliver is helping Babcock to create a safe and secure world, together.



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STRATEGY

2022 FINANCIAL HIGHLIGHTS

Revenue

£4,102m

2021: £3,972m
(Restated, see page 24)

Statutory operating profit/(loss)

£227m

2021: £(1,737)m
(Restated, see page 25)

Underlying operating profit/(loss)

£238m

2021: £(28)m

Statutory cash generated from operations

£42m

2021: £475m
(Restated, see page 162)

Underlying free cash flow

£(191)m

2021: £170m
(Restated, see page 30)

Net debt/EBITDA (covenant basis)

1.8x

2021: 2.4x

Adjustments between statutory and underlying

The Group uses various alternative performance measures, including underlying operating profit, to enable users to better understand the performance and earnings trends of the Group. The Directors believe the alternative performance measures provide a consistent measure of business performance year to year and they are used by management to measure operating performance and as a basis for forecasting and decision making. The Group believes they are also used by investors in analysing business performance.

This presentation allows for separate disclosure and specific narrative to be included concerning the adjusting items. This helps to ensure performance in any one year can be clearly understood by users of the financial statements. These alternative performance measures are not defined by IFRS and therefore there is a level of judgement involved in identifying the adjustments required to calculate the underlying results. As the alternative performance measures used are not defined under IFRS, they may not be comparable to similar measures used by other companies. They are not intended to be a substitute for, or superior to, measures defined under IFRS.

Forward-looking statements

Statements in this Annual Report, including those regarding the possible or assumed future or performance of Babcock or its industry, as well as any trend projections or statements about Babcock's or management's beliefs or expectations, may constitute forward looking statements. By their nature, forward looking statements involve known and unknown risks and uncertainties as well as other factors, many of which are beyond Babcock's control. These risks, uncertainties and factors may cause actual results, performance or developments to differ materially from those expressed or implied by such forward looking statements. No assurance is given that any forward looking statements will prove to be correct. The information and opinions contained in this Annual Report do not purport to be comprehensive, are provided as at the date of the Annual Report and are subject to change without notice. Babcock is not under any obligation to update or keep current any information in the Annual Report, including any forward looking statements.

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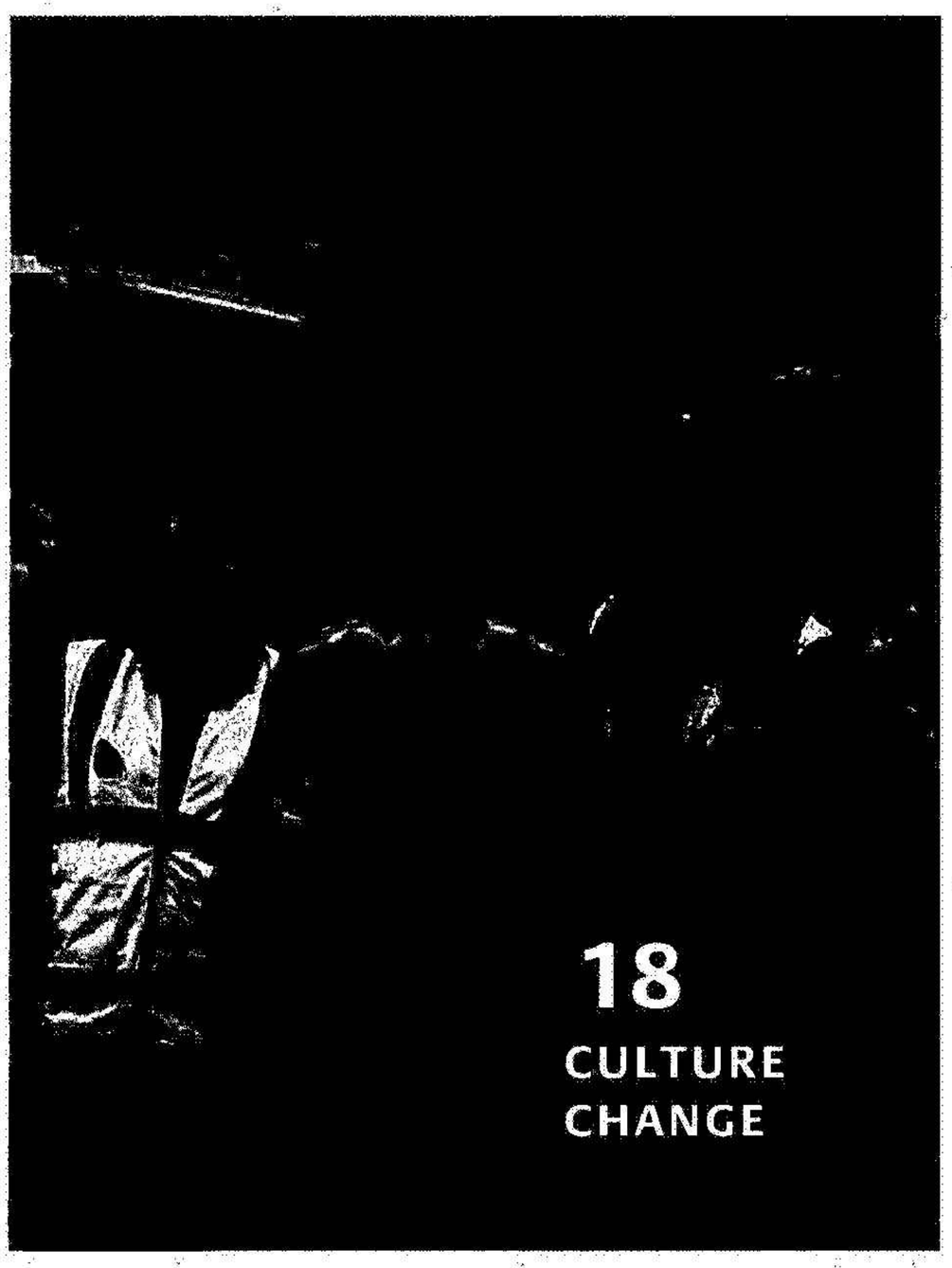
CEO
REVIEW



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FY22 HIGHLIGHTS

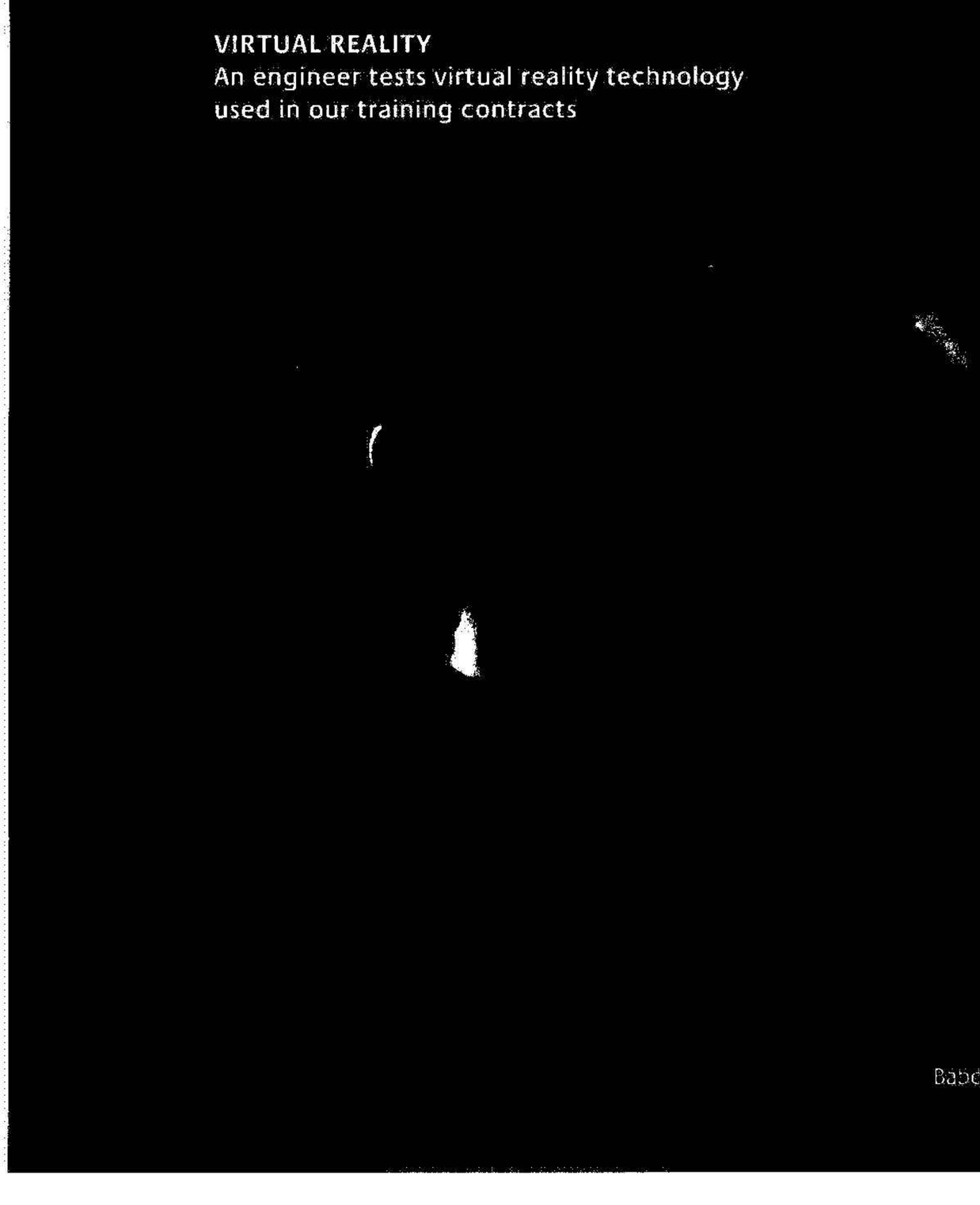
Portfolio – focused the group: Generated gross proceeds of £447 million from four completed disposals, above our targeted minimum of £400 million. Disposal of part of our Aerial Emergency Services (AES) business signed in July 2022 after year end for a cash consideration of c.£115 million. Footprint expanded in Australia with acquisition of the remaining 50% interest in our Australian Naval Ship Management (NSM) joint venture

Operating model – implemented: Streamlining processes and structures and improving controls drove a c.£20 million benefit in FY22 (c.£40 million annualised), as expected. Internal business reporting lines flattened. We continue to focus on improved execution to deliver efficiencies

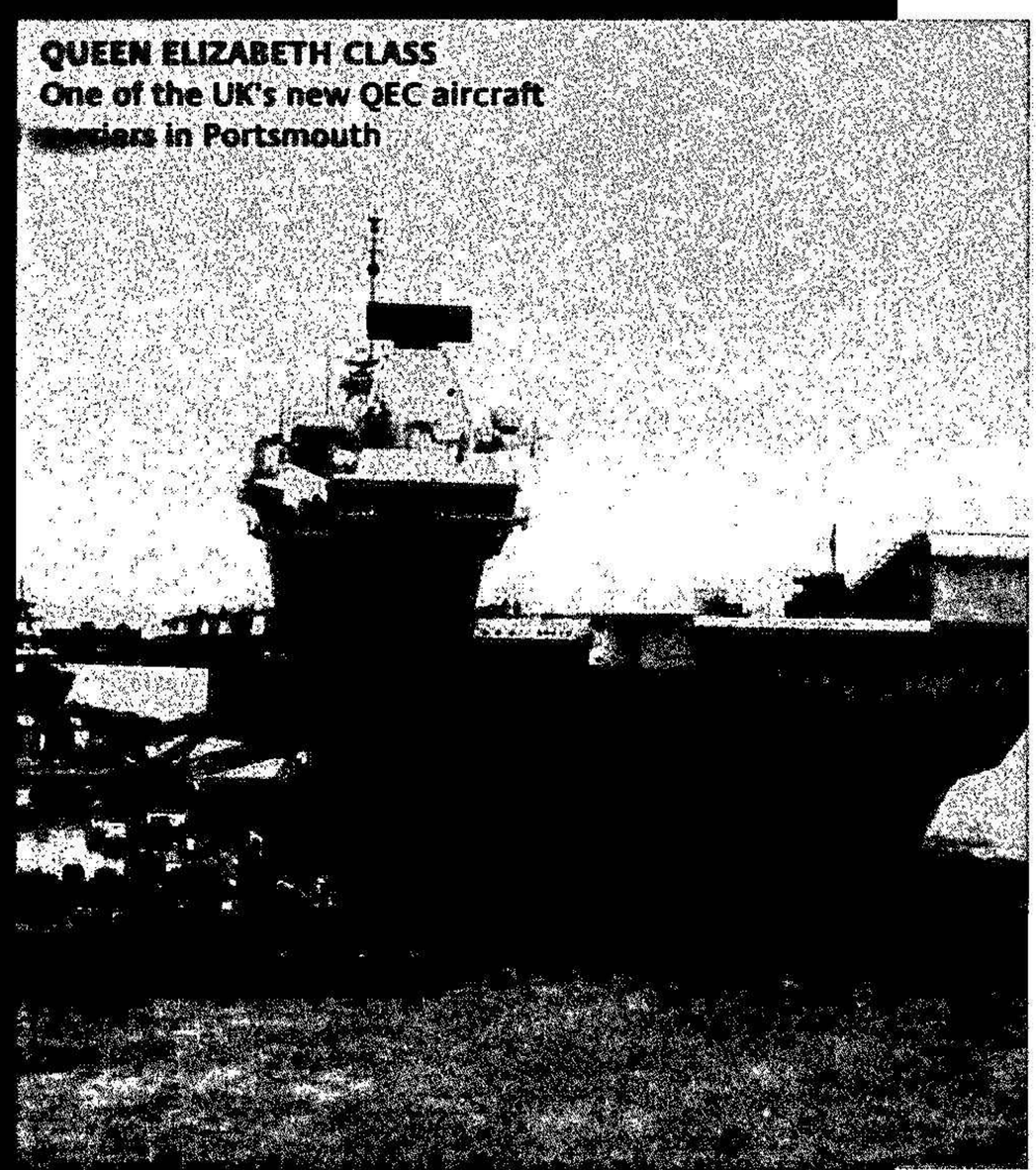
People strategy - culture transforming: New people strategy developed, including roll-out of Group Principles and agile working

ESG strategy – developing: Expanded our corporate commitments to incorporate broader environmental targets and created new policies and guidance to support the governance of our sustainability programmes

Growth – developing opportunities: Good order momentum including the signing of export agreements with Indonesia and Poland for the Arrowhead 140 (AH140) naval ship design (the base for the UK's Type 31 programme) and new defence contracts in Australia, France and the UK



VIRTUAL REALITY
An engineer tests virtual reality technology used in our training contracts



QUEEN ELIZABETH CLASS
One of the UK's new QEC aircraft carriers in Portsmouth

Our business today

Creating a safe and secure world, together

Babcock is an international defence company operating in our focus countries of the **UK, Australasia, Canada, France** and **South Africa,** with exports to additional markets with potential to become focus countries.

Our work supports our public sector and blue chip customers on complex long-term programmes and critical services. We provide through-life technical and engineering support, specialist training, asset management and the design and manufacture of a range of defence and specialist equipment. We meet our customers' key requirements of value for money, increased availability, modernisation and flexibility.

WHAT WE DO

We provide engineering, support and systems and deliver critical services to defence and civil markets.

Deliver complex programmes and critical services

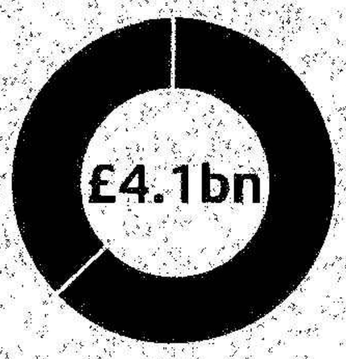
We provide through-life technical and engineering support for our customers' assets, delivering improvements in the performance, availability and programme cost. We also deliver critical services to our defence and civil customers, including engineering support to land defence and air base operations, specialist training and asset management, equipment supply and maintenance to the resources sector, and engineering support to the nuclear power industry.

Design, manufacture and integrate

We design and manufacture a range of defence and specialist equipment, from naval ships and weapons handling systems to liquid gas handling systems. We also provide integrated, technology-enabled solutions to our defence customers in areas such as secure communications, electronic warfare and air defence.

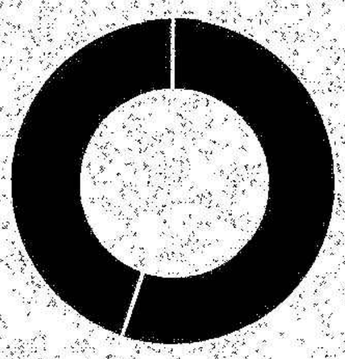
REVENUE PROFILE

By location



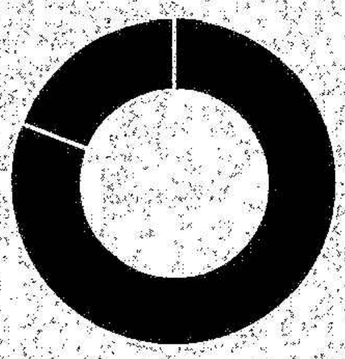
- 63% UK
- 37% International

By market



- 55% Defence
- 45% Civil

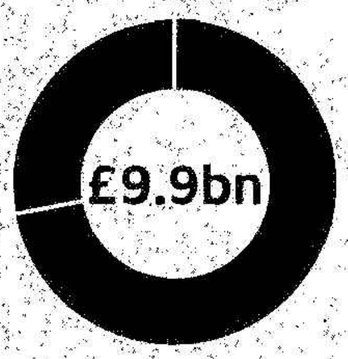
By customer



- 81% Public
- 19% Private

BACKLOG PROFILE

By market



- 72% Defence
- 28% Civil

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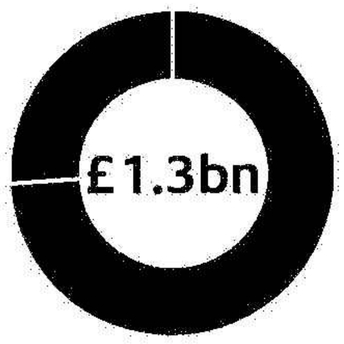
DELIVERED ACROSS OUR FOUR SECTORS

Marine
31% of FY22 revenue

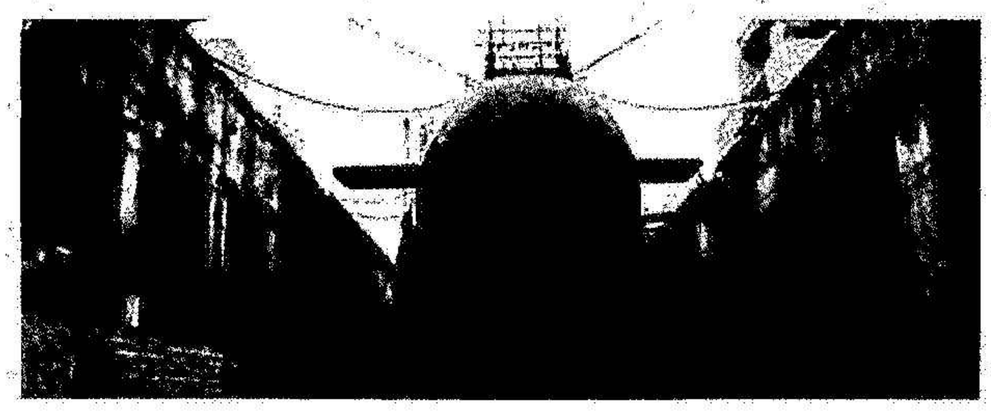
- UK and international warship through-life support: design, build, assemble, maintain, upgrade
- International submarine through-life support
- Global naval exports: ship design, military equipment and engineering support
- Energy and marine equipment and support

See page 42

FY22 revenue



74% Defence
26% Civil

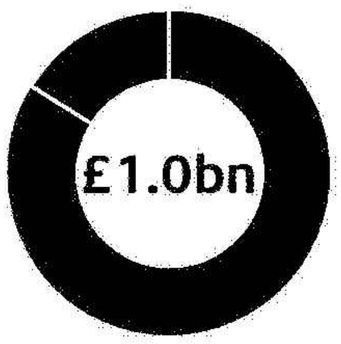


Nuclear
24% of FY22 revenue

- Support all UK nuclear submarines and infrastructure
- Own or manage key infrastructure and naval bases
- Nuclear submarine dismantling
- UK civil nuclear new build, generation support and decommissioning projects
- UK and international nuclear services

See page 44

FY22 revenue



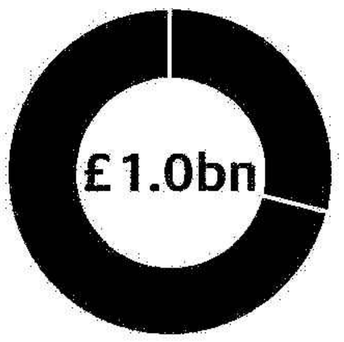
84% Defence
16% Civil

Land
25% of FY22 revenue

- Asset management and engineering support for British Army vehicles
- Technical training and support for the British Army
- Emergency services technical training and fleet management
- South Africa engineering and equipment businesses

See page 46

FY22 revenue



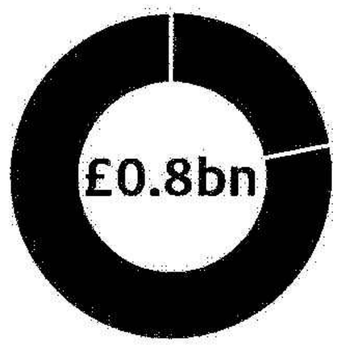
29% Defence
71% Civil

Aviation
20% of FY22 revenue

- UK and French pilot training and support
- Military aircraft engineering and airbase support
- Military and emergency services aircraft maintenance, repair and overhaul
- Air ambulance, search and rescue and firefighting services

See page 48

FY22 revenue



22% Defence
78% Civil

FURTHER INFORMATION ON

Strategy and business model

See page 6-9

Markets

See page 10

Culture change

See page 18

ESG strategy

See page 54

Our strategy

Our Purpose, *to create a safe and secure world, together*, defines our strategy. We support and enhance our customers' defence capabilities and critical assets through a range of product and service solutions. We meet our customers' requirements of increased availability, affordability and capability.

In last year's report, we said our strategy had three elements: the UK naval business; UK value-add services and International. As we have developed and shaped the business over the first year of our turnaround, we have determined that our international presence is an inherent part of our overall strategy and so should not be considered separately. Our strategy focuses on naval engineering, support and systems, and on critical services in our core defence and civil markets. In this section we share our thinking and outline our strategic priorities.

Naval engineering, support and systems

- To deliver high-value, technical and engineering support for ships and submarines to UK and other navies
- To own, maintain and develop critical naval infrastructure
- To design, build and export world class naval platforms and equipment
- To deliver affordable digital support and solutions which enhance our customers' capabilities

Drivers

- Global threat environment and geopolitics
- Rising global defence spending
- Infrastructure and equipment modernisation trends
- UK National Shipbuilding Strategy
- Digitalisation of defence and security environment
- Requirement for integrated, technology-driven solutions

Babcock Sectors

- Marine
- Nuclear (naval)

Critical services: defence and civil

- To provide high-value engineering and support services in land and aviation defence, civil nuclear and other critical sectors
- To deliver technical training services in defence and security sectors
- To maintain and provide complex assets and equipment
- To provide integrated solutions to our customers by bringing together the right technology and suppliers

Drivers

- Increased asset complexity across all defence domains and public service sectors
- Nuclear energy is a key component of the UK Government's decarbonising strategy
- Tight budgets driving need for innovative asset management solutions and outsourced services
- Outsourcing specialist equipment services

Babcock Sectors

- Nuclear (civil)
- Land
- Aviation

Delivering

Availability	Affordability	Capability

We report through four operating sectors, read more about them in our operational reviews on page 42

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Find out more about our Arrowhead 140 export programme by scanning this code.

Good progress on FY22 priorities

During the year, we delivered the strategic actions, set out below, required to strengthen the Group, creating a stable platform to execute our strategy.

Portfolio

- Gross proceeds of £447 million
- Net debt/EBITDA reduced to 1.8x
- Strategic acquisition of the remaining 50% interest in our Australian Naval Ship Management (NSM) joint venture

Operating model

- New operating model established
- Managed COVID-19 challenges
- Achieved target in-year operating model savings
- Operating margin 5.8% (from 5.5%)

People

- Established our Purpose and Principles
- Created a flatter management structure
- Harmonised policies and processes
- Managed senior leadership changes and restructuring
- Focused on sharing best practice and innovation

ESG

- Matured integration of ESG into programmes
- Developed sector sustainability programmes
- Expanded our ESG commitments
- Committed to set ambitious science-based targets

Growth

- Contract backlog £9.9 billion
- Global AH140 exports
- Significant new defence communications business globally
- Launched iSupport for naval operations

Read more about our strategic progress in our CEO Review on page 13

Our turnaround strategy continues

FY22: one year into a major turnaround → **FY26+**

Stabilise

Steps taken to strengthen the business

Execute

Progressing the next phase of our turnaround

Growth

Shaping our business today for future growth

Delivering

Improved outcomes for our customers	A better place to work	Returns for our shareholders

Read more about our priorities for FY23 and beyond in our CEO Review on page 13

Our business model

We provide a range of products and service solutions to enhance our customers' defence capabilities and critical assets. Our business model is underpinned by a deep understanding of technology integration and engineering, infrastructure management and specialist training. We help our customers around the world to cost effectively improve the capability, reliability and availability of their most critical assets.

Our key strengths and resources

Our people

We rely on our people, and their experiences and skills, to deliver for our customers and solve challenges every day. We aim to better support and empower our workforce of over 28,000.

See our People Strategy on page 19

Customer relationships

We are a trusted partner, critical to our customers' ability to solve complex problems. Through long-term programmes and contracts, we work collaboratively with our customers to understand their needs and identify solutions that add value.

Our assets

We own critical national infrastructure in the UK including the Rosyth and Devonport Royal dockyards. We also operate a range of customer-owned critical assets, for example, naval and air force bases and company-owned assets including complex engineering facilities and aircraft for the delivery of emergency services and military training.

Our technology and know-how

We use our technology and our highly specialised engineering know-how to solve customer challenges. We have a deep understanding of our customers' assets and are able to integrate technologies and capabilities to support their needs and provide services that add value.

Safety and regulatory compliance

This underpins all work. We and our customers operate in heavily regulated environments where the health, safety and wellbeing of all stakeholders is the number one priority.

What we do

Deliver complex programmes and critical services

We provide through-life technical and engineering support for our customers' assets, delivering improvements in the performance, availability and programme cost. We also deliver critical services to our defence and civil customers, including engineering support to land defence and air base operations, specialist training and asset management, equipment supply and maintenance to the resources sector, and engineering support to the nuclear power industry.

Design, manufacture and integrate

We design and manufacture a range of defence and specialist equipment from naval ships and weapons handling systems to liquid gas handling systems. We also provide integrated, technology-enabled solutions to our defence customers in areas such as secure communications, electronic warfare and air defence.

How we do it

1 Foundations

We work collaboratively with government departments, public bodies, highly regulated industries and blue chip companies, and are embedded on crucial long-term programmes. We focus on markets and customers with outsourcing models that require value-add engineering-based support and product development. Our five main markets are the UK, Australasia, France, Canada and South Africa, with operations in and exports to other countries.

2 Bidding and business development

We continually monitor opportunities across our markets, using strong reference cases and deep sector expertise to identify ways to solve new and existing customers' challenges and support their programmes. We have a multi-gate review process for contract bids to help ensure we only bid on value-creating work.

3 Contracting

A significant proportion of our business is carried out on a long-term contract or multi-year framework basis. Our backlog of £9.9 billion of contracted work provides a base level of revenue for the years ahead, supplemented by new business wins, framework call-offs, contract extensions and variations, and short-cycle work. Revenue is recognised as we deliver on our contracts and performance obligations are satisfied. We have an established review process to manage contract risk.

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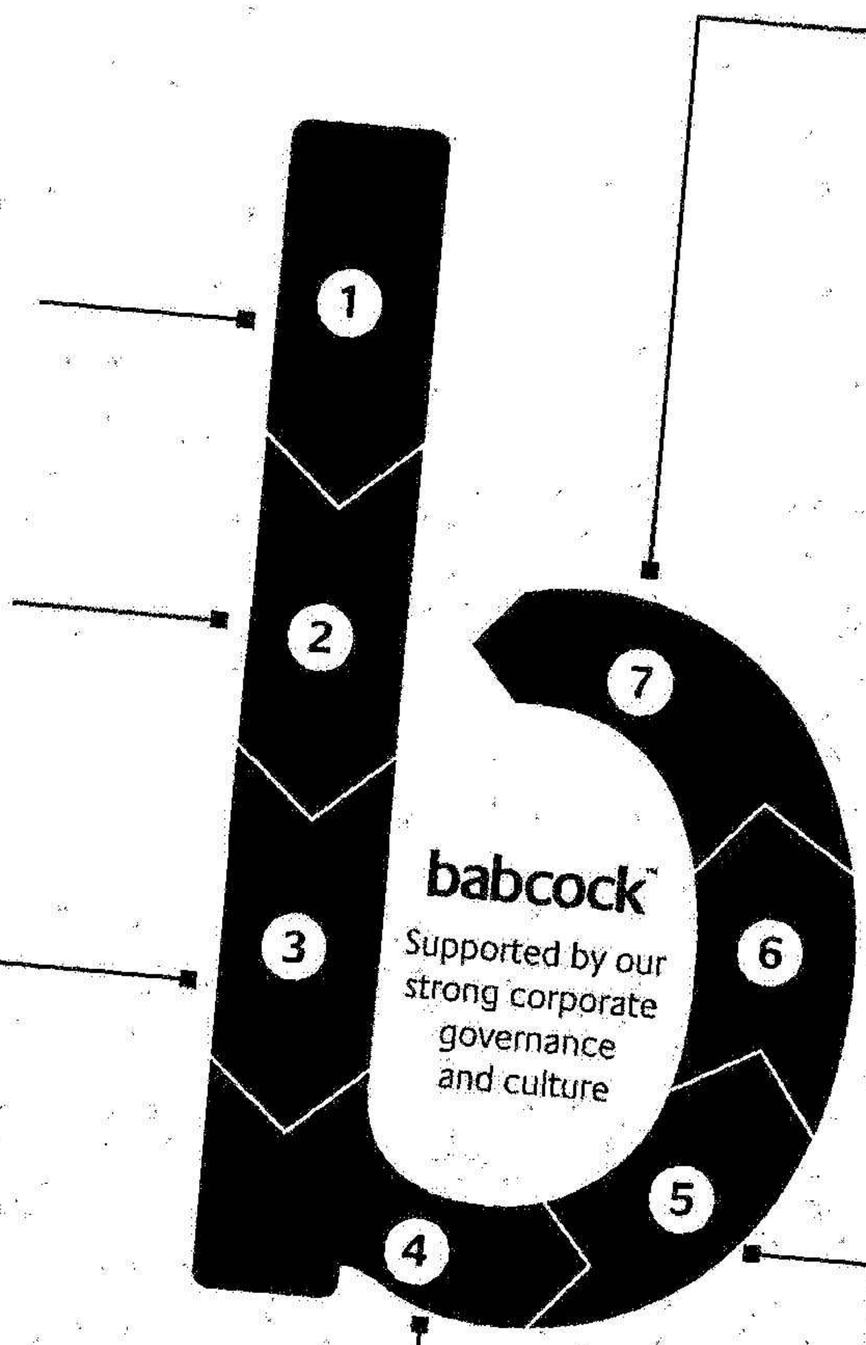


7 Investment and capability

Revenue is recognised as we deliver on our contracts and performance obligations are satisfied. The cash we generate funds selective reinvestment into the business, principally through capital expenditure to develop our unique infrastructure, equipment, IT systems and engineering talent.

6 Partnerships and collaboration

Partnering and collaboration are key to our success of bringing market- leading capabilities to our customers. We bring together organisations to deliver engineering and technology-based products and support solutions that add value to our customers and increase access to markets.

One example of this is our new collaboration with Elbit Systems UK and QinetiQ to deliver support to the UK's Maritime Electronic Warfare Systems Integrated Capability (MEWSIC), where we are the Prime contractor.

5 Technology-based solutions

We apply technology-based solutions to solve complex customer problems. We invest in technologies that optimise asset utilisation, advance manufacturing, enhance support capabilities and add value to customers. Our data analytics, digital design and integration capabilities reduce costs and increase the customer's ability to adapt to technology developments.

4 Sustainability

Our ESG strategy is a key component of how we deliver and increase the sustainability of our business. Our business has a significant impact on society and the environment and sustainability is an integral part of our corporate strategy and how we do business.

Creating stakeholder value

Customers

Delivering for our customers and partnering with them on the challenges they face.

Investors

Creating shareholder value through growth, cash generation and the efficient allocation of capital. Delivering shareholder returns through dividends and increased share value.

Employees

Creating a better place to work where employees are valued and motivated at all times.

Regulatory and industry bodies

Never compromising on safety and complying with regulations at all times.

Supply chain

Creating jobs and nurturing investment through collaboration with our supply chain.

Communities

Providing jobs and investment across the UK and ensuring we act responsibly at all times in the interests of local communities around our sites.

See page 52 for details on how we engage with stakeholders

Defence and civil nuclear

We are increasingly focused on defence, which remains our largest and most important market.

We have a critical role in the defence and security of the UK, Australia, New Zealand, Canada and France and we design and manufacture equipment and systems for several other nations including the US and South Korea.

Our defence customers all have increasingly complex requirements, driven by:

- An increasingly unstable geopolitical environment, evolving threats and unpredictable crises
- Budget pressure and requirements to deliver value for money
- The need to develop and apply new technology to keep up with customer needs and rapidly changing threats
- Supply chain and inflation concerns
- Customer ESG requirements

Following the Russian invasion of Ukraine many European countries have increased or pledged to increase their defence budgets and altered their defence posture to increase force readiness e.g. double the number of NATO battle groups in Eastern Europe. The crisis may also lead to increased defence spending across the Indo-Pacific, as assessments of Chinese intentions are updated, and the Middle East. Investor ESG concerns around defence companies have also been challenged as commitment to defence is shown to be necessary to preserving the liberal democratic order which is a prerequisite for addressing the ESG agenda.

As a result, UK and targeted international defence markets continue to offer significant resilience, alongside increased short, medium and long-term potential, both through increased spend in our existing markets and expansion into new markets.

The UK, US and Australian governments announced the creation of a major defence collaboration (AUKUS), not least to counter the increased threat in the Indo-Pacific. This collaboration covers not only the joint development of conventionally armed, nuclear-powered submarines for Australia, but also other areas including, electronic warfare (EW), information sharing, defence innovation, autonomous systems, artificial intelligence, and undersea capabilities.

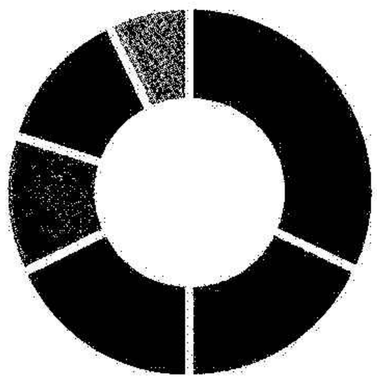
UK defence

Market position

Our primary defence market is the UK where we provide critical support to all of the UK's armed forces. We remain the UK's second largest defence supplier with around 8% of total MOD procurement spend and, as part of the Strategic Partnering Programme, we are working with the UK Government and MOD across multiple critical programmes to ensure the increasingly complex needs of our armed forces are met.

UK defence spending rose to £42 billion in 2021, £2.5 billion higher than 2020, an increase of around 0.3%, adjusted for inflation, with an estimated £19 billion spent on MOD equipment and support, a decrease of around 10% on the prior year. Around 18% of the total defence spend (around £7.5 billion) was designated to supporting MOD equipment, which was similar to last year. In November 2020, the Government announced a £16.5 billion increase in defence spending over four years, and detailed plans in 2021's Integrated Review and Defence Command Paper. There was no change to these plans announced in either the Autumn 2021 or Spring 2022 budgets.

UK defence spend 2021 £42 billion



- 32.0% Personnel
- 18.0% Specialist Military Equipment
- 18.0% Equipment Support
- 12.0% Infrastructure
- 13.0% Property, Equipment, R&D and inventory
- 7.0% Other

Source: MOD Departmental resources: 2021

Opportunities

The 30-year shipbuilding pipeline, detailed in the National Shipbuilding Strategy relaunched in March 2022 offers, long term opportunities for ship build and support. We have had some success securing export orders for our Arrowhead 140 design and see further opportunities. There is also growing emphasis on underwater capability, defence communications, Intelligence, Surveillance and Reconnaissance (ISR) and EW, all of which present opportunities for Babcock. The continued commitment to the Continuous At Sea Deterrence may require two streams of nuclear ballistic submarine maintenance in future combined with two streams of attack class submarine support while both classes transition. The war in Ukraine may drive a reprioritisation of spending to increase availability and forward basing of armoured vehicles. Over the longer term, the F35 and Tempest programmes may present further opportunities for support to operational training.

Risks

In FY22, £2.1 billion of our revenue came from direct MOD spend, an increase of 12%. Increased spending from the our MOD customers is spread across major critical programmes such as Type 31 and new areas of digital defence.

We are the second largest defence supplier to the UK Government, and participate in a wide range of its critical defence programmes. We recognise that this represents a significant reliance on the UK MOD. We routinely review reputational and execution risk on the volume of critical programmes in which we are involved (see Group principal risks, see page 76.

The continually evolving international geopolitical and threat environment may see reprioritisation of budgets away from traditional large, complex platforms to smaller, uncrewed platforms and cyber.

National Shipbuilding Strategy

The National Shipbuilding Strategy Refresh was launched in March 2022. The strategy is based on five central pillars: create a 30-year pipeline of over 150 vessels; accelerate innovation, including related to net zero and AI; increase financial support to shipbuilders; and establish a UK Shipbuilding Skills Taskforce. We are currently building five Type 31 frigates and are well positioned for other near term programmes including FSS and Type 32, as well as other longer term opportunities the strategy offers for ship build and support.

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Australia and New Zealand defence

Market position

Babcock supports the armed forces of both Australia and New Zealand. For the Royal Australian Navy we provide support to both Collins Class submarines and surface ships including ANZAC class frigates, Canberra class Landing Helicopter Docks (LHD) and LHD landing craft. In March 2022, we acquired the remaining 50% of Naval Ship Management (NSM) from our joint venture partner. NSM has evolved into a strategic maritime sustainment partner to Australia and the acquisition will strengthen the breadth of our support to the Australian Defence Force's maritime capability and provide additional capability for Australia's current and future maritime programmes. We have also been selected as preferred bidder to upgrade and sustain the Australian Defence High Frequency Communication System (DHFCS). This builds on our proven DHFC experience in the UK and New Zealand and reinforces our core capabilities in delivering technology-led, cutting-edge solutions to support complex electronic defence programmes.

Babcock has a long-standing partnership with the NZDF in support of the Royal New Zealand Navy, which was further strengthened with the award of the NZDF's main strategic maritime partnering contract in February 2022. Babcock will provide asset management services, including engineering, project management, production and operational support, to the entire Royal New Zealand Navy fleet, from frigates through to small boats including RHIBs.

Opportunities

Australia's Defence Strategic Update and Force Structure Plan indicates an increase in defence spending and procurement over the next decade in response to evolving threats in the Indo-Pacific, with Babcock well positioned to support a number of key programmes.

The UK, US and Australian governments announced the creation of AUKUS. This presents opportunities for Babcock in the joint design, build and support of conventionally armed, nuclear-powered submarines for Australia, but also electronic warfare, information sharing, defence innovation, and additional undersea capabilities.

Risks

Competition is strong, but we are developing our in-country capability and credibility.

Canada defence

Market position

Babcock delivers the Victoria In Service Support Contract (VISSC) to sustain the Royal Canadian Navy's (RCN) Victoria class submarines. Working with the RCN, Babcock has transferred the skills and expertise required to provide through life support and maintenance to submarines from the UK to Canada.

Opportunities

We continue to target large military aviation training opportunities in Canada. Post-Ukraine, Canada is highly likely to further increase its defence spending, in addition to agreed increases already underway. Canadian Defence Minister Anand has indicated an 'aggressive' increase to defence spending to reach the NATO 2% of GDP target. This may present new opportunities for Babcock.

Risks

A preference for well-established native competition could limit Babcock's exposure to further opportunities given our relatively modest footprint in the country. Our current work is based around one contract and we do not own any infrastructure. This is highlighted as one of the Group's principal risks, see page 76.

France defence

Market position

We have grown our position in military aviation training France through the award of the Mentor 1 contract for fast jet pilot training and strengthened our position in the military rotary wing maintenance, repair and overhaul (MRO) market, including the provision of search and rescue aircraft and services for the French Navy.

Opportunities

Defence spending in France continues to grow with clear opportunities in military aviation training and MRO, and land vehicle MRO. There may also be some marine opportunity for the support of non-complex vessels and equipment, equipment management, maritime autonomy and training.

Risks

Similarly to Canada, France has well established domestic defence suppliers, often with some element of state ownership. As a British company with limited infrastructure, we may struggle to compete for some opportunities.

Civil nuclear

Market position

Babcock is now the only major UK-owned nuclear services partner for Government and is unique in covering both the defence and civil sectors. We provide complex services across civil nuclear new build, operations and decommissioning in the UK, and also provide more limited services in Canada and Japan.

Opportunities

Nuclear power is a key part of both the UK's Net Zero strategy and its energy security post-Ukraine. The Government's Energy Security Strategy published on 6 April 2022 announced a new body called Great British Nuclear.

By 2050 this body aims to bolster the UK's nuclear capacity to up to 24 GW of electricity, or 25% of projected demand, through up to eight new reactors, with one being approved each year until 2030.

It also confirmed advanced plans to approve two new reactors at Sizewell in Suffolk during this parliament. Subject to technology readiness, Small Modular Reactors (SMR's) will form a key part of the nuclear project pipeline. We are well positioned to take advantage of opportunities in these areas.

Risks

The decommissioning market has become increasingly difficult following the NDA's decision in 2020 to insource the major programmes across Magnox and Dounreay. In addition, historically it has been hard to secure the necessary commitments to make new nuclear power stations a reality.

Babcock's transformation is far-reaching and comprehensive

Ruth Cairnie
Chair

Read Ruth's biography on page 94

In last year's report I gave a full account of the developments arising from the steps we had taken to address the historic underperformance of the Group.

We had reset our financial baseline, refreshed our strategy, launched a new operating model and introduced improved governance and controls.

The first full year of our turnaround has continued the implementation of these improvements. The Board is very satisfied with the progress made against the five strategic actions we had identified for FY22, including generating more than our target of £400 million from divestments intended to focus the Group. Our progress is covered in more detail in the CEO report (page 13).

Our financial results for the year are encouraging. Underlying operating profit of £237.7 million was a 13% organic increase on last year, excluding one-off contract profitability and balance sheet (CPBS) adjustments in FY21, supported by the expected improved performance from our new operating model and a reduction in the impact of COVID-19. Statutory operating profit of £226.8 million compares to a loss of £1,736.7 million in FY21, which included charges from the CPBS review and asset impairments. Our underlying free cash flow was slightly ahead of expectations at £(191.3) million, driven by timing benefits and advance payments.

Statutory revenue grew by 3% to £4,101.8 million. On an organic basis, revenue grew by 5% with good volume recovery in the Land and Aviation sectors.

We have had some notable commercial successes through the year, demonstrating the relevance of our capabilities to our target customers. These included the signing of a £3.5 billion Future Marine Support Programme (FMSP) contract that continues our work for the UK Royal Navy, further work on defence aviation training in France, and new contracts for next-generation tactical communications and information systems in the UK and Australia.

The Board was delighted at the early successes from the Arrowhead 140 frigate export programme, the Babcock design based on the Type 31 we developed for the UK, in Indonesia and Poland.

The transformation of Babcock is intended to be far-reaching and comprehensive, and is grounded in our corporate Purpose: *to create a safe and secure world, together.* This Purpose has been communicated extensively within the Group this year and feeds through into all aspects of our strategy. It is supported by our six new Principles (see page 20) launched this year through substantial engagement with our workforce; these Principles embody the new ways of working and shift towards the more people-focused and accountable culture that we believe is essential to meet the needs of all our stakeholders. I am delighted by how positively our people have been responding.

Alongside and integral to the launch of our Principles and focus on culture is the role of sustainability. We believe that it is right for our stakeholders to expect to hold us to account for our approach and progress. Importantly, as evidenced by the tragic events in Ukraine, we believe the defence industry plays a major part in assuring the stability of sovereign nations; without stability, it is impossible to drive the necessary environmental, social and governance (ESG) improvements to create a safe and secure world.

We have progressed our ESG strategy, expanding our corporate commitments to incorporate broader environmental targets, and we have created new Group policies and guidance. Our social value activities support the needs of the local communities where we operate, which are so critical to our future success (see page 63). On climate action, we are continuing to progress our decarbonisation programme and are on track to submit science-based emission targets (see page 57).

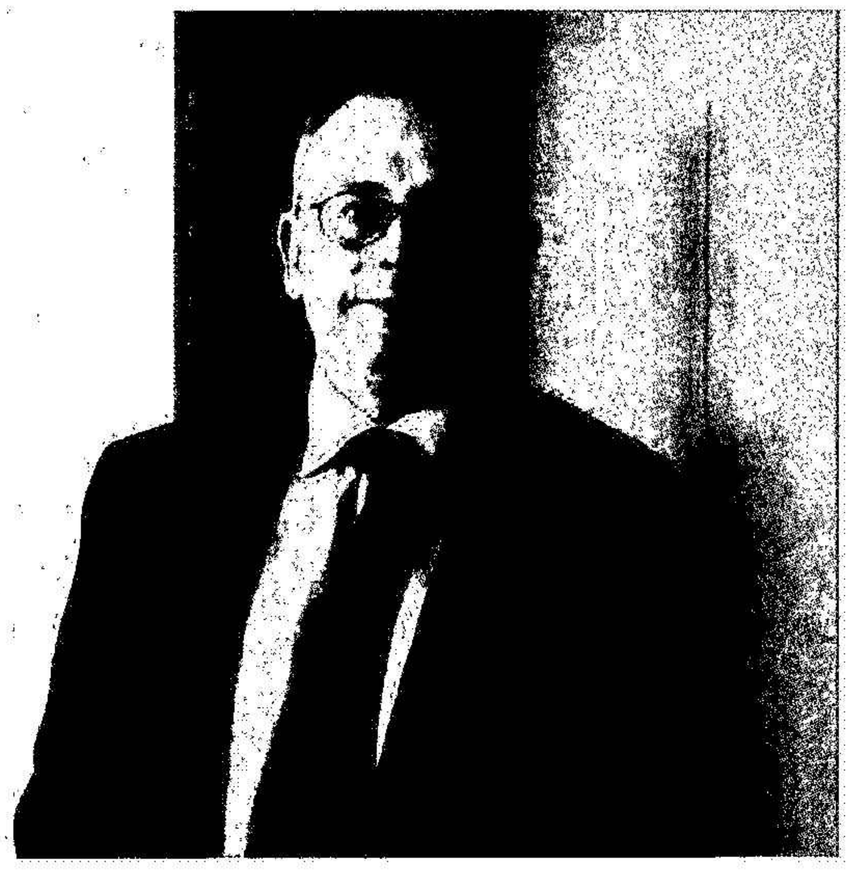
The Board's primary focus in FY22 was to stabilise the business. Overall, we have made excellent progress against our goals for the year, driving tangible positive change across the Group against a background of increasing geopolitical uncertainty.

The second year of our turnaround will build on the strategic actions taken in FY22, with a focus on execution and growth. As we continue to make further progress, the Board is confident of delivering on its expectations of increasingly profitable growth and improved cash flow for FY23 and into the medium term. Babcock is returning to strength.

RUTH CAIRNIE
Chair

20230112008861

Strong progress in our first year of turnaround



David Lockwood
Chief Executive Officer

Read David's biography on page 94

One year ago we defined the actions we needed to take in FY22 to stabilise the business and lay the foundations for the future.

In this, our first year of turnaround, I am pleased to report that we have made strong progress on all our strategic priorities. Overall, our financial performance in FY22 was in line with our expectations, with cash flow slightly better than anticipated. Additionally, we took significant actions to improve balance sheet quality, including the reduction of certain working capital items such as supply chain financing, debt factoring and the practice of deferring period-end creditors.

Led by our Purpose, to create a safe and secure world, together, we have taken action to secure our business; stabilising the balance sheet and focusing the Group through portfolio alignment. We have reorganised around a new operating model and people strategy, which has been further supported by our developing ESG strategy. We are now well-positioned to take advantage of the opportunities created by the strengthening global market for defence.

Stabilise – strategic actions update

At the start of FY22 we identified five strategic actions for the first year of our turnaround, designed to stabilise the Group both financially and operationally, and to position us for improved execution and growth:

1. Align our portfolio
2. Implement our new operating model
3. Roll out our new people strategy
4. Develop our new ESG strategy
5. Explore growth opportunities

We made strong progress against our priorities, making the changes that will drive improved delivery for our customers, a better experience for our employees and improved returns for shareholders.

Portfolio: We reviewed the businesses in our portfolio to determine strategic fit and the value to shareholders of their presence in our portfolio. The divestment of four businesses (our Oil and Gas aviation business, Frazer-Nash Consultancy Ltd, UK Power and our 15.4% stake in the AirTanker Holdings Limited joint venture) generated gross proceeds of £447.3 million, exceeding our target of at least £400 million. In addition, in July 2022 we signed a conditional agreement the sale of some of our aerial emergency services (AES) businesses for a cash consideration of c.£115m. This achieved our key portfolio objectives: to reduce complexity, focus the Group on our chosen markets and strengthen the balance sheet. In March 2022, we expanded our footprint in Australia with the acquisition of the remaining 50% interest in our Australian Naval Ship Management (NSM) joint venture for £33.1 million. Our portfolio actions have enabled us to reduce our gearing to 1.8x net debt to EBITDA, in line with our year-end target of below 2.0x.

Operating model: Our new operating model is now established and is driving efficiencies throughout the business. We are already realising benefits from our ongoing work to streamline processes, increase standardisation and improve controls. In FY22 we achieved our target in-year operating model savings of c.£20 million and an annualised savings rate of c.£40 million, while restructuring costs of £36 million were slightly below our original expectations. This progress contributed to the increase in underlying operating margin to 5.8%. The new model increases visibility and shortens communication lines – both essential for an agile business, and important enablers for collaboration. We will continue to embed these new ways of working, with a particular focus on operational excellence and execution in FY23.

People strategy: With c.28,000 skilled employees in the Babcock Group, our people strategy is critical to our future success. Aligned with our Purpose, to create a safe and secure world, together, we rolled out six Principles that underpin the ongoing cultural transformation that is key to driving sustainable improvement: Be curious; Be Kind; Be Courageous, Think: Outcomes; Collaborate; and Own and Deliver. Across the Group we are harmonising our people policies and fostering a culture that shares capability, talent, innovation and best practice. We will continue to seek to optimise our legal entities and structures as we continue to roll out our people strategy.

ESG strategy: We have made good progress on our ESG strategy. We have matured our plans to reduce harmful emissions from our operations, and to integrate sustainability into programme

design and contract terms. Each of our sectors are developing their own sustainability plans in support of Group-led programmes and to meet stakeholders' needs. We have evolved our strategy to meet our commitment to achieve net zero carbon emissions for our estate, assets and operations by 2040. In April 2021, we signed the Business Ambition Pledge and committed to a 2030 science-based target in line with a 1.5°C pathway. We are on track to meet our goal and over the next 12 months we aim to submit our targets for approval by the science-based targets initiative (SBTi).

Growth: FY22 was a pivotal year for new business development. Our strategy, which combines asset support and sustainment with a range of value-add products and technical services, drove good business momentum. We signed two export agreements for our AH140 naval ship design, which is the base for the UK's Type 31 programme: a licence order for two ships for Indonesia and selection by Poland for its new MIECZNIK (Swordfish) three-ship frigate programme. We secured several major defence communications contracts including a c.£150 million logistics support contract for the UK's next-generation tactical communications and information systems and a c.£100 million contract for the UK MOD's new Defence Strategic Radio Service (DSRS). In addition, we were selected as capability partner to upgrade and sustain the Defence High Frequency Communication System (DHFC) to support the Australian armed forces over the next 10 years. This award is a great example of collaboration across the Group and with international partners to develop high-value-add solutions for our customers.

The strong progress made on the five strategic actions for FY22 has achieved what we set out to do in the first year of our turnaround. We have met the immediate need to stabilise the business, strengthen the balance sheet and set our performance baseline. We have successfully laid the foundations for the future. In the second year of our turnaround we will increase our focus on execution and growth, and continue to drive cultural change across the Group.

Execution

With improvement underway across many areas of the Group, our focus for FY23 is on driving further operational excellence. We will continue to invest in controls and process improvement, our facilities, our people, and our IT systems. This will enable us to drive efficiencies, increase business resilience and improve operational delivery and risk management, ultimately increasing the Group's profitability and cash conversion.

Growth

We have laid the foundations for sustainable profitable growth. The markets we address offer favourable medium-term growth, with opportunities in our core defence market increasing as a result of the current heightened geopolitical uncertainty. We continue to target opportunities for defence and critical services in our focus countries – the UK, France, Canada, Australasia and South Africa – and exports to additional markets, for example, selection of the AH140 design by Poland for its MIECZNIK frigate programme.

The tragic conflict unfolding in Ukraine has created significant additional geopolitical volatility and governments have reprioritised defence and national security. In the short term, opportunities are emerging for our defence support capabilities, driven by the need for force readiness. Over the longer term, our government customers must balance requirements for large-scale equipment modernisation and force expansion with the reality of constrained budgets. Our business model supports and enhances customers' defence and security capabilities and critical assets through a range of products and service solutions. We are ideally placed to address their core requirements of availability, affordability and capability:

- **Availability** – Our customers require high utilisation of complex assets, from ships and submarines in our Marine and Nuclear sectors to military and emergency services aircraft and vehicles in Aviation and Land. Our fleet support and sustainment models are increasingly geared to higher-value-add availability-based solutions designed to optimise asset utilisation and reduce lifetime costs.
- **Affordability** – Our customers are also demanding value for money on support programmes and new platforms. Our deep understanding of our customers' needs, and our ability to bring suppliers and technologies together to deliver an integrated solution, enable us to provide the affordability and flexibility they require.

LYNEHAM, UK
Getting hands on at a visit to our training contract at MOD Lyneham.

2023011200862

BABCOCK CANADA
A visit to our Canada submarine programme

- **Capability** – Our customers operate in complex and ever-changing environments, which drives a continual need to adapt and enhance capability. We apply our understanding of technology integration, infrastructure management and specialist training to improve their capability, whether it be through product, support or training solutions.

We are growing our defence digital capabilities to develop a range of technology-based products and solutions that reduce acquisition and operational costs and increase flexibility. For example, our iSupport360 solution enables the optimisation of support to maritime and other complex equipment. Building on our success in winning the MEWSIC, LeTacCIS and DHFC contracts in FY22, we will continue to develop our ability as a technology integrator, bringing together industry partners to design innovative and cost-effective capabilities in areas such as secure communications and electronic warfare.

We are experiencing significant international interest in AH140, the export variant of our Type 31 frigate, driven by the demand for affordable and flexible naval power. Its modular construction offers a wide range of programme options, including capability (systems), construction and supply chain, and acquisition model – from a basic licence agreement to high levels of build programme participation for Babcock. Following our successes in Indonesia and Poland, we are in active discussions regarding further AH140 export opportunities. The digital design and build model for Type 31 is also an important enabler for the UK Government's recently refreshed 30-year National Ship Building Strategy and positions us well for future opportunities in the UK.

Also in defence, increased operational tempo and a growing incumbent fleet are driving demand for surface ship support and maintenance. After the year-end we signed a four-year contract to deliver through-life support to the Marinha do Brasil's flagship vessel, NAM Atlântico, formerly the UK Royal Navy platform HMS Ocean, as part of its global support programme.

Inflation

The Group's main exposure to inflation is via rising employment costs – particularly where we have existing contracts which were agreed in a low-inflation environment and include inflation risk. At the same time, our employees are suffering the rapidly rising cost of living, with the issue most acute in the UK of all our markets. The Group is seeking to manage the short-term impact of inflation through increased efficiencies, and to limit the taking of commercial risk of future inflation in new contracts where it cannot be mitigated.

We are therefore delighted that over the last few months we have engaged collaboratively with our employees and trade unions in the UK to agree a fixed-sum pay increase for FY23 that will benefit all but the most highly paid employees. This innovative and progressive pay deal has been designed to disproportionately benefit our lower-paid employees, who are most exposed to rising costs. It has now been agreed and implemented for 85% of the UK workforce (around 65% of the total workforce) giving us better visibility of employment costs for the year ahead. This will increase our labour costs by some £25 million per annum above our original expectations. The Group expects to offset this cost increase through a variety of measures, including the acceleration of improvements in contracting and procurement practices, and the removal of inefficient processes as we further embed our new operating model.

Outside of wage inflation, in many of our markets the recent increase in input-cost inflation coupled with shortages of supply, has increased the cost, and in some areas the availability, of materials and components. In such an environment, supplier resilience is also an emerging risk. Our newly formed Procurement and Supply Chain organisation is monitoring our supply chain to identify and mitigate any such issues as early as possible.

Health and safety performance in the year

The appointment of a Global Safety, Health and Environmental Protection Director, and formation of a central team, has brought additional focus to the safety improvement programme. We have strengthened our governance and introduced an electronic global safety information management system. The Group's Total Recordable Injury Rate (TRIR) in FY22, which includes work-related injuries requiring medical treatment, has reduced from 0.89 injuries for every 100,000 hours worked to 0.75 over the year, with a reduction in the number of these types of accidents of 18% against 2021. However, we have also seen a 5% increase in work-related injuries that resulted in personnel needing at least one day away from work. We continue to work hard to reduce the number of injuries and illnesses as a result of our activities.

Summary of financial performance in FY22

Revenue of £4,101.8 million grew by 5% organically, driven largely by recovery across the Group from prior-year COVID-19 impacts and growth in Marine and Nuclear.

Underlying operating profit of £237.7 million was a 13% organic increase on last year (excluding one-off CPBS adjustments in FY21), supported by improved performance from our new operating model and lower COVID-19 business interruption, particularly in Marine, Land and Aviation. This was partly offset by a £22 million programme write-off in the Nuclear sector. Underlying operating margin improved to 5.8% (FY21: 5.5%) driving a 7% increase in underlying basic EPS to 30.7 pence (FY21: 28.8 pence, excluding one-off CPBS adjustments).

Statutory operating profit of £226.8 million compared to a £1,736.7 million loss in the prior year, which included £(1,815.5) million from the CPBS review.

Cash performance was heavily impacted by the settlement of past factors as previously communicated, including pension deficit catch-up payments and efforts to normalise period-end working capital. Underlying free cash flow of £(191.3) million was slightly ahead of our expectations, driven by lower net capex and a tax cash inflow from the settlement of open years with the authorities. Also, the favourable timing of customer receipts and prepayments enabled the Group to pay-off around £70 million more previous deferred creditors than originally planned, as well as £23.3 million of scheduled FY23 pension payments and settling the c.£15 million Italian fine.

DEVONPORT, UK
A visit to Devonport Royal Dockyard.

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Trading in first quarter of FY23

Trading in the quarter ended 30 June 2022 was in line with expectations. Net debt excluding operating leases was £625 million, higher than at 31 March 2022, reflecting timing of pension deficit payments.

Outlook

We are pleased with the strong progress made in FY22 to stabilise the Group and begin the process of driving improvements in the areas we identified at the beginning of the year. In particular, the material steps we have taken to address the balance sheet and the quality of our cash flow mean that we ended the year in a far stronger position than we began.

With the business stabilised, we are in a stronger position, both financially and operationally, with the prospects for the business similarly improved. Although we are not immune to the various macro challenges, such as inflation, that continue to impact and shape the markets in which we operate, we will be as agile as we can be in response.

The second year of our turnaround will be as important as the first as we to build further on the foundations laid for a better Babcock in FY23. We will continue the drive to achieve efficiencies from better execution, including the expected c.£20 million further restructuring benefit, and to capture the increasing opportunities for growth in our core markets.

As we look ahead, and as we continue to make operational progress through the disciplined execution of our strategy, the Board is confident of delivering on its expectations of increasingly profitable growth and improved cash flow for FY23. Looking further ahead, we believe our strategy and focus on operational execution will significantly improve the Group's growth, profitability and cash generation over the medium term.

BECKTON, UK
A visit to the London Fire Brigade training centre.

Delivering for all our stakeholders

Over the medium and long-term, we are focused on delivering value for all our stakeholders, including:

- **Improved outcomes for our customers:** consistent delivery and partnering with customers to solve their challenges
- **A better place to work for our employees:** an open, collaborative and diverse workplace that engages our employees
- **Returns for our shareholders:** a return to growth with improving margins and better cash conversion

We have made strong progress to position the Company for future success. There is still much to do, but we have all the elements in place to take advantage of the many opportunities which lie before us.

DAVID LOCKWOOD
Chief Executive Officer

OTHER INFORMATION

Dividend
No ordinary dividends have been paid or declared for the financial year ended 31 March 2022.

AGM
We will be holding our Annual General Meeting on 19 September 2022.

Board changes
In January 2022 we welcomed John Ramsay to the Board as a Non-Executive Director. John became Chair of the Audit Committee in February 2022.

Myles Lee and Victoire de Margerie retired as Non-Executive Directors at the AGM in September 2021 after six and five years of service respectively. Russ Holden will retire as a Non-Executive Director in July 2022 after two years of service, and our 2022 AGM will see Non-Executive Director and Remuneration Committee Chair Kjersti Wiklund retire from the Board after four years of service.

Led by our Purpose

Our Purpose is to ***create a safe and secure world, together*** – this is why we exist as a business, and why we do what we do. It defines and underpins our new ways of working, how we create value for our shareholders and how we improve delivery for our customers. It informs the decisions we make and how we treat each other.

Our Purpose and Principles were formally launched this year to support the major cultural shift the business is making. They were developed with the help of our people and are designed to unite us as a company, inspire our thinking, guide our actions, and encourage us to support each other in achieving our vision of a safe, strong, sustainable Babcock.

We are embedding our Principles across the business and applying them to the way we operate. We have built awareness through increased communication and direct engagement with our front-line leaders.

We have helped managers, teams and individuals to explore how to bring the Purpose and Principles to life, through 'town hall' meetings, vlogs, videos, workshops, webinars, team discussions and focused weeks. Our people have embraced the new Principles by sharing personal stories of the Principles in action, and why they are important to them. We will continue to collect and share these stories across the business.

The next phase of this work is to embed the Principles into all of our people processes, and transform at pace how we recruit, lead, develop, recognise, reward and manage the performance of our people.

Our Principles put people at the core of everything we do and they will continue to guide how we all work together, from the front-line to the Board.

You can see our Principles on page 20

Our new operating model

To further unlock our potential, we developed and implemented a new operating model during 2021. The resulting changes saw us reduce headcount, remove layers, and simplify how we work together, underpinned by our Principles.

One of the most significant changes in the period was the move to a centrally coordinated functional model, impacting areas such as HR, Finance, Procurement and Supply Chain, Communications and IT. This new way of working has empowered us to operate as one Babcock, driving accountability, efficiency and consistency across the Group.

Coupled with the new operating model and the cultural reset, we have focused on reducing complexity in the business to make us more efficient. By integrating the Group, we have increased our ability to respond quickly to changing market conditions, sharing capability and solving challenges across Babcock. The roll-out of our new People Strategy has begun and will strengthen our ability to be flexible, enabling us to move talent, innovation, and best practice around the Group and to support our people with an agile and inclusive workplace and an increased focus on output and delivery.

These changes have reinforced our commitment to being a purpose-led business, which will help to transform the experience of our people and customers, and will drive improved performance across the Group.

Harnessing expertise

Over the past year we have accelerated our knowledge-transfer and sharing programmes to harness the engineering and technical expertise of our people and to strengthen and expand our own skills and networks.

Through our Innovation Lunch and Learn programme, our people and partners have come together to deliver over 60 hours of shared training and insight on core programmes to enable a safe and secure workplace for collaboration and learning.

Our Big Ideas programme has seen over 600 new ideas on cost savings, the environment and safety, and identified where and how we can continue to innovate across our business.

Inclusion and Diversity

We believe being an inclusive business which supports its people and values difference is central to living our Purpose. It is key to creating the right foundations to attract and retain the best, diverse talent. We have recently appointed our first Global Head of Inclusion and Diversity, to develop our approach and to review, design and implement ways of working that empower our people.

See more about our approach to Inclusion and Diversity on page 64

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Our People Strategy

Our People Strategy clearly defines our ambition for the future. It recognises the work we have undertaken and, more importantly, identifies the steps needed to achieve our ambition to make Babcock a more efficient, agile, inclusive, sustainable and people-focused business.

We plan to achieve this by providing our people with the tools, flexibility and support they need to unlock their potential and develop the skills required in this ever-changing world.

Underpinned by our Principles, our People Strategy sets out our overarching vision for Babcock and focuses on **five key People goals** to achieve this vision.

Our People Strategy has five key goals:

1 Demand great leadership

Individuals are supported, valued and engaged to succeed.

2 Redefine our ways of working

We build a strong, safe, unified, global business.

3 Grow our capability

Everyone can learn, progress and unleash their potential.

4 Improve our people experience

People feel part of Babcock; listened to, trusted and able to make a difference.

5 Raise the performance bar

We deliver better outcomes for our business, people, customers and communities.

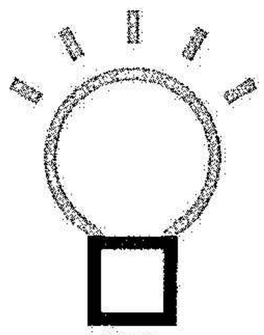
Work is ongoing across these areas, and we are developing a set of metrics that will measure our progress against these goals to ensure we are delivering for our customers, communities and our people.

Our ambition is to attract and retain the best possible people by engaging with our employees, promoting their wellbeing, investing in their development, recognising their commitment and ensuring our employee packages are competitive.

Babcock will be an inclusive and diverse company, a great place to work where people feel part of an integrated, more global business. This will be reflected in how we operate across geographical and business lines, the value we demonstrate in collaborating and the diversity of our leadership and employees across the Group.

Our People Strategy

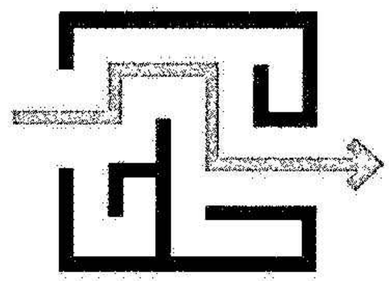
Our Principles



be curious

We believe in positively challenging the status quo and asking, 'How might we?'

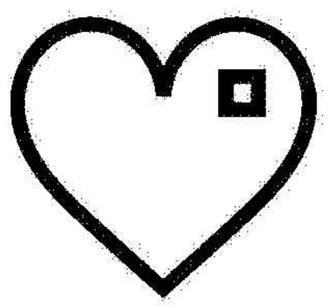
Principles in action on page 50



think:outcomes

We believe in measuring success by the results we deliver and the positive impact we make.

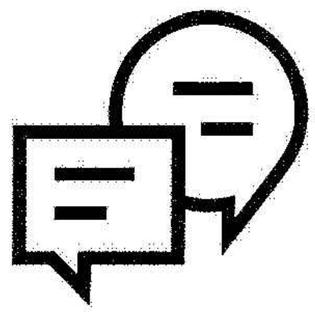
Principles in action on page 51



be kind

We believe in being kind to ourselves, kind to each other and kind to the planet.

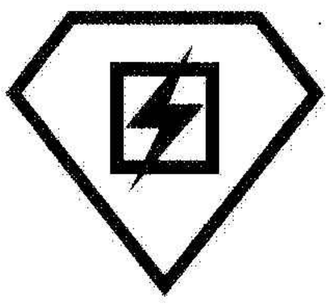
Principles in action on page 90



collaborate

We believe that Babcock is greater than the sum of its parts.

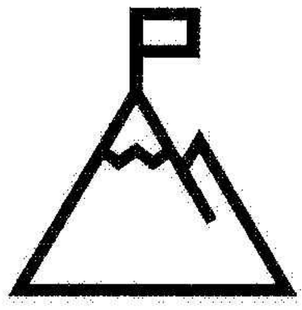
Principles in action on page 91



be courageous

We believe in being brave, ambitious and determined.

Principles in action on page 140



own & deliver

We believe everybody has a part to play in Babcock's and our customers' success.

Principles in action on page 141

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Using innovation and technology to deliver for our customers

Over the past year we've really focused on laying the foundations to drive and deliver innovation in every aspect of our business. We knew that whilst there were areas in which we excelled, we needed to engage our people to ensure that successes and opportunities were shared across our entire Group.

We know innovation is vital to our delivery and our future performance, so we have taken every opportunity to collaborate with our customers, wider stakeholder community, and across our people as we develop our digital and data strategies.

Whilst we've made significant inroads over the past year, we will continue to develop, integrate and collaborate to achieve even more.

Investment in digital and data

We have been working to create a backbone of data and digital capabilities, using technology where it makes a difference and driving innovation and value for our customers, whatever the engineering challenge.

We've developed our **iSupport360 approach**, which provides real-time monitoring of assets and operations across our business, using a suite of technologies that give us predictive insight and real-time analytics through modelling and simulation, digital twinning and automation of repetitive tasks and processes.

The benefits of collaborating in this way, are that we harness the deep technical skills of our people wherever they are in the world, working across one platform (iSupport360). The assets may be different, the engineering challenge may be different, so getting to the right solution means collaborating to harness the deep engineering and technical expertise we're renowned for. We'll continue to progress on iSupport360 over the coming year.

Our focus is not just on the technology itself, but on how it can improve availability and affordability for our customers and on keeping our front line and our communities safe. In October we showcased what the future of army training could look like at **Army Warfighting Experiment 2021**, the flagship innovation experimentation programme for the British Army. Against a backdrop of increasingly complex and digital battlespace environments, our teams combined techniques such as artificial Intelligence, virtual reality and adaptive learning, to integrate new and existing data which enables us to build an information-rich picture to assess soldier and team performance.

Whilst our customers increasingly turn to us for innovative technology solutions, the challenge of adapting our existing assets to new and emerging technologies requires just as much innovation and commitment, as we highlighted in last year's report. So over the past year we have been harnessing our technology expertise and knowledge transfer to develop and build digital twins for both legacy and new assets, piloted on the Bulldog armoured platform in our Land defence business.

We're already seeing the far-reaching benefits and impact of this pilot. The creation and 'retrofitting' of digital twins onto legacy assets gives us real insight into areas such as future failures, and means we are now able to recognise issues such as previously undiagnosed design faults, and remedy them. The technology we've been developing for the Bulldog programme gives us the potential to save our customers around £60 million over the next 10 years, and also enables us to transform asset support across our entire business, unlocking platform availability for end users and further reducing equipment maintenance and support costs.

Advanced manufacturing

Since April 2021 we have invested in our advanced and additive manufacturing programme, leading to a new partnership with Plymouth Science Park which launched in February this year.

This partnership, involving access to a brand new manufacturing centre, will enable us to make a step change in our approach to disruptive technologies such as additive manufacturing, allowing us to direct-print metal parts for the first time.

The project builds on our existing plastic additive manufacturing capability, which allowed us to produce personal protective equipment during the COVID-19 pandemic, and our strong relationships with the academic and technology community across the south west of the UK, as well as the local community around Devonport dockyard.

Over the next year, we will be collaborating with our customers to expand this major capability in additive methods, for example to include direct metal laser sintering, which enable us to create high-priority equipment, such as armoured vehicle brake parts.

Ultimately, the collaboration will accelerate our real-world application of additive technologies and help us address the challenges of obsolescence and support chain resilience shared by other engineering communities — especially where we maintain complex and critical equipment over long lifecycles.

Over the coming year we will also use the facility to strengthen our manufacturing and Maintenance, Repair and Overhaul (MRO) skills, working directly with Plymouth Science Park, and through our own internal engagement programmes.

Digital facility

We have made real progress in establishing our digital facility programme in Rosyth, with a new automated production line for our T31 frigate, focused on three key aspects:

1. **Automating** our traditional shipbuilding methods, driving significant efficiencies.
2. **Digitising** the shop floor, transforming our IT infrastructure and rolling out mobile devices to our people, so they can access data in real time at the point it's required.
3. **Systems integration** from design to project controls and right through to commissioning. We have successfully implemented the design and are building the digital thread working in collaboration with our customer, the UK's Royal Navy.

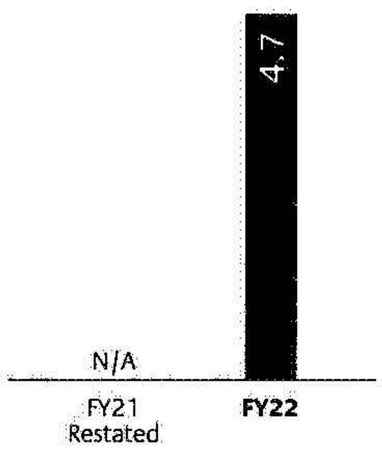
How we will measure our progress

We have six financial and three non-financial key performance indicators (KPI). The six financial metrics are alternative performance measures, which we use to monitor the underlying performance. These are not defined by International Financial Reporting Standards (IFRS) and are therefore considered to be non-GAAP (Generally Accepted Accounting Principles) measures. The Group has defined and outlined the purpose of its alternative performance measures in the Financial Glossary starting on page 39.

2022 RESULTS

Organic revenue growth (%)

4.7%



Definition

The movement in revenue compared to that of the previous year excluding the impact of FX, contribution from acquisitions and disposals over the prior and current year, and one-off CPBS adjustments in FY21. See note 1 of the accounts for details of our revenue recognition policy and page 165 for an analysis of one-off CPBS adjustments to FY21 revenue.

Commentary

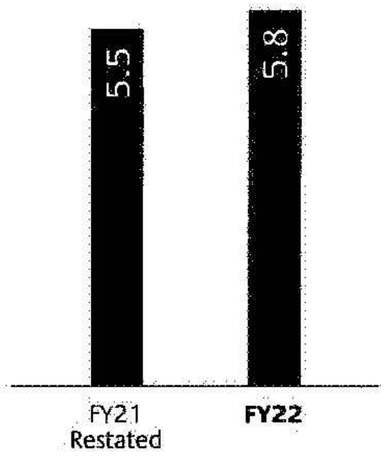
Revenue was higher across all sectors organically, driven by recovery from COVID-19 impacts in the prior year across the Group, and growth in Marine and Nuclear.

Link to glossary

Organic growth

Underlying operating margin (%)

5.8%



Definition

Underlying operating profit, expressed as a percentage of revenue. For FY21, we excluded one-off CPBS adjustments from profit and revenue as this gives the most useful comparator. See page 25 for a reconciliation of statutory to underlying operating profit and an analysis of one-off CPBS adjustments to FY21 underlying operating profit.

Commentary

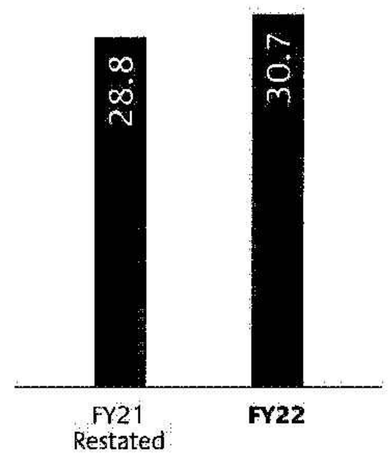
Group margin was higher year on year driven mainly by continued COVID-19 recovery across the Group and operating model cost savings.

Link to glossary

Underlying operating margin

Underlying EPS (p)

30.7p



Definition

Underlying earnings, after tax divided by the weighted average number of ordinary shares. For FY21, we excluded the one-off CPBS adjustments as this gives the most useful comparator.

Commentary

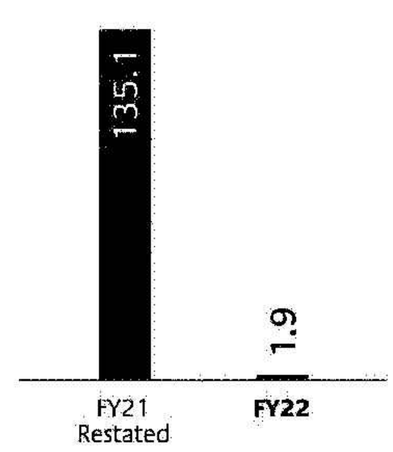
Excluding one-off CPBS adjustments in FY21, underlying earnings per share increased 7% in the year, reflecting higher profit before tax and a higher effective tax rate of 26% (FY21: 21%), due to a one-off tax adjustment relating to prior periods.

Link to glossary

Underlying basic earnings per share

Underlying operating cash conversion (%)

1.9%



Definition

Underlying operating cash conversion is defined as underlying operating cash flow after capital expenditure as a percentage of underlying operating profit. For FY21, we have excluded the one-off CPBS adjustments on underlying operating profit as this gives the most useful comparator.

Commentary

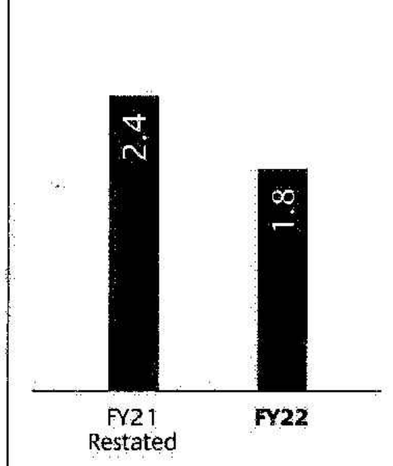
Underlying operating cash conversion in FY22 was driven by low operating cash flow as a result of planned working capital outflows, although overall it was slightly higher than expected due the timing of customer receipts and prepayments.

Link to glossary

Underlying operating cash conversion

Net debt/EBITDA (covenant basis)

1.8x



Definition

Net debt to EBTIDA as measured in our banking covenants. This uses net debt (excluding operating leases) divided by underlying earnings before interest, tax, depreciation and amortisation plus JV dividends received. For FY21, we excluded the one-off CPBS adjustments. This definition makes a series of adjustments to both Group net debt and Group EBITDA, see page 33 for a reconciliation.

Commentary

Our net debt to EBITDA (covenant basis) decreased to 1.8 times at 31 March 2022 driven by the reduction in net debt, principally from disposals, which was proportionally greater than the decrease in EBITDA + JV and associate dividends.

Link to glossary

Net debt/EBITDA (covenant basis)

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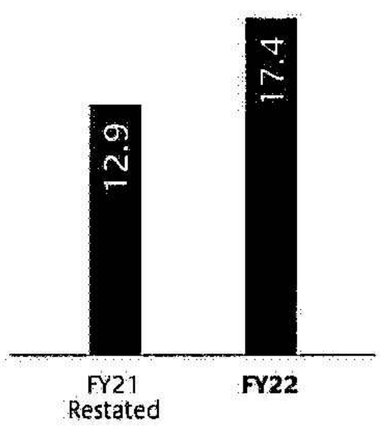
Our approach
We went through the process of the contract profitability and balance sheet review (CPBS) in FY21 to set our approach to running the Group, including creating the right baseline for future performance. We show our financial-based KPI performance for two years, excluding one-off CPBS adjustments in FY21 to provide a meaningful measurement and ongoing baseline, and reflect how we assess operational performance. Previously we presented the data including one-off CPBS adjustments.

NON-FINANCIAL

Underlying return on invested capital, pre-tax (ROIC) (%)

17.4%



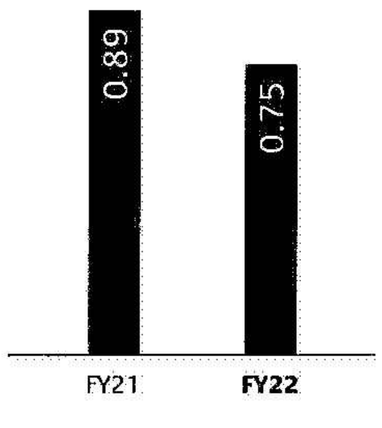
Definition
Underlying return on invested capital is defined as underlying operating profit plus share of JV profit after tax, excluding one-off CPBS adjustments in FY21, divided by the sum of Net debt, shareholders' funds and retirement deficit or surpluses.

Commentary
The increase in underlying ROIC reflects higher underlying operating profit and share of JV profits after tax, and lower invested capital due to reduced debt and change in our IAS 19 pension from deficit to surplus.

Link to glossary
Return on invested capital (pre-tax) (ROIC)

Total injuries rate

0.75



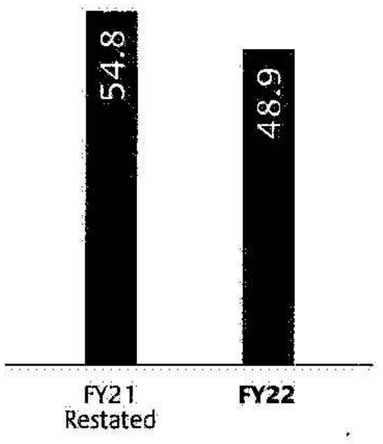
Definition
Reported number of recordable work-related injuries and illnesses per 200,000 working hours (200,000 represents 100 employees working 40 hours for 50 weeks per year).

Commentary
We have moved to an internationally recognised HSE accident categorisation method in order to be able to benchmark vs peers.

Total Recordable Injury rate, which includes work related injuries requiring medical treatment or above, has reduced from 0.89 to 0.75 over the year, which is a reduction of 18% vs 2021. (See page 63 - 64 for more details).

CO_2e emissions (tCO_2e/£m)

48.9

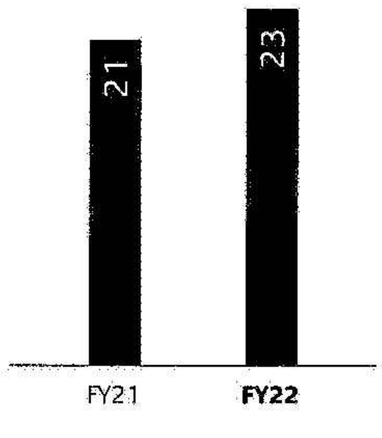


Definition
Estimated tonnes of CO_2e emitted as a direct result of revenue generating operations. We now report energy consumption and carbon emissions per calendar year (01 January to 31 December). The transition has allowed more time to collate, analyse and report our environmental data, which has improved the accuracy and completeness of our data sets.

Commentary
During the year, estate rationalisation, strategic divestments, 'low-hanging fruit' energy conservation measures and improvements to our energy management practices resulted in a reduction of both our carbon baseline and FY22 operational emissions. (See page 57 for more details).

Senior management gender diversity (%)

23%



Definition
Senior managers are defined as employees (excluding Executive Directors) who have responsibility for planning, directing or controlling the activities of the Group (Exco) or a strategically significant part of the Group (Sector/Functional leadership teams) and/or who are directors of subsidiary business units (Business Unit leadership).

Commentary
There has been an improvement in female gender representation at the senior management level that has resulted in an increase from 21% to 23% over the past year. (See page 65 for more details on gender diversity statistics).

Link to management remuneration
Our remuneration policy, as detailed on pages 118 to 124, includes reference to underlying EPS, underlying operating cash flow and underlying ROCE, a measure similar to ROIC.

Operational performance measures
In the operational reviews on pages 42 - 49, we use our first two KPIs (revenue growth and underlying operating margin) to measure sector performance.

Financial Review

Overview

We are encouraged by our financial performance in the first year of our turnaround. We delivered year-on-year profit improvement and a cash outturn that was ahead of our expectations. The actions we have taken have significantly strengthened the balance sheet and improved the quality of cash flows. We have met, and in some cases exceeded, the financial targets we set ourselves a year ago, including delivering £20 million savings from the implementation of our new operating model, generating more than £400 million of proceeds from our disposals, and reducing gearing to our FY22 target of below 2.0x.

Group statutory results

	31 March 2022 £m	31 March 2021 (restated)* £m
Revenue	**4,101.8**	3,971.6
Operating profit/(loss)	**226.8**	(1,736.7)
Other income	**6.2**	–
Share of results of joint ventures and associates	**20.1**	(13.1)
Investment income	**0.8**	0.9
Other net finance costs	**(71.6)**	(62.1)
Profit/(loss) before tax	**182.3**	(1,811.0)
Income tax benefit/(expense)	**(14.4)**	8.0
Profit/(loss) after tax for the year	**167.9**	(1,803.0)
Basic EPS	**32.5p**	(357.0)p
Diluted EPS	**32.1p**	(357.0)p

* Refer to Note 3 of the financial statements for details regarding the prior-year restatement

In the year ended 31 March 2022, we reflected prior period restatements to FY21 that arose from further scrutiny of prior periods and benefited from refreshed challenge from the new auditors. These include adjustments for non-cash items in pensions, impairment and derivative accounting, as well as changes in the judgement of certain pass-through revenue now being treated as net within cost of sales. The impact of these restatements on revenue and underlying operating profit for the year ended 31 March 2021 was £0.2 million and £0.3 million respectively.

Statutory performance

Revenue of £4,101.8 million was 3% higher than last year, driven by recovery across the Group's businesses that were impacted by COVID-19 and the one-off CPBS reduction in revenue of £88.3 million in FY21 which did not repeat in FY22. Offsetting this was the net year-on-year reduction from disposals and a slight adverse impact from foreign exchange.

Statutory operating profit of £226.8 million compared to a £1,736.7 million loss in the prior year, which included charges from the CPBS of £274.7 million (of which £250.0 million was one-off and £24.7 million was recurring), and asset impairments of £1,566.3 million. Statutory operating profit in FY22 includes profit as a result of acquisitions and disposals of £172.8 million (FY21: £49.7 million loss), £123.6 million impairment of goodwill and intangible assets relating to the AES businesses that were subject to a signed disposal agreement in July 2022, amortisation of acquired intangibles of £21.4 million (FY21: £40.2 million) and £33.8 million restructuring (FY21: £8.4 million). See Note 2 of the financial statements.

Other income of £6.2 million (FY21: £nil) related to pre-completion guarantee fees received in relation to one of the divested businesses during the year. The share of results of joint ventures (JVs) and associates was higher than the prior year, mainly due to the CPBS loss in FY21 of £37.1 million. Other net finance costs increased to £71.6 million (FY21: £62.1 million), with lower net interest costs due to lower average debt and reduced IFRS 16 lease interest, more than offset by a £7.1 million higher pension finance charge and a one-off, non-cash finance charge on derivative instruments of £9.6 million. Profit before tax was £182.3 million (FY21: £1,811.0 million loss). Basic earnings per share, as defined by IAS 33, was 32.5 pence (FY21: (357.0) pence) per share. A full income statement can be found on page 159.

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Underlying results

Statutory to underlying

As described in the 'Financial Glossary – alternative performance measures' on page 24, the Group provides underlying measures to better understand the performance and earnings trends of the Group. Underlying operating profit and underlying earnings per share exclude certain specific adjusting items that can distort the reporting of underlying business performance, as set out in Note 3 of the financial statements on page 180. The reconciliation from the IFRS statutory income statement to underlying income statement is shown below:

	31 March 2022			31 March 2021 (restated)*		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Revenue	4,101.8	–	4,101.8	3,971.6	–	3,971.6
Operating profit/(loss)	237.7	(10.9)	226.8	(27.9)	(1,708.8)	(1,736.7)
Other income	6.2	–	6.2	–	–	–
Share of results of joint ventures and associates	20.1	–	20.1	(13.1)	–	(13.1)
Investment income	0.8	–	0.8	0.9	–	0.9
Other net finance costs	(62.0)	(9.6)	(71.6)	(62.1)	–	(62.1)
Profit/(loss) before tax	202.8	(20.5)	182.3	(102.2)	(1,708.8)	(1,811.0)
Income tax (expense)/benefit	(43.9)	29.5	(14.4)	(21.8)	29.8	8.0
Profit/(loss) after tax for the year	158.9	9.0	167.9	(124.0)	(1,679.0)	(1,803.0)
Basic EPS	30.7p		32.5p	(24.6)p		(357.0)p
Diluted EPS	30.4p		32.1p	(24.6)p		(357.0)p

* Refer to Note 3 of the financial statements for details regarding the prior-year restatement

Specific adjusting items

Specific adjusting items within operating profit of £(10.9) million (FY21: £(1,708.8) million) includes profit resulting from acquisitions and disposals of £172.8 million (FY21: £49.7 million loss), a further £9.7 million of costs incurred in relation to the Group's divestment programme for disposals that have not completed, operating model and restructuring costs of £33.8 million (FY21: £8.4 million), and exceptional charges of £118.1 million (FY21: £1,590.5 million). Exceptional items in FY22 include £123.6 million impairment of goodwill and intangible assets relating to the AES businesses that were subject to a signed disposal agreement in July 2022, offset by a £3.6 million release of provisions relating to the Italy fine and £1.8 million release of onerous contract provisions. Exceptional items in FY21 were dominated by asset impairments as a result of the CPBS. As previously stated, we intend to restrict the use of exceptional items in future periods.

Underlying results excluding one-off CPBS adjustments in FY21

For the most useful comparison to FY21, we focus on the last years' underlying operating profit excluding one-off CPBS adjustments. We believe this to be the most helpful measure for stakeholders to judge our performance this year. Going forward we will not report on this basis as there will be no CPBS year-on-year impact.

	31 March 2022 £m		31 March 2021 (restated)* £m	
Revenue		4,101.8		3,971.6
of which one-off CPBS adjustments		–		88.3
Revenue excluding one-off CPBS adjustments in FY21		4,101.8		4,059.9
Underlying operating profit/(loss)		237.7		(27.9)
of which one-off CPBS adjustments	–		(250.0)	
Underlying operating profit excluding one-off CPBS adjustments	*237.7*		*222.1*	
Underlying margin excluding one-off CPBS adjustments	*5.8%*		*5.5%*	
Other income		6.2		
Share of results of joint ventures and associates		20.1		(13.1)
of which CPBS one-off impacts	–		*(31.5)*	
Share of results of JVs and associates excluding one-off CPBS adjustments	*20.1*		*18.4*	
Investment income		0.8		0.9
Other net finance costs		(62.0)		(62.1)
Underlying profit/(loss) before tax		202.8		(102.2)
Income tax		(43.9)		(21.8)
Underlying profit/(loss) after tax		158.9		(124.0)
Non-controlling interests		3.7		–
Underlying profit attributable to shareholders		155.2		(124.0)
Underlying basic EPS		30.7p		(24.6)p
*Underlying basic EPS excluding one-off CPBS adjustments***	*30.7p*		*28.8p*	

* Refer to Note 3 of the financial statements for details regarding the prior-year restatement
** Estimated in FY21 based on an underlying effective tax rate of 21%

Revenue performance

	31 March 2021 (restated)* £m	One-off CPBS in FY21 £m	31 March 2021 (excl. one-off CPBS adj.) £m	FX impact £m	Acquisitions & disposals £m	COVID-19 recovery (estimated) £m	Other trading £m	31 March 2022 £m
Marine	1,230.6	8.6	1,239.2	(0.6)	(24.3)	(10.2)	55.2	1,259.3
Nuclear	975.9	2.2	978.1	–	–	0.4	31.2	1,009.7
Land	910.7	60.7	971.4	–	(27.1)	103.2	(32.0)	1,015.5
Aviation	854.4	16.8	871.2	(22.0)	(75.4)	38.5	5.0	817.3
Total	3,971.6	88.3	4,059.9	(22.6)	(126.8)	131.9	59.4	4,101.8

* Refer to Note 3 of the financial statements for details regarding the prior-year restatement

Revenue for the year was £4,101.8 million, 5% higher than last year on an organic basis excluding one-off FY21 CPBS adjustments, foreign exchange and the impact of acquisitions and disposals. All sectors grew organically driven by recovery from COVID-19 impacts in the prior year, with further underlying growth in Marine from the ramp-up of new and early-stage contracts, including Type 31, and in Nuclear, from additional submarine infrastructure activity. See sector operational reviews on pages 42 to 49.

The main variances year-on-year (compared to revenue before one-off CPBS adjustments in FY21) are:

- **FX impact (1)%** – this primarily relates to foreign exchange translation on the results of our European Aviation businesses
- **Acquisitions and disposals (3)%** – this reflects lower net revenue from the sale of Cobras (sold in October 2020 – Land), Oil and Gas aviation (sold in August 2021 – Aviation), Frazer-Nash Consultancy Ltd (sold in October 2021 – Marine), UK Power (sold in December 2021 – Land), and a modest contribution from the NSM acquisition in March 2022 (Marine)
- **COVID-19 recovery 3%** – this reflects our estimate of revenue recovered in our businesses that were impacted by COVID-19 in FY21, most notably across our South African contracts and civil training business in the Land sector, and aerial emergency services (AES) activities in the Aviation sector. The COVID-19 revenue impact in Marine is negative, reflecting the ventilators project in FY21 that did not repeat in FY22
- **Other trading 2%** – excluding COVID-19 recovery factors, there was growth in Marine from further ramp-up of work on the Type 31 frigate programme, new contracts in Mission Systems and demand for LGE products, and in Nuclear, driven by the continued ramp-up in submarine infrastructure programmes. On the same basis, Land decreased, with higher activity in Rail more than offset by the impact of the loss of the Heathrow baggage contract in the prior year and the Eskom support contract in South Africa in FY22

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Underlying operating profit performance

	31 March 2021 (restated)* £m	One-off CPBS in FY21 £m	31 March 2021 (excl. one-off CPBS adj.) £m	FX impact £m	Acquisitions & disposals £m	COVID-19 recovery (estimated) £m	Pension movements £m	Other trading £m	31 March 2022 £m
Marine	56.2	28.9	85.1	(1.1)	(4.6)	15.9	(2.9)	5.6	98.0
Nuclear	63.8	23.4	87.2	–	–	2.1	(0.3)	(26.6)	62.4
Land	(17.5)	69.3	51.8	0.1	(3.2)	12.8	0.1	(2.8)	58.8
Aviation	(130.4)	128.4	(2.0)	(3.6)	(1.7)	8.1	–	17.7	18.5
Total	(27.9)	250.0	222.1	(4.6)	(9.5)	38.9	(3.1)	(6.1)	237.7

* Refer to Note 3 of the financial statements for details regarding the prior-year restatement

Underlying operating profit of £237.7 million was 7% higher than last year excluding the one-off FY21 CPBS adjustment of £(250) million. Organic growth of 13% was driven mainly by COVID-19 recovery across the Group and operating model cost savings of c.£20 million, achieving our target annualised savings of c.£40 million. By sector, profit improvement in Marine, Land and Aviation more than offset a decline in Nuclear, as a consequence of a programme write-off of £22 million.

The underlying operating margin was 5.8%, up from 5.5% on the same basis (excluding one-off CPBS adjustments in FY21). Three sectors improved their operating margin: Marine by 90bp to 7.8%, Land by 50bp to 5.8% and Aviation by 250bp to 2.3%. Nuclear margin decreased 270bp to 6.2% due to the programme write-off.

The main variances year-on-year (compared to underlying operating profit before one-off CPBS adjustments in FY21) are:

- **FX impact (2)%** – this primarily relates to foreign exchange translation on the results, most notably South Africa and Southern Europe
- **Acquisitions and disposals (4)%** – this is the lower net contribution following completed transactions in the period
- **COVID-19 recovery 18%** – this is the estimate of profit linked to the recovery of activity in business impacted by the pandemic based on an analysis of direct and indirect impacts. The Group saw material profit improvements from recovery of operations and reduced operating costs associated with COVID-19, particularly in Land, Marine and Aviation. Subject to any material unforeseen pandemic-related developments, we do not expect to report separately on its impact in future periods
- **Pension movements (1)%** – this reflects slightly higher IAS 19 pension costs this year split across our sectors
- **Other trading (3)%** – Excluding COVID-19 recovery factors, sector performance was boosted by c.£20 million operating model benefits which more than offset increased business development costs relating to certain large bids and costs of implementing a stronger control environment. In Marine, initial licence fees from the Indonesian AH140 design order and a favourable contract settlement resulted in a strong performance in the second half, while the increase in Aviation profit was driven primarily by the significant milestone achievements in two defence contracts in France and restructuring benefits. Nuclear profit decreased due to the £22 million contract write-off, which more than offset the higher contribution from infrastructure work

Further analysis of our revenue and underlying operating profit performance is included in each sector's operating review on pages 42 to 49.

Share of results of joint ventures and associates

The Group's share of results in JVs and associates was a profit after tax of £20.1 million in the year (FY21: £13.1 million loss). The improvement year-on-year was due largely to the impact of one-off CPBS charges in FY21 that did not repeat (£(31.5) million) and recovery from COVID-19 impacts, primarily in our Aviation and Land JVs.

The Group's main JVs and associates at 31 March 2022 were:

- Ascent in our Aviation sector, which trains RAF pilots in the UK under the UK Military Flying Training System (UKMFTS) air training contract
- AirTanker Services in our Aviation sector, which operates A330 Voyager aircraft to support air-to-air refuelling, air transport and ancillary services for the UK Ministry of Defence

During the year we sold our 15.4% stake in the AirTanker Holdings Ltd. asset JV. Babcock retains its 23.5% shareholding in AirTanker Services Limited, as described above. In March 2022, we purchased the remaining 50% share in our Naval Ship Management (NSM) JV in our Marine sector, which maintains part of Australia's naval fleet.

Underlying finance costs

Underlying net finance costs were flat at £62.0 million (FY21: £62.1 million) with lower net interest costs due to lower average debt and reduced IFRS 16 lease interest, offset by a £7.1 million higher pension finance charge and a £9.5 million non-cash charge due to a change in the revaluation methodology of cross currency interest rate swaps.

Tax charge

The tax charge on underlying profits/(losses) was £(43.9) million (FY21: £(21.8) million) representing an effective underlying rate of 24% (FY21: 21%), compared to the originally expected 23% due to the country profit mix. The underlying effective tax rate is calculated on underlying profit before tax excluding the share of income from JVs and associates (which is a post-tax number).

The Group's effective rate of tax for FY23 will be dependent on country profit mix and the timing of the completion of the AES disposal announced in July 2022. The current assumption is expected to be around 25%. In the medium term, we expect our effective tax rate to increase in conjunction with UK corporation tax rate increases.

Underlying earnings per share

Underlying earnings per share for the year was 30.7 pence (FY21: (24.6) pence). Excluding one-off CPBS adjustments in FY21, underlying earnings per share increased 7% from 28.8p, reflecting growth in underlying operating profit and other income of £6.2m (guarantee fees earned before completion on one of the FY22 disposals), partly offset by the non-cash finance charge on derivative instruments of £9.6 million and the slightly higher effective tax rate due to the country profit mix.

Exchange rates

The translation impact of foreign currency movements resulted in a decrease in revenue of £22.6 million and a £4.6 million decrease in underlying operating profit. The main currencies that have impacted our results are the South African Rand and the Euro. The currencies with the greatest potential to impact our results are the Euro, the South African Rand and the Canadian Dollar:

- A 10% movement in the Euro against Sterling would affect revenue by around £40 million and underlying operating profit by around £2 million per annum
- A 10% movement in the South African Rand against Sterling would affect revenue by around £25 million and underlying operating profit by around £2.5 million per annum
- A 10% movement in the Canadian Dollar against Sterling would affect revenue by around £15 million and underlying operating profit by around £1 million per annum

Disposal programme

Our plan for disposals has been assessed and does not meet the criteria for any assets to be classed as held for sale under IFRS 5.

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Cash flow and net debt

Statutory cash flow summary

	31 March 2022 £m	31 March 2021 (restated)* £m
Profit/(loss) for the year	167.9	(1,803.0)
Net cash flows from operating activities	6.8	427.4
Net cash flows from investing activities	338.6	(24.4)
Net cash flows from financing activities	(122.7)	(1,223.9)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	222.7	(820.9)

* Refer to Note 3 of the financial statements for details regarding the prior-year restatement

Cash flows from operating activities

Net cash flow from operating activities of £6.8 million was lower compared to last year (FY21: £427.4 million) as expected, driven by a working capital outflow of £(178.9) million (FY21: £333.2 million inflow, which included impacts from the CPBS review) and higher pension deficit payments.

Notwithstanding these outflows, the Group performed better than expected on cash generation from the timing of customer receipts and prepayments, and used this to further accelerate the unwinding of both past working capital management practices (principally deferred creditors, debt factoring) as well as pension deficit repair and payment of the Italian fine of c.£15 million).

Cash flows from operating activities

Net cash flow from investing activities of £338.6 million increased compared to last year (FY21: £(24.4 million)), primarily due to net cash inflow from disposals and acquisitions of £404.2 million (FY21: £90.6 million).

Cash flows from financing activities

Net cash flow from financing activities of £(122.7) million principally reflects lease principal payments in the year of £113.0 million (FY21: £140.6 million). The Group repaid bank loans of £31.7 million compared to £1,154 million in FY21.

A full cash flow statement can be found on page 162.

Movement in net debt

	31 March 2022 £m	31 March 2021 (restated)* £m
Net increase/(decrease) in cash in the year	222.7	(820.9)
Cash flow from the decrease/(increase) in debt	55.1	1,202.1
Change in net funds resulting from cash flows	277.8	381.2
Net additional lease obligations	(93.8)	(82.3)
New leases – granted	41.9	13.9
Disposal of subsidiaries	137.1	–
Other non-cash movements and changes in fair value	(14.2)	4.2
Foreign currency translation differences	12.8	44.6
Movement in net debt in the year	383.7	361.3
Opening net debt	(1,352.4)	(1,713.7)
Closing net debt	(968.7)	(1,352.4)

* Refer to Note 3 of the financial statements for details regarding the prior-year restatement

Underlying cash flow and net debt

Our underlying cash flows are used by management to measure operating performance as they provide a more consistent measure of business performance year to year.

	31 March 2022 Underlying £m	31 March 2021 Underlying (restated)* £m
Operating profit	**226.8**	(1,736.7)
Add back: specific adjusting items	**10.9**	1,708.8
Underlying operating profit	**237.7**	(27.9)
One-off CPBS adjustments	**–**	250.0
Underlying operating profit excl. one-off CPBS adjustments	**237.7**	222.1
Depreciation & amortisation	**74.4**	108.0
ROU asset depreciation	**123.1**	140.2
Non-cash items	**0.6**	9.1
Working capital movements	**(173.9)**	128.9
Provisions	**(9.3)**	3.4
Net capital expenditure	**(135.2)**	(171.1)
Lease principal payments	**(113.0)**	(140.6)
Underlying operating cash flow	**4.4**	300.0
Cash conversion % excl. one-off CPBS adjustment	***1.9%***	*135.1%*
Pension contributions in excess of income statement	**(151.7)**	(73.5)
Interest paid	**(45.0)**	(67.4)
Tax received	**10.0**	18.4
Dividends from joint ventures and associates	**41.6**	36.8
Cash flows related to exceptional items	**(50.6)**	(44.7)
Underlying free cash flow	**(191.3)**	169.6
Net acquisitions and disposals of subsidiaries	**417.2**	90.6
Acquisitions/investments in joint ventures and associates	**(18.1)**	(8.8)
Dividends paid (including non-controlling interests)	**(1.1)**	(0.8)
Purchase of own shares	**–**	(2.2)
Lease principal payments	**113.0**	140.6
Leases acquired with subsidiaries	**(0.5)**	–
Leases disposed of with subsidiaries	**137.1**	–
Other non-cash debt movements	**(2.4)**	–
Fair value movement in debt	**(11.8)**	10.0
Net new lease arrangements	**(71.2)**	(82.3)
Exchange movements	**12.8**	44.6
Movement in net debt	**383.7**	361.3
Opening net debt	**(1,352.4)**	(1,713.7)
Closing net debt	**(968.7)**	(1,352.4)
Add back: operating leases	**412.0**	582.1
Closing net debt excluding operating leases	**(556.7)**	(770.3)

* Refer to Note 3 of the financial statements for details regarding the prior-year restatement

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Underlying cash performance

Underlying operating cash flow

Underlying operating cash flow for the year after capital expenditure was £4.4 million, compared to £300.0 million inflow in the prior year, primarily due to working capital outflows and lower net capex (see below). The Group used favourable timing of customer receipts and prepayments to further accelerate the unwind of the past practice of period-end working capital management (principally creditor deferrals and debt factoring), pension deficit repair and to pay the Italian fine of c.£15 million, while keeping net debt/EBITDA (covenant basis) below our target of 2.0x. This represented operating cash conversion of 1.9% (FY21: 135.1%) on the underlying operating profit (excluding one-off CPBS adjustments).

Movements in working capital

The movement in working capital for the year was a £(173.9) million outflow compared to an inflow of £128.9 million last year. The outflow includes the unwind of VAT payments deferred from the previous financial year (£56 million), a reduction in deferred creditors (£130 million) and debt factoring in Southern Europe (by £40 million to £62 million) as we move away from the practice of period-end management of working capital, as well as an increase in amounts recoverable under contract in our Aviation business. The outflow in the year was partly improved by favourable timing of customer receipts and prepayments against long-term contracts that will reverse in FY23.

Capital expenditure

Gross capital expenditure increased to £203.2 million (FY21: £176.5 million), including £12.4 million of purchases of intangible assets (FY21: £19.6 million). The increase reflects further investment in submarine infrastructure in Devonport, including in 9 Dock, and commencement of enterprise resource planning (ERP) roll-out in Nuclear. Net capex reduced to £135.2 million (FY21: £171.1 million) due to higher proceeds from disposals (£68.0 million (FY21: £5.4 million)), primarily reflecting the disposal and sale and leaseback of aircraft in our Aviation sector. We expect that gross capital expenditure will remain at an elevated level in FY23 as we continue to upgrade our facilities and IT equipment.

Lease principal payments

Lease principal payments of £113.0 million in the year (FY21: £140.6 million) represents the capital element of payments on lease obligations. This is reversed out below underlying free cash flow as the payment reduces our lease liability.

Pensions

Pension cash outflow in excess of the income statement charge (excluding exceptional charges for curtailment losses) was £151.7 million (FY21: £73.5 million). As stated above, the Group accelerated a payment of £23.3 million in the year, originally scheduled for FY23. We expect the cash outflow in excess of the income statement charge to be around £100 million in FY23.

Interest

Net cash interest paid, excluding that paid by JVs and associates, decreased to £45.0 million (FY21: £67.4 million) due to lower net debt, a reduction in interest on leases as a result of the Group's disposal programme and repayment of the US Private Placement debt facility in FY21.

Taxation

Cash tax in the year was an inflow of £10.0 million, compared to our previous expectation of an outflow of around £30 million, following the settlement of several open years' tax computations with the authorities. We currently expect a cash tax outflow of approximately £20 million in FY23.

Dividends from joint ventures and associates

During the period the Group received £41.6 million in dividends from its JVs and associates (FY21: £36.8 million). The increase year-on-year reflects close-out dividends on the termination of the ALC and Dounreay JVs, and the final dividend from NSM pre-acquisition. Following the disposal of our 15.4% share in AirTanker Holdings Ltd, we expect dividends from JVs and associates to be around £5 million in FY23.

Exceptional cash flows

Cash outflows related to exceptional items were £50.6 million compared to £44.7 million last year. These costs included £34 million restructuring costs, which came in slightly below our initial expectations, and the early settlement of the Italy fine of £15 million. In FY23, we anticipate exceptional cash outflows of up to £10 million, principally operating model restructuring costs for which the charge was taken in FY22 or prior.

Underlying free cash flow

There was an underlying free cash outflow of £(191.3) million (FY21: £169.6 million inflow) reflecting the items set out above including the working capital outflow and pension deficit payments partly offset by lower net capital expenditure.

Acquisitions and disposals

The net cash inflow from acquisitions and disposals after costs was £417.2 million. This included gross proceeds of £447.3 million (net of cash disposed) from the sale of Oil and Gas (£10.0 million), Frazer Nash Consultancy (£286.8 million), Power (£45.8 million) and our 15.4% shareholding in AirTanker Holdings Limited (£95.6 million), and £(15.5) million cash consideration (net of cash acquired) for the acquisition of the remaining 50% of NSM Limited. Related disposal costs were £17.5 million and there were £9.6 million of costs relating to disposals that have not completed in the year, which was partly offset by a £6.2 million inflow from pre-completion guarantee fees received in relation to a disposal.

New lease arrangements

In addition to net capital expenditure, and not included in free cash flow, £71.2 million (FY21: £82.3 million) of additional leases were entered into in the period. These represent new lease obligations and so are included in our main net debt figure but do not involve any cash outflows at inception.

Net debt

The Group's net debt at FY22 was £968.7 million, or £556.7 million excluding operating leases. The reduction in net debt, excluding lease obligations, of £213.6 million reflects the free cash outflow and net divestments set out above, including £137.1 million of leases disposed of with subsidiaries. Our net debt includes balances related to the use of supply chain financing in the Group with extended credit terms. At 31 March 2022 the amount included was £12 million (FY21: £25 million). We are phasing out the regular use of supply chain financing across the Group.

Funding and liquidity

At 31 March 2022, the Group's net cash balance was £757 million. This combined with the undrawn amount under our committed revolving credit facilities (RCF) gave us liquidity headroom of around £1.7 billion.

As of 31 March 2022, the Group had access to a total of £2.4 billion of borrowings and facilities of mostly long-term maturities. These comprised:

- €550 million bond maturing 6 October 2022 (in April 2021 this was hedged at £482 million)
- New £300 million 3-year RCF maturing 20 May 2024 (signed on 20th May 2021)
- Existing £775 million RCF maturing 28 August 2025; of which £730 million now matures on 28 August 2026
- £300 million bond maturing 5 October 2026
- €550 million bond, hedged at £493 million, maturing 13 September 2027

Capital structure

An important part of the transformation of Babcock is the strengthening of the balance sheet. While there are several facets to balance sheet strength, the primary measurement relevant to Babcock is the net debt/EBITDA gearing ratio within our debt covenants, which was 1.8x for FY22. The covenant level was temporarily lifted to 4.5x in May 2021, but reverts to 3.5x from September 2022. Having achieved our previous target of leverage under 2.0x, the ratio could increase above 2.0x in the short term, reflecting final pension deficit catch-up payments of c.£100 million and the unwind of the remaining creditor deferrals (c.£35 million). The bulk of these non-recurring cash flows are expected within the first half of FY23. Thereafter, we expect leverage to reduce and are now implementing a medium-term gearing ratio target of 1.0x to 2.0x.

Subsequent events

On 19 July 2022, we signed a conditional agreement with Ancala Partners for the sale of part of our aerial emergency business including net lease liabilities of £209 million, for a gross cash consideration of £115 million. These businesses provide aerial emergency medical services, firefighting and search & rescue to customers and communities in Italy, Spain, Portugal, Norway, Sweden and Finland. Completion of the agreement is subject to certain regulatory and other conditions. The deal is expected to complete by the end of the calendar year, subject to the satisfaction of the relevant conditions.

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Net debt to EBITDA (covenant basis)

This is the measure used in the covenant in our RCF and makes a number of adjustments from reported net debt and EBITDA. The covenant level is 3.5 times – which was amended to 4.5 times until 31 March 2022. As set out above, our net debt to EBITDA (covenant basis) decreased to 1.8 times for FY22 driven by the reduction in net debt, which was proportionally greater than the decrease in EBITDA + JV and associate dividends.

	31 March 2022 £m	31 March 2021 (restated)* £m
Underlying operating profit excl. one-off CPBS adjustments	237.7	222.1
Depreciation and amortisation	74.4	108.0
Covenant adjustments[1]	(12.9)	(11.5)
EBITDA	299.2	318.6
JV and associate dividends	41.6	36.8
EBITDA + JV and associates dividends (covenant basis)	340.8	355.4
Net debt excluding operating leases	(556.7)	(770.3)
Covenant adjustments[2]	(60.0)	(94.7)
Net debt (covenant basis)	(616.7)	(865.0)
Net debt/EBITDA	1.8x	2.4x

* Refer to Note 3 of the financial statements for details regarding the prior-year restatement

1. Various adjustments made to EBITDA to reflect accounting standards at the time of inception of the original RCF agreement. The main adjustments are to the treatment of leases within operating profit and pension costs
2. Removing loans to JVs, finance lease receivables and adjusting for an average FX rate for the previous 12 months

Interest cover (covenant basis)

This measure is also used in the covenant in our RCF, with a covenant level of 4.0x.

	31 March 2022 £m	31 March 2021 (restated)* £m
EBITDA (covenant basis) + JV and associate dividends	340.8	355.4
Finance costs	(60.2)	(55.6)
Finance income	9.6	12.6
Covenant adjustments	(1.5)	(0.7)
Net Group finance costs	(52.1)	(43.7)
Interest cover	6.5x	8.1x

* Refer to Note 3 of the financial statements for details regarding the prior-year restatement

Return on invested capital, pre-tax (ROIC)

This measure is one of the Group's key performance indicators.

	31 March 2022 £m	31 March 2021 (restated)* £m
Underlying operating profit	237.7	(27.9)
Share of JV PAT	20.1	(13.1)
Underlying operating profit plus share of JV PAT	257.8	(41.0)
Underlying operating profit excl. one-off CPBS impacts	237.7	222.1
Share of JV PAT excl. one-off CPBS impacts	20.1	18.4
Underlying operating profit plus share of JV PAT excl. one-off CPBS adjustments	257.8	240.5
Net debt excluding operating leases	556.7	770.3
Operating leases	412.0	582.1
Shareholder funds	701.5	229.0
Retirement deficit/(surplus)	(191.6)	278.9
Invested capital	1,478.7	1,860.3
ROIC (pre-tax)	17.4%	(2.2)%
ROIC excl. one-off CPBS adjustments (pre-tax)	17.4%	12.9%

* Refer to Note 3 of the financial statements for details regarding the prior-year restatement

Pensions

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

The Group's balance sheet includes the assets and liabilities of the pension schemes calculated on an IAS 19 basis. At 31 March 2022, the net position was a surplus of £191.6 million compared to a net deficit of £278.9 million at 31 March 2021. These valuations are based on discounting using corporate bond yields.

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

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

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Analysis of movement of pensions in the Group statement of financial position

	2022				2021 (restated)			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets (including reimbursement rights)								
At 1 April					3,989.2	241.4	180.7	4,411.3
Restatement (note 3)					(47.0)	–	10.1	(36.9)
At 1 April (restated)	4,123.7	265.6	234.3	4,623.6	3,942.2	241.4	190.8	4,374.4
Interest on assets	82.3	5.2	4.7	92.2	91.6	5.7	4.6	101.9
Actuarial gain on assets*	77.0	13.1	(1.7)	88.4	231.5	26.3	40.0	297.8
Employer contributions	182.5	2.6	5.1	190.2	102.5	2.8	3.5	108.8
Employee contributions	0.2	–	–	0.2	0.2	–	–	0.2
Benefits paid	(245.4)	(10.7)	(5.4)	(261.5)	(244.3)	(10.6)	(4.6)	(259.5)
Settlements	–	–	–	–	–	–	–	–
At 31 March	4,220.3	275.8	237.0	4,733.1	4,123.7	265.6	234.3	4,623.6
Present value of benefit obligations								
At 1 April					3,790.8	297.5	177.8	4,266.1
Restatement (note 3)					–	–	10.1	10.1
At 1 April	4,290.0	369.6	242.9	4,902.5	3,790.8	297.5	187.9	4,276.2
Service cost	25.6	2.0	3.5	31.1	24.1	2.0	2.0	28.1
Incurred expenses	6.6	0.5	0.3	7.4	6.4	0.7	0.2	7.3
Interest cost	83.8	7.3	4.8	95.9	86.4	7.0	4.5	97.9
Employee contributions	0.2	–	–	0.2	0.2	–	–	0.2
Experience (gain)/loss*	70.6	(14.2)	(2.4)	54.0	(20.5)	0.6	(2.2)	(22.1)
Actuarial loss/(gain) – demographics*	(11.5)	(3.5)	–	(15.0)	8.5	(0.6)	(0.7)	7.2
Actuarial (gain)/loss – financial*	(227.3)	(23.9)	(21.9)	(273.1)	629.7	73.0	55.6	758.3
Benefits paid	(245.4)	(10.7)	(5.4)	(261.5)	(244.5)	(10.6)	(4.4)	(259.5)
Past service costs	–	–	–	–	1.4	–	–	1.4
Curtailment	–	–	–	–	7.5	–	–	7.5
At 31 March	3,992.6	327.1	221.8	4,541.5	4,290.0	369.6	242.9	4,902.5
Net surplus/(deficit) at 31 March	227.7	(51.3)	15.2	191.6	(166.3)	(104.0)	(8.6)	(278.9)

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

Accounting valuations

The IAS 19 valuation for accounting purposes showed a market value of assets of £4,733.1 million, net of longevity swaps and the MOD indemnity for BNSPS, in comparison to a valuation of the liabilities of £4,541.5 million. The total net accounting surplus, before allowing for deferred tax, at 31 March 2022, was £191.6 million (2021: deficit of £278.9 million), representing a 104.2% funding level. A summary of the key assumptions used to value the largest schemes is shown below. The most significant assumptions that impact on the results are the discount rate and the expected rate of inflation. As the IAS19 accounting valuation uses corporate bond yields as a discount rate, the net surplus (deficit) position can materially differ from an actuarial valuation, which typically uses gilts based discount rates.

	Devonport Royal Dockyard Scheme		Babcock International Group Scheme		Rosyth Royal Dockyard Scheme	
	2022	2021	2022	2021	2022	2021
Discount rate %	2.7	2.0	2.7	2.0	2.7	2.0
Inflation rate (RPI)	3.7	3.2	3.7	3.2	3.7	3.2
Inflation rate (CPI)	3.2	2.7	3.2	2.7	3.2	2.7
Rate of increase in pensions in payment %	3.2	2.7	3.5	3.1	3.7	3.2
Total life expectancy for current pensioners aged 65 (years)	85.9	85.7	86.8	87.1	85.0	84.8

An estimate of the actuarial deficits of the Group's defined benefit pension schemes, including all longevity swap funding gaps, calculated using each Scheme's respective technical provisions basis, as at 31 March 2022 was approximately £400 million (2021: c.£600 million), such valuations use discount rates based on UK gilts – which differs from the corporate bond approach of IAS 19 above. This technical provision estimate is based on the assumptions used within the latest agreed valuation prior to 31 March 2022 for each of the three main schemes and does not fully allow for the impact of RPI reform which will be fully reflected in future technical provisions valuations.

Governance

The Group believes that the complexity of defined benefit schemes requires effective governance and supports an increasingly professional approach. Each of the largest schemes have independent trustees and professional trustees with specialist investment expertise.

Pensions management

The Group continues to review its options to reduce the risks inherent in its schemes. It has employees earning benefits in the Babcock International Group Pension Scheme, the Devonport Royal Dockyard Pension Scheme, the Babcock Rail Ltd Shared Cost Section of the Railways Pension Scheme, the Cavendish Nuclear section of the Magnox Group section of the Electricity Supply Pension Scheme and the Babcock Clyde Section of the Citrus Pension Plan, as well as employees in local and central government schemes. All the occupational defined benefit pension schemes have been closed to new members for some years.

The Group also provides an occupational defined contribution pension scheme used to comply with the automatic enrolment legislation across the Group for all new employees and for those not in a defined benefit pension scheme. Over 75% of its UK employees are members of the defined contribution pension scheme. The Group pays contributions to this scheme based on a percentage of employees' pay. It has no legal obligations to pay any additional contributions. All investment risk in the defined contribution pension scheme is borne by the employees.

Investment strategy

In recent years, the Group has agreed investment strategies with the trustees of the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme designed to target these schemes being self-sufficient by 2026, and with the trustees of the Devonport Royal Dockyard Pension Scheme designed to target self-sufficiency for this scheme by 2030. The schemes also operate within agreed risk budgets to ensure the level of risk taken is appropriate. To implement the investment strategies, each of the three largest schemes' Investment Committees has divided its scheme's assets into growth assets, low risk assets and matching assets, with the proportion of assets held in each category differing by scheme reflecting the schemes' different characteristics and funding strategies. The matching assets are used to hedge against falls in interest rates or rises in expected inflation. The level of hedging is steadily increased as the funding level on the self sufficiency measure increases, such that as at 31 March 2022 approximately 90% of the schemes' liabilities (as measured on a self-sufficiency basis) across the three largest schemes are protected against adverse changes in interest rates and inflation.

Actuarial valuations

Actuarial valuations are carried out every three years in order to determine the Group's cash contributions to the schemes. The valuation dates of the three largest schemes are set so that only one scheme is undertaking its valuation in any one year, in order to spread the financial impact of market conditions. The valuation of the Devonport Royal Dockyard Pension Scheme as at 31 March 2020 was completed in the last financial year, the valuation of the Rosyth Royal Dockyard Pension Scheme as at 31 March 2021 has been completed since the year end, and work has commenced on the valuation of the Babcock International Group Pension Scheme at 31 March 2022.

Cash contributions

For year ending 31 March	2023 (expected) £m	**2022 £m**	2021 £m
Future service contributions	19.9	**21.1**	24.2
Deficit recovery	88.3	**135.2**	51.6
Longevity swap	15.6	**16.8**	16.3
Total cash contributions — employer	123.8	**173.1**	92.1

Cash contributions made by the Group into the defined benefit pension schemes, excluding expenses and salary sacrifice contributions, during the last financial year are set out in the table above.

Income statement charge

The charge included within underlying operating profit for the year to 31 March 2022 was £38.5 million, of which £31.1 million related to service costs and £7.4 million related to expenses. We expect charges of around £33 million in the year to 31 March 2023, split between £26 million of service costs and £7 million of expenses. In addition to this, there was an interest charge of £3.7 million for the year to 31 March 2022 and, for 2023, we expect an interest credit of £6.6 million on the surplus.

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Treasury

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 treasury team is only permitted to enter into financial instruments where it has a high level of confidence in the hedged item occurring. Both the treasury department and the sectors have responsibility for monitoring compliance within the Group to ensure adherence to the principal treasury policies and guidelines. The Group's treasury 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, particularly given the ongoing economic and market uncertainty.

Debt

Objective

With debt as a key component of available financial 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, commitments and risk profile.

Policy

All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required. It remains the Group's policy to ensure the business is prudently funded and that sufficient headroom is maintained on its facilities to fund its future growth.

Updates

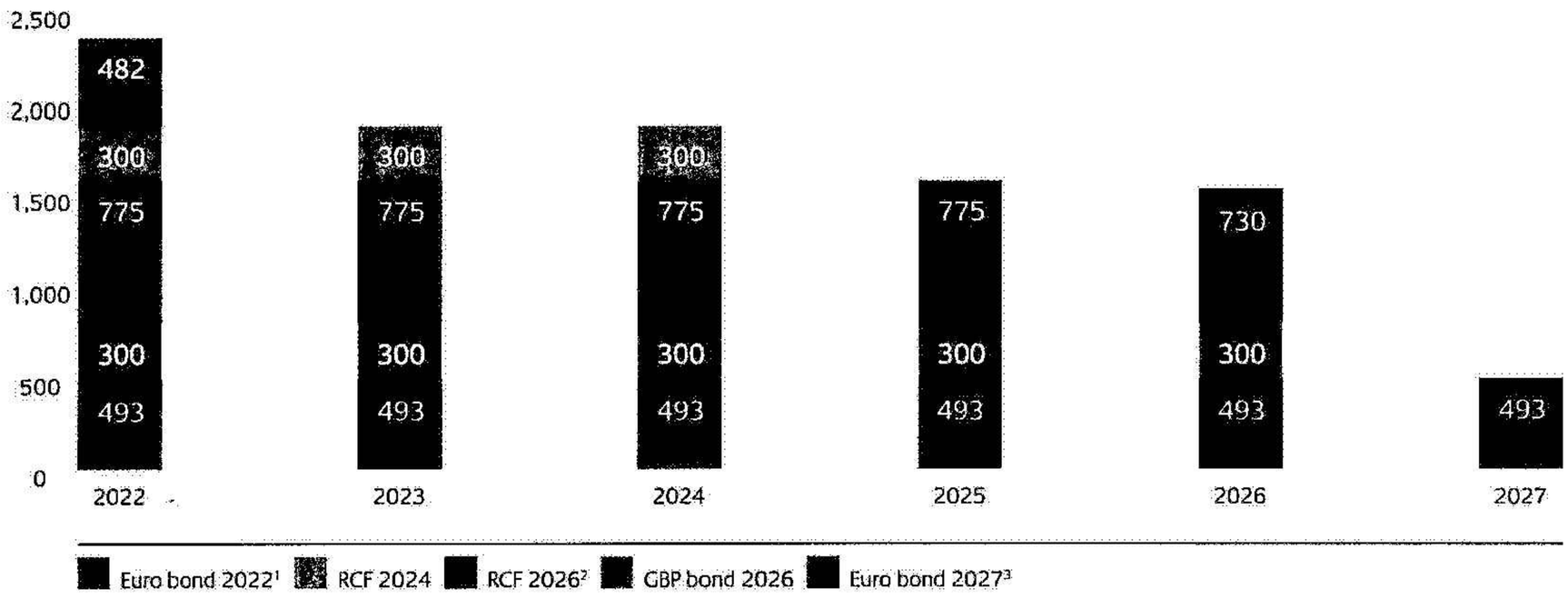
The Group continues to keep its capital structure under review to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective.

During the financial year, the Group signed a new three-year Revolving Credit Facility (RCF) of £300 million that expires in May 2024. This is in addition to the Group's existing £775 million RCF. At the same time, the Group clarified the definition of underlying results used in the RCF covenant calculations to ensure that any one-off impacts from the Group's contract profitability and balance sheet review ('CPBS') do not impact the calculation and agreed with lenders a temporary amendment to the net debt to EBITDA ratio covenant permitted level to 4.5 times for the measurement periods ending 30 September 2021 and 31 March 2022 after which the permitted level returns to the original 3.5 times. The Group also extended the maturity of £730 million of its existing £775 million RCF to 2026.

The Group's other main corporate facilities comprise of the following: a £300 million Sterling bond, maturing October 2026, a €550 million bond, maturing October 2022, and a €550 million bond, maturing September 2027. Taken together, these debt facilities provide the Group with a total of around £2.4 billion of available committed facilities and bonds.

The Group is planning to repay the bond maturating in October 2022 using cash from disposals.

Debt maturity profile[4] (£m)



1. Euro bond 2022 €550m hedged at £482m.
2. £730m of £775m RCF extended to 2026.
3. Euro bond 2027 €550m hedged at £493m.
4. Chart shows notional value of the debt.

Interest rates

Objective

To manage exposure to interest rate fluctuations on borrowings by varying the proportion of fixed rate debt relative to floating rate debt to reflect the underlying nature of the Group's commitments and obligations. As a result, the Group does not maintain a specific set proportion of fixed versus floating debt, but monitors the mix to ensure that it is compatible with its business requirements and capital structure.

Policy

Interest rate hedging and the monitoring of the mix between fixed and floating rates is the responsibility of the treasury department and is subject to the policy and guidelines set by the Board and updated from time to time.

Performance

As at 31 March 2022, the Group had 66% fixed rate debt (31 March 2021: 70%) and 34% floating rate debt (31 March 2021: 30%) based on gross debt of £2,290.1 million (31 March 2021: £2,340.0 million).

Liquidity

Objective

I. To maintain adequate undrawn committed borrowing facilities
II. To monitor and manage bank credit risk, and credit capacity utilisation
III. To diversify the sources of financing with a range of maturities and interest rates, to reflect the long-term nature of Group contracts, commitments and risk profile

Policy

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

Each of the Group's sectors 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 Group adopts a conservative approach to the investment of its surplus cash. It is deposited with financial institutions only for short durations, and the bank counter-party credit risk is monitored closely on a systematic and ongoing basis.

A credit limit is allocated to each institution taking account of its credit rating and market information.

Performance

The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objectives. As noted above, the Group signed a new £300 million RCF and extended the maturity of £730 million of its existing RCF to 2026 during the financial year. Surplus cash during the year was invested in short term deposits diversified across several well rated financial institutions in accordance with policy.

Foreign exchange

Objective

To reduce exposure to volatility in earnings and cash flows from movements in foreign currency exchange rates. The Group is exposed to a number of foreign currencies, the most significant being the Euro, US Dollar, South African Rand and increasingly the Australian Dollar, Canadian Dollar, Norwegian Krone and Swedish Krona.

Policy — Transaction risk

The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions. To mitigate this risk, the Group's policy is to hedge all material transactional exposures, using financial instruments where appropriate. Where possible, the Group seeks to apply IFRS 9 hedge accounting treatment to all derivatives that hedge material foreign currency transaction exposures.

Policy — Translation risk

The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and equity accounted investments. It is not the Group's policy to hedge through the use of derivatives the translation effect of exchange rate movements on the income statement or balance sheet of overseas subsidiaries and equity accounted investments it regards as long-term investments. However, where the Group has material assets denominated in a foreign currency, it will consider some matching of those aforementioned assets with foreign currency denominated debt.

20230112008 74

Financial Glossary – Alternative performance measures

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

Further information on the Group's Specific Adjusting Items, which is a critical accounting judgement, can be found in Notes 2.

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

The Group's alternative performance measures are consistent with the year ended 31 March 2021, except for Contract Backlog, which is redefined to be consistent with the revenue accounting policy change in Note 3 of the preliminary financial statements.

Measure	Closest equivalent IFRS measure	Definition and purpose	Adjustments to reconcile to IFRS measure (and reference to reconciliation)
Revenue measures			
Revenue excluding the one-off CPBS adjustment	Revenue	Revenue excluding the impact of the one-off CPBS adjustment in FY21 • To eliminate the non-recurring element of the CPBS review from FY21 revenue to provide a better measure of growth	One-off CPBS revenue impact • See table on page 25 to 27
Organic growth	Revenue growth year-on-year	Growth excluding the impact of foreign exchange (FX), and contribution from acquisitions and disposals over the prior and current year, and the one-off CPBS adjustment in FY21 • Used to measure the year-on-year movement in Group revenue • It is a good indicator of business growth • Group KPI	FX, contribution of acquisitions and disposals in the current and prior year
Contract backlog	IFRS15	Contracted revenue excluding variable revenue, expected contract renewals, expected revenue from framework agreements and impact of termination for convenience clauses • Used to measure revenue under contract as a good indicator of revenue visibility	
Profit measures			
Underlying operating profit	Operating profit	Operating profit before the impact of Specific Adjusting Items[1] • Underlying operating profit is the headline measure of the Group's performance	Specific Adjusting Items[1] • See table on page 25 • See note 2
Underlying operating margin	No direct equivalent	Underlying operating profit as a percentage of revenue • To provide a measure of operating profitability, excluding one-off items • Operating margin is an important indicator of operating efficiency across the Group • Group KPI	Ratio – N/A
Underlying net finance costs	Net finance costs	Net finance costs excluding Specific Adjusting Items[1] • To provide an alternative measure of underlying finance costs excluding items such as fair value measurements which can fluctuate significantly on inputs outside of management's control	Specific Adjusting Items[1] • See table on page 25
Underlying profit before tax	Profit before tax	Profit before tax adjusted for • The summation of the impact of all adjusting items on profit before tax	Specific Adjusting Items[1] • See table on page 25
Underlying effective tax rate	Effective tax rate	Tax expense excluding the tax impact of Specific Adjusting Items[1], as a percentage of underlying profit before tax (being the summation of the impact of all adjusting items on profit before tax) excluding the share of post-tax income from joint ventures and associates • To provide an indication of the ongoing tax rate across the Group, excluding one-off items	Specific Adjusting Items[1] • See table on page 25

Measure	Closest equivalent IFRS measure	Definition and purpose	Adjustments to reconcile to IFRS measure (and reference to reconciliation)
Profit measures continued			
Underlying basic earnings per share	Basic earnings per share	Based on the Group's underlying profit before tax. It includes the Group's post-tax share of results of joint ventures and associates	Specific Adjusting Items[1] • See table on page 25 • See Note 10
Underlying operating profit (excluding one-off CPBS adjustment)	Operating profit	Underlying operating profit excluding one-off CPBS adjustment in FY21 • Eliminates the non-recurring element of the CPBS review to provide a better measure of underlying operating profit in FY21	
Underlying operating margin (excluding one-off CPBS adjustment)	No direct equivalent	Underlying operating profit divided by revenue, both excluding one-off CPBS adjustment in FY21 • Eliminates the non-recurring element of the CPBS review to provide a better measure of underlying operating margin in FY21	Ratio – N/A
Underlying basic (earnings per share excluding one-off CPBS adjustment)	Basic earnings per share	Underlying earnings per share excluding the impact of the one-off CPBS adjustment in FY21 • Eliminates the non-recurring element of the CPBS review in FY21 to provide a better measure of underlying earnings growth in the year	Specific Adjusting Items[1]
EBITDA	Operating profit	Underlying operating profit excluding one-off CPBS adjustments in FY21, plus depreciation and amortisation, and various covenant adjustments linked to the Revolving Credit Facility including the treatment of leases within operating profit and pension costs - Used as the basis to derive the gearing ratio net debt/EBITDA, which is a key measure of balance sheet strength and the basis of our debt covenant calculations	Specific Adjusting Items[1] Depreciation and amortisation Covenant adjustments • See table on page 33
Balance sheet			
Net debt	No direct equivalent	Cash and cash equivalents and short-term investments, less bank and other borrowings, operating leases and net derivative financial instruments • Used as a general measure of the progress in generating cash and strengthening of the Group's balance sheet position	• See table on page 29 • See table on page 30
Net debt (excluding operating leases)	No direct equivalent	Net debt excluding lease liabilities as defined by IAS 17, the relevant standard at the inception of the banking facility. This net debt figure also includes finance lease (as defined by IAS 17) receivables and payables, loans from the Group to joint ventures and supply chain financing balances (of FY22: £12 million, FY21: £25 million) • Used by management to monitor the strength of the Group's balance sheet position and to ensure the Group's capital structure is appropriate • Used by credit agencies	• See table on page 29 • See table on page 30

1. Refer to Note 2

20230112008 75

Measure	Closest equivalent IFRS measure	Definition and purpose	Adjustments to reconcile to IFRS measure (and reference to reconciliation)
Net debt (covenant basis)	No direct equivalent	Net debt (excluding operating leases), excluding loans to Joint Ventures, finance lease receivables and adjusting for an average FX rate for the previous 12 months • Used by debt investors • Used by credit agencies	• See table on page 33
Net debt/ EBITDA (covenant basis)	No direct equivalent	Net debt (covenant basis) divided by EBITDA - A measure of the Group's ability to meet its payment obligations • Used by analysts and credit agencies • Group KPI	Ratio – N/A • See table on page 33
Return on invested capital (pre-tax) (ROIC)	No direct equivalent	Underlying operating profit plus share of JV PAT, divided by the sum of net debt, shareholders' funds and retirement deficit (surplus) • Used as a measure of profit earned by the Group generated by the debt and equity capital invested, to indicate the efficiency at which capital is allocated • Group KPI	Ratio – N/A • See table on page 33
Return on invested capital excluding one-off CPBS adjustments (pre-tax)	No direct equivalent	Underlying operating profit plus share of JV PAT excluding one-off CPBS adjustments, divided by the sum of net debt, shareholders' funds and retirement deficit (surplus) • Used as a measure of profit earned by the Group excluding the one-off impact of CPBS adjustments generated by the debt and equity capital invested, to indicate the efficiency at which capital is allocated	Ratio – N/A • See table on page 33
Cash flow measures			
Net capital expenditure	No direct equivalent	Property, plant and equipment and intangible assets, less proceeds on disposal of property, plant and equipment - Includes underlying operating cash flow to calculate underlying operating cash conversion	
Underlying operating cash conversion	No direct equivalent	Underlying operating cash flow after capital expenditure as a percentage of underlying operating profit • Used as a measure of the Group's efficiency in converting profits into cash	Ratio – N/A
Underlying free cash flow	No direct equivalent	Underlying free cash flow includes cash flows from exceptional items and the capital element of lease payment cash flows (rather than net new lease commitments, which are reflected as a debt movement) • Provides a measure of cash generated by the Group's operations after servicing debt and tax obligations, available for use in line with the Group's capital allocation policy	• See page 30

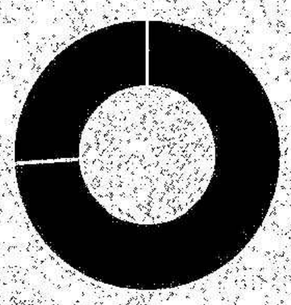
Marine

	FY22	FY21 (Restated)
Contract backlog	**£2.5bn**	£2.5bn
Revenue	**£1,259.3m**	£1,230.6m
Underlying operating profit	**£98.0m**	£56.2m
of which CPBS one-off adjustment	*–*	*£(28.9)m*
Underlying operating profit excluding CPBS one-off adjustment	*£98.0m*	*£85.1m*
Underlying margin excluding CPBS one-off adjustment	*7.8%*	*6.9%*

Revenue
£1,259m

Underlying operating profit
£98m

Revenue profile



74% Defence
26% Civil

What we do

We ensure the UK Royal Navy goes to sea safely by supporting their ships and crews around the world

We support navies around the world through the delivery of complex ship and submarine sustainment programmes

We deliver marine technology solutions to improve our customers' complex, safety-critical operations

Financial review

Revenue of £1,259.3 million increased 2% (excluding the one-off CPBS adjustment in FY21). Organic growth of 4% was driven by increased activity on the Type 31 programme, initial AH140 export revenue, new contracts in Mission Systems and strong demand for our LGE products. This more than offset the year-on-year impact of COVID-19, including the contribution from the ventilators project in the UK last year and the end of our Royal Naval training contract in FY21.

Underlying operating profit (excluding one-off CPBS adjustments) increased 15% to £98.0 million, or 22% on an organic basis. The main drivers were increased revenue, including COVID-19 recovery and growth in Mission Systems and LGE contracts, operating model efficiencies, a favourable contract settlement and the Indonesia AH140 licence fee, which more than offset significant bid costs on new large opportunities, including Indonesia, Poland and in the UK. As a result, underlying operating margin (excluding one-off CPBS adjustments) improved to 7.8% (FY21: 6.9%).

The disposal of Frazer-Nash Consultancy Ltd completed in August 2021 for a gross consideration of £291.7 million. In March 2022, we acquired the remaining 50% of the Australian Naval Ship Management (NSM) business from joint venture partners for £34 million.

Contract backlog was flat at £2.5 billion, with the addition of two large contracts in Mission Systems combined and growth in LGE orders, replacing revenue traded on long term contracts. At 1 April 2022, Marine had around £0.8 billion of FY23 expected revenue under contract, and an additional c.£460 million under framework agreements, both in line with the FY21 position.

Operational review

UK defence

The Type 31 (Inspiration Class) frigate programme remains on schedule, with three major milestones achieved during the year: the first steel cut for HMS Venturer, its subsequent keel laying, and the topping out of our advanced manufacturing facility in Rosyth. The investment across our Rosyth site aims to ensure capability and capacity to support future shipbuilding opportunities. In April 2022, we were awarded a 10-year contract to provide dry-dock maintenance work for the Royal Navy's Queen Elizabeth Class (QEC) aircraft carriers. The contract strengthens Rosyth capabilities in design, build, assembly and support of large ships.

Warship support activity at Devonport was higher year-on-year, with work on the Type 23 frigate programme ahead of last year, which included COVID-19 disruption. We continued to provide the UK's Royal Navy with fleet-time support, deployed support, and deep maintenance, with life extension and refit activity on a number of warships. We also supported the Royal Navy's Carrier Strike Group across multiple platforms and locations, including work on HMS Richmond in Japan, as well as the Type 23, Type 45, the QEC Class and Sandown Class.

We saw several positive developments in our Missions Systems business, including securing a c.£110 million contract to deliver the new Defence Strategic Radio Service to critical military operations and a c.£100 million 13-year contract for the UK MOD for the design, manufacture, delivery and in-service support to the Maritime Electronic Warfare Systems Integrated Capability (MEWSIC). Babcock will act as prime contractor, working with collaboration partners, Elbit Systems UK and QinetiQ.

We achieved full operational capacity in our new Morpheus Logistic Support Contract, which forms part of the UK's Land Environment Tactical Communications and Information Systems programme to deliver next generation tactical communications and information systems for the British Army. We also extended our contracts for Dreadnought launch weapons and signal ejector systems to include further scope on boats two to five.

International defence

We support international defence markets from our UK operations and from our businesses in Canada, Australia, New Zealand, Oman and South Korea.

20230112008876

Revenue and underlying operating profit bridge:

	FY21 (Restated) £m	One-off CPBS adj £m	FY21 Restated (excl. one-off CPBS) £m	FX impact £m	Acquisition and disposals £m	COVID-19 recovery (estimated) £m	Pensions charge £m	Other trading £m	FY22 £m
Revenue	1,230.6	8.6	1,239.2	(0.6)	(24.3)	(10.2)	–	55.2	1,259.3
Underlying operating profit	56.2	28.9	85.1	(1.1)	(4.6)	15.9	(2.9)	5.6	98.0

In **Australia**, we completed the acquisition of the remaining 50% stake in our Naval Ship Management (NSM) business from our JV partners in March 2022. The NSM acquisition strengthens Babcock's support to the Australian Defence Force's future maritime support model, Plan Galileo. With the signing of a new sustainment contract in New Zealand (see below), Babcock is now the Australasia region's leading warship sustainment enterprise.

In December, we were selected by the Australian Government as the preferred tenderer to upgrade and sustain the Defence High Frequency Communication System (DHFC) to support the Australian armed forces over the next 10 years, with a further four-year extension option, each of two years.

In **New Zealand**, In February 2022, the Defence Force awarded Babcock a new seven-and-a-half year Maritime Fleet Sustainment Services contract to provide full service asset management and engineering to the Royal New Zealand Navy.

In **Canada**, Babcock is continuing to deliver on the Victoria Class In-Service Support Contract (VISSC), supporting Canada's fleet of four submarines. Babcock completed the deep maintenance period of HMCS Corner Brook and is preparing to commence work on the deep maintenance period for HMCS Victoria. Additionally, the Government of Canada has further extended VISSC to June 2025.

In **South Korea**, we signed a Memorandum of Understanding (MoU) with Hyundai Heavy Industries for the CVX Aircraft Carrier Programme opportunity. In March, we signed a further MoU with Daewoo Shipbuilding and Marine Engineering Co Ltd (DSME) to focus on international opportunities, and support system integration on future programmes. The business is benefitting from investment in an assembly, maintenance, repair and overhaul facility in Busan, where Babcock currently assembles equipment for the fifth boat in the Janbogo-III submarine programme.

In **Oman**, our joint venture operation in Duqm with the Oman Drydock Company has completed a first of its kind double engine replacement for a UK Royal Navy Type 23 Class frigate. This enables the Royal Navy to sustain operations within the region and is a clear example of Babcock's global reach. During the period, two packages of work were also completed on US Navy vessels.

In September, we won our first export contract for the AH140 frigate (which Type 31 is based on) through a design licence agreement with PT PAL Indonesia. The design licence will enable PAL to build two frigates in Indonesia with bespoke design modifications for the Indonesian Navy. The second export success came in March 2022, when our design was selected by Poland and Babcock was selected as the design technology partner for Poland's MIECZNIK (Swordfish) frigate programme. Babcock will co-operate with Polish state-owned defence contractor PGZ and other members of the MIECZNIK consortium to adapt the AH140 design and construct the vessels at the PGZ shipyard in Gdynia.

In **Brazil**, we were awarded a four-year contract to deliver through life support to the Marinha do Brasil's flagship vessel, NAM Atlântico, formerly the UK Royal Navy platform HMS Ocean, as part of our global programme.

Our Energy and Marine (LGE) business saw good growth in orders and revenue, with increased commercial vessel work and continued strong demand for liquefied gas handling and re-liquefaction systems across the LPG and LNG markets. The business won many projects in the year from shipyards in South Korea, China and other major international ship-owners.

NAVAL SHIP MANAGEMENT, SYDNEY, AUSTRALIA
Babcock acquired the remaining 50% share of its NSM joint venture in March 2022

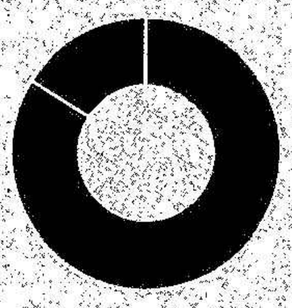
Nuclear

	FY22	FY21 (Restated)
Contract backlog	**£2.8bn**	£0.4bn
Revenue	**£1,009.7m**	£975.9m
Underlying operating profit	**£62.4m**	£63.8m
of which CPBS one-off adjustment	*–*	*£(23.4)m*
Underlying operating profit excluding CPBS one-off adjustment	*£62.4m*	*£87.2m*
Underlying margin excluding CPBS one-off adjustment	*6.2%*	*8.9%*

Revenue
£1,010m

Underlying operating profit
£62m

Revenue profile



84% Defence
16% Civil

What we do

We have supported the Continuous At Sea Deterrent for over 50 years

We sustain the entirety of the UK's submarine fleet

We take a leading role in all civil nuclear: from new build, to operational support, to decommissioning

Financial review

Revenue increased 3% to £1,009.7 million (excluding the one-off CPBS adjustment in FY21). This was driven by the continued strong ramp up in submarine infrastructure programmes, which more than offset lower volumes through transition to the new FMSP contract, a £22 million programme write-off and civil nuclear projects which completed in FY21.

Underlying operating profit (excluding one-off CPBS adjustments) fell by 28% to £62.4 million. The key impact in the year was a £22 million programme write-off, which offset higher contribution year-on-year from infrastructure work and operating model savings. As a result of this, and lower initial profit recognition at the start of the FMSP contract, underlying margin for the year fell to 6.2%.

The sector's contract backlog of £2.8 billion (FY21: £0.4 billion) is up significantly due to the signing of the FMSP contract. At 1 April 2022, Nuclear had around £860 million of FY23 expected revenue under contract (FY22: £260 million) and an additional c.£110m under framework agreements (FY21: £640 million).

Operational review

Defence

Overall, our defence activity increased driven by the continued ramp-up of the long-term Devonport infrastructure programme to support future demand. The largest current project, the design and enabling work to refurbish 10 Dock and its supporting infrastructure, is underway along with other major projects to support the first deep maintenance period of the Astute Class submarine at Devonport in the next few years. We continue to work on the Revalidation Assisted Maintenance Period (RAMP) programme for the Trafalgar Class and the life extension of the Vanguard Class. We also continue to work with our Submarine Enterprise partners in supporting the design and build programmes for the future classes of submarine, including the Dreadnought Class.

In September 2021, the Future Maritime Support Programme (FMSP) was signed. This five-year contract for around £3.5 billion replaces the previous Maritime Support Delivery Framework (MSDF), and continues our support spanning UK naval base operations at HMNB Devonport and HMNB Clyde and engineering and planning at our Bristol hub, all undertaken alongside surface ship fleet support at Devonport in our Marine sector. We continue to work with our UK MOD customer to ensure the provision of future capability and resilience and to improve decision making across the Submarine Enterprise. The new contract has been identified as a 'Qualifying Defence Contracts' (QDC) and falls under Single Source Contract Regulations (SSCR).

Following the AUKUS announcement to acquire nuclear-powered submarine technology without nuclear armaments, Australia will no longer proceed with the Attack class conventional submarine contract with Naval Group. As a result, our participation in the Attack class programme has ended. Babcock recognises the strategic importance of the AUKUS agreement and continues to be ready to support any future requirement.

Civil

Momentum in the civil nuclear market is building and the business continues to position for future opportunities. During the year, we secured a five-year extension to the multi-year Design Services Alliance (DSA) engineering framework, worth around £200 million, and a two-year extension to the Pile Fuel Cladding Silo (PFCS) project, both at Sellafield. We continue to support EDF and project volumes are in line with expectations. In new build, Hinkley Point C announced a delay to the project principally because of the impact of COVID-19 on the civil works, which has further delayed the ramp up of our Mechanical, Electrical and HVAC (MEH) Alliance scope further.

Small work packages from the Magnox programme are now being contracted and initiated. During the period we secured two contracts at Hinkley Point A, where we will lead the installation, setting to work and inactive commissioning for the projects as the principal contractor.

20230112200877

Revenue and underlying operating profit bridge:

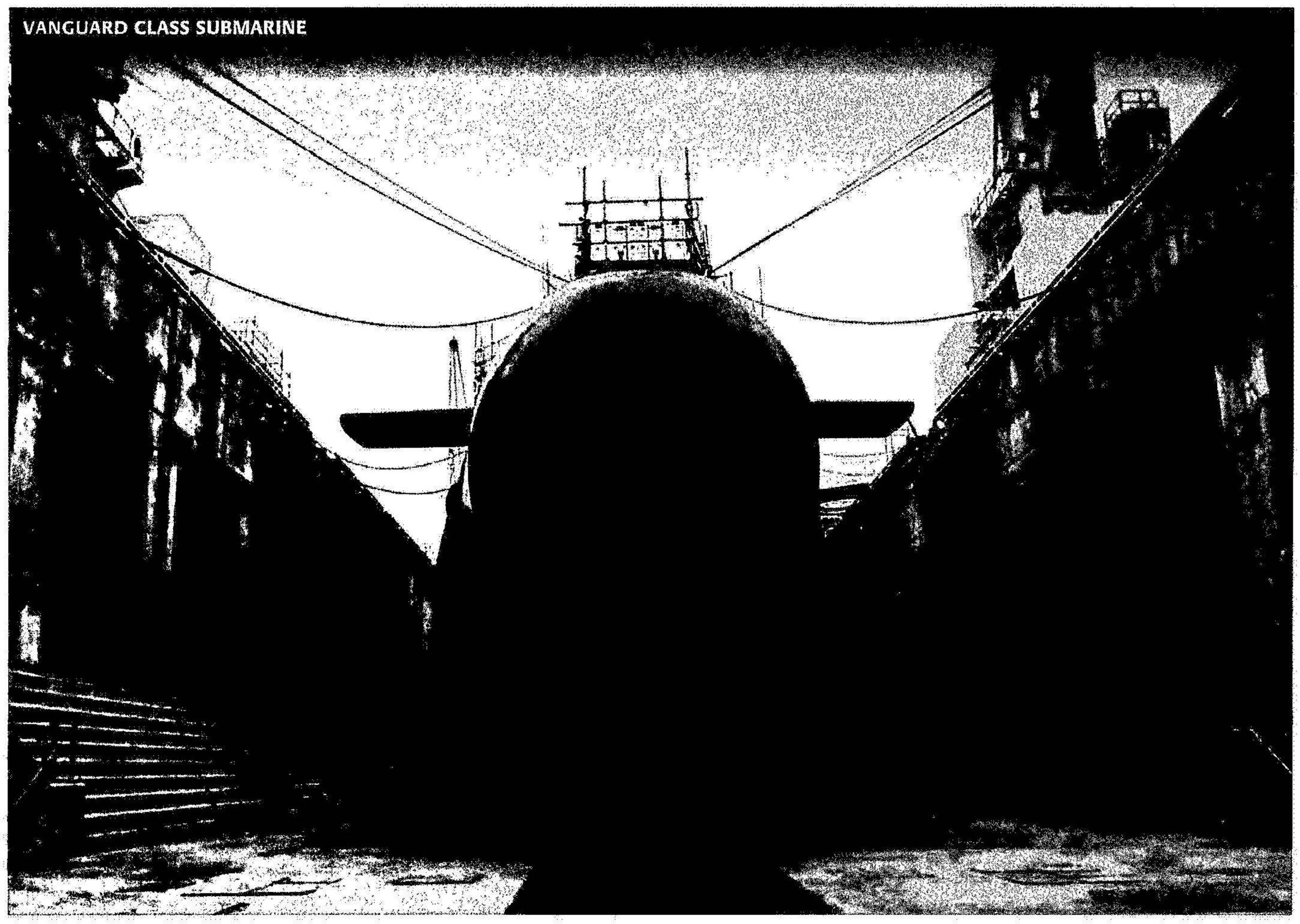
	FY21 (Restated) £m	One-off CPBS adj £m	FY21 Restated (excl. one-off CPBS) £m	FX impact £m	Acquisition and disposals £m	COVID-19 recovery (estimated) £m	Pensions charge £m	Other trading £m	FY22 £m
Revenue	975.9	2.2	978.1	–	–	0.4	–	31.2	1,009.7
Underlying operating profit	63.8	23.4	87.2	–	–	2.1	(0.3)	(26.6)	62.4

In July 2021, we signed a memorandum of understanding with Rolls-Royce to collaborate on the Small Modular Reactor (SMR) programme to help develop roles across manufacturing, licensing, design and delivery. Babcock, in collaboration with U-Battery, has developed a full-size mock-up of the main vessels of an advanced modular reactor at our Whetstone manufacturing facility. The mock-up intends to demonstrate the potential simplicity in construction and transport of an SMR, making a valuable contribution to the UK's net zero efforts. We also signed a memorandum of understanding with X-Energy, a US reactor and fuel design engineering company, to act as its deployment partner for High Temperature Gas Reactors in the UK. The three technologies are complementary and align with the UK Governments plans to transition to net zero carbon by decarbonising electricity generation and building a hydrogen economy in the UK.

Increasing volatility of national power generation driven by global developments during the year has prompted nations to look at producing and securing their sources of low emission power. In the UK, the Government has backed new nuclear energy supply to deliver both UK energy security of supply and contribute to their target of net zero emissions by 2050. In addition to new policy developments, it has committed around £2.3 billion of funding to support new nuclear programmes. This is a core focus area for our civil nuclear business, and we are well positioned to take advantage of these opportunities.

Internationally, we are now supporting Ontario Power Generation with its decommissioning planning for the Pickering Nuclear Generating Station in Canada. In Japan, relationships continue to strengthen whilst new additional international opportunities are being identified in our focus countries.

VANGUARD CLASS SUBMARINE



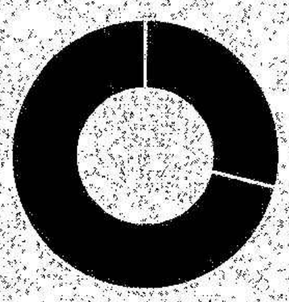
Land

	FY22	FY21 (Restated)
Contract backlog	**£2.3bn**	£2.4bn
Revenue	**£1,015.5m**	£910.7m
Underlying operating (loss) / profit	**£58.8m**	£(17.5)m
of which CPBS one-off adjustment	*–*	*£(69.3)m*
Underlying operating profit excluding CPBS one-off adjustment	*£58.8m*	*£51.8m*
Underlying margin excluding CPBS one-off adjustment	*5.8%*	*5.7%*

Revenue
£1,016m

Underlying operating profit
£59m

Revenue profile



What we do

We ensure the British Army can focus on their missions safely by supporting vehicles

We enable the British Army to do their job with our technical training programmes

Our people support the British Army by contributing to front-line support and joining reserve forces

Financial review

Revenue increased 5% to £1,015.5 million (excluding the one-off CPBS adjustment in FY21). Organic growth of 7% includes recovery from prior year COVID-19 impacts, particularly in South Africa and in our civil training businesses, and higher activity in Rail. This was offset by lower volume on the DSG contract due to project completions, the loss of the Heathrow baggage handling contract in the prior year, and the end of the Eskom power station service contract in the final quarter of FY22.

Underlying operating profit (excluding one-off CPBS adjustments) grew by 14% to £58.8 million or by 19% on an organic basis. The increase reflects a strong recovery from COVID-19 impacts (£12.8 million), operating model efficiencies and growth in Rail, which more than offset lower DSG volume and the loss of the Heathrow contract. As a result, underlying margin improved to 5.8%.

The sector's contract backlog at £2.3 billion (FY21 restated: £2.4 billion), has been adjusted for reclassification of pass-through (principal versus agent) revenue of c.£580 million. The decline reflects small business wins offset by trading and disposals. At 1 April 2022, Land had around £500 million of FY23 expected revenue under contract (FY22: £540 million) and an additional c.£150 million under framework agreements (FY21: c.£120 million).

Operational review

Defence

Overall, Land defence activities were broadly flat with further volume recovery from COVID-19 impacts across a number of contracts, offset by lower volumes on the DSG contract.

In line with customer requirements, the DSG transformation programme has been fully implemented and we are now leading several key programmes of improvement focussed on specific outputs for the Army which see us integrating expertise from OEMs, SMEs, and the wider supply chain to improve overall programme potential.

Defence training saw some recovery in activity levels compared to last year. After a highly successful campaign in 2021, we will be participating in the British Army's 2022 Army Warfighting Experiment to demonstrate the integration of a range of innovative collective training capabilities. In the period we were awarded a three-year extension for the Defence College of Technical Training for EMTC 2, the provision of training design and delivery.

Emergency services

Activity was broadly flat in the period with the first year of the Met Police training contract offset by slightly lower volumes in London Fire Brigade (LFB) contracts. The Police Education and Qualification Framework (PEQF) programme originally launched through a COVID-secure delivery model was returned to operational programme delivery in September 2021.

South Africa

South Africa grew strongly in the year as activity recovered from COVID-19 impacts. In the final quarter of the year, Eskom made the decision to not extend the engineering services contract which we have run for many years to support state power generation. The impact of the loss of the contract is expected to be around £60 million in revenue for FY23.

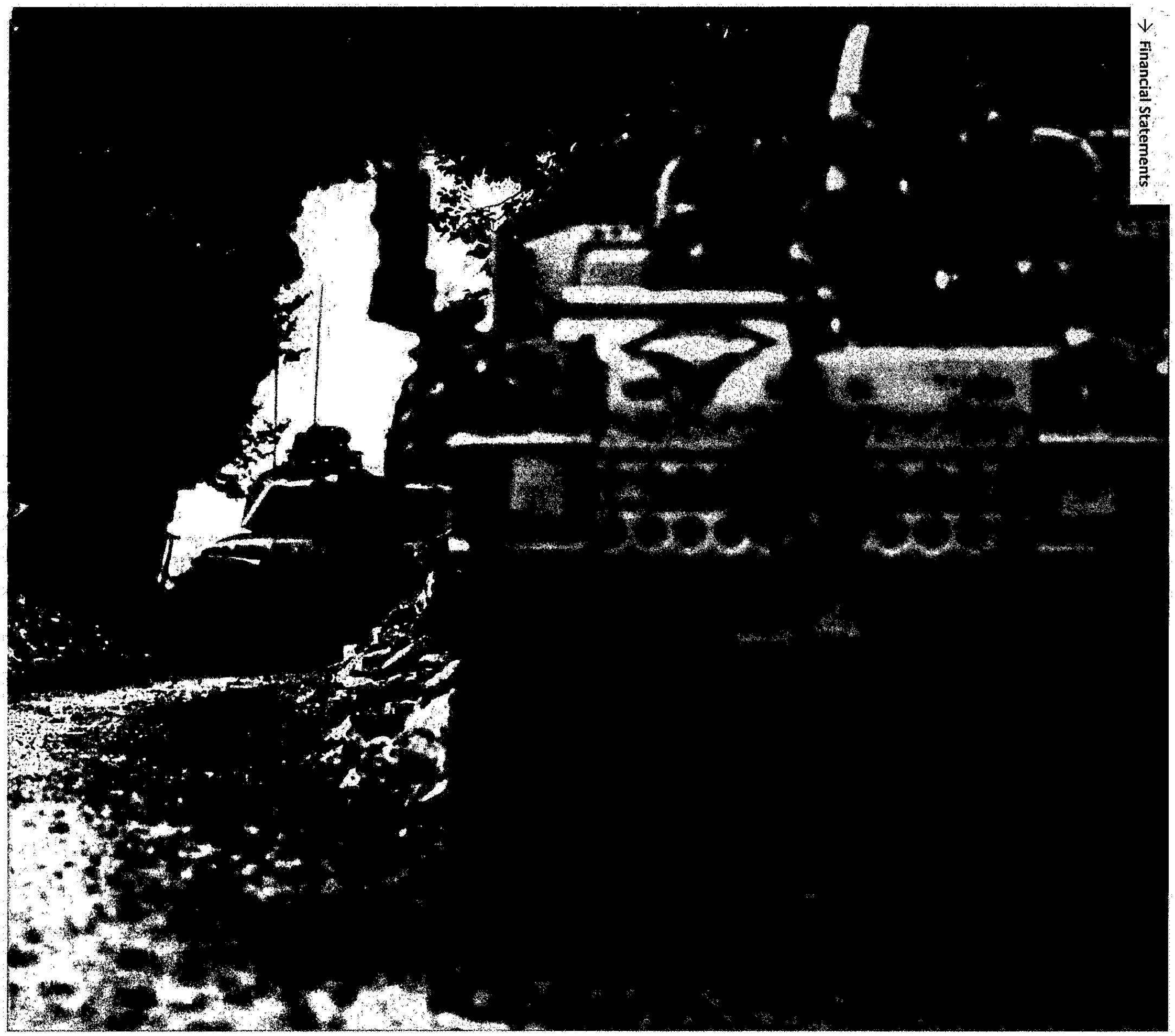
Other civil markets

The Rail business saw growth in volumes on track renewals and signalling framework while our civil training business saw higher activity compared to last year which was affected by COVID-19 related disruption. Our Power business, which we divested in December 2021, contributed revenue of around £62 million and an operating profit of around £5 million in FY22.

20230112200878

Revenue and underlying operating profit bridge:

	FY21 (Restated) £m	One-off CPBS adj £m	FY21 Restated (excl. one-off CPBS) £m	FX impact £m	Acquisition and disposals £m	COVID-19 recovery (estimated) £m	Pensions charge £m	Other trading £m	FY22 £m
Revenue	910.7	60.7	971.4	–	(27.1)	103.2	–	(32.0)	1,015.5
Underlying operating profit	(17.5)	69.3	51.8	0.1	(3.2)	12.8	0.1	(2.8)	58.8



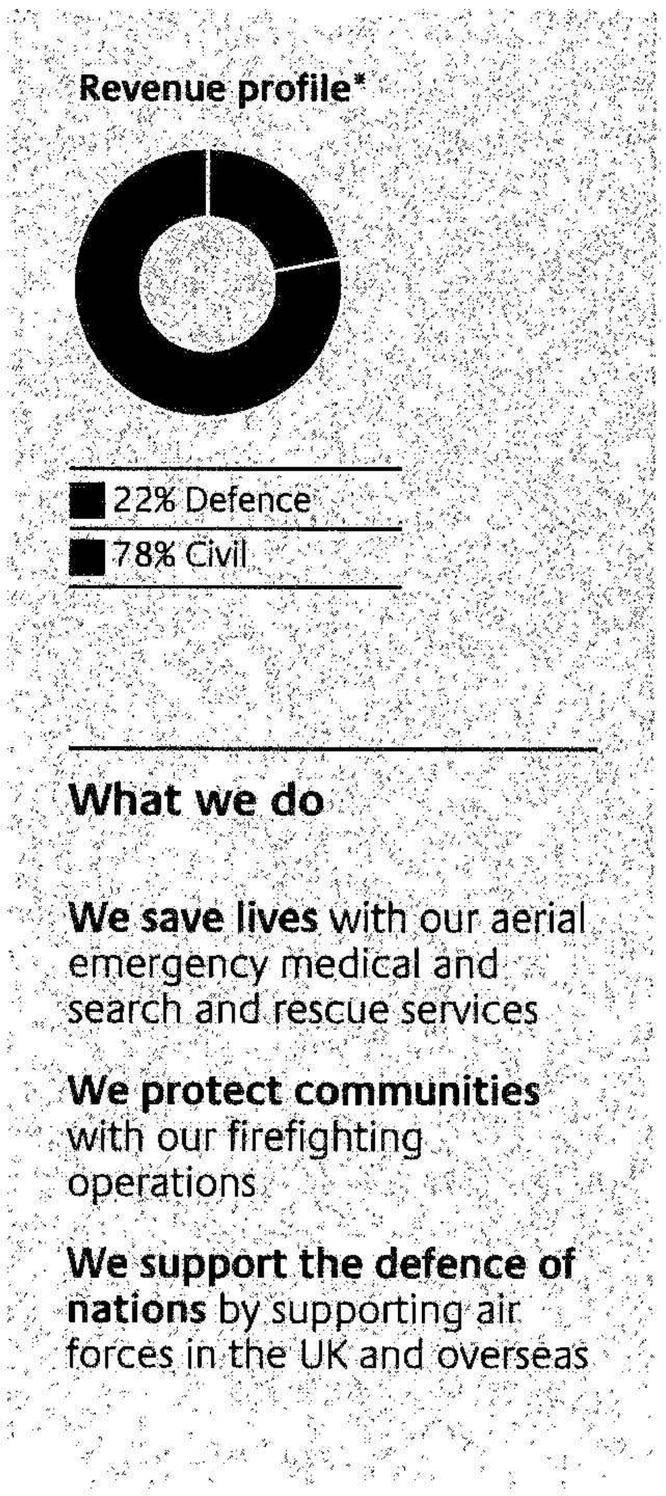
ARMY WARFIGHTING EXPERIMENT
Our vehicle and training expertise is demonstrated during the British Army's annual Army Warfighting Experiment.

Aviation

	FY22	FY21
Contract backlog	**£2.3bn**	£2.9bn
Revenue	**£817.3m**	£854.4m
Underlying operating (loss) / profit	**£18.5m**	£(130.4)m
of which CPBS one-off adjustment	*–*	*£(128.4)m*
Underlying operating profit excluding CPBS one-off adjustment	*£18.5m*	*£(2.0)m*
Underlying margin excluding CPBS one-off adjustment	*2.3%*	*(0.2)%*

Revenue
£817m

Underlying operating profit
£19m



What we do

We save lives with our aerial emergency medical and search and rescue services

We protect communities with our firefighting operations

We support the defence of nations by supporting air forces in the UK and overseas

Financial review

Revenue decreased by 6% to £817.3 million (excluding one-off CPBS adjustments in FY21), primarily due to the disposal of our Oil and Gas business in August 2021 and the impact of foreign exchange. Organic growth was 5% was driven by COVID-19 recovery and the ramp-up of defence contracts in France, offset partly by the completion of fixed wing aerial emergency services (AES) contracts in the Nordics and lower activity in Italy.

Underlying operating profit (excluding one-off CPBS adjustments) increased to £18.5 million (FY21: £(2.0) million loss). Profit performance improved due to operating model efficiencies, the achievement of certain programme milestones and recovery from COVID-19. FY22 was still slightly affected by lower flying hours and costs associated with additional COVID-19 related safety measures.

The sector's contract backlog declined to £2.3 billion (FY21: £2.9 billion), primarily as a result of the removal of £580 million backlog of the Oil and Gas aviation business, sold in August 2021. Excluding disposals, FY21 restated contract backlog was £2.3 billion. At 1 April 2022, Aviation had around £580 million of FY23 expected revenue under contract (FY21: £700 million (excluding disposals)).

Operational review

Defence

International defence grew in the year, driven by activity on new contracts and ramp up of the H160 contract which delivers search and rescue aircraft for the French Navy. In June 2021, we were awarded the Mentor contract, which involves the provision and support of an additional nine PC-21 aircraft and related equipment to the French Air Force, bringing the fleet size to 26. The contract expands the scope of our existing military training operations and is expected to be worth up to c.€500 million over 11 years, including options. c.€170 million was booked in FY22.

Additionally in the year, we teamed with Leonardo in Canada to work together on a new business opportunity for the Future Aircrew Training programme (FAcT).

Activity across UK defence including RAF station support, Hawk and LAFT contracts was flat year-on-year as expected, with further recovery from COVID-19 impacts offsetting the completion of some contracts. In the period, our military business secured a two-year extension to our Hades site support contract with the RAF, and a four-year extension for the delivery of the light aircraft flying training programme LAFT2. In addition, an expansion of requirements has been awarded from the Ascent JV to deliver further support to pilot training through the UK Military Flying Training System (UKMFTS).

Aerial emergency services

Revenue across the majority of our aerial emergency services businesses ended the year flat, in line with expectations, with improvements in profitability as a result of operating model efficiencies and some COVID-19 recovery. Performance in aerial emergency medical services has seen some good recovery this year. Modest growth in Italy, with Scandinavia flat, was offset by lower volumes in Spain over the year. Southern European bases have all remained open and experienced varying increases in profitability. Renewal contracts have been won across the UK, Italy and Sweden. The Norway fixed wing contract has matured to a steady operational state with investment in a new maintenance facility in Tromso.

Our firefighting operations saw higher activity levels in Canada and key areas in Spain compared to last year, with Italy reporting expected flying hours. We have also utilised five Super Puma helicopters in Spain, converted from oil and gas operations. These aircraft deliver much greater water capacity than existing helicopters and are able to deliver a significantly larger number of firefighters to wildfires than was previously possible. Our Italy firefighting contract has been extended by two years.

Oil and gas

The sale of the Oil and Gas business completed in August 2021, contributed revenue of around £79 million and an operating profit of around £2 million in FY21.

Revenue and underlying operating profit bridge:

	FY21 (Restated) £m	One-off CPBS adj £m	FY21 Restated (excl. one-off CPBS) £m	FX impact £m	Acquisition and disposals £m	COVID-19 recovery (estimated) £m	Pensions charge £m	Other trading £m	FY22 £m
Revenue	**854.4**	16.8	**871.2**	(22.0)	(75.4)	38.5	–	5.0	**817.3**
Underlying operating profit	**(130.4)**	128.4	**(2.0)**	(3.6)	(1.7)	8.1	–	17.7	**18.5**

F-AIR 21
Our Pilatus aircraft on the flightline ready to be flown as part of our French military flying training contract.

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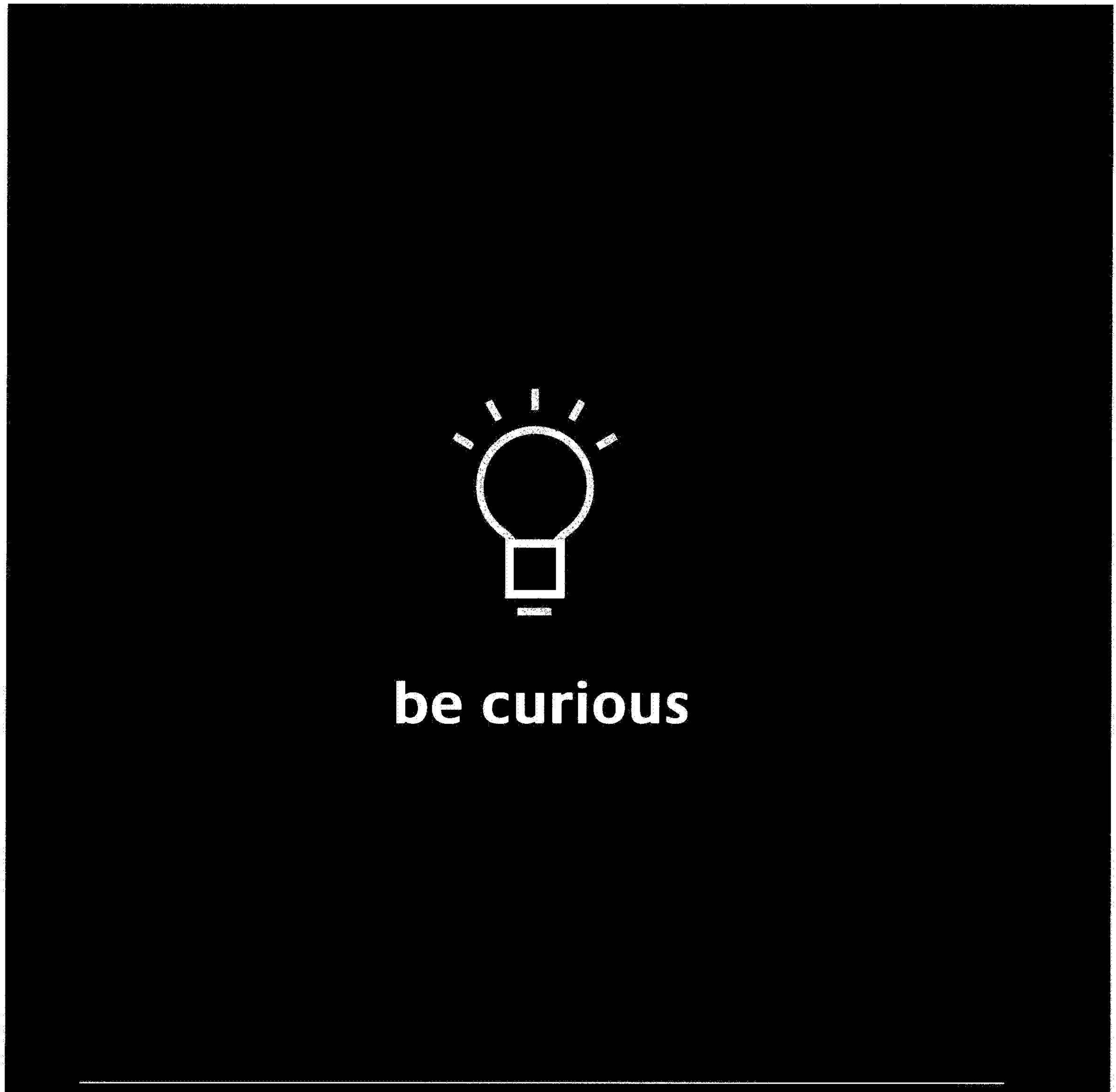

We believe in challenging the status quo and being curious.

As part of this mindset, a job-swap programme was implemented allowing colleagues to understand other roles and get a better overview of the way things work for different people and processes.

One such swap allowed a desk-based employee to experience an operational role.

Their usual job was ordering aircraft parts, but as part of the maintenance team for the day they were able to see how the parts they ordered were used and how to ensure all health and safety checks were complete before the aircraft took to the skies.

This experience helps our teams understand that they're all part of the bigger picture and that everyone and every role is critical to our success.

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think:outcomes

We believe in measuring success by the results we deliver and the positive impact we make.

Whilst discussing safety performance in a regular team meeting, our people decided to look at things differently.

Instead of focusing on how to intervene properly and what can be done once something has happened, they began to consider the outcomes before tasks were even planned.

This means they've reduced the need to intervene, put new mitigations in place as appropriate and it has given the whole team the opportunity to understand many new processes and activities that they might have not been involved in previously.

Thinking outcomes can help us shape our thinking towards everything, including safety.

Building relationships

Building strong and lasting relationships with our diverse global stakeholder groups is vital to our success. The Board recognises the responsibility we have to our stakeholders, and the impact of our actions, which is why we've increased our focus on stakeholder engagement. Through continued two-way dialogue, we demonstrate a strong commitment to effective stakeholder engagement.

CUSTOMERS

Why they matter to us

Understanding the needs and challenges of our customers allows us to help them to succeed. We work in partnership with public and private customers across the globe, enabling them to deliver critical programmes and services, adding value to their operations. We seek to solve their challenges through excellent operational performance and the introduction of innovative solutions and technology to support their longer-term needs.

We build and maintain long-term relationships with our customers to promote the future success of the Group.

What matters to them

- Safety
- Operational excellence
- Innovation and expertise
- Reliability
- Value for money
- Collaboration
- Deep understanding of their needs, both now and in the future
- Sustainability performance and agenda

How Babcock engages

- Regular ongoing relationship engagement at all levels
- Contract negotiation and execution
- Strategic Partnership Programme
- Collaborating on joint initiatives
- Attendance at key industry events
- Provision of information on sustainability goals

INVESTORS

Why they matter to us

The support of our equity and debt investors and continued access to capital is vital to the long-term success of the Company. We work to ensure that we provide clear and transparent information to the market which allows investors and potential investors to make informed decisions, via market updates, information published on our website, appropriate access to management and an active IR and Treasury team.

What matters to them

- Shareholder value
- Financial and operational performance
- Strategy and business development
- Capital structure
- Dividend policy
- Transparency of communication
- Governance and management
- Sustainability strategy

How Babcock engages

- Annual Report and Financial Statements and AGM
- Results materials and presentations
- Investor relations team
- Treasury team with banks and noteholders and credit rating agencies
- Dedicated investor section on Babcock website
- Investor roadshows with management and IR team
- Chair engagement with top shareholders
- Consultation with large shareholders on remuneration policy
- Investor site visits
- Stock exchange announcements and press releases

SUPPLIERS

Why they matter to us

To support our global business operations and strategy we require an efficient and highly effective supply chain. This means we need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice.

Our external supply chains are an important part of our performance and by working collaboratively with suppliers we can ensure continuity of supply, minimise risk and bring innovative solutions to our customers.

What matters to them

- Good working relationships
- Access to opportunities
- Prompt payment and predictable supplier cash flows

How Babcock engages

- Regular open and honest two-way communications
- Supplier Code of Conduct
- Supplier conferences, workshops and 'lunch and learns'
- Supplier due diligence
- Involvement in Security supply chain development programme SC21

REGULATORS

Why they matter to us

We manage complex assets in highly regulated sectors: nuclear, defence and aviation. We are committed to providing safe and effective operations. We have to maintain positive and constructive relationships with regulators in order to be able to operate, to help shape policy in our markets and to position for future opportunities.

What matters to them

- Regulations, policies and standards
- Governance and transparency
- Trust and ethics
- Safety and compliance of operations
- Sustainability
- Site-specific issues

How Babcock engages

- Regular engagement (national, local and official level)
- Briefing on key issues
- Dedicated compliance teams
- Response to direct queries
- Co-ordinated safety improvement programmes

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EMPLOYEES

Why they matter to us

Our success is led by our employees. We continue to strengthen our employee value proposition by enhancing our engagement and promoting an agile global workplace.

We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. We focus on developing and supporting a truly engaged workforce, living our principles and working on shared goals, united by our common Purpose.

What matters to them

- Remuneration and reward
- Professional development
- The Group's aims, goals, priorities and reputation
- Employee engagement
- Health, safety and wellbeing
- An empowering culture
- Inclusion and diversity
- Our ESG agenda
- Employee networks

How Babcock engages

- Employee forums and meetings
- Global engagement platforms
- Weekly CEO and senior management vlogs
- Access to the CEO via a dedicated email
- Weekly global news round-up videos
- Regular internal updates
- Cascade briefings
- A dedicated onboarding app
- Apprentice and Graduate programmes
- Regular training
- Access to independent whistleblowing process
- Senior management and Board visits
- Free confidential employee support helpline

COMMUNITIES

Why they matter to us

We are committed to the communities in which we operate and the broader interests of the customers we serve. As good corporate citizens, we want to make a genuine difference by supporting our local communities and helping them rebuild following COVID-19.

We have a responsibility to ensure that we support the communities in which we operate both economically and socially; community engagement and social value creation is a key aspect of our ESG strategy. Where we have major sites of operation, and are one of the largest employers in the local area, it remains important for us to add value to these communities.

What matters to them

- Employment and economic contribution
- Health, safety and wellbeing
- Engagement in local education and STEM activities
- Sustainability and the local environment
- Support for indigenous people
- Support for armed forces community
- Community engagement

How Babcock engages

- Sponsorship and donations
- Employee volunteering
- University partnerships
- STEM Ambassadors
- Employer of service leavers, veterans and reserves
- Engagement with local community programmes

S172(1) STATEMENT

The Directors confirm that they, both individually and collectively, have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the Shareholders as a whole, while having regard for all stakeholders. By considering key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term.

More information on how stakeholders are factored into our decision-making and the Board's engagement with stakeholders can be found in the Governance section in the Chair's introduction on page 92 and on pages 99 to 101, which form part of this Statement. Further information on how the Board addressed the different matters set out in s172(1) in performing their duties during the year can be found as follows:

S172 factor	Relevant disclosures
a. the likely consequences of any decision in the long term	Our strategy (page 6) Business model (page 8) Led by our Purpose (page 18)
b. the interests of the Company's employees	Our People Strategy (page 19) Ensuring the safety and wellbeing of our people (pages 63 to 66)
c. the need to foster the Company's business relationships with suppliers, customers and others	Being a collaborative, trusted partner across the supply chain (pages 69 to 72) Innovation and technology (page 21)
d. the impact of the Company's operations on the community and environment	Making a positive impact on the communities in which we operate (pages 67 and 68) Environmental (pages 57 to 62)
e. the desirability of the Company maintaining a reputation for high standards of business conduct	ESG Strategy: Governance (page 71)
f. the need to act fairly between members of the Company	Investors (page 52)

ESG Strategy

Sustainability is an integral part of our corporate strategy and how we do business and it underpins our corporate Purpose: *to create a safe and secure world, together.* We have done a lot in the past year to drive our sustainability programme across the Group, ensure progress towards our corporate commitments and deliver our five ESG priorities shown below.

During the year we progressed our corporate environment, social and governance (ESG) strategy, which focuses on the operations and strategy of the Group. We expanded our corporate commitments to incorporate broader environmental targets, see pages 57-59. We also created new Group policies and guidance to support appropriate governance of our sustainability programmes.

Our ESG priorities

1. **We will reduce emissions and set science-based targets to get to net zero across our estate, assets and operations by 2040**
   See page 57
2. **We will integrate environmental sustainability into programme design to minimise waste and optimise resources**
   See page 59
3. **We will ensure the safety and wellbeing of all our people**
   See page 63
4. **We will make a positive difference to the communities we're proud to be part of and provide high-quality jobs that support local economies**
   See page 67
5. **We will be a collaborative, trusted partner across the supply chain, helping to tackle common challenges**
   See page 69

Sectors and regions have developed their own sustainability programmes, which support the Group-led programmes and stakeholders' needs.

Our sustainability strategy will continue to evolve with the interests of our stakeholders, as well as those of the Company. This year we asked some of our key stakeholders for their views on our material topics to ensure that we focus on issues that matter most to them. The findings will help influence our sustainability agenda and our priorities (see Materiality assessment on following page).

Progress against our ESG priorities

Climate action is a key focus: we are continuing to progress our decarbonisation programme (Plan Zero 40) across the Group. Aligned with the Plan Zero 40 pathway announced last year, we commenced baselining our carbon footprint and are on track to submit carbon reduction targets to the Science-Based Targets initiative by April 2023. These are to be achieved by 2030 and will set us on course for decarbonising our estate, assets and operations to reach our overarching goal of net zero emissions by 2040.

During 2021, the Board and Executive Committee agreed Group strategic priorities for climate action and we incorporated Task Force on Climate-related Financial Disclosures (TCFD) risk management and scenario planning into both our strategic planning cycle and corporate risk management framework. This year we are enhancing our level of disclosure against the TCFD requirements (see pages 60-62 for more detail).

Sustainability is central to our thinking and we are integrating it into programme design to ensure optimal use of resources and to minimise waste. We are using data and digital techniques to inform our through-life thinking and support effective and efficient asset operation and management.

We want to create a better working environment at Babcock and ensuring the safety and wellbeing of our employees is at the heart of all that we do. In the context of our new unifying corporate Purpose, we ran a Group-wide safety stand-down to focus on and re-emphasise our Care and Learn safety commitments.

We aim to provide a workplace which is inclusive and where each individual feels supported and respected. Inclusion and Diversity (I&D) is therefore a key focus and this year we hired additional senior women into our senior leadership team, increasing female representation at the end of the year to 21%. We are pleased that our Mean Gender Pay Gap has narrowed year-on-year from 12.5% to 11.8%. (See Babcock's 2021 Gender Pay Gap report on our corporate website.)

We recently appointed our first Global Head of I&D to develop our approach and review, design and implement activities that will enable Babcock to become a more inclusive business that values difference.

We want to have a positive impact on the communities in which we operate, to be a good neighbour and contribute to the local economy through social value initiatives. This year we developed a Group-wide Sponsorship and Donations policy which is aligned to our corporate Purpose and is supported by local activity. In January the Executive Committee also agreed to launch a Group-wide volunteering programme, which will allow every employee to volunteer for one day per year.

We have engaged the consultancy Oxford Economics to conduct a comprehensive study of Babcock's economic impact including how the Company delivers social value as outlined in the Government's Social Value Model.

We continue to actively collaborate through industry partnerships, academia and our supply chain to meet global challenges such as climate change.

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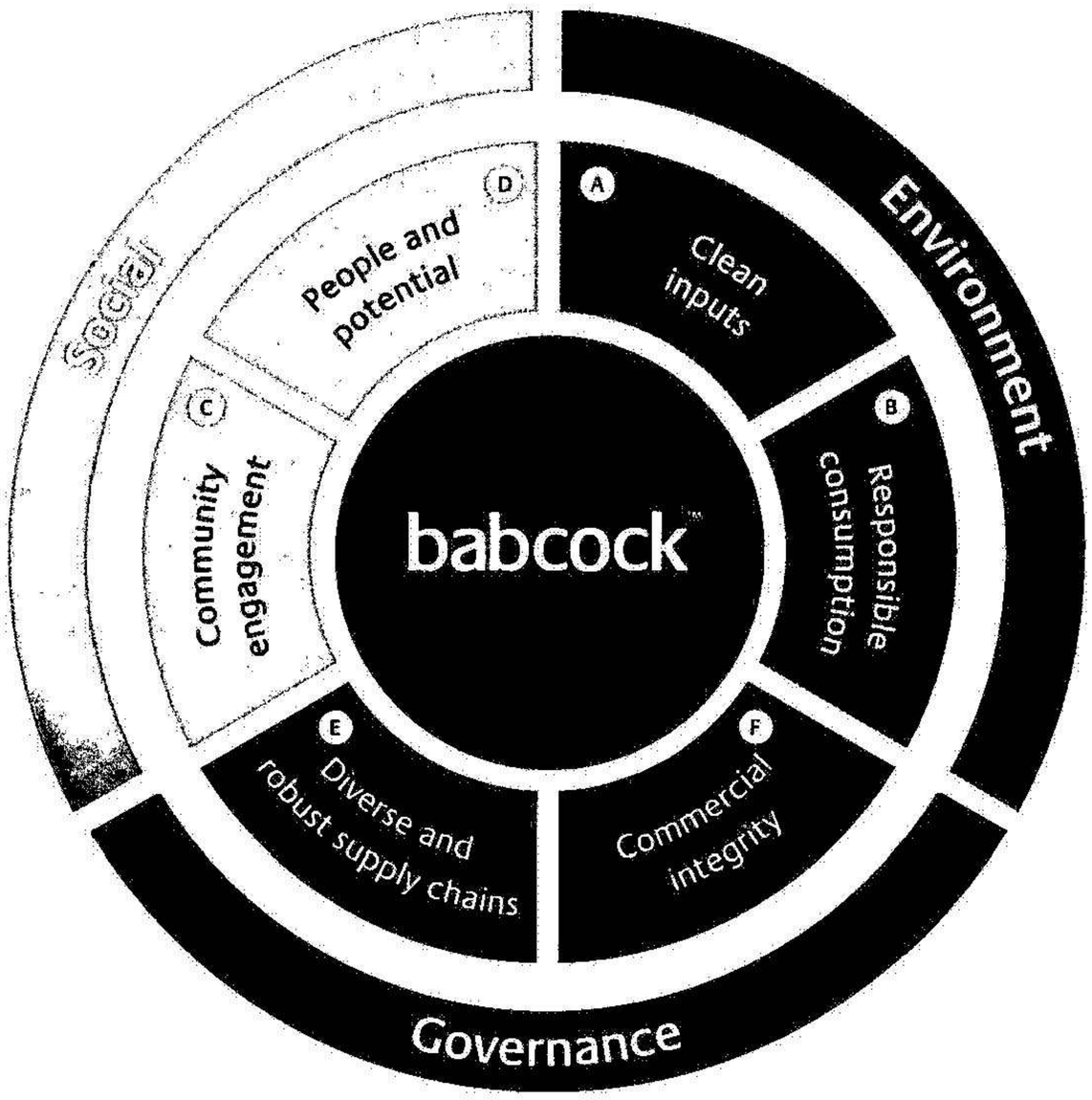
Our sustainability charter



Environment

A We use innovative solutions to reduce our energy needs, while focusing on cleaner energy and other natural resources.

B We integrate environmental sustainability into our programme design, optimise use of resources and minimise waste through increased re-use and recycling.

Social

C We play an active part in our local communities to enhance development and inspire the next generation.

D The safety and wellbeing of our people is our priority. We encourage a diverse and inclusive employee base where each person feels respected and able to fulfil their potential.

Governance

E We partner with our supply chains to identify innovative solutions and ensure timely delivery of quality products and services.

F We believe that ethical behaviour underpins our sustainability activities. We have robust processes and controls to identify opportunities and manage corporate risks.

Materiality assessment

Last year we conducted an internal materiality assessment to highlight the issues we believed mattered most to our stakeholders and to Babcock (see table below). This year we extended the materiality assessment to capture the views of some of our key stakeholder groups and ensure that our strategy evolves with their interests and needs, and aligns with our priorities.

To capture the views of our employees we ran an employee opinion poll in March, to identify the top three priority sustainability issues they think we should be focusing on in order *'to create a safe and secure world, together'*.

We also asked our investors for their views on sustainability priorities. Below we have highlighted the three topics cited by these respective groups.

Employees:

- Climate action: We are facing a global climate crisis and our people recognise we need to play our part in averting this
- Waste: Our employees believe we need to reduce the amount of waste generated, be more efficient and adopt circular economy principles
- Health and safety: Our employees recognise we must protect the wellbeing of all who interact with Babcock

Investors:

- Sustainable supply chains: In an increasingly unpredictable macro environment, supply chain resilience is key. Also, embedding sustainable practices within the supply chain will be an important factor in achieving our net zero target
- Governance, accountability and culture: These are key to delivering benefits from the operating model and to fully integrate ESG in the business to achieve our sustainability ambitions
- Talent and development: Babcock requires skilled employees. Our workforce is ageing and there is concern that we could struggle to deliver planned growth or take advantage of emerging opportunities

This year we intend to survey our key suppliers and several customer stakeholders within contracts across the sectors and regions.

Our Purpose: *to create a safe and secure world, together*

Material issues	Environment	Social	Governance
	Biodiversity and ecological impact	Community engagement	Business ethics and integrity
	Climate change	Health, safety and wellbeing	Data and cyber security
	Waste	Talent and development	Governance, accountability and culture
	Water consumption	Local economic contribution	Sustainable supply chains
		Employee inclusion and diversity	Innovation and technology
			Collaboration

ESG and our shareholders

We recognise that parts of our business model are of increasing relevance to investors looking through an ESG lens: most notably that we operate in defence and nuclear markets.

Babcock has been supporting the UK's commitment to the Continuous At Sea Deterrent for over 50 years while also delivering complex and critical civil nuclear through-life engineering. We will continue to support our UK customer, both with their defence agenda and their commitment to generate low emission power from nuclear energy.

This year we further our ESG disclosure on key sustainability interests. During the year, critical ESG topics were raised in the market allowing funds to identify and filter equities to minimise exposure to defence and nuclear industries, and enabling compliance with new investment policies.

Below we talk through key points identified by our shareholders on common issues and material areas of focus:

Environmental: In addition to new disclosure this year, we add further road-mapping to achieving our target of net zero for harmful emissions from our estate, assets and operations by 2040. The target is also linked to our KPI on CO_2e emissions for measuring our progress on page 23.

Social: The health, safety and wellbeing of our employees, customers and the community comes first at all times. This has been a year of change with our new People strategy and the setting of solid foundations to build upon as we continue to improve our safety performance, inclusion and diversity, gender pay gap, talent development and community outreach. See pages 63 to 68.

Governance: Governance starts at the top. We have continued to support the Company's turnaround by making improvements to the governance of the Group at Board level, which is covered in our Chair's report (page 92) and our Audit Committee Chair's report (page 108). Our approach to risk management is discussed on page 76, and the Group-level response to our new governance over contract bids is covered on pages 8 and 9.

This year we have continued to develop our approach to ESG reporting. Building on last year's work, we have enhanced the level of transparency and provided further insight into a range of economic, social and environmental impacts including working towards full disclosure to the TCFD requirements, as per Listing Rule LR9.8.6R.

Investor FAQs:

Are you involved in nuclear weapons?
- We do not design, manufacture, maintain or deal in nuclear weapons or their components

Are you involved in nuclear delivery platforms?
- In the UK, nuclear delivery platforms are generally defined as the UK's SSBN (Ship Submersible Ballistic Nuclear) fleet of Vanguard Class submarines and in future, its replacement programme, the Dreadnought Class
- We manufacture and assemble components for the joint UK and US SSBN submarine replacement programme
- We also design and manufacture handling and ejector systems for the future UK Dreadnought Class submarines
- These two areas of manufacture represent less than 2% of FY22 revenue

Are you involved in any other nuclear defence activities?
- Babcock has been supporting the UK's most critical defence capability, the Continuous At Sea Deterrent, for over 50 years
- We own and operate critical infrastructure and have technical knowledge of the defence nuclear market
- We provide maintenance, through-life support and life-extensions for the UK's fleet of nuclear-powered submarines. This relates to the fleets of both SSBNs and SSNs (Surface Ship Nuclear – nuclear-powered)
- As part of our civil nuclear business we also deliver infrastructure projects for AWE
- These areas of support for the wider UK defence nuclear programme represents the defence revenue in our Nuclear sector, approximately 21% of FY22 revenue

Are you involved in other weapons?
- We do not make or deal in other weapons
- We do, however, design and manufacture weapons handling and launch systems for international naval platforms used by the UK, Spain, Republic of Korea and Australia
- We also have contracts to maintain the UK Royal Navy's naval weaponry
- These areas of support and manufacture represents less than 2% of FY22 revenue

Are you involved in nuclear power?
- Yes: nuclear power provides a reliable source of low-carbon electricity and is a critical component of countries' national energy strategies as they move towards net zero carbon
- Our civil nuclear business is involved in new build, power generation support, fuel route management and decommissioning in the UK nuclear market
- We also use our technical knowledge and reference cases to undertake consultancy work in Canada and Japan, albeit at a small volume currently
- Work related to these areas represents approximately 4% of FY22 revenue

Do you have dedicated ESG remuneration targets?
- Three of the Group's key performance indicators are linked to our ESG strategy: (i) Total injuries rate, (ii) CO_2 emissions, and (iii) Senior management gender diversity
- We have two main targets as part of our ESG strategy: (i) to be net zero (Scope 1 and 2) by 2040, and (ii) for at least 30% of our senior management to be female by 2025

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ENVIRONMENTAL

1 Reducing emissions and setting science-based targets to get to net zero

Across our operations we interact with a diverse range of environments and we are committed to reducing our impact on the environment. We seek to deliver to the highest standards of environmental management and protection, truly embedding our Principle of 'be kind' to ensure our impacts are minimised. We take our responsibilities seriously and ensure we are playing our part in the transition to a more sustainable future for all.

Our Group-wide Environmental Protection Working Group (EPWG) is working to conduct a holistic assessment of Babcock's approach to environmental management. We currently have 25 ISO14001 Environmental Management Systems (EMS) across the organisation which capture over 75% of our global operations, and we have several more EMS seeking accreditation over the coming 12 months. We are committed to ensuring all Babcock operations are to be delivered within an EMS by 2024, delivering advanced environmental training to all relevant employees by 2025 and have set new targets for waste, water and bio-diversity (see page 59).

Babcock Group energy consumption and emissions

		Dec-18	Dec-19	Dec-20	Dec-21
UK / UK offshore					
Scope 1: Direct emissions from owned/controlled operations	tCO_2e	74,819	69,450	52,693	42,515
Scope 2: Indirect emissions from the use of electricity and steam	tCO_2e	78,903	66,881	52,791	45,069
Scope 3: Emissions – business travel, electric transmission and distribution	tCO_2e	18,198	15,265	8,246	7,981
Total emissions	**tCO_2e**	**171,920**	**151,596**	**113,730**	**95,566**
Underlying energy consumption used to calculate emissions	**kWh**	**561,818,680**	**531,968,134**	**418,292,992**	**365,816,822**
Global (excluding UK / UK offshore)					
Scope 1: Direct emissions from owned/controlled operations	tCO_2e	93,333	99,579	110,591	100,644
Scope 2: Indirect emissions from the use of electricity and steam	tCO_2e	2,461	6,743	4,569	4,426
Scope 3: Emissions – business travel, electric transmission and distribution	tCO_2e	457	410	213	68
Total emissions	**tCO_2e**	**96,251**	**106,732**	**115,373**	**105,139**
Underlying energy consumption used to calculate emissions	**kWh**	**391,772,490**	**417,537,009**	**459,580,840**	**417,483,548**
Babcock Group total (UK / UK offshore and global)					
Scope 1: Direct emissions from owned/controlled operations	tCO_2e	168,152	169,029	163,285	143,160
Scope 2: Indirect emissions from the use of electricity and steam	tCO_2e	81,364	73,624	57,360	49,496
Scope 3: Emissions – business travel, electric transmission and distribution	tCO_2e	18,654	15,675	8,459	8,050
Total emissions	**tCO_2e**	**268,170**	**258,328**	**229,103**	**200,705**
Underlying energy consumption used to calculate emissions	**kWh**	**953,591,170**	**949,505,142**	**877,873,832**	**783,300,370**
Underlying energy consumption	**GJ**	**3,432,928**	**3,418,219**	**3,160,346**	**2,819,881**
Fiscal year revenue FY19 - FY22	**£m**	**4,474.8**	**4,428.5**	**4,182.7**	**4,101.8**
Intensity ratio	**tCO_2e/£1m Revenue**	**59.9**	**58.3**	**54.8**	**48.9**

Our emissions data is reported in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard under the 'Operational Control' approach. The reporting period for our energy consumption and carbon emissions is the calendar year (01 January to 31 December), this is opposed to financial year as we have previously reported. The transition to calendar year reporting has allowed more time to collate, analyse and report our environmental data, which has improved the accuracy and completeness of our data sets. Figures for UK operations follow conversion factors published by BEIS. Non-UK operations utilise emission factors applicable to the fuel source and location. Appropriate conversion factors have been used to calculate the underlying energy consumption figures. Scope 1, 2 and 3 sources have been divided by the annual revenue to provide the intensity ratio (tCO_2e per £m). Emissions data for prior years have been adjusted to include data unavailable last year, and emission figures for this year include an element of estimated data. Prior year revenue figures have not been restated for removal of pass through revenue, identified in the financial review, to remain consistent with the emissions data recorded in prior years. Certain data, estimated to be immaterial to the Group's emissions, has been omitted as it has not been practical to obtain (including operations in Oman, South Korea and USA). Metering and monitoring improvements are being implemented to capture these data streams. During the reporting period estate rationalisation, strategic divestments, 'low-hanging fruit' energy conservation measures and improvements to our energy management practices have resulted in a reduction of both our carbon baseline and FY22 operational emissions. We are progressing well on our journey to net zero and aim to accelerate our carbon reduction over the coming years.

Plan Zero 40

We are committed to addressing the global climate crisis and leading the transition to net zero. Under the direction of our carbon strategy, Plan Zero 40, over the past 12 months we have made significant progress on our journey to net zero.

We have collaborated with a number of climate experts including Frazer-Nash and Energy Systems Catapult and developed our approach to decarbonisation. We have commenced the development of comprehensive and deliverable carbon reduction plans within our 'Pathfinder Boundaries' and are on schedule to scale the reduction plans across our global operations by the end of 2023.

We have developed a specialist central team to support the organisation and effectively manage the transition to net zero and are investigating opportunities to finance our net zero journey.

In April 2021, we signed the Business Ambition Pledge and committed to a 2030 science-based target in line with a 1.5°C degree pathway. We are on track to meet our goal and over the next 12 months we aim to submit our targets for approval by the Science Based Targets initiative (SBTi).

Within our carbon reduction plans we are identifying carbon reduction, energy efficiency and renewable energy opportunities across our operations.

At Rosyth Dockyard we have identified the opportunity for renewable energy systems with generating capacity of over 10MW, which will meet a significant percentage of the energy demand for the site, reduce the footprint of our operations and provide resilience to fluctuating energy prices. We have also conducted estate-wide renewable energy surveys to identify the opportunity for the installation of solar photovoltaics.

We are also seeking accreditation to the Carbon Trust's new 'Route to Net Zero Standard' by the end of April 2023.

During 2021 Babcock conducted a strategic review of our estate and built environment. The review identified cost savings and environmental improvements which could be delivered through estate rationalisation. We have subsequently proceeded to consolidate our estate which has delivered a reduction in our carbon baseline and operational emissions, along with delivering a broad range of environmental and organisational efficiencies.

Scope 3 emissions

Given the diverse and complex nature of Babcock's operations, Scope 3 emissions presents a range of challenges. We have, however, made significant progress investigating and mapping our Scope 3 emissions. This includes assessment of our Scope 3 upstream emissions utilising the Environmentally Extended Input Output (EEIO) approach, hotspot analysis of our supply chain and publication of our new Supplier Sustainable policy.

Our work to date is driving proactive engagement and will ensure sustainable and low-carbon considerations are embedded throughout the value chain.

We have commenced investigations into our Scope 3 downstream footprint and have completed an initial assessment as a pathfinder. We are working to conduct further downstream assessments to identify hotspots across our global operations and are on track to develop a detailed understanding of our Scope 3 footprint with associated net zero pathway by 2025.

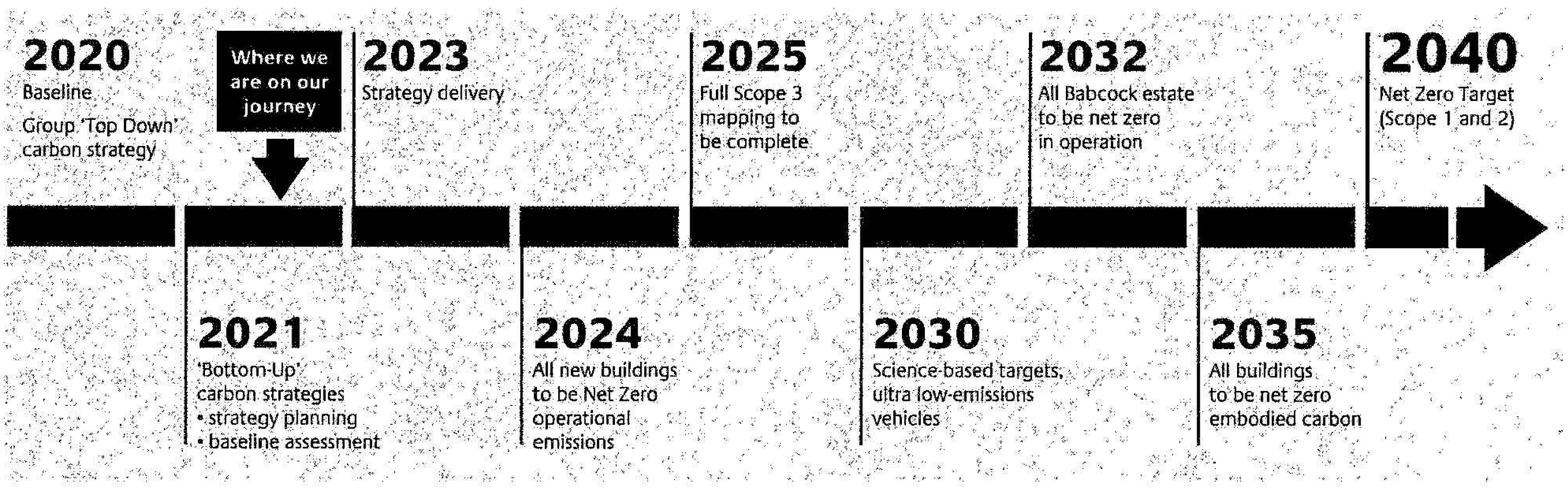
We are taking proactive action and collaborating with our customers, peers and suppliers to ensure there is a consistent approach to calculating and managing Scope 3 emissions across the defence and aerospace industry. We are active members of a range of industry forums investigating sustainable solutions and alternative fuels.

Reducing the impacts of our products and services is a key aim for the organisation. As a priority, the Group Executive Committee is ensuring the delivery of appropriate training and development for our employees and stakeholders, embedding circular economy principles and leading on the development of 'Green Ports'. We are working in collaboration with industry and academic partners to investigate approaches to environmental lifecycle assessments and whole-life models.

Sustainable transport

Sustainable transport is an important factor in our transition to net zero. Our Sustainable Transport strategy addresses our key transportation impacts including: the Babcock fleet, business travel, employee commuting and transportation & distribution (upstream and downstream). We are developing specific transportation targets in line with our ambitions under Plan Zero 40 and our science-based targets. We are seeking to transition our fleet to 100% ultra low-emission vehicles (ULEVs) by 2030 and have a range of programmes aimed at raising awareness and promoting varying modes of sustainable transport.

Our journey



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As a flagship, we have recently launched an electric vehicle (EV) salary sacrifice scheme for our UK operations.
This scheme will promote and accelerate the uptake of EVs across our workforce, which will lead to a reduction in the footprint and impact of our operations.

Raise awareness of environmental and sustainability issues

We understand our people are key to embedding sustainability into our operations. Over the past year we have effectively engaged with our workforce and wider stakeholder groups to educate and raise awareness of environment and sustainability issues. In the run-up to and throughout COP26 we hosted a series of events including 'lunch and learn' briefings and a presentation/Q&A with Olympic gold medallist Hannah Mills. We also ran a climate podcast series with appearances from Babcock's CEO David Lockwood and the Ministry of Defence's Lt Gen Richard Nugee. We have exciting plans to continue and enhance our engagement over the coming year.

Data management

Data is the cornerstone of our Environmental strategy and journey to net zero. We use data to understand our impacts, inform our decisions and communicate our position in a transparent manner.

Throughout 2021 we implemented a range of improvement measures to our data management system to ensure high accuracy and completeness. As a priority we are investigating the development of an environmental data management system which will form the basis of our approach.

2 Integrating environmental sustainability into programme design

Climate action Executive Committee priorities

As part of Babcock's TCFD governance workstream, climate action priorities have been agreed by the Group Executive Committee and are underway to ensure the assessment and management of climate-related risks. See page 60.

Waste

Consumption of materials and resources is a significant contributor to Babcock's environmental footprint and we understand our responsibility to minimise the impacts of our operations. We continue to deliver improvements to our waste management practices and to minimise waste sent to landfill.

Within our Marine business we have adopted innovative technology, such as robotic welding, which reduces waste along with providing a wide range of additional benefits. Within our Aviation business we harnessed data to inform the scheduling and planning of our touring pilots and reduced wasted travel and expense by over 50%.

We have set three waste targets;

- Preparing waste management plans across all significant sites by 2024
- Zero controlled waste to landfill by 2025
- Eliminate the use of unavoidable single-use plastic by 2027

Water

Water is a key resource across our global operations and we understand the need to reduce our impacts and manage our water consumption responsibly. Across the organisation, local environmental teams are working to identify water reduction opportunities and to incorporate water reduction technologies such as rainwater harvesting, leak detection and flow restriction in our new developments.

Within our African operations, water scarcity poses a significant challenge and we have taken proactive steps to reduce our impacts through rainwater harvesting to recycling water for irrigation and flushing toilets. For example in Botswana our teams created wash bays that recycle and filter the runoff water for reuse, which has achieved a 60% reduction in water consumption.

- We have set a target to prepare water management plans across all significant sites by 2024

Biodiversity

Maintaining and enhancing biodiverse ecosystems is a fundamental aspect of our Environmental strategy and we aim to ensure we preserve and enhance natural capital. Our local environmental specialists ensure that environmental considerations are embedded throughout our operations and our impacts are minimised.

We have set two biodiversity targets;

- Conduct biodiversity assessments across all significant sites by 2024
- Deliver a 10% biodiversity increase across the estate by 2030

Task Force on Climate-related Financial Disclosures

This year we have been working towards full disclosure to the Task Force on Climate-related Financial Disclosures (TCFD) requirements, as per Listing Rule LR9.8.6R. We have appropriate governance with respect to climate change, integrated risk management and scenario planning in our strategic planning cycles and we have set some initial targets. As we work towards full disclosure, we will assess how climate change scenarios impact on the organisation's business strategy, financial planning and budgeting. For further details see FY23 priority table, page 62.

Governance

Board oversight of climate-related risks and opportunities

In FY21 the Board, in order to progress the ESG programme and meet the expectations of our stakeholders, approved Babcock's carbon initiative (Plan Zero 40), our list of identified ESG material issues and our phased approach to full TCFD implementation.

Group-wide ESG matters are now an integral part of Board strategic discussions. In FY22, the Board reviewed progress on Plan Zero 40 and TCFD through updates from the Group Head of Sustainability. See page 97 for further details on our governance framework.

Climate-related risks and opportunities are to be reported to the Executive Committee on a quarterly basis.

Management's role in assessing and managing climate-related risks and opportunities

The executive with responsibility for TCFD reporting is the Chief Corporate Affairs Officer. TCFD workstreams are championed by the Group Head of Sustainability and activities are overseen by the Corporate ESG Committee, which meets quarterly and includes representatives from the Executive Committee. Progress on TCFD activities is reported to this Committee, and any actions/activities required to further climate-related risk management activities are agreed by the Committee. Executive Committee members who are members of the Corporate ESG Committee are indicated on page 97.

TCFD actions and activities are managed at the Group and sector level by 'TCFD Sponsors' with oversight from the Group Head of Sustainability and support from each sector risk lead and/or relevant environmental, technical or facilities team. The sponsors are typically Finance Directors/Heads of Finance, which ensures that TCFD activities are overseen by individuals with sufficient seniority, and authority, to delegate tasks and monitor progress. Sponsors also hold responsibility for ensuring that climate-related risks and opportunities within their sector are understood, financially quantified and delegated for management on an ongoing basis.

Plan Zero 40 is being led by the Group environmental team, with sectors accountable for developing their bottom-up carbon reduction plans. For further details on decarbonisation, see page 58.

Additionally, during the year the Edinburgh University Centre for Business and Climate Change facilitated an Executive Education session with the Executive Committee on climate change.

Strategy

We have analysed climate-related risks and opportunities across all of our business operations against three climate scenarios. These are based on an evolution and customisation of scenarios developed by the Network for Greening the Financial System (NGFS). We customised these scenarios to include location-specific information relating to areas where we carry out our operations. Additional criteria were also developed to capture the longer-term nature of climate-related risks and opportunities.

Orderly: 'Net Zero 2050'
(warming limited to 1.5°C)

- Early high levels of transition risks with reduced subsequent physical risks

Disorderly: 'Delayed Transition'
(warming limited to 2°C)

- Delayed transition risks with higher subsequent physical risks

Hothouse World: 'Current Policies'
(warming of 3°C+)

- Limited or no transition risks but runaway physical risks

These scenarios were adopted as they were determined to be in line with Babcock's most likely possibilities across the business. Due to the disparate geographies that we operate in, the most relevant scenario for each sector or region varies, particularly in relation to policy retention. The UK, European countries and New Zealand are broadly seen to have a high amount of legislation that addresses climate change, with a legal commitment to achieve net zero by 2050. Canada and South Africa are aspirational for the transition but more locked into traditional carbon-intensive economies. Australia is much further behind in this area. As a result, transition risks in the UK are different from those in the Australian region. Some sectors also have operations exposed to different types of transition risk depending on their geographic spread.

Our process for identifying and assessing the impact of future potential scenarios included interviews with senior executives across all of our sectors and regions, as well as a number of workshops. More than 100 stakeholders have been involved across Babcock, providing coverage of nearly all business functions. This confirmed the materiality of climate-related issues. Based on analysis of the impact of these risks on Babcock's operations, the following areas will influence our sector/regional strategies and business model:

- Extension of risk management timescales to accommodate the longer-term nature of climate-related risks
- Development of robust green credentials to continue to attract top talent
- Implementation of flexible and adaptable governance structures and processes to accommodate regulation change
- Implementation of renewable energy sourcing and energy-efficiency measures across sites and facilities
- Implementation of a contracting approach that includes climate considerations
- Collaboration with supply chain to understand/mitigate suppliers' climate impacts

Risks

An analysis of climate-related risks relevant to Babcock has shown that many risks and opportunities are in the medium term (2030-2040) and long term (2040-2100), giving Babcock time in the short term to implement activities to mitigate.

Details of our most significant climate-related physical and transition risks, proximity, impact and control measures introduced can be seen in the graphic on the next page.

Our most significant physical risk is dockyard disruption and we have assessed the risk of increased flooding and storm surges. The highest risk is seen in a 3°C scenario, where we expect to see more extreme weather patterns.

From our assessment of transition risk, we believe increased climate-related regulation will have an impact on supply chain disruption. The lowest risk is in the 3°C scenario which assumes that only current climate policies are implemented, therefore transition risks globally will be negligible.

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Examples of key risks and control measures

Risk title	Risk description	Proximity	Scenario 1.5°C	2°C	3°C+	Control measures
Dockyard disruption	Dockyards owned/ operated by Babcock may be flooded due to an increase in sea level and higher frequency of extreme weather, resulting in storm surges.	Short (2020-2030)				Our Devonport site is currently undertaking a significant infrastructure rebuild and climate-related risk is being factored into rebuild decisions. In the medium to longer term as the site develops, for the design of rebuild and new facilities we will consider climate-related risk in line with the latest ONR standards.
		Medium (2030-2040)		○		
		Long (2040+)	○		●	
Supply chain disruption	Increased climate-related regulation, such as taxes on fossil fuels, may affect Babcock's supply chain cost base or viability of supply chain companies.	Short (2020-2030)	○			Our Sustainable Procurement policy has been implemented, which considers our suppliers and sub-contractors' ability to meet our requirements against 12 sustainability priorities. We will consider the plans of our suppliers in our sourcing decisions and actively monitor and manage sustainability performance in the supply chain. Further details can be found in our Sustainable Procurement policy. We have invested in an AI monitoring solution for our supply chain, see page 69.
		Medium (2030-2040)		○		
		Long (2040+)			●	

Impact
● Insignificant / Moderate ○ Moderate ● Major ● Severe

Plan Zero 40 is our chief mitigation mechanism to combat transition risk, which is highest in countries with a strong net zero policy, such as the UK.

Opportunities
We also recognise there will be opportunities in the transition towards a greener economy. Through our Liquid Gas Equipment (LGE) business, we aim to continue to develop our ammonia fuel gas supply system, as well as solutions for the transportation and storage of CO_2 in line with customer and legislative requirements. This will ensure that we are optimising efficiency while developing zero-carbon solutions.

We're collaborating cross-industry and working with academia on several programmes such as the MarRI-UK hydrogen Fuel Cell-BATTERY Ship Advanced Power-Energy Management Solution for Zero Emission Marine Propulsion Systems. In our PHOENIX II contract, we manage in excess of 15,000 White Fleet vehicles and are working with the customer to deliver its commitment to achieve both the 2022 and 2027 UK Government's 'Road to Zero' targets. The targets require a transition of 25% of the M1 Classified Fleet (predominantly cars) to ULEVs by the end of 2022, and then 100% of M1 and N1 (predominantly vans, 4x4s) fleets to zero tailpipe emission vehicles by the end of 2027.

In 2021, we integrated the climate-related risks and opportunities flowing from our TCFD scenario workshops into our strategic planning process. Each sector, region and function has detailed its strategies for managing the priority risks and realising opportunities over the strategic plan period (five-year outlook).

Risk management
Our process for identifying and assessing climate-related risks and opportunities utilised the existing Babcock risk management framework.

The horizons against which the climate-related risks were assessed are as follows:

- Short term (present to 2030)
- Medium term (2030 to 2040)
- Long term (2040 to 2100)

Once all relevant climate-related risks and opportunities had been identified, assessed and scored across the relevant time horizons, individual climate-related risk registers were created for each sector. These registers have been delegated to individual owners by TCFD sponsors and are required to be submitted on a quarterly basis inclusive of relevant mitigation or controls in place. On an annual basis, owners will be required to review the initial scoring of each item to assess the effectiveness of control measures. The Group Risk policy has been updated to reflect integration of the new process.

Metrics and targets
Babcock has developed the following metrics, with associated targets and timescales, to measure our progress towards reducing our exposure to climate-related risk. We plan to develop and disclose further metrics and targets in the next financial year.

- Establish baseline and submit carbon reduction targets to the Science Based Targets initiative by April 2023
- Complete an assessment of climate-related risk of all critical Babcock infrastructure by December 2024
- Complete a review of climate-related changes to working conditions covering all employees who are exposed at geographical locations. Our target for this review is April 2023
- Ensure climate-related impacts are considered in all new business bid/no bid decisions and associated contract negotiations/KPIs
- 100% of electricity for Babcock facilities to be sourced from renewable supplies by 2030, as far as reasonably practicable
- Complete an assessment of all our critical suppliers' climate-related risks and associated impact on Babcock in autumn 2022

TCFD progress vs priorities

	FY22 progress	FY23 priorities
Governance	• Group Executive Committee and the Board completed the 'Chapter Zero' survey • Group Executive Committee completed the Executive Education session run by Edinburgh University • ESG updates to the Board included climate action • In FY22 the Remuneration Committee included specific ESG objectives and measures in the FY23 annual bonus, see page 114	• Board to continue the discussion on the topic of sustainability
Strategy	• Climate-related risks and opportunities have been integrated into 'business as usual' processes, through inclusion of climate-related questions within the Group enhancement strategy process undertaken by each sector and region	• Further assess approach to scenario analysis and assess organisational resilience • Further define financial implications of climate-related risks and opportunities and seek to include mitigation steps in strategic planning • Ensure climate-related impacts are considered in all material new business decisions and associated contract negotiations/KPIs
Risk management	• Physical and transitional climate-related risks and opportunities have been identified and scored through sector and region workshops in the short, medium and long term using Babcock's approach to risk • Climate-related risk management has been integrated into Babcock's overall risk management process through the addition of a climate-related risk register	• Assess progression of climate-related risk registers and ongoing management • Further validation of financial impacts • Complete an assessment of critical suppliers' climate-related risks and associated impact on Babcock by autumn 2022
Metrics and targets	• Progressed 11 pathfinder boundary projects and baselining phase	• Establish baseline and submit carbon reduction targets to Science Based Targets initiative by April 2023 • Progress on Plan Zero 40 by scaling across the rest of the organisation

Technology plays a critical role in our efforts to minimise the environmental impact of our business. Scan this code to watch a video to find out more about the work we are doing in this area.

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SOCIAL

3 Ensuring the safety and wellbeing of our people

'Home Safe Every Day'

Our safety mission is to enable our people to go 'Home Safe Every Day', and to support this we have a series of commitments to one another that we call 'to Care and to Learn'. This has been a year of change and the setting of solid foundations to build upon as we continue to improve our safety performance.

Governance

The appointment of a Global Safety, Health and Environmental Protection Director and formation of a central team has brought additional focus to the safety improvement programme. Supported by working groups of specialists and alongside a transformed Corporate Safety Leadership Team that includes Operational Directors from across Babcock, we have strengthened our governance. We have introduced a suite of corporate standards that form the Babcock safety framework and developed a scorecard of leading and lagging performance indicators to help monitor the business. These form part of the Babcock safety and management system and enable us *to create a safe and secure world, together*.

Achievements and improvements

Babcock has introduced an electronic global safety information management system that supports event and audit management. This has standardised processes across Babcock and increased transparency. The global system enables sharing of lessons across our operations, to collectively improve our safety outcomes and will continue to grow with the additions of risk management functionality.

Our annual safety conference, held virtually in November 2021, shared and celebrated the successes of personnel for the sectors and direct reporting countries with a theme of 'Care and Learn'.

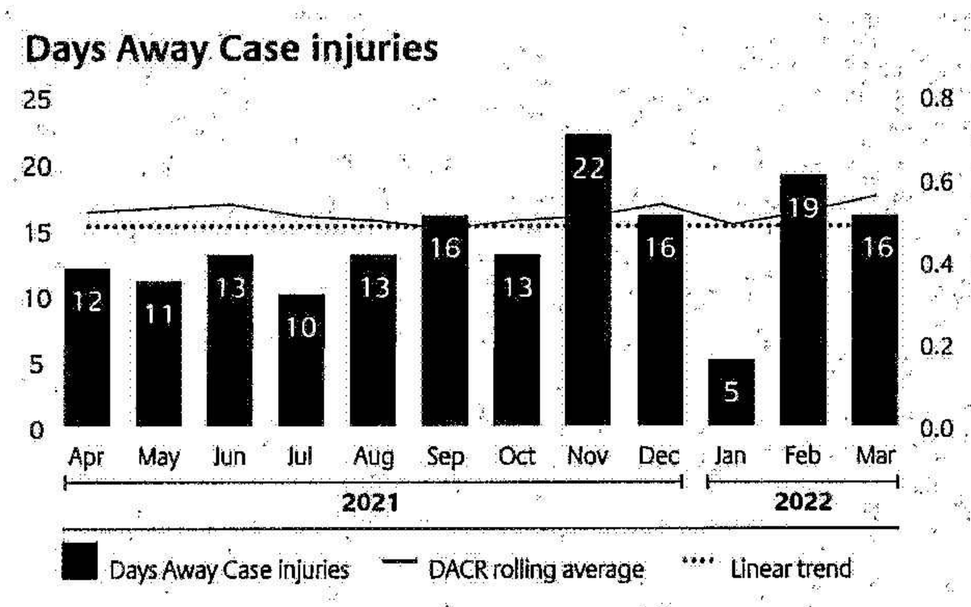
Babcock also held a safety stand-down in January 2022, where teams took time out from operations to discuss how *to create a safe and secure world, together* by improving their working environment. The commitments 'to Care and to Learn' were reiterated in many of the conversations, with a focus on doing the right thing.

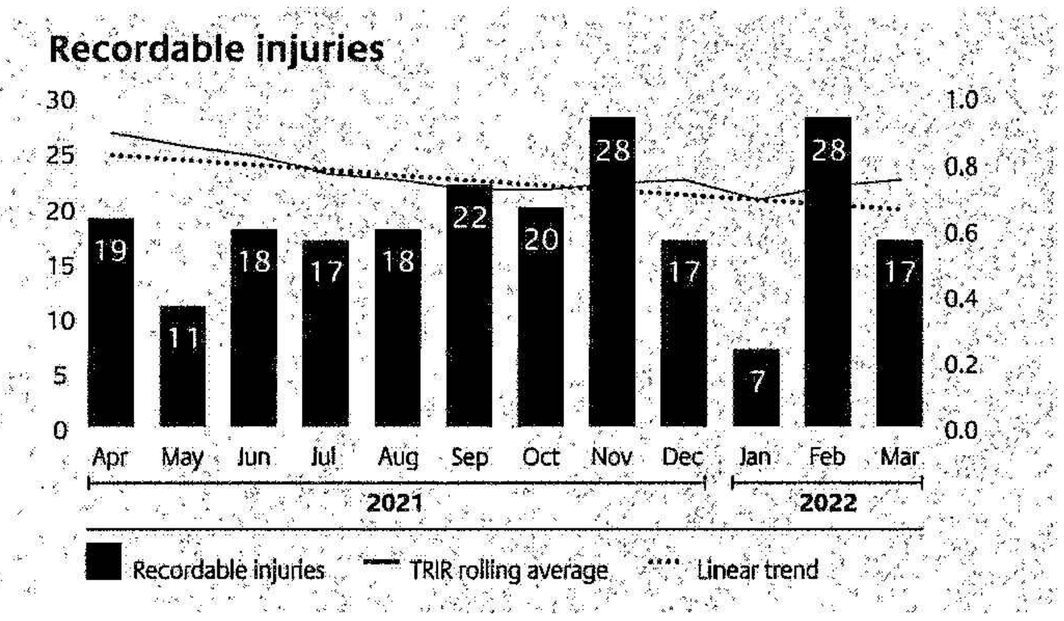
Proactive reporting – Reporting safety issues before they cause harm

During the year, we have moved to an internationally recognised HSE accident categorisation method in order to be able to benchmark against peers. Whilst the change means that direct statistical comparison with previous years is not meaningful, it will enable future benchmarking of safety performance.

The Group's Total Recordable Injury Rate (TRIR),[1] which includes work-related injuries requiring medical treatment or above, has reduced from 0.89 to 0.75 over the year, with a reduction in the number of these types of accidents of 18% against 2021. The Days Away Case Rate (DACR) across the whole of Babcock has increased from 0.52 to 0.56.[2] This led to a 5% increase in work-related injuries that resulted in personnel requiring at least one day away from work. We continue to work hard to reduce the number of injuries and illnesses as a result of our activities.

In addition to recording all accidents, we have introduced metrics to track the level of proactive reporting. The focus is to encourage our people to report High-Potential Occurrences (HIPO), High-Potential Near Misses (HPNM) and safety observations, to enable us to learn from and correct these before they can cause harm. This indicator of positive reporting is an important element of an engaged safety culture and we have seen a gradual and consistent increase in proactive reporting across Babcock.

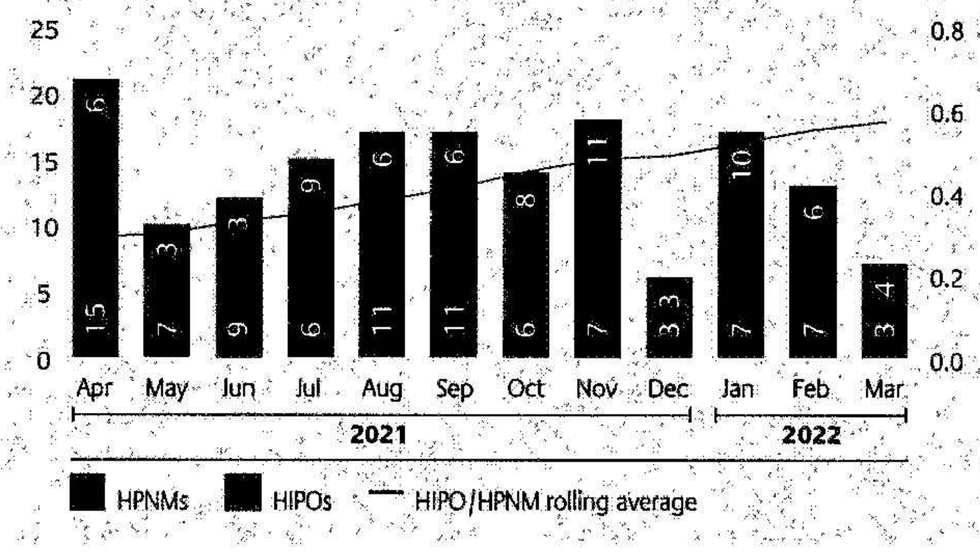




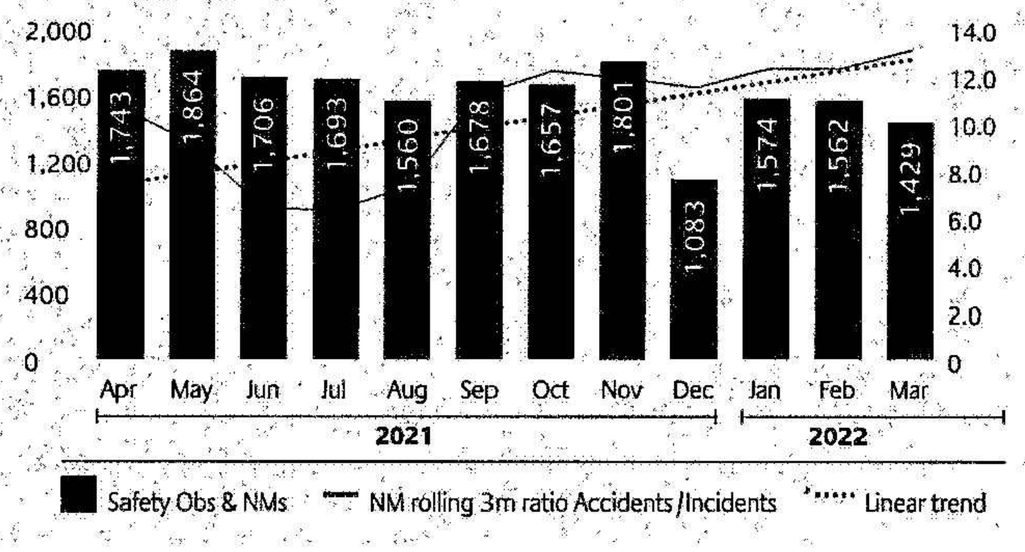
1. Number of recordable work-related injuries and illnesses per 200,000 working hours (200,000 represents 100 employees working 40 hours for 50 weeks per year).
2. Taken from US Bureau of Labor Statistics, the average rates for Repair and Maintenance industry sector was TRIR of 1.8 and DACR of 0.9, whilst the Management Consulting industry sector had average rates of TRIR of 0.4 and DACR of 0.2.

Proactive reporting – Reporting safety issues before they cause harm continued

High-Potential Occurrences and High-Potential Near Misses



Near Misses and Safety Observations



Employee inclusion and diversity

At Babcock, we are guided by our Purpose – *'creating a safe and secure world, together'* – and a clear set of Principles that are central to everything we do. To deliver on our Purpose, we are committed to creating an agile, people-centred business where everyone is included, supported and empowered to unlock their potential.

We see inclusion as an enabler and the key to creating the right foundations to attract and retain the best, diverse talent. We recently appointed our first Global Head of Inclusion and Diversity (I&D) to develop our approach to I&D and to review, design and implement activities that enable Babcock to become a more inclusive business that values difference.

Our three-pillar approach outlines the:

- insight and data needed to drive an evidence-led approach to I&D
- policies and programmes that drive greater talent engagement
- ways in which we educate and demonstrate the value of an inclusive organisation

We remain firmly committed to embedding this approach and monitoring our progress.

Our gender targets are:

1. 30% women within senior leadership teams by 2025
2. 30% female representation at all levels by 2030
3. 80% disclosure of diversity data by 2025

In the 2021 report we indicated a target of 80% disclosure of diversity data within 18 months. As we analysed the data for our People strategy and revisited all our targets, we realised this target was going to be difficult to achieve. However, we remain focused on our diversity data as it's a key component of our I&D strategy and approach. We have identified a breadth of activity required to help us meet this target by 2025 and drive real and sustainable changes across the workplace. Alongside our continued work on gender balance, LGBTQ+, faith and neurodiversity, we will renew our focus on disability and ethnicity, as well as greater exploration of social mobility as we drive to be a more inclusive company.

Gender diversity

We are proud of our work on gender diversity which is a key business priority and we know there is still much to do to deliver gender balance through attraction and retention of female talent.

Our global workforce diversity has improved over the past year, moving from 19% in 2021 to 21% in 2022. This is in spite of an overall headcount reduction through 2021 that focused on business functional areas and tend to be female dominated. Female representation declined at the Board level reflecting a snapshot in time after the retirement of one female Board member. As recruitment proceeds to build the Board back to its full complement, maintaining diversity will be an important consideration as covered in the Nominations Committee report (see page 106.)

There has however been an improvement in representation at the senior management levels, that has resulted in a shift from 21% to 23% over the past year. Most notably, at the Executive Committee and management level, good progress has been made around the attraction and promotion of female talent, resulting in a positive move of 5 percentage points since 2021, from 16% to 21%.

Following our overall headcount reductions, our graduate population shrank this year from 258 in 2021 to 135 in 2022, which resulted in a subsequent reduction in our female intake by three percentage points. This is mainly driven by the challenges associated with recruiting in a very competitive graduate market, and in response we have implemented a number of changes that will drive back up our progress and build our pipeline of female talent.

In spite of these challenges, Babcock is on track to fulfil our commitment to our gender targets and be an inclusive and diverse company, a great place to work where people feel part of an integrated, more global business.

Areas we are addressing to accelerate the pace of change:

1. Providing a culture in which women can progress their careers

- Redefining our ways of working
- Designing interventions and policies to support women at work, including, for example the introduction of Group-level menopause and gender-neutral leave policies
- Establishing a Returners approach and programme of activity which includes an overarching STEM returners programme. Elements within the programme will support different stages of a woman's life and career

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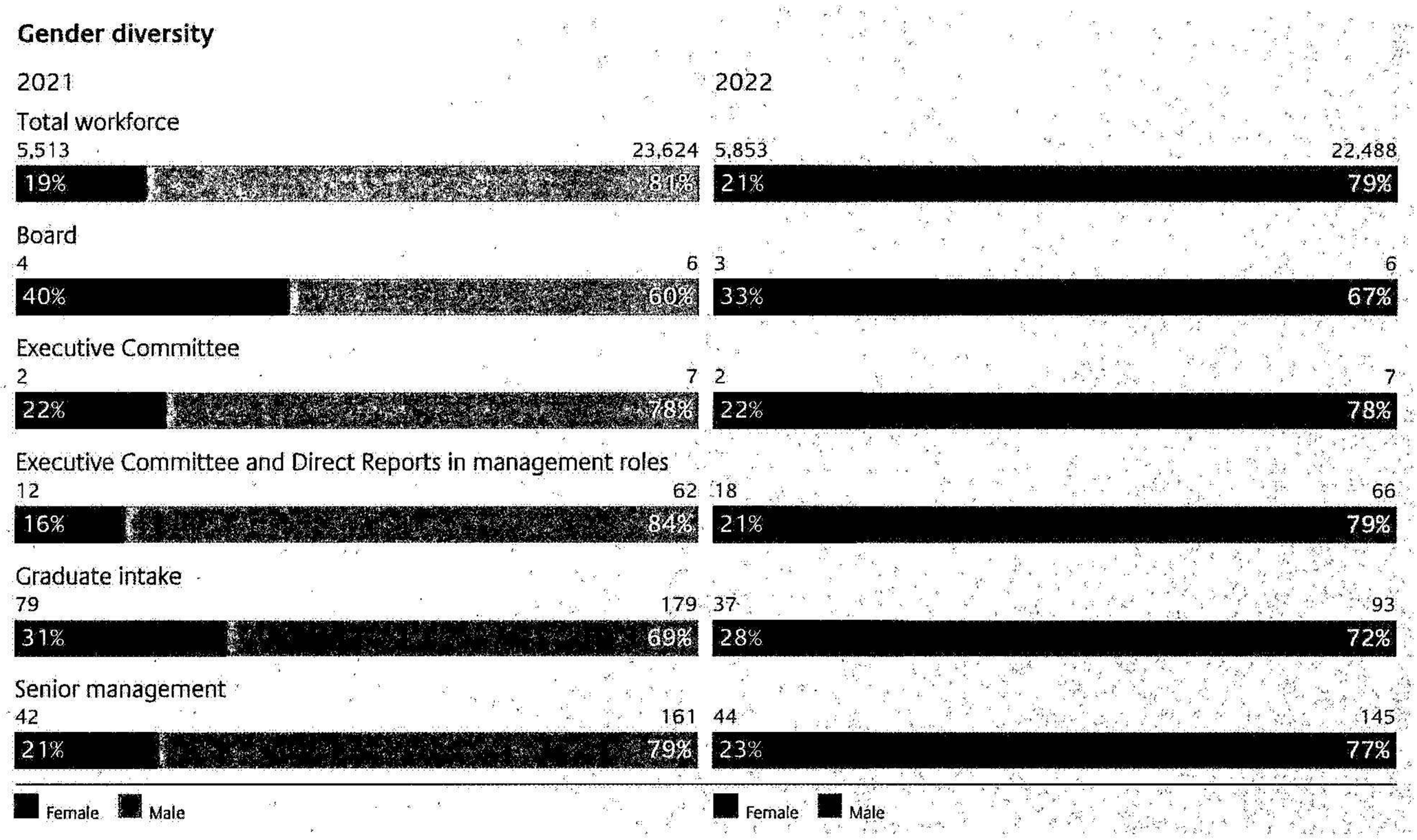
Gender diversity



1. The total workforce is 28,560 but excludes 2 non-binary, 4 prefer not to say, 151 non specified and 62 unknown in the gender percentages.
2. The gender diversity reflects Board composition at a point in time. We are recruiting for two non-executive directors in FY23 and we would expect this to change.
3. Executive Committee and Direct Reports in management roles total is 86 but excludes 2 non-specified in the gender percentages.
   Senior managers are defined as employees (excluding Executive Directors) who have responsibility for planning, directing or controlling the activities of the Group (Executive Committee) or a strategically significant part of the Group (sector/functional leadership teams) and/or who are directors of subsidiary business units (BU leadership).
4. Senior management role total is 189.
5. Graduate intake is 135 (119 UK, 12 South Africa, 4 Australasia) but excludes 1 non-binary and 4 unknown in the gender percentages.

- Designing an Early Careers strategy and approach to maximise increase in numbers of female students entering the organisation, to continue to increase the diversity of our pipeline
- Establishing an approach to supporting carers in the workplace – like the Gender-Neutral policy, this will benefit any carers, not just female ones. It is of course also a support tool and mechanism for women to stay in and progress at work

2. Establishing a pipeline of women ready to move up through the business

- We continue to engage with our women's networks across the Group to identify gaps in how we support women
- We will create individual leadership development plans to prepare female talent for senior roles
- We have opened our Women in Defence mentoring scheme to a wider range of employees to apply as both mentors and mentees

We are encouraged by our progress and are confident we have put in place a strategy which will provide a roadmap to drive systematic and sustainable change for the better.

Creating gender balance and closing the gender pay gap

Work to reduce our gender pay gap has seen year-on-year progress. Whilst we are pleased to see the median pay gap decreasing from 12.5% to 11.8%, we know we still have a way to go.

Our challenge is not a pay issue but an issue of representation. The engineering and defence sectors in which we operate in continue to be male-dominated. For us, enabling a more equal gender representation remains key to our long-term strategy.

Our intention is to create an environment which attracts and retains more women into the business and delivers a better gender balance. To make this a reality, we will continue to work with internal and external stakeholders, including our gender networks and organisations such as Women in Defence, Nuclear, Science and Engineering, and review our policies and activities that inspire and support women – such as offering access to new ways of working.

We remain committed to closing the gender pay gap, growing our talent pipeline for the long term, developing our processes to attract female talent, and enabling employees to flourish and shape their own future within Babcock.

For further information, please see our 2021 Gender Pay Gap Report on our corporate website at https://www.babcockinternational.com/news/uk-gender-pay-gap-report-2021/.

Focus for FY23 and beyond

Our vision for the future is to be a strong, safe and unified global business that delivers year-on-year sustainable growth with better outcomes for our culture, customers and communities.

Championed by the Board and our Group Executive Committee, our leaders are encouraged and empowered to act in line with our Principles and to role-model inclusive behaviours. They will be supported by our three pillar approach to deepen inclusion and drive results.

Our focus for the coming year is to:

- Gather data and insight from our employees to enable an evidence-led approach to driving greater inclusion and diversity
- Set clear metrics for disability and ethnicity (in addition to gender) to focus our effort, measure our performance and progress and create accountability across the Group
- Establish and embed I&D governance globally, including the further development of employee networks and peer support groups – to create a more consistent approach and build a better people experience
- Identify processes and interventions that will enable us to realise the targets set and increase I&D
- Further embed our Principles and engage our people in understanding the benefits of inclusion, social mobility and community engagement
- Continue our commitment to the Social Mobility Pledge and reduce inequalities through a thorough review of our recruitment practices and how we support progression once in employment

As we develop our Employee Networks, we will embed a new Peer Support Group model to support their development as they will continue to play a critical role in achieving Babcock's ambition for a more inclusive business. Our current networks include multi-faith, ethnicity, gender, LGBTQ+ and neurodiversity along with wider common interest groups.

We will work with our networks across a three-year programme to develop them to a global level, to drive a consistent employee experience and greater diversity across the Group. We will also identify where networks could be developed to support employee enablement, for example in relation to disability and those with caring responsibilities.

Ways in which we are changing to meet our inclusion and diversity aspirations

Growing new talent pipeline for the long term

- STEM support: more than 738 STEM ambassadors within the organisation have engaged over 32,220 students in STEM activities
- STEM returners: by FY23 we aim to increase the pool of female talent by establishing a UK pilot to hire women back into a career in STEM and support returners
- Early careers: more than 1,024 apprentices (14% female) and 335 graduates (30% female) are employed on our early careers' schemes. Our target is to achieve a 50/50 balanced intake in early careers by FY24
- Community engagement: we are extending our community engagement to attract, retain and develop more diverse talent

Attracting the best diverse candidates from the current talent pool

- Recruitment analytics: we have increased the amount of data collected and reviewed to highlight any bias in our recruitment process
- Charters and memberships: we are proud stakeholders in the Women in Defence Charter, Women in Aviation Charter and Women in Nuclear UK. We are also members of the Armed Forces Covenant and are actively looking to develop further partnerships
- Our networks, supported by our newly introduced Peer Support Groups model, play a key role in championing and supporting colleagues across Babcock to drive the cultural change we seek

Enabling employees to fulfil their potential within Babcock

- Flexible working: we have introduced the Agile Working Framework to encourage work-life balance, support family commitments, improved health and wellbeing and drive inclusivity
- Culture change: as part of an ongoing cultural change programme, we have reinforced our zero-tolerance position to any form of discrimination

Employee engagement: (see Culture change section page 18)

Our Purpose and Principles were formally launched this year. Developed with the help of hundreds of employees across the Group, we are continuing to drive engagement in our culture and bring it to life through town halls, vlogs, videos, workshops, meetings, webinars, team discussions and focused weeks.

Our people have embraced our new Principles by sharing stories of where they have seen them in action and when they have 'lived' one of our Principles. We will continue to collect and share these stories and create a cultural guide to working at Babcock.

To support the engagement and cultural immersion of new hires into the UK business, we now have a dedicated onboarding platform, designed to enable new employees to familiarise themselves with the business before they officially start. Information is tailored, based on their start date and business area and we plan for this to be extended to the whole business in due course.

Whilst during the pandemic we facilitated online engagement of current employees, this is being balanced with more face-to-face communication as many of our colleagues return to the workplace. However, we know there is more to do to make sure engagement is happening on an ongoing basis throughout the business.

We want to continue to effectively engage with employees to understand their views and ensure we achieve our people goals. Today, Babcock uses a variety of focus groups and surveys to do this. Last year we committed to moving to a consistent approach to understanding and measuring employee engagement across the Group in 2022.

We are now implementing a global platform to establish a baseline of engagement (through an annual survey) and consistently measure and benchmark ourselves externally and track progress. The platform is designed to empower leaders to own and deliver engagement and take action to increase motivation and performance.

This and other insights will inform much of our people decision-making as well as our understanding of areas for improvement. They will form an important part of the conversations our leaders and managers have about our culture.

Implementing our one Babcock approach will help us to focus our effort, drive meaningful change and enable high performance.

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4 Making a positive impact on the communities in which we operate

Oxford Economics assessment

We have engaged Oxford Economics to conduct a comprehensive review of how Babcock delivers social value and contributes to the UK Government's objectives outlined in its Social Value Model, as well as maximising economic value from defence procurement.

Progressing Group-wide volunteering approach

Volunteering is a rewarding and meaningful experience that supports communities and brings personal reward for our employees, enabling them to develop new skills and personal wellbeing.

We want to make a genuine difference to our communities and help them to thrive. For example, our Driving and Maintenance (D&M) instructors in the TMASS contract at Bovington are registered volunteer 'Blood Bikers' with YFW Blood Bikes. They give up their time to provide emergency courier services for blood, platelets, blood and tissue samples, medication, breast milk, documents, X-rays, CT scans, and equipment.

We have also supported teams across Babcock to take part in group voluntary activities, such as the National Beach Clean in the UK. In South Africa many of our employees worked with the Bokantsho Primary School in Viljoensdrift, Free State, to carry out extensive and much-needed renovations at the school. A play area was also built for the children in a rural area and blankets donated before the winter.

Following COVID-19, the UK businesses also supported the COVID vaccination programme by allowing employees time to train and administer vaccines with St John's Ambulance and a number of employees took up this very worthwhile challenge.

We are currently developing a Group-wide volunteering approach, supporting one of our key Principles, 'be kind', to facilitate every employee to volunteer one day per year.

Group-wide sponsorship

During the latter part of the year we developed our internal charity and sponsorship guidelines. The current criteria have been broadened and clarified to align to our corporate Purpose '*to create a safe and secure world, together*'.

We are committed to the communities in which we operate and the broader interests of the customers we serve. As good corporate citizens, we want to make a genuine difference by supporting our communities and helping them rebuild following COVID-19. Our new criteria are based on supporting military charities and events and also protecting communities around the world by focusing on local charities where we have our sites or attract our employees from.

Indigenous peoples

In Australia, we partner with Supply Nation to expand our supply chain to include Aboriginal and Torres Strait Islander-owned businesses across Australia. We have an equivalent commitment to Māori and Pasifika-owned businesses in New Zealand through the Amotai initiative.

Babcock continues to actively support Indigenous students to increase their career opportunities, through sponsorship to Engineering Aid and Yalari in Australia, and encouraging curiosity about STEM subjects in younger children in New Zealand through employee volunteering at local schools.

This year, Babcock Canada renewed our commitment to the Phase II stage of the Canadian Council for Aboriginal Business' (CCAB) Progressive Aboriginal Relations (PAR) programme. This phase centres around engagement with Indigenous communities in the areas where Babcock operates, as well as external communications to our customers, partners, and the wider business about our Indigenous engagement activities. Much of this engagement activity is currently ongoing with the First Nations in Victoria and in northern Manitoba.

In support of commitments made through the PAR programme, Babcock selected and implemented an Indigenous Cultural Awareness training programme. This programme has been added as a mandatory training requirement for all employees.

In addition to the activities directly related to the PAR programme, Babcock also continued to strengthen our internal procurement policies to identify and incorporate more Indigenous businesses. A comprehensive review of the supply chain was undertaken to identify Indigenous business opportunities in the short, medium and long term. Through this activity, we also engaged with several potential Indigenous suppliers and partners, such as Cota Aviation in B.C., Tipi Insurance in M.B., and Makivik Corporation in Q.C.

Over the last year, Babcock has engaged in comprehensive engagement of several First Nation and Métis communities, businesses, employment and training and post-secondary institutions. Furthermore, the team continues to participate in Indigenous conferences, trade shows and networking events in order to further existing relationships and foster new engagements.

STEM

In the last year we improved our STEM recording. Commitments to STEM and the communities in which we operate translates into 160 newly trained STEM ambassadors, bringing our total to over 738 ambassadors across the business and 30,000 students engaged in our STEM activities.

The STEM team continues to deliver virtually whilst returning to in-person events where possible, which have been extremely well received by attendees of all ages. Focus has been on developing our offering to raise awareness and increase engagement, by developing STEM activity booklets for employees' children and external use.

The Clyde STEM Coordination Team launched its first STEM activity catalogue, which is designed to help teachers successfully deliver STEM activities with their students. We have evolved the way we conduct community outreach to encourage more take-up of STEM subjects and to help address diversity disparity and improve social mobility.

Babcock now more accurately represents the communities and countries in which we operate and in so doing delivered our first Virtual Neuro Diverse Work Experience Programme at Devonport with several local schools in attendance along with two virtual work experience weeks across the UK, both focussed on STEM and accredited by the Industrial Cadets.

Our employees volunteer not only their time but write books to inspire the next generation to take small positive action to better the world. The3Engineers gifted 4,000 copies of their set of rhyming children's book to local schools and communities. They have also created a suite of free-to-download STEM resources for schools to use in the future based on the books.

In FY23 Babcock will continue to engage with young people, their parents, and teachers to ignite interest in studying STEM subjects and pursue a rewarding career in the industry by focusing on our Group-wide strategic objectives around raising awareness of STEM, increasing I&D and supporting schools that are located in deprived areas of the UK.

Support for Armed Forces, veterans, and reserves

Babcock is committed to honouring and supporting the Armed Forces Covenant and the Armed Forces community. We recognise the value serving personnel, both regular and reservists, veterans and military families contribute to our business and country.

As part of our continued commitment to the Armed Forces Covenant, Babcock supports employee and graduate membership of the Reserve Forces and references our support in recruitment activity. We also support the employment of service leavers, veterans, and members of the Volunteer Forces by providing a guaranteed job interview where applicants meet the minimum requirements of a role.

Members of the Armed Forces community and their families can rely on our support. We offer a degree of flexibility in granting leave for service personnel spouses and partners before, during and after a partner's deployment, and will consider special paid leave for employees who have been bereaved or whose spouse or partner has been injured.

We work closely with the Career Transition Partnership, to ensure our employment opportunities are made available to service leavers and veterans, and we participate in careers fairs for those leaving the Armed Forces. We understand that Armed Forces spouses need flexibility when their service partner is posted to a new location, and we do our best to find alternative employment within the business if our employees need to move to accompany their partner to a new posting.

We are proud to currently employ 186 service leavers and 322 veterans in the business. We support the UK's Armed Forces and reservists and continue to actively back our reservist employees. We have approximately 43 volunteer and 12 regular reserves and around 14 uniformed cadet instructors in the business. We provide a minimum of 10 days' special paid leave per year. The reserve service is actively promoted to everyone in the Group, including our new graduates and apprentices.

Partnership with academia

Innovation is in our people and our partnerships. Last year we announced our strategic partnership with the University of Strathclyde, one of the leading international technology universities. Babcock and Strathclyde have been working together for more than 30 years, and formalising the partnership will strengthen existing educational programmes for degree apprenticeships and industry placements and build on existing innovative research projects in nuclear, advanced manufacturing, space, and security-related technologies.

Our recently opened state-of-the-art Additive Manufacturing Centre is part of an innovative partnership with Plymouth Science Park. The partnership builds on our strong relationship with the academic and technology community across the south west and the local community around our Devonport dockyard.

Last year we also launched an exciting new project management degree apprenticeship programme at our Devonport facility in partnership with the University of Plymouth.

Talent and development

To enable us to take on the challenges of today and the future, it is important for us to build and maintain the capability and skills of our workforce. In FY22 work was carried out on the kind of leader required to drive the future success of the business and focused on understanding the profiles of the leaders we have today.

We measured drivers, personality traits and competencies through a self-report tool – things that are our natural tendencies and capabilities which we can learn and develop. Seventy of our most senior leaders were assessed by evaluating their technical and behavioural skills and then compared to our future leader profile as well as a FTSE100 leader benchmark.

As a result, we were able to develop our leadership capability by clarifying and resetting the expectation of what it takes to be a successful high-performing leader in Babcock and understanding what is needed to deliver our strategy.

Babcock's leadership group has a wide spread of capabilities and styles and we enable them to inspire, motivate and empower their teams to make sure we deliver on our contractual and operational commitments so together we can build a stronger, more sustainable Babcock.

Early careers

Last year saw the implementation and introduction of a dedicated one Babcock Early Careers Team responsible for the development of our early careers talent nationally as well as globally.

We recruited 263 apprentices globally during FY22, bringing the total number of apprentices to 1,024 across the business. Previously, most of our new starters have entered on level two and three programmes. However, emphasis has been on expanding the apprenticeship offering with the intent to offer programmes starting from level two all the way to level seven.

One of our very own apprentices was awarded the title of Shipyard Apprentice of the Year and won the Queen's Silver Medal 2021: a prestigious award for final-year apprentices from the maritime sector, which has been running since 1944. Simultaneously, the Devonport Apprentice Team won the Best Apprenticeship Programme in Plymouth in 2021.

One hundred and thirty five graduates entered onto our graduate development programme this year and have been assigned a buddy and formal mentor to accelerate their learning throughout the programme – which in many cases lead to professional registration such as charter-ship.

We will continue to run these successful, comprehensive apprenticeship and graduate development programmes to bring more young people into the business.

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GOVERNANCE

5 Being a collaborative, trusted partner across the supply chain

We are committed to conducting business honestly, transparently and with integrity. Diverse and robust supply chains enable us to provide quality and timely delivery of products and services.

External expenditure via third-party suppliers, including original equipment manufacturers (OEMs), continues to account for a significant part of our turnover and we recognise how our ability to deliver performance and margin is affected by our approach and ability to manage these relationships.

Our supply base design is balanced to meet our customer, regulatory and financial performance requirements. It considers supply chain risk and addresses appropriate mitigating actions. We review our business-critical suppliers on an annual basis to address any risks or concerns. To support this process we have invested in an AI risk monitoring solution that will allow us to map our supply chain ecosystem, monitor activities and alert us when hidden risk is exposed in our sub-tier supply chain. This has been rolled out in Q1 FY22.

We buy a wide range of goods and services from over 14,000 suppliers. These range from large multinational OEMs to small and mid-size enterprises (SMEs). Approximately 250 of these suppliers are considered to be key partners supporting our ability to deliver continuous improvement and innovative quality outputs. We combine technology, market intelligence and business process to engage with our supply base and form long-term sustainable relationships.

Our activities ensure that we continue to deliver value through working effectively with our supply chains. By improving upfront supply chain involvement in bid processes, we have been able to engage earlier with potential suppliers. This enables our suppliers to actively support both the design and implementation stages of our work with innovative solutions and deliver enhanced productivity and increased quality.

Over the past year we have undertaken a structural reset of our procurement and supply chain, appointing a new Chief Procurement Officer to lead its transformation. We have made strong progress with the implementation of the Group Procurement and Supply Chain operating model and standardisation of key business processes. The purpose of this strategy is to create a Group procurement and supply chain team with a common purpose and strategy which is fully integrated and aligned with the business. We aim to achieve consistent long-term value creation for our interested parties by continually enhancing our supply chain to deliver best-in-class and sustainable products, goods and services.

Sustainable sourcing

Babcock aims to maintain strong and sustainable supply chains and we recognise that to be successful we must work collaboratively with our suppliers and sub-contractors to identify and deliver ever more sustainable goods and services. Our intention is to reduce the environmental footprint of our supply chain and provide social benefits to society in parallel with meeting our business goals.

We continue working to align our processes and standards to ISO20400 (Sustainable Procurement) including circular economy principles such as recycling and disposal options. A strategic roadmap has been developed which establishes the framework required to integrate sustainability within procurement and supply chain activities, driven by the need to deliver sustainable outcomes through our supply chain. Our procurement and supply chain business processes will continue to be developed and aligned to ISO20400 guidelines throughout 2022, with a view to full alignment by the end of 2023.

To support this intent we have published a new Supplier Sustainability policy which is being rolled out to our supply chain through planned communication activities and supplier engagement events during FY23.

Supporting guidance has also been produced in the form of our Sustainable Procurement Supplier guide. This document is provided to assist suppliers in meeting the requirements of our Sustainable Procurement policy. It identifies areas for emphasis, reference documents and some regional requirements arising from national policies.

Our suppliers and their extended supply chains are required to share our commitment to respecting, protecting and promoting human rights and to support our efforts to achieve transparency within higher-risk supply chains and take responsibility for the issues we uncover such as hidden labour exploitation.

Scope 3 carbon emissions mapping

We are currently conducting an assessment of upstream Scope 3 emissions (categories 1 and 2) to establish data for Babcock's upstream value chain emissions.

A spend-based calculation methodology is being adopted for the mapping activity to produce tabular and graphical results for Babcock's upstream value chain emissions and provide a baseline for developing Babcock's carbon strategy further.

See Environmental section page 57

Working with SMEs

We recognise the value that SMEs play in the wider economy and we actively encourage them to engage with us. We will continue to engage with both smaller and local suppliers, especially those that help inclusion of under-represented groups, which fosters economic prosperity and societal integration.

Working with SMEs also ensures that we have access to innovative new solutions and provides enhanced flexibility and agility. As part of the wider Group procurement and supply chain strategy, we expanded key performance indicators throughout FY22 to measure and monitor our percentage spend with SMEs. This is now a key measure within the procurement and supply chain function and our performance against benchmark targets is subject to ongoing management review, which supports both our decision-making and any actions required to support the growth of our SME supplier population.

Human rights

Babcock is an international company and we are committed to conducting our dealings with the utmost integrity. We are committed to the protection of human rights and we comply with all national laws in the jurisdictions in which we operate. We welcome the opportunity to contribute positively to global efforts to ensure that human rights are understood and observed. We believe that a culture of respect for, and promotion of, human rights is embedded throughout our business and can be demonstrated by our commitment to ethical conduct in everything we do.

We recognise the United Nations Universal Declaration of Human Rights and the standards established by the International Labour Organization. Our suppliers and their extended supply chain are expected to share this commitment and to meet the following:

Treat workers equally

- Respect the human rights of all employees and the rights of the communities in which they operate
- Ensure work is performed on a voluntary basis
- Ensure that all employees can make a free choice about their employment – there should be no illegal, forced, bonded, involuntary or exploited labour
- Ensure there is no involvement in human trafficking or involuntary movement of people

Reasonable working hours

- Ensure employees do not work hours in excess of the limitations set by relevant local and national laws and regulations
- Ensure all overtime work is voluntary
- Other than for extraordinary situations, all workers are entitled to at least one day off in every seven-day period

Workers are of an appropriate age

- Ensure that no underage workers are employed, either directly or indirectly
- Babcock's suppliers are encouraged to participate in appropriate apprenticeship programmes that comply with applicable laws and regulations

Workers are paid fair wages

- Pay wages which at least meet national legal standards. Pay industry benchmark standards wherever possible
- Ensure overtime work is used responsibly and compensated fairly
- Ensure that everyone is working in a recognised employment relationship as defined by law, and explain clearly to employees the terms and conditions of their employment and the expected work output to which their wages relate

Workers' health and safety in the workplace is protected

- Provide a safe and sanitary workplace, taking all necessary actions to educate employees to prevent accidents and injury to health

Ensure access to fair procedures and remedies

- Allow access to full and confidential remedy/grievance processes
- Freedom of association and collective bargaining
- Allow free association and the opportunity to communicate directly with management without fear of intimidation or reprisal

Core processes to ensure compliance with our expectations include supplier onboarding, audits and assessments, issue management and performance management. The requirements are also incorporated into our Supplier Code of Conduct, Supplier Sustainability policy and Supplier Sustainability Guideline which are subject to routine periodic review.

The human rights risk assessment process is embedded into a number of our due diligence and management processes, where a targeted approach is taken within our questionnaires to understand the maturity levels of controls within our supply chain. Our supplier lifecycle management controls also trigger scheduled reviews within our supplier onboarding solution.

The supplier audit programme is currently being reviewed to ensure human rights issues are being embedded into the standard audit content. The supplier quality and development audit programme is being extended during FY23 to cover a wider section of our supply chain and the audit checklists are being standardised across each of the business units to consistently verify adequate human rights controls are demonstrable by the supplier throughout the audit process. Formal actions are taken when risks are identified during the audit process.

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Our strategy for supply chain risk management has also led to the introduction of an AI solution for live monitoring of human rights risk within our extended supply chain. Babcock can now assess our suppliers' policy and performance strength regarding human rights, including information on child or compulsory labour, treatment of people throughout the supply chain and treatment of local populaces. This approach serves as an early warning system. Should events or changes occur in our supply, live alerts are communicated to the procurement and supply chain team.

Modern slavery

In the UK, we expect our suppliers and extended supply base to adhere to the Modern Slavery Act 2015, as we do ourselves. We expect all our overseas suppliers to understand and comply with the intent of the Act.

Modern slavery considerations are included as part of our risk management and supplier selection processes and we will continue to review our approach to training our employees and ascertaining risks in regards to the prevention of modern slavery.

If it is discovered that there has been a breach of the above, or any other relevant, declarations and legislation, we will take all necessary steps to mitigate any impact.

Our Modern Slavery Transparency Statement is reviewed and approved annually by the Board. The statement remains available on our website.

Fair operating practices

Our Group-wide Suppliers' Code of Conduct (available on the Group's website) is designed to provide clarity about our expectations of suppliers, including compliance with all applicable laws. While we recognise that many of our suppliers operate in different geographic and economic environments, we expect that products and services are delivered in a way that supports Babcock's high standards and contributes to the reputation of Babcock and our customers. Suppliers and the extended supply chain are expected to meet these standards at all times and should either be willing to subscribe to our Code, or have equivalent standards and procedures in their own businesses.

Our intention is to be a good partner and to work with suppliers to support necessary improvements, but we will not accept any behaviour which is contrary to either our ethical codes or health, safety and environmental working practices.

Before engaging with suppliers, we assess their ability to demonstrate that they are 'fit for business', with financial, commercial, safety and governance capability. Suppliers also demonstrate they are 'fit for purpose', with technical, health and safety capability and security compliance to meet our contractual requirements.

Our businesses use appropriate processes to qualify, onboard and periodically revalidate sub-contractors to ensure compliance with commercial, regulatory and legal requirements.

Protecting the information and physical assets of our customers is an important part of what we do. We always expect high standards of commercial confidentiality. For certain types of supply we have and continue to develop exacting standards of security compliance.

In the UK, we use the JOSCAR due diligence tool, which is a shared industry-wide management system for defence contractors that collects standardised information about individual suppliers across the UK supply chain.

Payment to suppliers

We understand the importance of predictable payments when running a business and will ensure good practice across the Group.

17 legal entities submit returns to Companies House according to the Payment Practices and Performance Regulations. 11 of our legal entities are signed up to the Prompt Payment Code and are compliant as of 31 March 2022.

Procurement methodology to calculate average payment days across the group has changed this year from an average to weighted average approach. The average payment over the past six months to March is 24.6 days, versus 23.5 days last year. For reference, using last year's methodology, the equivalent figures would be 30.5 days over the past six months versus 29.6 days last year.

We actively support the Prompt Payment Code and encourage our suppliers to adopt the code themselves and promote its adoption throughout their own supply chains.

Commercial integrity

We are committed to conducting business honestly, transparently and with integrity. It is the right and proper way to behave, ensuring we uphold high ethical standards across the Group. It also supports our long-term success.

We understand our reputation and good name are amongst our greatest assets and could easily be lost by actual or suspected unprincipled behaviour. To support good governance and ethical behaviour across our Group, our actions and those of our employees, suppliers and partners are guided by a series of Group policies. These are reviewed periodically to ensure that they continue to meet current best practice principles and legislative needs. By establishing transparent policies and procedures we can reduce risk to our business and to our customers.

Code of Business Conduct and Ethics policy

To protect the Company and reduce risks, we have established a policy on how we should conduct business which is summarised in the form of the Babcock Code of Business Conduct.

Compliance with this policy is compulsory for our employees, business advisors and business partners (or, in the case of business advisors and partners, they must have equivalent standards and procedures in their own businesses). The policy is kept under review by the Group Company Secretary and General Counsel and on an annual basis the Board undertakes an annual ethics review, seeking assurance that the Group's Ethics policy is complied with.

Our Ethics policy comprises a detailed manual, available to employees on the Group's intranet and also available on our website, which contains guidelines, authorisation mechanisms and other procedures aimed at identifying and reducing ethical risks. It supports extensive policies around anti-bribery and competition law that clearly show our zero tolerance for any form of bribery or anti-competitive behaviour.

These controls form an integral part of our risk management arrangements, which also include training our employees and undertaking regular risk assessments throughout the business. We implement appropriate training and procedures designed to ensure that we, and others working for us, understand what our Code of Business Conduct and our Suppliers' Code of Business Conduct (see also page 71) mean for them in practice. This training includes mandatory completion of courses on an annual basis in all our geographies, translated where applicable, such as anti-bribery and corruption, security and data protection. Completion of these courses is monitored.

We treat breaches of our Codes or associated guidance seriously. Employees can raise any concerns that our Code or its associated guidance is not being followed without fear of unfavourable consequences for themselves.

To ensure that anyone with a concern is able to access advice and support, our independent whistleblowing hotline, EthicsPoint, (operated by NAVEX Global) allows for confidential and anonymous reporting and is available 24 hours a day, seven days a week, in all territories where we are based. Employees are encouraged to use it if they feel unable to raise concerns with their local management team and details are available for use by external stakeholders and members of the public.

All reports to the whistleblowing line are sent directly to the Company Secretary who decides the appropriate course of investigation. During the year 83 whistleblowing reports were received (FY21: 83).

More details of our risk management procedures can be found on page 76 whilst our Ethics policy, Code of Business Conduct and Suppliers' Code of Conduct can be found on our website.

Cyber security

We recognise the very real risk of malicious cyber breach and work hard to ensure both our customers' and our own information assets remain protected. Babcock's Group Security Committee meets quarterly to provide governance covering cyber and other security and informational assurance risks, issues and threats facing the Group.

Babcock is a member of the joint UK Ministry of Defence and industry Defence Cyber Protection Partnership (DCPP) which is an initiative to ensure the defence supply chain understands the cyber threat and is appropriately protected against attack. Babcock is represented on all the working groups and DCPP executive committee, as well as other defence security forums.

Babcock applies all required international and government security standards for installation and secure operation of Information systems.

Babcock's core IT services are certified to ISO27001 (Information Security), ISO22301 (Business Continuity) and Cyber Essentials Plus, which is mandatory for all suppliers of UK Government contracts that involve handling personal information and providing certain products and services.

Babcock continues to invest in cyber resilience and in raising awareness across the workforce.

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Non-financial information statement

Reporting on material yet non-financial measures is important in understanding the performance, opportunities and long-term sustainability of the Company and our ability to generate value for all our stakeholders. We disclose non-financial information in the ESG strategy report and throughout the Strategic report. We are committed to providing greater transparency about our policies, standards and governance approach through the global reporting frameworks and insight in the ESG strategy report.

Reporting requirement	Policies and standards	Additional information	Page
Environmental matters	Health, Safety and Environmental policy*	Environmental section	57
	Energy policy*	Environmental section	57
	Procurement Sustainability policy**	Sustainable sourcing	69
Employees	Code of Conduct **	Commercial integrity	71
	Health, Safety and Environment policy*	Home Safe Every Day	63
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Human rights	Code of Conduct**	Code of Business Conduct and Ethics	71
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Social matters	Anti-bribery and Corruption/Ethics policy**	Code of Business Conduct and Ethics	71
	Code of Conduct**	Code of Business Conduct and Ethics	71
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Business model		Our business model	8
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* Available to employees through the Babcock intranet but not published externally.
** Available on the Babcock website and available to employees through the Babcock intranet.

Compliance with Global Reporting Initiative (GRI)

We intend to report in accordance with the GRI Standards, Core option. We have indicated the disclosure topics that are relevant to Babcock and the level of disclosure in AR21 and AR22.

Standards	Disclosures		AR-21	AR-22
Universal Standards	GRI 101: Foundation 2016	GRI 101-01 to 101-10	●	●
	GRI 102: General Disclosures 2016	GRI 102-01 to 102-56	●	●
	GRI 103: Management Approach 2016	GRI 103-01 to 103-03	●	●
Economic Topics	GRI 201: Economic Performance 2016	GRI 201-01 to 201-04	◐	◐
	GRI 202: Market Presence 2016	GRI 202-01 to 202-02	◔	◔
	GRI 203: Indirect Economic Impacts 2016	GRI 203-01 to 203-02	◕	◕
	GRI 204: Procurement Practices 2016	GRI 204-01	●	●
	GRI 205: Anti-corruption 2016	GRI 205-01 to 205-03	◐	◐
	GRI 206: Anti-competitive Behaviour 2016	GRI 206-01	◐	◐
	GRI 207: Tax 2019	GRI 207-01 to 207-04	◐	◐
Environmental Topics	GRI 301: Materials 2016	GRI 301-01 to 301-03	○	◔
	GRI 302: Energy 2016	GRI 302-01 to 302-05	◕	◕
	GRI 303: Water and Effluents 2018	GRI 303-01 to 303-05	◔	◕
	GRI 304: Biodiversity 2016	GRI 304-01 to 304-04	○	◔
	GRI 305: Emissions 2016	GRI 305-01 to 305-07	◕	◕
	GRI 306: Waste 2020	GRI 306-01 to 306-05	◔	◐
	GRI 307: Environmental Compliance 2016	GRI 307-01	◕	◕
	GRI 308: Supplier Environmental Assessment 2016	GRI 308-01 to 308-02	◐	◐
Social Topics	GRI 401: Employment 2016	GRI 401-01 to 401-03	●	●
	GRI 402: Labour/Management Relations 2016	GRI 402-01	●	●
	GRI 403: Occupational Health and Safety 2018	GRI 403-01 to 403-10	◕	◕
	GRI 404: Training and Education 2016	GRI 404-01 to 404-03	◐	◐
	GRI 405: Diversity and Equal Opportunity 2016	GRI 405-01 to 405-02	◐	◐
	GRI 406: Non-discrimination 2016	GRI 406-01	◐	◐
	GRI 407: Freedom of Association and Collective Bargaining 2016	GRI 407-01	●	●
	GRI 408: Child Labour 2016	GRI 408-01	●	●
	GRI 409: Forced or Compulsory Labour 2016	GRI 409-01	●	●
	GRI 410: Security Practices 2016	GRI 410-01	⊗	⊗
	GRI 411: Rights of Indigenous Peoples 2016	GRI 411-01	●	●
	GRI 412: Human Rights Assessment 2016	GRI 412-01 to 412-03	◔	◐
	GRI 413: Local Communities 2016	GRI 413-01 to 413-02	◐	◐
	GRI 414: Supplier Social Assessment 2016	GRI 414-01 to 414-02	○	○
	GRI 415: Public Policy 2016	GRI 415-01	●	●
	GRI 416: Customer Health and Safety 2016	GRI 416-01 to 416-02	⊗	⊗
	GRI 417: Marketing and Labelling 2016	GRI 417-01 to 417-03	⊗	⊗
	GRI 418: Customer Privacy 2016	GRI 418-01	○	○
	GRI 419: Socioeconomic Compliance 2016	GRI 419-01	●	●

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Response to Sustainable Accounting Standards Board (SASB)

Dimension	General issue category	Disclosure topic	Accounting metric(s)	AR-21	AR-22
Environment	Energy Management	Energy Management	• RT-AE-130a.1: (1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable	◕	◕
	Hazardous Waste Management	Waste & Hazardous Materials Management	• RTA-AE-150a.1: Amount of hazardous waste generated, percentage recycled • RTA-AE-150a.2: Number and aggregate quantity of reportable spills, quantity recovered	◐	◐
Social Capital	Data Security	Data Security	• RT-AE-230a.1: (1) Number of data breaches, (2) percentage involving confidential information • RT-AE-230a.2: Description of approach to identifying and addressing data security risks in (1) company operations and (2) products	◕	◕
	Product Quality & Safety	Product Safety	• RT-AE-250a.1: Number of recalls issued, total units recalled • RT-AE-250a.2: Number of counterfeit parts detected, percentage avoided • RT-AE-250a.3: Number of Airworthiness Directives received, total units affected • RT-AE-250a.4: Total amount of monetary losses as a result of legal proceedings associated with product safety	⊗	⊗
Business Model & Innovation	Product Design & Lifecycle Management	Fuel Economy & Emission in Use-phase	• RT-AE-410a.1: Revenue from alternative energy-related products • RT-AE-410a.2: Description of approach and discussion of strategy to address fuel economy and greenhouse gas (GHG) emissions of products	◔	◔
	Materials Sourcing & Efficiency	Materials Sourcing	• RT-AE-440a.1: Description of the management of risks associated with the use of critical materials	◔	◔
Leadership & Governance	Business Ethics	Business Ethics	• RT-AE-p510a.1: Total amount of monetary losses as a result of legal proceedings associated with incidents of corruption, bribery, and/or illicit international trade • RT-AE-p510a.2: Revenue from countries ranked in the 'E' or 'F' Band of Transparency International's Government Defence Anti-Corruption Index • RT-AE-p510a.3: Discussion of processes to manage business ethics risks throughout the value chain	◕	◕

Status key

	Indicative disclosure		Indicative disclosure
● Full Disclosure	100%	◔ Partial Disclosure	25%
◕ Partial Disclosure	75%	○ No Disclosure	0%
◐ Partial Disclosure	50%	⊗ Not Relevant	N/A

Our principal risks and how we manage them

We have a risk management framework and internal control environment to manage the risks that may undermine our ability to execute our strategy or more generally our business model. The Board has had increasing confidence in the risk management processes as a result of improvements made in FY21 and FY22, enabling the Board to have assurance around the overall risk management together with the determination of the nature and extent of the Group's principal risks. Processes will be subject to ongoing continuous improvement.

As part of the Group's turnaround plan, we have reviewed and improved the risk management framework so that it aligns with our new operating model. As a result, the framework, which we describe below, is now standardised across the Group and consistent, with clear risk ownership. In order to assist the Board and the Group in its understanding of its principal risks, we have increased the granularity and quantification of each risk. The framework also now includes the identification and assessment of climate risks, thereby meeting the Task Force on Climate-related Financial Disclosures reporting requirements. In early FY23 we have launched an updated Risk Management policy, which will enhance the guidance and requirements around our risk assessment and reporting process.

Our risk management framework

The Board sets the Group's strategy, which we describe on page 6. To help deliver this strategy, the Board has now in place procedures for identifying, evaluating and managing the risks inherent in our strategy. As part of those procedures, the Board reviews and approves the Group's risk register on a semi-annual basis to ensure alignment with the Group's strategy. It makes this determination using a risk-rating matrix, which assesses the probability and the impact of each risk occurring. The Board makes this assessment after taking into consideration the controls and mitigations that the Group has in place.

We build our risk-rating matrix by bringing together the risk registers of our sectors. These risk registers include both principal and emerging risks. The sectors compile their risk registers by using a common Group risk management framework. The framework requires the sectors to describe their risks along with the measures in place to control or manage each risk. The Group risk function consolidates the sector risk registers and then produces the risk-rating matrix, which sets out the Group's principal and emerging risks.

The risk-rating matrix is split into two separate five-by-five matrices: one showing the current rating of each risk; and the other showing the target rating. Each matrix measures each risk for probability and impact, with each box on the five-by-five matrix representing a combination of a particular level of probability and impact. We rank probability across very unlikely, unlikely, possible, likely and very likely. We measure impact across insignificant, minor, moderate, major and severe. We give guidance so the sectors have a common approach as to how to measure probability and impact. We have included the current rating for each principal risk alongside its description, which follows.

On a semi-annual basis, the Group Executive Committee reviews the matrix. Following the Group Executive Committee reviews, the Board, on an annual basis, considers the matrix and, in particular, reviews the Group's principal and emerging risks. The review includes a consideration of risk description, as well as our controls and mitigations. In addition to the review of the risk-rating matrix, the Board also undertakes 'deep dives' on specific risks at regular intervals in the year.

Our internal control environment

During the year, we made significant improvement to our internal control environment which aims to protect the Group's assets and to check the reliability and integrity of the Group's information, thereby providing assurance that the Group appropriately manages the risks to our business model and the delivery of our strategy.

Written policies set the framework for the Group's internal controls. These policies cover a range of matters intended to mitigate risk, such as health and safety, information security, trade controls, contracting requirements and accounting policies. The policies include a new scheme of delegated authorities that was launched in the period. This Group-wide process amalgamates all previous Group, sector and business unit delegation of authorities into one consolidated and standardised document, which imposes strict controls across the Group and details authority levels for any given act. For example under the scheme, which it approves annually, the Board reserves to itself the authority to approve all material acquisitions and disposals, all material capital expenditure, all material non-ordinary-course tenders (the CEO and the CFO may approve material ordinary-course tenders) and all financing arrangements not delegated to the Board's Finance Committee.

The Group's internal controls also include comprehensive financial reporting processes. The Group reports on a monthly basis up through its business units and sectors to the Group Executive Committee. The CEO and CFO report to each Board meeting on matters of significance to the Group, including its operating performance. In addition to backward-looking reports, the Group prepares an annual budget and medium-term financial plans, which the Board reviews, challenges and approves. The Group prepares updated forecasts for the year on a quarterly basis. The Board receives details of monthly actual financial performance compared to budget, forecasts and the prior year.

Our risk assurance

We use the 'three lines of defence' model to assure ourselves about the management of the risks that we face. The first line of defence is management control, policies and procedures, together with management oversight. The second line is internal assurance activities, which include the review of the sector risks and functional oversight. The third line is external (ie independent) assurance activities, such as internal audits.

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Our risk management framework and our internal control environment

External audit

Provides external assurance: its aim is to detect material errors and material irregularities in our financial statements.

Please see page 142 for the independent auditor's report.

Board

Overall responsibility for the Group's strategy and risk management

Reviews the Group's risk-rating matrix and determines the Group's principal risks

Reviews and approves the Group's risk register

Reviews the Group's financial reports, including annual budget and five-year plan, to monitor financial performance and identify potential issues/emerging risks

Audit Committee

Reviews aspects of the Group's risk management and internal control environment

Reviews and monitors the adequacy and effectiveness of the Group's risk management framework and internal control environment

Approves the annual audit plan for the external and internal audits

Group Executive Committee

Reviews quarterly a consolidated report prepared by the Group risk function, which summarises the Group's principal and emerging risks. Committee members sponsor and own the principal risks

Internal audit

Provides independent and objective assurance on governance, risk management and internal control to the Board and the Group. For more information, please see page 111

Sectors

Identify the risks, including emerging risks, along with the controls and assurance to mitigate those risks

Functions

Provide oversight and management of certain specialised risk areas that benefit from central coordination (for example, tax, treasury, IT, procurement etc)

Our risk assurance

First line of defence – management

We have written policies covering a range of matters to mitigate risk, such as health and safety, information security, contracting requirements and accounting policies. We underpin these policies with a comprehensive scheme of delegated authorities, which the Board annually reviews and approves. Twice a year, the sectors complete a letter of representation to provide confirmation of compliance with the Group's policies.

Management reports up from our business units through the sectors to the Board on operational and financial performance.

Second line of defence – internal assurance

The Board and the Group Executive Committee review the Group's financial and operational performance on a regular basis through the monthly reporting packs, which include monthly management accounts, and can compare that performance against the Group's budget, which the Board approves on an annual basis.

Group reviews the sector letters of representation to identify any control weaknesses.

Group functions and specific committees monitor certain risks, such as health and safety, finance, tax and treasury.

The Group maintains an insurance programme. The Group Risk and Insurance Manager reports to the Board annually on the strategic approach to that programme.

Third line of defence – external assurance

The internal audit, which reports to the Audit Committee, provides assurance of the effectiveness of the Group's control environment.

The Audit Committee agrees both the external and internal audit plans on an annual basis.

A number of external regulators and other bodies, such as national civil aviation authorities, the UK Office of Nuclear Regulation and the International Office for Standardisation, regularly inspect parts of the Group.

All employees have access to a whistleblowing line to allow them to report any concerns that they may have. The Board receives all the reports to the line along with an explanation of how the Group is investigating them and the outcome of the investigation.

Risk management and internal control annual review

To provide assurance, the Audit Committee performs an annual review of the Risk Management policy to assess its effectiveness. After last year's review, the Committee concluded that the internal control environment was not operating effectively in certain parts of the Group, particularly in Aviation, Land and Group Head Office. In response, the Committee agreed with management improvement plans for the relevant areas. Throughout the year, the Committee has monitored the implementation of these plans and, following this year's review, is satisfied with the delivery of the improvement plans agreed last year, whilst recognising that there remains ongoing scope for further improvements in FY23, including lessons learnt from FY22 closing.

Our principal and emerging risks

We have described above our risk management framework. Working through that framework, this year the Board has identified on pages 76 to 87 those risks that it currently believes to be of greatest significance to the Group, as they have the potential to have a material impact on the Group's business or the delivery of its strategy or financial results if they were to occur.

However, our risk management is a dynamic and ongoing process. Therefore, the Group might identify new risks or better understand the significance of existing risks or identify a change in a risk. This means that the risks identified on pages 76 to 87 are not and cannot be an exhaustive list of all the principal risks that could affect the Group. In addition, as part of its risk work, the Board has also identified two emerging risks. Both these risks are not standalone risks, but affect several of our principal risks. Where they do affect one of our principal risks, we have included that effect in the principal risk. The two emerging risks are:

Emerging risk	Description
Inflation	As the global economy recovers from the pandemic, it is experiencing increasing inflationary pressure, both in terms of supplier costs, such as products, commodities, energy and freight, and labour rates. This inflationary environment may be exacerbated by the conflict in Ukraine. As a Group, we have a number of long-term contracts, which may include fixed price elements or saving commitments. We also have collective bargaining agreements with our workforce at certain sites. If we have increased costs which we are not able to pass on, this will affect the profitability of the contracts concerned and could mean that they become loss-making or that we are unable to meet our contractual commitments, leading to an adverse financial impact and a longer-term reputational impact. We have established a programme watchlist covering our most significant programmes as part of our monthly reviews and are in discussion with customers where inflation is diverging from contract terms. In respect of new contracts, we have put in place controls to ensure that the terms of the new contracts adequately cover the inflation risk.
Supplier resilience	Our supply chain is subject to the same global inflationary pressures. Furthermore the global supply of raw materials and parts has not fully recovered from the COVID-19 pandemic, leading to supply interruptions. As with inflation, this could be exacerbated by the conflict in Ukraine. As a result, there is a risk that our suppliers may suffer financial distress and/or not be able to fulfil their contracted supply agreements with us. This would add additional cost and time to our programmes, which we may not be able to pass on to our end customer. To mitigate the risk, we have increased the level of monitoring of our supply chain's financial distress and operational performance to allow us to intervene if any concerns arise.

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Principal risks, their impact and mitigation

Probability
1 Very unlikely
2 Unlikely
3 Possible
4 Likely
5 Very likely

Impact
1 Insignificant
2 Minor
3 Moderate
4 Major
5 Severe

Change from last year
↑ Up from last year
↔ Same as last year
↓ Down from last year

EXISTING MARKETS

We rely on winning and retaining large contracts with a relatively limited number of major customers, whether in the UK or overseas, many of whom national or local governments (directly or indirectly) own, control or fund.

Probability 4 ↔ **Impact** 4 ↔

Potential impact

Major customers, such as our single biggest customer the UK Ministry of Defence (MOD), have significant bargaining power and can exert pressure to change, amend or even cancel programmes and contracts. As governments, whether in the UK or overseas, own or fund many of our major customers, political and public spending decisions may have a significant impact on our customers.

For example, the UK Government's national security and international policy objectives control the budget of the MOD. Another example may be the UK's exit from the EU, the consequences of which remain difficult to predict, as UK companies may not be able to bid on EU programmes, or may have to trade on different terms to a non-EU member, or may experience difficulties holding operating licences or recruiting qualified personnel.

Whilst customer policy changes or budgets can potentially offer more opportunities for us to pursue, they can also be a risk in that they could lead to changes in customer strategy and spend, which could include:

- reductions in the number, frequency, size, scope, profitability and/or duration of future contract opportunities
- in the case of existing contracts, early termination, non-extension or non-renewal or lower contract spend than anticipated and pressure to renegotiate contract terms in the customer's favour
- favouring the retention of, or return to, in-house service provision, either generally or in the sectors in which we operate
- favouring small or medium-sized suppliers or adopting a more transactional rather than a cooperative, partnering approach to customer/supplier relationships
- imposing new or extra eligibility requirements as a condition of doing business with the customer that we may not be able readily to comply with, or that might involve significant extra costs, thereby affecting the profitability of doing business with them.

A significant number of our contracts with the MOD are subject to the Single Source Contract Regulations (SSCR), which the Single Source Regulations Office (SSRO) administers. The SSRO sets the baseline profit rate for single source contracts let by the MOD on an annual basis. These regulations and their implementation are subject to review by the UK Government, which could lead to lower returns for industry.

In certain jurisdictions, we bid on programmes that may include offset arrangements. Such arrangements are designed to generate work in the customer's country and may constrain how we deliver and benefit from those programmes.

Mitigation

Our focus on the aerospace, defence and security markets, together with our geographical spread, provides a degree of portfolio diversification. We are in ongoing dialogue with our key customers in order to understand their requirements, objectives and constraints, so that we can remain as aligned with them as possible. We monitor expenditure changes in our markets in order to allow us to make the appropriate adjustments. We maintain a public listing, as we believe it is an important factor in winning contracts and retaining our business position, particularly with government customers.

We have a clear business strategy to target a large bid pipeline, both in the UK and internationally. We bid for contracts we consider have an alignment with the Group strategy and where we believe we stand a realistic chance of success due to, for example, customer understanding, domain knowledge or technical expertise, both in the UK and overseas. We maintain a dialogue with our customers to understand their intentions regarding their pipeline.

During the pandemic, we worked closely with our customers in order to understand their priorities in response to the pandemic. All our businesses have implemented the necessary plans in consultation with our key customers to continue to deliver on our contracts where possible.

The Group remains in dialogue with the SSRO, the MOD and wider industry regarding future planned changes to the SSCR.

NEW MARKETS

We seek new markets and contracts for our services both with existing and new customers, whether in territories where we are already established or in territories where we are not.

Probability 3 (↔) **Impact** 5 (↔)

Potential impact

We may fail to secure and/or deliver new opportunities for a number of reasons. These reasons may include customer funding constraints, our services not being relevant due to the non-acceptance of our business model by customers, our failure to anticipate future market requirements or future changes in technology, our failure to find the appropriate quantity and quality of resource, our failure to align our bid strategy to a customer's strategy, or increased competition in our markets.

In addition, COVID-19 or the UK's departure from the EU or other geopolitical developments may give rise to economic nationalism and a reluctance from international customers to award contracts to a non-domestic company. A lack of success in exporting the Group's business model outside the UK and our current core markets could adversely affect the growth prospects and strategic development of the Group. Failure to convert our bidding pipeline into contracts may put pricing pressure on the remaining pipeline.

Mitigation

We aim to target our resources in those new markets where we believe our services are relevant and where we believe we have a good chance of success. As appropriate, we aim to invest in innovation and people to prepare for new ways of working or delivering our services. We maintain ongoing dialogue with our customers in order to understand their requirements and their budgets.

FINANCIAL RESILIENCE

The Group is exposed to a number of financial risks, some of which are of a macroeconomic nature (for example, foreign currency, interest rates) and some of which are more specific to the Group (for example, liquidity and credit risks).

Probability 3 (↓) **Impact** 4 (↔)

Potential impact

A lack of financial resilience may hinder us in raising debt funding to invest in existing or future business. The weakness also may cause our existing banks to increase the cost of our funding. If our debt is denominated in a currency other than Sterling, movements in exchange rates may make that debt more costly when we repay it.

Customers and/or suppliers may question our long-term sustainability if we have a weak balance sheet. This may tighten the terms of business on which they are prepared to contract with us or, in the extreme, cause them to not award work to Babcock due to their perception of risk.

Credit rating agencies may downgrade our rating, which could increase our cost of borrowing.

The lack of financial resilience may trigger certain pension scheme financial thresholds, requiring us to allocate further resource to the schemes.

We could face capital allocation constraints and consequently have reduced capital to invest in the business to meet all our obligations or to pay a dividend.

In addition, if companies working in the defence or nuclear sectors were deemed to be not suitable for investment by certain investment funds (eg due to extremely strict ESG policies) the cost and/or availability of capital to the Group could be adversely affected.

Mitigation

We have undertaken a rationalisation of the Group portfolio and raised in excess of the £400 million proceeds target we set ourselves last year from disposals. This has strengthened our balance sheet during FY22.

Last year, we also secured an additional debt facility of £300 million to provide additional liquidity, along with a temporary relaxing of financial covenants.

We are proactive in our dealings with credit rating agencies and lenders. The Board reviews the financial position of the Group on a monthly basis against the Board-approved three-year plan.

The Group has a very proactive ESG agenda (see page 54) and regularly communicates Group activities to assist in more informed investment decisions by providers of capital.

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Probability	Impact	Change from last year
1 Very unlikely	1 Insignificant	↑ Up from last year
2 Unlikely	2 Minor	↔ Same as last year
3 Possible	3 Moderate	↓ Down from last year
4 Likely	4 Major	
5 Very likely	5 Severe	

CONTRACT AND PROJECT PERFORMANCE

We operate large contracts, which often require us to price for the long term and for risk transfer. Our contracts can include fixed prices.

Probability 4 ↔ **Impact** 4 ↔

Potential impact

We seek to win and operate long-term high-value contracts for the provision of complex and integrated services to our customers. This has a number of key risks.

There are usually only a relatively limited number of customers in each of our market sectors. In addition, our market sectors can be highly competitive. This means that our customers have significant market power and can require bidders to accept a substantial transfer of risk from the customer to the supplier. For example, it is common in our markets that the contracts that we tender for may impose strict conditions and clauses, including unlimited liabilities, termination without cause and strict performance conditions, which, if not complied with, may trigger compensation for the customer.

If we (or our supply chain) underestimate or under-price actual risk exposure or the cost of performance, or if, during the contract, cost inflation diverges from revenue inflation, or if unforeseen or additional costs are incurred, for example, due to the UK's exit from the EU or COVID-19 or rates of inflation, this could increase our cost to deliver the contract. For example, we operate fixed-price contracts. Actual costs may exceed projected costs, including assumptions on future rates of inflation on which the fixed prices are agreed. Since these contracts can extended over many years, it can be difficult to predict the ultimate outturn of costs.

Our contracts tend to involve significant supply chains. Failure by our supply chain partners to deliver on their contractual obligations may cause us increased costs or missed schedules, or put us in breach of our contractual obligations.

Long-term contracts often have changes, or updates, to their scope. If we do not properly manage contract changes, we may incur additional costs or fail to deliver contractual requirements, which may reduce overall profitability or lead to penalties or contract termination.

If any of these key risks materialise, they may increase our costs to deliver on our contractual obligations or may result in the imposition of penalties or the early termination of the contract with the imposition of damages, or reputational damage, which may cause strain on our customer relationship. This may undermine not only our current contract, but also our ability to win future contracts.

COVID-19 may increase the likelihood of each of these key risks arising as it makes our operations less efficient or effective. Any of these outcomes may adversely affect our future profitability, cash generation and growth.

Mitigation

We have formal reviews and gating processes at key stages of each material bid to reduce the risk of underestimating risks and costs and to ensure that we target limited bid resources at opportunities where we consider that we have the best prospects of winning or retaining business. Group policies and procedures continue to set a commercial, financial and legal framework for all bids.

Contractual performance is continuously under review (at a business unit, sector and/or senior Group executive level as appropriate) with a view to highlighting at an early stage risks to delivery and profitability. Where we identify poor performance, the business will implement a remediation plan.

These reviews also consider the performance of our supply chain. In the current circumstances, the reviews consider the impact of COVID-19. We also regularly review project costs to complete to ensure accuracy of the financial profile of the contract.

BUSINESS INTERRUPTION

Failure to withstand the impact of an event or a combination of events may significantly disrupt all or a substantial part of the Group's business.

Probability 3 (↔) **Impact** 4 (↔)

Potential impact

A range of events – for example, extreme weather, natural hazards (such as floods or earthquakes), political events, financial insolvency of a critical supplier, scarcity of materials, loss of data or corruption of our IT estate, fire or infectious disease – could cause business interruption. The consequences of these events could have an adverse impact on our people, our facilities, our supply chains, or our ability to meet our contractual obligations.

The COVID-19 pandemic is an example of such an event. The pandemic has had a significant impact on our business and the markets that we served over the last two financial years. For our customers, the pandemic may reduce their current or future budgets or cause them to deploy their budgets in different ways, changing our markets. For our employees, the pandemic has changed the ways that we work. These measures may create inefficiencies in some of our businesses, adding time and cost to our programmes or even leading to loss of contracts due to KPI default. The pandemic may also affect our suppliers and lead to failures in the supply chain, which may adversely affect our ability to deliver our programmes.

An outbreak of another contagious disease or a new variant of COVID-19 may have an adverse effect on the Company's business, financial condition and prospects.

Mitigation

Throughout the pandemic, we have looked to prioritise the key programmes of our customers and to demonstrate the mission-critical nature of our services.

For employees, our priority has been their wellbeing and safety. We have adapted working practices and facilities, including introducing social distancing, PPE requirements, improved cleaning regimes and increased remote working, to seek to keep our people safe and well throughout this crisis.

We continue to manage the situation closely and follow government and health authority advice to help prevent the spread of the virus. For general business continuity, we have in place IT disaster recovery and business continuity processes. We also maintain relevant and appropriate insurance.

OPERATIONAL RESILIENCE

We are undertaking multiple change programmes with the introduction of a new strategy, a new operating model to restructure the shape of the Group, and a new People strategy, as well as undertaking the alignment of both the business portfolio and our property portfolio. Additionally there are several new material opportunities that the Group may pursue – some in new geographies – that may further stretch management bandwidth.

Probability 3 (↔) **Impact** 4 (↔)

Potential impact

All these programmes are underway concurrently, in addition to the delivery of the Group's services to its customers. This may put pressure on management bandwidth to oversee all the change programmes, as well as the regular running of the business. This could lead to an elevated risk of mistakes or missed opportunities.

If we fail to deliver the change programmes, we will not be able to achieve our strategic goals. Failure to deliver the change programmes may also undermine the confidence of key stakeholders in our future growth and plans.

Mitigation

Management is experienced in delivering programmes of this nature. There is regular monitoring of progress across all the programmes to ensure that they remain on track, along with regular dialogue with customers at a senior level to ensure that delivery of our contracts is in no way compromised. The Board receives a monthly report with a status update on the key change programmes and major new opportunities.

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Probability		Impact		Change from last year	
1	Very unlikely	1	Insignificant	↑	Up from last year
2	Unlikely	2	Minor	↔	Same as last year
3	Possible	3	Moderate	↓	Down from last year
4	Likely	4	Major		
5	Very likely	5	Severe		

HEALTH, SAFETY AND ENVIRONMENT

Our operations entail the potential risk of significant harm to people, property or the environment, wherever we operate across the world.

Probability 2 ↓ **Impact** 5 ↑

Potential impact

Parts of our business (for example, our nuclear operations) involve working in potentially hazardous operations or environments, which we must manage and control to minimise the risk of injury or damage. Others, for example our aerial emergency services operations, involve an inherent degree of risk that is compounded by the nature of the services provided (firefighting, search and rescue, air ambulance and emergency services) or the environments in which they operate (low-altitude flying in adverse weather, terrain or operational conditions).

Serious accidents have a major impact on the lives of those directly involved and on their families, friends, colleagues and community, as can serious environmental incidents. These accidents may arise from: inadequate hazard control or training or management supervision; the failure to implement changes or learning from previous accidents; poor safety leadership and culture; equipment failure; or human or organisational factors.

If we cause or contribute to an incident because of failings on our part, or because as a matter of law we are strictly liable without fault, we may have to pay substantial damages, not all of which may be insured, as well as potentially being subject to criminal proceedings, which could result in substantial penalties. We could also suffer contract penalties due to an inability to deliver the contract or a loss of productivity.

Such incidents (which may have a high public profile given the nature of our operations) may also seriously damage our reputation (whether justifiably or not), which could lead to a significant loss of business or future business opportunities.

An incident may also disrupt our business if it prevents our employees from working.

Mitigation

Our goal is for everyone to go 'Home Safe Every Day'. Accordingly, health, safety and environmental performance receives close and continuous attention and oversight from the senior management team.

We have specific health, safety and environmental governance structures in place as well as education and training programmes for staff. Safety leadership teams in each sector and the Corporate Safety Leadership Team oversee the implementation of policy, strategy and initiatives across all our businesses.

The Board receives reviews of health and safety performance.

Nuclear risks: We hold indemnities given to us by the UK Nuclear Decommissioning Authority and the UK MOD, to protect against risk of liability for injury or damage caused by nuclear contamination or incidents, but a reputational risk because of any serious incident would remain.

In respect of the current COVID-19 pandemic, we have taken a number of measures across the Group. Our first priority is the safety of our employees. Our employees deliver essential services on which our customers and the wider community rely. The continuation of these services is key. We have reviewed our methods of working across the Group to institute the appropriate protective measures, including issuing new work guidelines, asking employees to work from home where they can, changing shift schedules, instituting infection control at work sites and ordering the wearing of protective equipment.

We believe we have appropriate insurance cover against civil liability exposures.

REGULATORY AND COMPLIANCE

Our businesses are subject to the laws, regulations and restrictions of the many jurisdictions in which they operate.

Probability 2 (↔) **Impact** 4 (↔)

Potential impact

The laws and regulations that we are subject to include anti-bribery laws, import and export controls, tax, procurement rules, human rights laws and data protection regulations.

Failure to maintain compliance with applicable requirements could result in: fines and criminal prosecution; the removal of a licence to operate; reputational damage; cost of rectification; debarment from bidding; loss of access to markets; and the loss of substantial business streams (and possible damages claims) and opportunities for future business.

If an applicable law or regulation changes, it may cause us substantial expenditure in order to comply, which may not be recoverable (either fully or at all) under customer contracts.

Compliance with some regulatory requirements is a precondition for being able to carry on a business activity at all. For example, our Aviation business is subject to a high degree of regulation relating to aircraft airworthiness and certification, as well as regulations relating to ownership and control. Regulation (EC) No.1008/2008 (the Regulation) requires all air operators in the EU to be majority-owned and controlled by European Economic Area nationals.

Given the nature of our customers and the markets in which we operate, as well as the services that we provide, we believe that our reputation, not only in terms of delivery but also in terms of behaviour, is a fundamental business asset. Failings or misconduct (perceived or real) in dealing with a customer or in providing services to them or on their behalf could substantially damage our reputation with that customer or more generally.

Mitigation

We maintain internal policies and procedures in order to ensure that the Group complies with all applicable laws and regulations. We also have suitably qualified and experienced employees and expert external advisors to advise and assist on regulatory compliance. We have management systems involving competent personnel with clear accountabilities for operational regulatory compliance.

In order to address the requirements of the Regulation, we have restructured the operations of the relevant operations so that a new sub-group, which is majority-owned and -controlled by an EU-based holding company, holds those parts of the business that fall under the Regulation. The Board believes that this structure satisfies the nationality requirements of the Regulation. However, as the ultimate decision to grant or revoke a licence rests with the EU aviation authorities, there can be no guarantee that this continues to be the case.

Senior management at Group and sector level are keenly aware of reputational risks, which can come from many sources. Our Code of Conduct, together with our Ethics policy, sets out the clear expectations that we have of our employees. We seek to reinforce these values with all employees through a number of different processes, for example our training. We encourage all our employees to use our whistleblowing reporting lines if they see evidence of behaviour which is not in keeping with our values. The Board monitors and reviews all reports and their investigations.

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Probability		Impact		Change from last year	
1	Very unlikely	1	Insignificant	↑	Up from last year
2	Unlikely	2	Minor	↔	Same as last year
3	Possible	3	Moderate	↓	Down from last year
4	Likely	4	Major		
5	Very likely	5	Severe		

PEOPLE

We operate in many specialised engineering and technical domains, which require appropriate skills and experience.

Probability 2 ↓ **Impact** 4 ↑

Potential impact

Our business delivery and future growth depend on our ability to recruit, develop and retain experienced, highly skilled employees (including suitably qualified and experienced engineers, technicians, pilots and staff from other specialist skill groups).

Competition for the personnel we need is intense and is likely to remain so for the future. This may be exacerbated by nationality restrictions, which may prevent us from accessing talent from the EU or worldwide. This poses risks in both recruiting and retaining such staff.

If we have insufficient qualified and experienced employees, this could impair our service delivery to customers or our ability to pursue new business, with consequent risks to our financial results, growth, strategy and reputation and the risk of contract claims.

The cost of recruiting or retaining the suitably qualified and experienced employees we need might increase significantly depending on market conditions including inflation. This could affect our contract profitability.

Mitigation

We undertake workforce and succession planning to identify skill gaps and to form plans to address them. We have programmes to develop our employees so that they have the right skills and experience.

We have developed a new People strategy, led by the Group's Chief Human Resources Officer. This strategy will establish a common approach across the Group. The new approach includes a new 'agile' way of working, a review of the rewards and remuneration structure and improved people management.

PENSIONS

The Group has significant defined benefit pension schemes in the UK, which provide for a specified level of pension benefits to scheme members.

Probability 4 (↔) **Impact** 4 (↔)

Potential impact

Member and employer contributions paid into pension scheme funds and the investment returns made in those funds over time have to meet the cost of the defined benefit obligations.

Various assumptions underpin the level of our contributions. These assumptions are subject to change, such as life expectancy of members, gilt yields, investment returns, inflation and regulatory changes. Based on the assumptions used at any time, there is always a risk of a significant shortfall in the schemes' assets below the calculated cost of the pension obligations. For example, pension liabilities can increase due to rising life expectancy, higher-than-expected inflation rates in the future and lower interest rates.

If the pension trustees believe that the assets in the pension schemes are insufficient to meet pension liabilities or if our balance sheet strength does not meet the pension trustees' expectations, they may require us to make increased contributions and/or lump sum cash payments into the schemes or provide additional security from the Group. The toughening stance of the UK Pensions Regulator may influence our pension trustees' perspectives. Increased contributions or lump sum cash payments may reduce the cash available to meet our other obligations or business needs and may restrict our future growth.

Accounting standard rules governing the measurement of pension liabilities can lead to significant accounting volatility from year to year due to the need to take account of macroeconomic circumstances beyond the control of the Company. Companies, including Babcock, do not calculate actuarial valuations used for funding on the same basis as IFRS accounting standards. This means the future cash contributions are difficult to derive from the Group's IFRS balance sheet.

When accounting for our defined benefit schemes, we have to use corporate bond-related discount rates to value the pension liabilities. Variations in bond yields and inflationary expectations can materially affect the pensions charge in our income statement from year to year as well as the value of the net difference between the pension assets and liabilities shown on our balance sheet.

There is a risk that future accounting, regulatory and legislative changes may also adversely impact pension valuations, both accounting and funding, and, hence, costs and cash for the Group.

Mitigation

Group senior management undertakes continuous strategic monitoring and evaluation of the assets and liabilities of the pension scheme. Management aims to increase its engagement with the scheme trustee chairs and with the UK Pensions Regulator.

The pension scheme mitigates the risk of liability increases by having investment strategies that hedge against interest rate and inflation risk and using longevity swaps to limit exposure to increasing life expectancy. Trustees use professional advisors to assist in the hedging of risks.

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Probability	Impact	Change from last year
1 Very unlikely	1 Insignificant	↑ Up from last year
2 Unlikely	2 Minor	↔ Same as last year
3 Possible	3 Moderate	↓ Down from last year
4 Likely	4 Major	
5 Very likely	5 Severe	

IT AND SECURITY

A key factor for our customers is our ability to deliver secure IT and other information assurance systems to maintain the confidentiality of sensitive information.

Probability 4 ↑ **Impact** 4 ↔

Potential impact

We hold data that is confidential and needs protection, in an environment of increasing cyber threat. Despite controls designed to protect such information, there can be no guarantee that security measures will be sufficient to prevent security breaches or cyber attacks being successful in their attempts to penetrate our network security and misappropriate confidential information or otherwise cause harm to the Group, for example through denial of service. The Group may be seen as a target for attack by 'state actors' from overseas countries because of the nature of the Group's activities for its government customers.

In addition, failure to invest in our IT infrastructure, for example in legacy systems, may create a weakness that may lead to a breach. The risk of loss of information or data by other means (such as physical loss) is also a risk that we cannot entirely eliminate.

A breach or compromise of IT system security or physical security at a physical site could lead to loss of reputation, loss of business advantage, disruptions in business operations and inability to meet contractual obligations. Significant data breaches or losses could lead to litigation and fines for breach of applicable regulations such as data protection laws. This could have an adverse effect on the Group's operations and its ability to win future contracts, which may affect our overall financial condition.

Mitigation

We have made and will continue to make significant investment in enhancing IT security and security awareness generally. We seek to assure our data security through a multi-layered approach that provides a hardened environment, including robust physical security arrangements and data resilience strategies. We have formal security and information-assurance governance structures in place to oversee and manage cyber security and similar risks. We conduct comprehensive internal and external testing of potential vulnerabilities.

The Group maintains business continuity plans that cover a range of scenarios (including loss of access to IT). We regularly test the plans that relate to IT.

ACQUISITIONS AND DISPOSALS

We have built our core strengths organically and through acquisition. Decisions to acquire companies, as well as the process of their acquisition and integration, are complex, time-consuming and expensive. If we believe that a business is not 'core', we may decide to sell that business.

Probability 1 ↓ **Impact** 4 ↔

Potential impact

If we acquire companies, we may not realise the financial benefits of the acquisition as expected, due to poor integration or to acquisition business cases relying on market conditions or other business assumptions that subsequently do not materialise, challenging the logic of the acquisition decision.

Those companies that we consider to be non-core, and therefore disposal candidates, may become distracted or demotivated or lose key employees, which may lead to poor performance whilst also undermining their value to their customers and a potential buyer.

Mitigation

Our focus is currently on operational execution, rather than acquisitions, with the possible exception of 'bolt-on' acquisitions.

We will work to enhance our acquisition and integration capability so that we are ready at the appropriate time in the future.

We will clearly communicate our disposal strategy and put in place the appropriate transaction resource to prioritise the disposals.

Going concern and viability statement

Overview

The Directors have undertaken reviews of the business financial forecasts, in order to assess whether the Group has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the going concern basis of accounting.

The Directors have also looked further out to consider the viability of the business to test whether they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due.

For assessing going concern, the Board considered the 12 month period from the date of signing the Group's financial statements for the year ended 31 March 2022. For viability, the Board looked at a five-year view as this is the period over which the Group prepares its strategic plan forecasts.

That five-year view is an update from the previous three-year plan, now that we have completed the first year of turnaround and made initial steps to reshape our portfolio of businesses.

The use of a five-year period provides a planning tool against which long-term decisions can be made concerning strategic priorities, addressing the Group's stated net zero target and climate-related risks and opportunities, funding requirements (including commitments to Group pension schemes), returns made to shareholders, capital expenditure and resource planning.

The annually prepared budgets and forecasts are compiled using a bottom-up process, aggregating those from the individual business units into sector level budgets and forecasts. Those sector submissions and the consolidated Group budget and forecasts are then reviewed by the Board and used to monitor business performance.

The Board considered the budgets alongside the Group's available finances, strategy, business model, market outlook and principal risks. The process for identifying and managing the principal risks of the Group is set out in our Annual Report. The Board also considered the mitigation measures being put in place and potential for further mitigation.

The Board considers the long-term prospects of the Group underpin its conclusions on viability. As outlined in our strategy, business model and markets summaries on pages 6 to 11 of this report, our prospects are supported by:

- a diverse portfolio of businesses based on well-established market positions, focussed on naval engineering, support and systems, and on critical services in our core defence and civil markets. In FY22 55% of Group sales were defence related and 45% civil;
- a geographically diverse business with a high proportion of sales to governments and other major prime defence contractors. In FY22, 63% of sales were to defence and civil customers in the UK, and 37% were international;
- long-term visibility of sales and future sale prospects through an order backlog of £9.9 billion as at 31 March 2022, including incumbent positions on major defence programmes; and
- market positions underpinned by a highly skilled workforce, intellectual property assets and proprietary know-how, which are safeguarded and developed for the future by customer- and Group-funded investment.

Available financing

As at 31 March 2022, net debt excluding operating leases was £556.7 million and the Group therefore had liquidity headroom of £1.7 billion, including net cash and cash equivalents of £0.8 billion and undrawn facilities of £1.0 billion. These facilities are considered more than adequate to meet current and other liabilities as they fall due, and supports the Group's negative working capital position largely arising from securing customer advances ahead of contract work starting.

As of June 2022, the Group's committed facilities and bonds totalling £2.4 billion were as follows:

- €550 million bond, hedged at £482 million, maturing 6 October 2022
- £300 million three-year RCF maturing 20 May 2024
- Existing £775 million revolving credit facility (RCF) maturing 28 August 2025; of which £730 million now matures 28 August 2026.
- £300 million bond maturing 5 October 2026
- €550 million bond, hedged at £493 million, maturing 13 September 2027
- A committed overdraft facility of £50 million

The RCFs are the only facilities with covenants attached. The key covenant ratios are (i) net debt to EBITDA (gearing ratio) (ii) and EBITDA to net interest (interest cover).

These are measured twice per year – on 30 September and 31 March. In May 2021 our lending banks agreed to raise the covenant limit for the gearing ratio from 3.5x to 4.5x for the measurement periods ending 30 September 2021 and 31 March 2022 in order to provide sufficient downside protection for the Group as the turnaround in performance took place.

As we have now successfully delivered over £400 million from the divestment programme, amongst other turnaround dependencies in the prior 12 months, we have not considered it necessary to seek any extension to the period of time covered by those raised covenant limits. Hence for all periods in this going concern review, the gearing ratio covenant returns to 3.5x at September 2022 and remains so thereafter.

The RCF lenders are fully committed to advance funds under the RCF to the Group, provided that the Group has satisfied the usual ongoing undertakings, and the creditworthiness of the Group's relationship banks is closely monitored. Based on their credit ratings we have no credit concerns with our relationship banks. Given the importance of the RCFs to the Group's liquidity position, our assessments of going concern and viability have tested the Group's gearing ratio, interest cover and liquidity headroom throughout the period under review up to their current maturity dates.

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Base case scenario

The base case budget shows significant levels of headroom against both financial covenants and liquidity headroom based on the current committed facilities outlined above (without assuming any refinancing of the €550 million bond in October 2022). That base case largely assumes we maintain our incumbent programme positions if re-let during the five year period, with margin recovery if they are currently below the Group average. Many opportunities available to the Group, where we do not yet have high conviction of securing the work, have been excluded from the Base Case to seek to maintain a degree of caution.

That base case assumes no further recurrence of business disruption from the COVID-19 pandemic, which is consistent to our trading in FY22.

It also assumes that the impact of current inflationary pressures can be managed within contract estimates assumed in our planning. The base case assumes no further reshaping of the business portfolio, so it is not dependent upon any future cash proceeds from divestments. It also maintains pension deficit contributions in excess of income statement charges of around £130 million relating to FY23 and around £75 million relating to FY24.

Reverse stress testing of the base case

To assess the level of headroom within the available facilities, a reverse stress test was performed to see what level of performance deterioration against the base case budgets and forecasts (in both EBITDA and net debt) was required to challenge covenant levels.

Of the remaining measurement points within the available facility period, the lowest required reduction in forecast EBITDA to hit the covenant level was 46% and the lowest net debt increase was 50%. Given the mitigating actions that are available and within management's control, such movements are not considered plausible.

Severe but plausible downside scenarios

The Directors also considered a series of severe but plausible downside scenarios which are sensitivities run against the base case budget and forecasts for the duration of the assessment period. These sensitivities include – separately – a reduction in bid pipeline closure (business winning), an erosion of operating model savings, a deterioration in large programme performance across the Group (including further inflation cost increases, or related failures in supplier resilience, as per our principal risks), a deterioration in the Group's working capital position and a regulator-imposed cessation in flying two of the largest aircraft fleets in the Group.

As stated above, a key contributor to the strengthening of the balance sheet in FY22 was the divestment programme which generated in excess of the original target of £400 million of proceeds. No sensitivities were therefore considered necessary to be tested in relation to further potential divestments.

All of these separate scenarios showed compliance with the financial covenants throughout the period, and with sufficient headroom given the strengthened balance sheet, no extensions have been sought to the temporary increase in the covenant level gearing ratio previously granted by our lending; it has therefore now reverted to the usual 3.5x at September 2022 and for all future measurement periods.

As with any company or group, it would be possible, however unlikely, to model individual risks or combinations of risks that would threaten the financial viability of the Group. The Board has not sought to model events where it considers the likelihood of such events not to be plausible. In preparing a combined severe but plausible (SBP) downside case, the Board considered the feed of individual risks from the sectors covering the above sensitivities. Overall there were c.80 profit and cash flow risks identified.

A simple aggregation of all of these risks is not considered plausible as the Group operates businesses and contracts which run largely independently of each other, albeit with a relatively small number of customers within each geography.

The majority of these identified risks were seen as 'sector independent' (ie there is no direct read across from one sector to another). A small number are deemed 'non independent' eg inflation, FX etc. The Board decided to include in its combined SBP downside all the 'non independent' risks without reduction, but reduced the aggregation of the 'sector independent' risks by 25% to reflect the implausibility of all such risks fully crystallising within the same period.

If such a severe downturn were to occur in the Group's performance, the Board would take mitigation measures to protect the Group in the short term.

Such profit and cash mitigation measures that are deemed entirely within the control of the Group and identified as part of the sector budgeting exercise have been included in the SBP scenario (eg cancelling pay rises and bonus awards, curtailing uncommitted capital expenditure and operational spend including R&D and other investment).

Despite the severity of the above combined SBP scenario, the Group maintained a sufficient amount of headroom against the financial covenants within its borrowing facilities, and sufficient liquidity when compared against existing facilities.

Going concern assessment and viability conclusion

Based on our review, the Directors have a reasonable expectation that the Group has adequate resources to continue as a going concern for at least 12 months from the date of these financial statements.

As such, these financial statements have been prepared on the going concern basis. The Directors do not believe there are any material uncertainties to disclose in relation to the Group's ability to continue as a going concern.

In concluding on the financial viability of the Group, having considered the scenarios outlined above, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all its liabilities as they fall due up to March 2027.

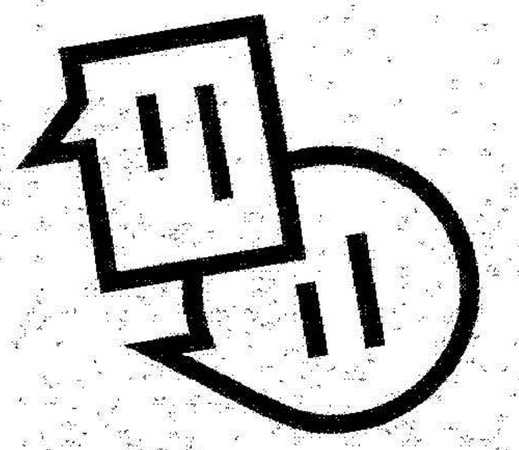
be kind

We believe in being kind to ourselves, kind to each other and kind to the planet.

In South Africa, our people have come together to make sure that everyone is part of the team and included, no matter what.

After learning that a colleague had hearing difficulty, and with COVID safety measures and masks making lip reading more difficult for them, a colleague decided to learn sign language. It was such a good idea that now the team has started lessons too.

Activities like this make our Babcock people and culture what they are.



collaborate

Working together, but apart, we have collaborated to win bids and create a strategic pathway to growth, recently highlighted by our success with the Australian Defence High Frequency Communications contract.

We put our customer first and deliver for them wherever and whenever their programmes operate.

We believe that Babcock is greater than the sum of its parts. And that is why collaboration is at the centre of our strategic growth, global integration and overall culture.

Our team in Australia has worked closely with colleagues around the world to deliver critical high frequency contracts for more than a decade.

Chair's introduction

RUTH CAIRNIE
Chair

Dear fellow Shareholder

Last year I spoke in detail about the changes made to address issues identified by the contract profitability and balance sheet review. Those changes were wide-ranging, including aspects of our Board governance, financial controls and operating model. This year we have worked to assure ourselves that the changes are indeed addressing the issues identified, and that they are being embedded in the way the Company works.

Assurance on the implementation of the reforms

Our process of assurance started with the Board reviewing the full suite of new operating model controls to satisfy ourselves that they constituted a framework that would protect against the weaknesses that had been identified. We have subsequently reviewed management reports on the implementation of the new structures and controls on a regular basis, over the course of the year. Alongside the work of the Board, the Audit Committee has monitored in more detail the implementation of the programme of internal and financial controls in Group Head Office, Aviation and Land and we are satisfied that the improvement plans which we implemented last year have been successfully delivered while we recognise the scope for ongoing improvement. Please see pages 108 and 109 for the Audit Committee report. As well as improving the Company's control environment, we have continued to develop our Board governance, for example our new approach to strategy, which I describe below.

Although we had undertaken an independent Board review last year, I recognised there would be value in repeating the process this year given the amount of change undertaken, and asked Belinda Hudson to come back and report on our progress. I am pleased that her report confirms that the Board is operating effectively and has embedded the improvements it made last year. For more information, please see page 105.

Support for the delivery of our strategy

The Board has also worked to support Babcock's turnaround. A focus last year was the refresh of the Group's strategy. This year, as a Board we have adopted a dynamic approach to strategy, with regular dedicated sessions to review progress, go deeper into individual elements as they develop, and provide input and appropriate challenge on the direction of travel.

The Board has also monitored closely progress on the strategic actions set out last year to underpin the strategy, for example:

- Over the year, we have overseen and approved steps to align Babcock's portfolio with our strategy. These actions have generated disposal proceeds in excess of £400 million, which has strengthened the Group's balance sheet. In addition to the portfolio rationalisation the Board reviewed and supported strategic strengthening of our position in Australia, one of our focus countries, through the acquisition to gain full control of the Australian Naval Ship Management joint venture. This will enhance the breadth of our support to the Australian Defence Force's maritime capability. In our strategy reviews, we have also reviewed a range of growth opportunities and were pleased with the progress made with export agreements being signed with Indonesia and Poland. For more information, please see page 43.
- We have overseen the implementation of Babcock's new operating model and the roll-out of the new Purpose and Principles alongside the development of the new People strategy. The Board has had regular updates from the Executive Directors and also in-depth sessions with the senior managers with direct responsibility for delivery, enabling us to develop a good level of understanding and to provide insights and challenge as appropriate. For more information, please see pages 18 and 20.
- More long term is the development of Babcock's ESG strategy. Last year we approved a new target for the Group to achieve net zero carbon emissions for its estate, assets and operations by 2040. Having set the target, we have had regular briefings from management to assure ourselves on progress, including the development of the necessary plans. For more information, please see pages 54 to 75.

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Taking our stakeholders into account

As we provide oversight and make decisions, we endeavour to balance the interests of all Babcock's stakeholders. In practice, this means we consider the interests of affected stakeholder groups. As an example, prior to giving our approval for divesting parts of our portfolio, we considered the interests of employees and customers, as well as shareholders. In respect of shareholders and customers, we believed the strengthening of the Group's balance sheet would be seen as a positive. For employees, those remaining with the Group would also benefit from actions to strengthen the Group's future prospects. For those employees leaving the Group, we considered each individual case carefully to assure ourselves regarding the implications for staff; we believe that the buyers of the divested businesses will be more appropriate owners of those businesses going into the future. For more information on how the Board takes into account the interests of its stakeholders, please see pages 99 to 101.

In order for the Board to make these judgements, we need a good understanding of the priorities of our stakeholders. We describe on page 99 how we engage with stakeholders. This year we have looked to improve our engagement in a number of ways; for example, this is the first full year of the appointment of Lord Parker as our Director designated for employee engagement. Lord Parker visited a number of the Group's sites over the year to speak directly to employees and build understanding of their views. His findings were then shared with the Board and discussed in depth at a dedicated briefing.

For shareholders we note the increasing emphasis on stewardship by asset owners and managers, for example as embodied in the Stewardship Code. This is leading to more and more of our shareholders (via their asset managers) sharing with us their principles, priorities and in some cases, voting guidelines. These communications are valuable in helping us to understand the views of our shareholders, and can form the basis of follow-on conversations; we always welcome opportunities to engage with shareholders on any matters of interest to them. One consequence of the many incidences of shareholders independently setting specific expectations of investee companies is that in practice, it is not possible to meet every expectation. Where this occurs we seek to understand the principles underlying the expectations that have been set and consider the extent to which our approaches align to those principles; and we will always seek engagement in such cases.

Last year I indicated my hope to engage with our larger shareholders at a governance event, following the significant developments we had made. However, due to the further changes in Board composition that I describe below, we have not yet had an appropriate time to hold such an event. I am however looking forward to engaging with shareholders at other opportunities, including our 2022 AGM.

Leadership

This year has seen a number of further changes in the Board. We are saying farewell to Russ Houlden and Kjersti Wiklund and have welcomed the appointment of John Ramsay. John joined the Board in January 2022 and brings a wealth of financial, international and operational experience. Following Russ' retirement, the Board asked John to take over the chair of the Audit Committee. With Kjersti's retirement, the Board has asked Carl-Peter Forster to take over the chair of the Remuneration Committee. For more information, please see pages 106 and 107.

FY23

Last year was a busy year for the Board, being the first year of Babcock's turnaround. I hope that I have given you a sense of the work that we have done to support that turnaround.
In FY23, we will continue to provide that support. In particular, we will continue to develop the Company's strategy and to monitor the implementation of our new operating model, along with its new control environment.

RUTH CAIRNIE
Chair

Statement of compliance

The Board confirms that for the year ended 31 March 2022, the principles of good corporate governance contained in the 2018 UK Corporate Governance Code (the Code) have been consistently applied and all provisions complied with. Further information on the Code can be found on the Financial Reporting Council's website at: www.frc.org.uk.

We have structured this Governance report to describe how the Company has applied the Code principles in line with its five categories:

97-101	**Board leadership and Company Purpose**
102-103	**Division of responsibilities**
104-107	**Composition, succession and evaluation**
108-112	**Audit, risk and internal control**
113-133	**Remuneration**

Board of Directors

1. RUTH CAIRNIE
Chair

N D

Appointed: April 2019

Skills and experience: Ruth brings extensive experience of the engineering sector gained from a 37-year international career spanning senior functional and line roles at Royal Dutch Shell plc. She has experience advising government departments on strategic development and capability building. She has been a Non-Executive Director of Rolls-Royce Holdings plc, ContourGlobal plc and Keller Group PLC, and a member of the finance committee of the University of Cambridge. She is a fellow of the Energy Institute and previously Chair of POWERful Women. Ruth is a Master of Advanced Studies in Mathematics from the University of Cambridge and holds a BSc Joint Honours in Mathematics and Physics from the University of Bristol.

Current external appointments: Ruth is currently the Senior Independent Director of Associated British Foods plc. She is Patron of the Women in Defence Charter, a trustee of Windsor Leadership and a trustee of the White Ensign Association.

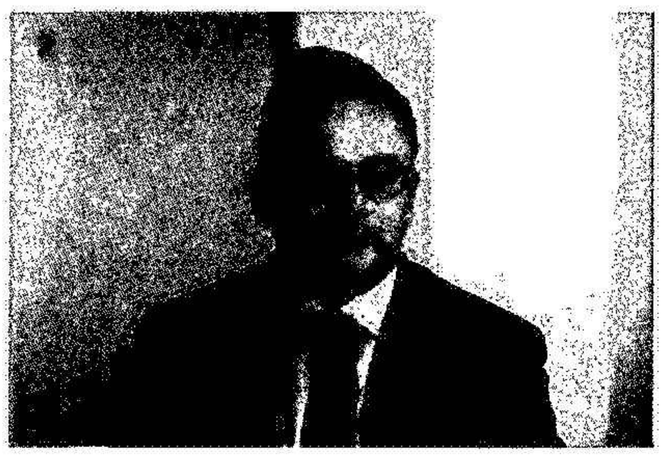
2. DAVID LOCKWOOD OBE
Chief Executive Officer

E D

Appointed: September 2020

Skills and experience: David brings wide-ranging knowledge of the defence and aviation markets, as well as a wealth of experience in both technology and innovation. David was CEO of Cobham plc (from 2016 to March 2020) and prior to that he was CEO of Laird PLC (from 2012 to September 2016). His career includes senior management roles at BT Global Services, BAE Systems and Thales Corporation. He received an OBE for services to industry in Scotland in 2011. David has a degree in Mathematics from the University of York and is a Chartered Accountant. He is a Fellow of the Royal Aeronautical Society and the Royal Society of Arts and Commerce.

Current external appointments: None



3. DAVID MELLORS
Chief Financial Officer

E D

Appointed: November 2020

Skills and experience: David brings extensive CFO experience in defence, aerospace and commercial markets. David was previously CFO of Cobham plc and prior to that he was CFO of QinetiQ Group plc from 2008 to 2016 and also served as interim Chief Executive for a period. His career includes several roles at Logica PLC, CMG plc and Rio Tinto PLC. David has a degree in Physics from Oxford University and is a member of the Institute of Chartered Accountants in England and Wales.

Current external appointments: None

4. CARL-PETER FORSTER
Senior Independent Director

N R

Appointed: June 2020

Skills and experience: Carl-Peter, a German national, brings extensive manufacturing and international experience. Carl-Peter has held senior leadership positions in some of the world's largest automotive manufacturers, including BMW, General Motors and Tata Motors (including Jaguar Land Rover). He was also previously a Non-Executive Director of Rexam PLC and Rolls-Royce plc. Carl-Peter holds a diploma in Economics from Bonn University and a diploma in Aeronautical Engineering from the Technical University in Munich.

Current external appointments: Carl-Peter is currently the Chair of Chemring Group PLC and Senior Independent Director of IMI plc. He will be Chair of Vesuvius plc from December 2022.

5. JOHN RAMSAY
Independent Non-Executive Director

A N R D

Appointed: January 2022

Skills and experience: John, a Chartered Accountant, brings with him over 30 years of international business and finance experience. He served as Chief Financial Officer of Syngenta AG from 2007 to 2016, and interim Chief Executive Officer of Syngenta from October 2015 to June 2016. Prior to joining Syngenta, he held senior international finance roles with Zeneca Agrochemicals and ICI.

Current external appointments: John is a member of the Supervisory Board at Koninklijke DSM N.V. and is a Non-Executive Director of Croda International PLC and RHI Magnesita N.V. He is Audit Committee Chair at each of these companies.

6. LUCY DIMES
Independent Non-Executive Director

A N

Appointed: April 2018

Skills and experience: Lucy brings experience in industries at the forefront of growth and technology-based innovation and an understanding of complex outsourcing and global strategic partnerships, having been the Chief Strategy and Transformation Officer of Virgin Money UK Plc, the CEO of UBM EMEA and Chief Executive Officer, UK & Ireland, of Fujitsu. She has also held senior roles at Equiniti Group, Alcatel Lucent (now Nokia) and BT. Lucy was a Non-Executive Director of Berendsen PLC and a member of its Audit, Remuneration and Nominations Committees. Lucy holds an MBA from London Business School and a degree in Business Studies from Manchester Metropolitan University.

Current external appointments: Lucy is a Strategic Advisor to Intelygenz and Transformation Strategy Consultant to Fidelity International.

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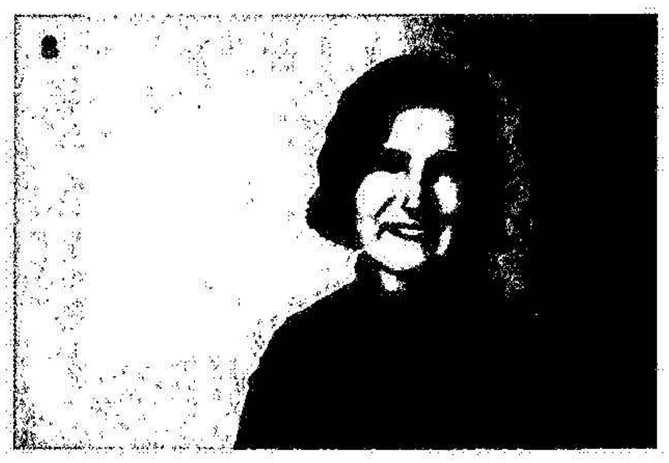

7. THE RIGHT HONOURABLE THE LORD PARKER OF MINSMERE, GCVO, KCB
Independent Non-Executive Director (N)

Appointed: November 2020

Skills and experience: Lord Parker brings extensive experience of working at the highest level of public service including a focus on new technology-centred change and championing inclusion. Lord Parker has had a long career in a wide range of national security and intelligence roles in the UK, which culminated in him becoming the Director General of MI5, the UK Government's national security agency, in 2013. He retired from this role in 2020. Lord Parker is a graduate of Natural Sciences from Cambridge University.

Current external appointments: Lord Chamberlain (head of the Royal Household), member of the House of Lords, Board Advisor to Telicent Ltd, Distinguished Fellow at the Royal United Services Institute and Visiting Professor at Northumbria University.

8. KJERSTI WIKLUND
Independent Non-Executive Director (A) (N) (R)

Appointed: April 2018. Kjersti will retire from the Board at the 2022 AGM.

Skills and experience: Kjersti, a Norwegian national, brings broad technology and business experience gained across Europe, Eastern Europe and Asia. She has held senior roles at Vodafone, VimpelCom in Russia, Kyivstar in Ukraine, Digi Telecommunications in Malaysia, and Telenor in Norway. Kjersti was also a Non-Executive Director of Cxense ASA and Fast Search & Transfer ASA in Norway, Telescience Inc in the US and Laird PLC in the UK. Kjersti holds a Master of Business Management from BI Norwegian Business School and an MSc in Electronical Engineering from Chalmers University of Technology, Sweden.

Current external appointments: Kjersti is a Non-Executive Director of Trainline plc, Spectris PLC, Zegona Communications PLC and, since March 2022, Nordea.

9. RUSS HOULDEN
Independent Non-Executive Director (A) (N) (R) (D)

Appointed: April 2020. Russ will retire from the Board in July 2022.

Skills and experience: Russ brings accounting and treasury management experience along with his extensive knowledge of driving performance improvement. He was Chairman of the Financial Reporting Committee of the 100 Group (from 2013 to 2020), Chief Financial Officer of United Utilities Group PLC (from 2010 to July 2020), Chief Financial Officer of Telecom New Zealand (from 2008 to 2010) and Finance Director of Lovells (from 2002 to 2008). Until 2002 he held a variety of divisional Finance Director positions in ICI and BT. Russ holds a degree in Management Sciences from Warwick Business School and is a Fellow of the Chartered Institute of Management Accountants, a Chartered Global Management Accountant and a Fellow of the Association of Corporate Treasurers.

Current external appointments: Russ is currently the Audit Committee Chairman of Orange Polska SA, which is listed on the Warsaw Stock Exchange, an Operating Partner of Corsair Infrastructure and Non-Executive Director of Kelda Holdings and Yorkshire Water.

Appointment key

- (E) Executive Committee
- (A) Audit Committee
- (R) Remuneration Committee
- (N) Nominations Committee
- (D) Disclosure Committee
- ● Board Committee Chair

Membership of the UK Security Committee is variable depending on the security level required for the business under discussion.

Executive Committee

Biographies for CEO David Lockwood and CFO David Mellors are on page 94.

WILL ERITH
Chief Executive, Marine

Appointed: December 2020

Skills and experience: Will joined Babcock in 2017 and in 2018 became MD Surface Ships, responsible for the entirety of our Warship support business (including the successful Type 23 LIFEX programme). In addition he was responsible for the critical phases of our overall bid activity for FMSP (Future Maritime Support Programme), representing the next five years of our Surface Ship and Submarine support for the Royal Navy. Prior to this he had a successful 20-year career with Rolls-Royce, where he held senior leadership positions in engineering, programme management, business development and general management. This included three years based in Tokyo, significantly growing the Asia Pacific Naval business. Will has a first-class honours degree in Mechanical Engineering from the University of London. He is a Chartered Engineer and a Fellow of the Institute of Mechanical Engineers.

DOMINIC KIERAN
Chief Executive, Nuclear

Appointed: September 2021

Skills and experience: Dominic is responsible for our nuclear capability in Defence, including Babcock's submarine operations, and Civil. He joined Babcock as Managing Director of Cavendish Nuclear, and has led the business through a series of key milestones and changes as we exited key programmes, and has developed a new operating model to ensure it is ready for the future as we focus on new market opportunities. Prior to joining Babcock, he was Chief Commercial Officer at Urenco and before that held various roles including working extensively overseas, on the delivery of complex technical solutions to customers. Dominic has a Chemical Engineering degree from Imperial College London, an MBA, and is a Fellow of the Institute of Chemical Engineers.

TOM NEWMAN
Chief Executive, Land

Appointed: December 2020

Skills and experience: Tom joined Babcock through the VT acquisition in 2010 and brings a broad range of experience from senior management positions held in industrial sectors including shipbuilding, broadcast and communications, aviation, defence and emergency services. Most recently Tom has been responsible for our relationship with the UK Cabinet Office through the Strategic Partnering Programme and as Chief of Staff for the design and implementation of our new operating model. Prior to that he was Managing Director of the Emergency Services and Training business unit in the Land sector. Tom has a degree in Naval Architecture from UCL and an MBA from Warwick Business School.

NEAL MISELL
Chief Executive, Aviation

Appointed: April 2020

Skills and experience: Neal joined Babcock following the acquisition of VT Group in 2010. Neal worked initially as Integration Director bringing together the Babcock and VT Group non-defence businesses. In 2011, he was appointed Managing Director of the Critical Services business, which covered Babcock's vehicle and asset management contracts in Emergency Services and Airports. In February 2016, Neal was appointed Managing Director of the Military Aviation business focused on the RAF, French Air Force and Royal Navy. Neal is also a board director of the Ascent and AirTanker joint ventures.

NIKKI FOX
Chief Human Resources Officer

Appointed: January 2021

Skills and experience: Nikki was previously Organisation & Development Director, Nuclear, responsible for delivery of HR across the sector and a member of the Group's Organisation & Development Leadership team. Nikki led the development of the Cavendish Nuclear people strategy and the subsequent review of the Cavendish Nuclear operating model. She joined Babcock in 2017 following a successful 20-year career within the oil and gas industry, which included BG Group/Shell where she held various senior leadership positions in HR and general management, based in the UK and overseas including Houston and Moscow.

JOHN HOWIE MBE
Chief Corporate Affairs Officer

Appointed: April 2016

Skills and experience: John was appointed as Chief Corporate Affairs Officer in October 2020 with a remit to further develop Babcock's relationships with its key governmental customers in the UK and internationally, as well as leading Group strategy, corporate communications, sustainability and international development. Prior to that, John was CEO Marine with responsibility for Babcock's warship operations as well as the commercial and international marine operations. John is a Visiting Professor at Strathclyde University, a Director of the Society of Maritime Industries, a member of the Glasgow Economic Leadership Board and Acting Chair of Maritime Research & Innovation UK. John joined Babcock in April 2001.

DR RICHARD DRAKE
Chief Technology Officer

Appointed: July 2022

Skills and experience: Richard joined Babcock in 2007 as a Chief Engineer, and subsequently became Engineering Director of Mission Systems. He was appointed Managing Director of the Mission Systems business unit in 2018, leading the business through a significant growth period. He brings with him extensive industrial experience across defence, aerospace and nuclear alongside transformation, cultural change and business growth. Prior to joining Babcock, Richard has worked at Airbus and Weir Strachan & Henshaw.

JACK BORRETT
Group Company Secretary and General Counsel

Appointed: July 2016

Skills and experience: Jack joined Babcock in 2004 and from 2010 was Deputy Group General Counsel, until his appointment as Group General Counsel and Company Secretary in April 2016. He is Secretary to the Board and to the Remuneration, Audit, Nominations and Disclosure Committees. Prior to joining Babcock, Jack was a solicitor at law firm Clifford Chance.

COLLETTE MCMULLEN
Chief of Staff

Appointed: June 2021

Skills and experience: Collette was appointed as Chief of Staff in June 2021 to support the CEO on a day-to-day basis. Collette has a broad understanding of the business and deep experience of the Chief of Staff role, having previously held this position for a number of years in the Nuclear and Aviation sectors. She joined Babcock in 2009 following a commercial career in the nuclear industry with the UKAEA.

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Board leadership and Company Purpose

Board leadership

Maintaining the highest standards of governance is integral to the successful delivery of our strategy. Our governance framework ensures that the Board provides effective leadership in both making decisions and maintaining oversight, mapping where accountability resides and playing a key role in our internal controls.

The Board

The Board's role is to lead the Group for the long-term sustainable success of Babcock by setting our strategy and supervising the conduct of the Group's activities within a framework of prudent and effective internal controls.

The Board has adopted a schedule of matters reserved for its, or its Committees', specific approval (see page 103). For other matters, authority is delegated to management according to a delegation matrix.

Principal Board Committees

Audit Committee
Responsible for overseeing the Company's systems for internal financial control, risk management and financial reporting.
See pages 108 to 112.

Remuneration Committee
Determines the Remuneration policy for the Executive Directors and is responsible for oversight of the remuneration policies and practices relating to the wider workforce.
See pages 113 to 115.

Nominations Committee
Reviews the composition of the Board, considers succession planning at both Board and senior management level and leads the process of appointments to the Board.
See pages 106 and 107.

Disclosure Committee
Ensures that policies, systems and controls exist so that potential price-sensitive information is escalated, considered, verified and promptly released to the market, where required.

UK Security Committee
Receives reports on those UK programmes the Group is engaged on and has access to which require either a certain security clearance or UK nationality.

Group Executive Committee

Reviews and discusses all matters of material significance to the Group's management, operational and financial performance, as well as strategic development. For its membership, please see page 96.

Principal Management Committees

Corporate ESG Committee
Responsible for Group-wide ESG initiatives, the management of climate-related issues and driving the wider sustainability agenda. The Committee is chaired by the Chief Corporate Affairs Officer and members include the Chief Human Resources Officer and Group Company Secretary and General Counsel. Reporting to the Committee are the Inclusion and Diversity Steering Group and the Carbon, TCFD and Communities and Sponsorship working groups.
See page 60.

Corporate Safety Leadership Team
Leads the development and implementation of policies, standards and expectations for health, safety and environmental issues with a mission that everyone goes 'Home Safe Every Day'.
See page 63.

Disclosure Panel
Oversees potential price-sensitive information and its evaluation to ensure prompt disclosure, reporting up to the Disclosure Committee as appropriate.

Board leadership and Company Purpose continued

Company Purpose

The Board sets the Company's Purpose and strategy, assessing the long-term sustainable future of the Group and its impact on key stakeholders while keeping a watchful eye on the culture of the Group to ensure that everybody understands their role in promoting the success of the Company as they deliver against the business model.

Effective decision-making and oversight

The Board has an annual plan of business around which the Chair, CEO and Company Secretary structure agendas taking into account the current status of projects, strategic work streams and the overarching operating context. Standing agenda items and papers are presented at each Board meeting; other matters are considered on a less frequent but regular basis. Appropriate amounts of time are allocated to items of business to allow for open and frank debate and encourage informed decision-making.

All scheduled meetings consider

- Health and safety reports
- Operational update
- Financial update
- Investor relations update
- Legal/governance reports
- Conflicts of interest review

Regularly the Board considers

- Strategy update
- Review of major risks and emerging risks
- Review of financial and non-financial controls
- Delegated authorities
- Reports from Chairs of Remuneration, Audit and Nominations Committees
- Committee terms of reference
- Whistleblowing reports (quarterly and annual review)
- Annual ethics review
- Modern Slavery Transparency Statement
- Deep-dive presentations from sectors and Group functions, for example IT and security, procurement and pensions
- Results announcements and Annual Report

Setting and overseeing strategy

During FY22 the Board held its dedicated strategy review meeting in June 2021, agreeing the strategic plan announced in July 2021 and formulating a new approach to the governance of strategy. Strategic review is a dynamic process which benefits from regular Board engagement supported by dedicated deep-dive review sessions.

More information on the implementation of the strategy overseen by the Board can be seen on page 6 and throughout the Strategic report.

How the Board monitors culture

The Board believes that the right culture is essential to support the delivery of strategy, and seeks to monitor the culture throughout the Group.

Leading by example

Our Directors and senior managers act with integrity and lead by example, promoting our culture to our employees through living our Principles which are: Be curious; Be kind; Be courageous; Think outcomes; Collaborate and Own & deliver. The Principles were introduced by David Lockwood, week by week, in six of his employee vlogs.

Listening to our people

Our designated Non-Executive Director for employee engagement visits sites, talks to employees and reports back to the Board. Questions and feedback are received from employees to the CEO's dedicated email 'Ask David' as well as from employee forums and surveys. This year, FY23, should see our first Group-wide employee engagement survey.

Ethics and whistleblowing

Whistleblowing lines are available throughout our business for reporting any departure from our values. The Board reviews all whistleblowing reports, together with their outcomes, on a quarterly basis as well as via an annual review.

Other cultural indicators

The Board regularly receives health and safety metrics and thematic reviews such as, in FY22, on the cultural reset and the embedding of our Purpose and Principles.

Further information on the Purpose and Principles and cultural change overseen by the Board during the year can be found on pages 18 to 20.

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Factoring our stakeholders into our decision-making

In order to deliver the best outcome for the Company we have to understand our stakeholders' priorities and then factor these into our decision-making. Accordingly, the Board works to establish and maintain strong stakeholder relationships. An understanding of stakeholder views at Board level is gathered via a combination of direct and indirect engagement.

Details of how the Directors receive information on our key stakeholders and how they engage with them directly to support effective decision-making and oversight are set out below.

This section, through to page 101, forms part of the s172(1) statement which can be found in the Strategic report on page 53.

Further information on how the Company engages with its stakeholders can be found on pages 52 and 53.

How the Board engages

	Information flow to the Board	Direct Board engagement
Customers	• Monthly written reports from Executive Directors include material customer matters • Sector CEOs and the Executive Directors give briefings at Board meetings	During the year the Executive Directors had regular meetings with the Group's key customers.
Investors	• Reports from Investor Relations • Treasury reports • Investor meetings/roadshow • AGM	The Board engaged directly with its investors, principally through the Executive Directors, David Lockwood and David Mellors. The Committee Chairs are available to meet shareholders when required. During FY23, the Chair of the Remuneration Committee will consult shareholders regarding the refreshing of our Remuneration policy. The relaxing of COVID-19 restrictions allowed us to return to a physical AGM in 2021 which gave an opportunity for private investors to ask questions direct to the Board.
Employees	• Bottom-up reports from Lord Parker, the Director designated for workforce engagement • Top-down reports from the Chief Human Resources Officer • European Employee Forum which is attended by the CEO and the CHRO • Whistleblowing reports	Lord Parker, the Director responsible for workforce engagement, visited eight Babcock sites during the year, with over 200 employees attending 14 engagement sessions. Additionally, the CEO engages with employees Group-wide via vlogs and employees can contact him directly via a dedicated email address. Carl-Peter Forster, the Senior Independent Director, introduced himself to employees via a vlog in May 2021 and members of the Board have met employees during a number of site visits. Members of the senior leadership team regularly present to the Board.
Regulators	• Information on the relationships with regulators is included in reports to the Board where appropriate	The Board relies on dedicated functions at a Group, sector or business unit level and does not have direct contact with regulators unless appropriate. Any material issues are brought to the Board's attention through the monthly operational reports, as appropriate.
Suppliers	• Briefings from Group Head of Procurement on an annual basis • Audit Committee supplier risk review • Supply chain risk considered in reports on major tenders • Approval of the Modern Slavery Transparency Statement	Principal engagement is undertaken by operational management and the Group procurement function. The Chief Procurement Officer reports annually to the Board to give it oversight of the function and its operation.
Communities	• Health, safety and environment updates • Material issues are included in the monthly reports from Executive Directors or in sector CEO briefings • Annual Report review	In the main, the sectors hold these relationships at a local level where the most relevant knowledge is concentrated, with no direct engagement by the Board of Directors. The Board's community engagement levels were considered as part of last year's stakeholder mapping exercise and found to be appropriate. Any material issues are brought to the Board's attention through the monthly operational reports or the functional reports to the Board.

Board leadership and Company Purpose continued

Key areas of focus during the year and how stakeholders were taken into account

A key focus during the year, for the Board, was the oversight of the implementation of our five strategic actions which we described in last year's Annual Report. When making judgement decisions which require balance across different stakeholder interests, the Board is careful to consider the interests of each stakeholder group in the context of the long-term consequences.

Matters considered	Discussion and outcome	Stakeholders most affected	More information
1. Aligning our portfolio	The Board believes that shareholders and employees support the turnaround plan set out in our FY21 Annual Report. A key part of that plan was the portfolio rationalisation programme the purpose of which was to reduce the Group's complexity, increase its focus and increase the effective use of the Group's capital for the long-term benefit of shareholders and other stakeholders. The Board received regular updates on the programme and has approved the disposal of the Oil and Gas business, Frazer-Nash Consulting, Networks and our investment in AirTanker Holdings. This can be unsettling for the employees working in the divested businesses and a distraction for employees working on the disposal projects. However, the Board believes in the long term it is better for employees to work in a business which fits better with its owner's strategy. The refocused Babcock is better able to align behind its Purpose and Principles with the aim of unlocking its full potential for the benefit of all stakeholders.	Shareholders Employees	Financial review from page 24 and Operational review from page 42
2. Implementing our new operating model	As well as rationalising the portfolio, the turnaround plan set out last year envisaged the implementation of the new operating model the purpose of which is to improve efficiency and effectiveness by reducing layers of management to form a flatter structure and simplify how we operate which in turn will improve lines of sight and shorten communication lines and therefore increase business flexibility and our responsiveness to market conditions. The Board oversaw the implementation of the model over the course of the year. An inevitable part of such a change programme is the exit of a number of colleagues. Where employees have left the Group, the process was managed in a transparent and appropriate manner. The Board believes that in the long term this is in the best interests of its stakeholders, as the new operating model has created a better place for employees to work and provides a more efficient and effective service for customers. Both of these will strengthen the Company for the benefit of stakeholders.	Employees Customers Shareholders	pages 13 and 18
3. Rolling out our People strategy	Our People strategy underpins the new operating model. The Board has oversight of its roll-out with the aim of developing an organisation that shares capability, talent, innovation and best practice, reducing complexity and creating an agile and inclusive workplace. As part of this, the Board considered and approved the roll-out of the Babcock Blueprint for Strength and the embedding of our Purpose and Principles. The cultural reset is intended to empower management, but also to make managers more accountable, which the Board believes will strengthen and improve the Group for the benefit of all stakeholders.	Employees Shareholders	pages 13 and 19

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Matters considered	Discussion and outcome	Stakeholders most affected	More information
4. Developing our ESG strategy	Through its engagement the Board understands the rising importance of ESG matters to its stakeholders. For example, customers are making ESG considerations part of their tenders; ESG has an increasing role in the allocation of capital by investors; and employees and communities want to understand their employer's policy on ESG. In order to meet these rising stakeholder expectations the Company set out an ESG strategy, including the adoption of targets, and throughout the year the Board has overseen the implementation of this strategy with the aim of making the Company more attractive for new shareholders and new employees and for the benefit of all stakeholders.	Customers Shareholders Employees Communities Suppliers	pages 13 and 14 and pages 54 to 79
5. Exploring growth opportunities	Being successful in securing growth opportunities is important for our investors, employees and customers because they want to see a strong company. An important element of those growth opportunities is outside the UK. The Board receives monthly reports both on the development of our international presence in our target markets of France, Canada, Australasia and South Africa, and on opportunities for growth in the UK. For example, the Board considered and approved the acquisition of our joint venture partner's shares in NSM, the warship sustainment provider in Australia. In making this investment decision, as in all judgements, the Board was careful to consider the interests of different stakeholders in the context of the long-term consequences. It concluded that the opportunity to consolidate Babcock's position in Australia, one of our target markets, and in one of our core capabilities, was the right one.	Customers Shareholders Employees	page 14 and 15 and the Operational review from page 42

How the Board keeps s172 on its agenda

The Board makes sure that in its decisions it considers the long-term success of the Company and takes into account the interests of its stakeholders as follows:

- The Board sets the Company's Purpose and strategy. It carries out an annual strategy review, which assesses the long-term sustainable future of the Group and its impact on key stakeholders. As part of those discussions it takes into account the matters the Directors must consider as part of their Section 172 duties.
- The Board's risk management procedures identify the principal risks facing the Group and the mitigations in place to manage the impact of these risks. Many of these risks relate to our stakeholder groups.
- Standing agenda items and papers are presented at each Board meeting: for example, operational reports, financial reports, health and safety reports and litigation reports, to ensure that the Board receives relevant updates on matters of interest to our stakeholders. The Board also receives detailed presentations from the sector CEOs delivering updates on key activities which feeds into the decision-making process.
- There are regular reports from the Audit Committee Chair and the Remuneration Committee Chair on items within their remit.
- When making judgement decisions which require balance across different stakeholder interests, the Board is careful to consider the interests of each different stakeholder in the context of the long-term consequences: for example, employee and executive pay; dividends; and portfolio alignment.
- Members of the Board regularly engage with our investors and employees and the Board uses the stakeholder engagement summarised on pages 52 and 53 and on page 99 to inform its decision-making process.

Division of responsibilities

Defining Board responsibilities

The role specifications below set out the clear division of responsibility between the Executive and Non-Executive members of the Board, which supports the integrity of the Board's operations.

A more detailed description of these roles is available online at www.babcockinternational.com.

NON-EXECUTIVE

Chair

- Leads the Board and sets the tone and agenda, promoting a culture of openness and debate;
- Ensures the effectiveness of the Board and that Directors receive accurate, timely and clear information;
- Ensures effective communication with shareholders;
- Acts on the results of the Board performance evaluation and leads on the implementation of any required changes; and
- Holds periodic meetings with Non-Executive Directors without the Executive Directors present.

Senior Independent Director

- Acts as a sounding Board for the Chair and, if and when appropriate, serves as an intermediary for the other Directors;
- Available to shareholders if they have any concerns which require resolution;
- Supports the Chair with the annual Board evaluation; and
- Serves as an intermediary to other Directors when necessary.

Independent Non-Executive Director

- Supports and constructively challenges the executive team;
- Contributes to the development of the Company's strategy;
- Provides an external perspective and brings a diverse range of skills and experience to the Board's decision-making;
- Contributes to Board discussions on the nature and extent of the risks the Company is willing to take to achieve its strategic objectives;
- Satisfies himself or herself of the integrity of financial information;
- Ensures financial controls and systems of risk management are robust and defensible; and
- Plays a primary role in appointing and, where necessary, removing Executive Directors, setting their remuneration and succession planning.

Designated Non-Executive Director for employee engagement

- Gauges the views and feedback of the workforce and identifies any areas of concern;
- Communicates the views of the workforce to the Board;
- Ensures the views of the workforce are taken into account in Board decision-making; and
- Ensures the Board takes appropriate steps to evaluate the impact of any proposals that influence the experiences of the workforce and considers what steps should be taken to mitigate any adverse impact.

EXECUTIVE

Chief Executive Officer

- Oversees the day-to-day operation and management of the Group's businesses and affairs;
- Responsible for the implementation of Group strategy as approved by the Board, including driving performance and optimising the Group's resources;
- Accountable to the Board for the Group's operational performance; and
- Takes primary responsibility for managing the Group's risk profile, identifying and executing new business opportunities, and management development and remuneration.

Chief Financial Officer

- Accountable to the Board for the Group's financial performance;
- Responsible for raising the finance required to fund the Group's strategy, servicing the Group's financing and maintaining compliance with its covenants; and
- Maintains a financial control environment capable of delivering robust financial reporting information to indicate the Group's financial position.

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Articles of Association

The powers of the Directors are set out in the Company's Articles of Association (the Articles), which may be amended by way of a Special Resolution of the members of the Company. The Board may exercise all powers conferred on it by the Articles, in accordance with the Companies Act 2006 and other applicable legislation. The Articles are available for inspection online at www.babcockinternational.com.

The Board has established a formal schedule of matters specifically reserved for its approval. It has delegated other specific responsibilities to its Committees and these are clearly defined in their terms of reference (available online at www.babcockinternational.com). Other responsibilities are delegated to management under a delegated authorities matrix.

Summary of key matters reserved for the Board

- Group strategy
- Interim and final results announcements and the Annual Report
- Dividend policy
- Acquisitions, disposals and other transactions outside delegation limits
- Significant contracts not in the ordinary course of business
- Major changes to the Group's management or control structure
- Changes relating to the Company's capital structure or status as a listed PLC
- Annual budgets
- Major capital expenditure
- Major changes in governance, accounting, tax or treasury policies
- Internal controls and risk management (advised by the Audit Committee)
- Major press releases and shareholder circulars

Meetings and attendance

The Board has eight scheduled full Board meetings each financial year, as well as a meeting dedicated to strategy. The Chair also meets separately with Non-Executive Directors without Executive Directors or other managers present. See table above for further information about the meetings held during the year.

Board and Committee membership, meetings and attendance

	Board	Nominations Committee	Audit Committee	Remuneration Committee
Number of scheduled meetings held	**8**	**5**	**4**	**5**
Current Directors				
Ruth Cairnie	8/8	5/5	–	–
Carl-Peter Forster	8/8	3/3	–	5/5
John Ramsay[1]	3/3	2/2	2/2	–
Lucy Dimes	8/8	5/5	4/4	–
Lord Parker[2]	7/8	4/5	–	–
Kjersti Wiklund	8/8	5/5	4/4	5/5
Russ Houlden	8/8	5/5	4/4	5/5
David Lockwood	8/8	–	–	–
David Mellors	8/8	–	–	–
Former Directors				
Myles Lee[3]	4/4	3/3	2/2	–
Victoire de Margerie[4]	1/4	0/3	–	1/2

1. John Ramsay was appointed to the Board in January 2022.
2. Lord Parker was absent from meetings on one day due to a prior engagement.
3. Myles Lee retired from the Board after the AGM in September 2021.
4. Victoire de Margerie retired from the Board after the AGM in September 2021.

Conflicts of interest and independence

Babcock has adopted a procedure for the disclosure, review, authorisation and management of Directors' actual and potential conflicts of interest or related party transactions in accordance with the Companies Act 2006. The procedure requires Directors formally to notify the Board (via the Company Secretary) as soon as they become aware of any new actual or potential conflict of interest, or when there is a material change in any of the conflicts of interest they have already disclosed.

A register is maintained of all the disclosures made and the terms of any authorisations granted. Authorisations can be revoked, or the terms on which they were given varied, at any time if judged appropriate.

In the event of any actual conflict arising in respect of a particular matter, mitigating action would be taken (for example, non-attendance of the Director concerned at all or part of Board meetings and non-circulation to him/her of relevant papers).

Possible conflicts of interest authorised by the Board are reviewed annually on behalf of the Board by the Nominations Committee.

The Committee also considers the circumstances set out in the Code which could compromise an individual's position of independence. The Board is satisfied that throughout the year all Non-Executive Directors remained independent and accordingly the Company is compliant with Provision 10 of the Code.

Time commitment

The expected time commitment of the Chair and Non-Executive Directors is agreed and set out in writing in their respective letters of appointment, at which point the existing external demands on an individual's time are assessed to confirm their capacity to take on the role. Further appointments can only be accepted with approval of the Board following consideration of whether there would be an impact on the independence and objectivity required to discharge the agreed responsibilities of each role and whether the resultant position is believed to be consistent with recognised proxy advisor guidelines.

The Board is satisfied that each Director has the necessary time to effectively discharge their responsibilities and that, between them, the Directors have a blend of skills, experience, knowledge and independence suited to the Company's needs and its continuing development.

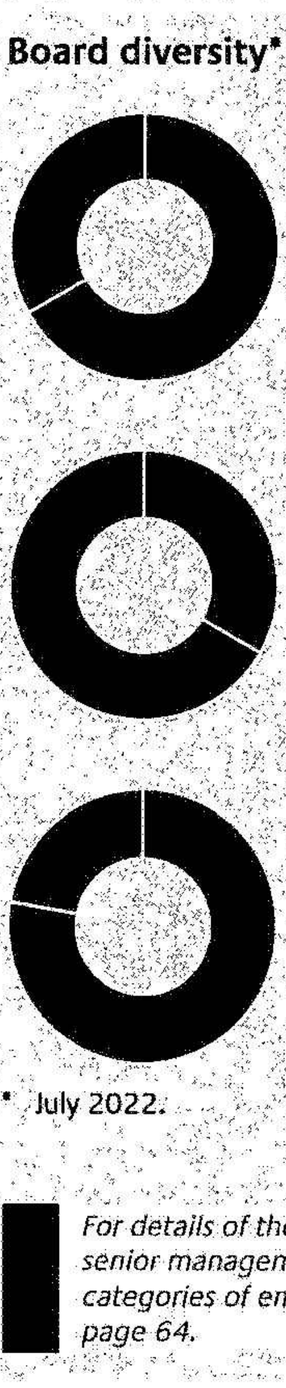
Composition, succession and evaluation

Composition

The composition of the Board is kept under constant review by the Nominations Committee to ensure a balance of the skills, experience and knowledge to lead the Group. At the date of this Report the Board comprises the Chair, who was independent on appointment, six Independent Non-Executive Directors and two Executive Directors.

All continuing Directors are required to offer themselves for re-election by shareholders each year at the Annual General Meeting. Biographical details can be found on pages 94 and 95 and there is more information on appointments to the Board in the Nominations Committee report on pages 106 and 107.

Board diversity*



* July 2022.

For details of the gender diversity of senior management and other categories of employees please see page 64.

Succession

The Chair, Senior Independent Director and independent Non-Executive Directors are appointed for a three-year term, subject to annual re-election by the shareholders. At the end of every three-year term, each Non-Executive Director's tenure is reviewed before the term is renewed. The term can be renewed by mutual agreement up to a maximum total tenure of nine years.

The ongoing replenishment of the Board is a key focus for the Nominations Committee and more information about succession planning can be found in its report.

With the ever-changing environment in which Babcock operates, it is important for our Executive and Non-Executive Directors to remain aware of recent, and upcoming, developments and keep their knowledge and skills up to date.

The Company arranges for new Non-Executive Directors to receive detailed business briefings on the Group's operations and to make induction visits to the Group's principal sites. Training for new Directors, when appropriate, is arranged with external providers.

Non-Executive Directors may at any time make visits to Group businesses or operational sites and are encouraged to do so at least once per year. Visits are coordinated by the Group Company Secretary's office. Presentations on the Group's businesses and specialist functions are made regularly to the Board.

Our Company Secretary also provides updates to the Board and its Committees on regulatory and corporate governance matters.

Board induction was a challenge in 2020 with face-to-face meetings and first-hand experience of our operations not possible due to restrictions on access to our sites, as many were closed to visits. However, during the course of last year, with restrictions eased, we could resume the induction process with visits to key operational sites in the UK for our more recently appointed Directors (see table below).

Our new Directors receive comprehensive and tailored induction programmes. The programmes for Non-Executive Directors typically involve:

- Meetings with the Executive Directors and the sector CEOs and functional leads
- An overview of the Group's governance policies, corporate structure and business functions
- Details of risks and operating issues facing the Group
- Visits to key operational sites
- Briefings on key contracts and customers

Induction site visits

	Andrew Parker	Russ Houlden	Carl-Peter Forster	John Ramsay
Clyde – Nuclear	●	●	●	–
Rosyth – Marine	●	●	●	●
Donnington – Land	●	–	–	–
Bristol – Marine	●	–	●	–
Staverton – Aviation	●	●	–	●
Park Royal – Land	●	●	●	–
Devonport – Nuclear	–	–	●	–

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Evaluation

2021/22 Board performance review

Each year we conduct an evaluation to assess the skills, experience, independence and knowledge of the Board to confirm it is able to discharge its duties and responsibilities effectively. The composition and diversity of the Board and its Committees and how well the Directors are working together is considered, as well as the individual performance of the Directors and the Chair. This year an external evaluation was held for the second year in a row. Given the level of change that had happened and was still underway, we asked Belinda Hudson, who completed last year's evaluation, to assist again, building on her knowledge of the organisation and focusing on progress. Prior to her appointment Belinda Hudson had not had any connection to the Company or individual Directors and had not previously been engaged by the Company.

Progress made on actions identified in the FY21 review

Recommendations for FY22	Update	Further information
Meetings – return to face-to-face meetings as soon as COVID-19 restrictions allow, to enhance Board integration.	The Board was delighted to return to face-to-face meetings.	
Inductions – complete the induction process with site visits for those Board members who have been prevented from doing so by the COVID-19 restrictions.	The recently appointed Directors have now visited a selection of sites across all sectors in the UK.	See page 104
Board engagement – enhance the Board's engagement with stakeholders.	The Board enjoyed reports from Lord Parker following his engagement with employees and looks forward to the results of the first ever Group-wide employee survey planned for 2023. With the abatement of the COVID-19 pandemic the Executive Directors were able to meet face-to-face with customers in order to deepen relationships.	See page 99
Board oversight – continue the Board's oversight of the development of the Company's People strategy, culture and succession planning as well as the focus on ESG.	The Board continues to receive regular updates on all the change programmes underway, to provide assurance that they are being implemented across the Group.	See pages 100 and 101

Areas of assessment and findings for the FY22 Board evaluation

Belinda found that the Board had responded to the challenges it had faced over FY22 in a professional and pragmatic manner and had provided good support and challenge to improve all aspects of Babcock's performance. Belinda did make recommendations for further Board development, acknowledging that some were already underway.

Recommendations for FY23	Commentary and actions
Recruit new Non-Executive Directors to strengthen the Board further.	The Nominations Committee is leading the search. Please see page 106 for details.
With the lifting of the COVID-19 restrictions, continue to enhance the opportunities for Board members to spend more time with each other and the business, in order to strengthen Group dynamics and cohesion.	With the lifting of COVID-19 restrictions in the UK, Board and Committee meetings are now in person. The end of the restrictions has allowed the new Non-Executive Directors to undertake their induction visits. The Board is looking forward to its off-site meeting at our Land business in Bovington in July 2022.
Develop further the Board's oversight of Babcock's culture.	The Board oversees Babcock's culture through a number of channels, including reports from the Chief HR Officer, reports from Lord Parker in his role as Director designated for employee engagement, and reports from the Babcock whistleblowing line. However, it is seeking to develop its oversight further and is looking forward to receiving an analysis of Babcock's first ever global employee survey in 2023.

Composition, succession and evaluation continued

Nominations Committee Report

RUTH CAIRNIE
Chair of the Nominations Committee

Key facts

The Committee

Ruth Cairnie chairs the Committee.

The other members throughout the year were all the Non-Executive Directors.

For biographies of members, please see pages 94 and 95.

For attendance, please see page 103.

Highlights

Appointment of new Non-Executive Director

Appointment of new Audit Committee Chair

Appointment of new Remuneration Committee Chair

Key responsibilities

Board and Committee composition

Succession planning

Talent pipeline and diversity policy

Board appointment process

Dear fellow Shareholder

Last year saw a significant number of changes at both Board and Executive Committee level as we set about restoring Babcock to strength. This year the work of the Nominations Committee has been to support the bedding-down of the new structures and teams and to continue to strengthen the Board with new appointments.

Composition

A key role for the Committee is to ensure that the Board has the right mix of skills and capabilities to support the navigation of both present and future strategic opportunities and challenges. Alongside the Board's enhanced involvement in the development of strategy (please see page 92 for more detail), the Committee has developed a skills matrix taking into account our strategic direction. We have used this matrix to assess our current mix of skills and have referred to it as a key source when considering the preferred backgrounds and characteristics for new Board appointments. We will keep the matrix under review as requirements evolve.

Following the retirement of Myles Lee in September 2021, the Committee wanted to enhance the financial credentials of the (Non-Executive) Board and the Audit Committee by bringing in an additional member with a financial background. Following a search conducted by an external search consultant (MWM), which has no other connections with Babcock, the Committee was pleased to recommend the appointment of John Ramsay to the Board. John is a qualified Chartered Accountant with extensive operational financial experience, as well as extensive Non-Executive Director experience. John's biography is on page 94. In February 2022, after Russ Houlden advised that he would be retiring from the Board, John agreed to take over as Chair of the Audit Committee.

In April 2022, Kjersti Wiklund advised that she would be retiring from the Board and so the Committee asked Carl-Peter Forster to take over as Chair of the Remuneration Committee, which he agreed to. The Committee is pleased that it has been in a position to fill both Committee Chair roles with highly experienced successors. Looking ahead, the Committee has identified some candidate profiles that could strengthen the Board's breadth and capability and has searches underway. For these and other searches, we typically employ an external search consultant and we set clear criteria, based on the skills matrix, to identify candidates and ensure that the Board maintains its balance.

One of the criteria the Committee considers is diversity and we are committed to increasing our diversity across multiple aspects including gender, ethnicity, experience, background and age. With Kjersti's retirement, we will need to pay attention to the gender mix; and we remain committed to meeting the Parker Review target on ethnicity.

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Succession and evaluation

The Committee keeps Babcock's leadership needs under review, providing assurance to the Board that Babcock has the skills and capabilities to progress its strategy and strategic actions now and in the future. During the course of the year, the Committee considered the skills and capabilities of the senior leadership team and their development plans, to see how the Board and the Committee can best support the team. While decisions about these senior leader appointments rest with the CEO, there are regular opportunities for him to share his thinking with the Committee and receive comments and suggestions.

Inclusion and diversity

I have spoken about the Committee's commitment to improving the Board's diversity. The Committee also reviews progress on inclusion and diversity across the whole organisation. We recognise that there is much work to be done, but have welcomed and supported some clear steps taken over the last year. These included the approval and review by the Board of diversity targets. Following detailed data capture and analysis supporting the development of our People strategy, it was recognised that more time would be needed to meet one of these targets (80% disclosure of diversity, originally targeted within 18 months), which has been re-phased accordingly. Progress against the targets is being monitored.

For more information, please see pages 64 and 65.

The Committee considers diversity when it reviews the Group's senior talent pipeline and supports the Group's plans and initiatives to drive progress across the organisation. It has welcomed a number of senior-level female appointments. The establishment of a more centralised HR function is seen as helpful in raising the focus on improving inclusion and diversity across the Group; for more information about Babcock's approach, please see page 18.

Culture

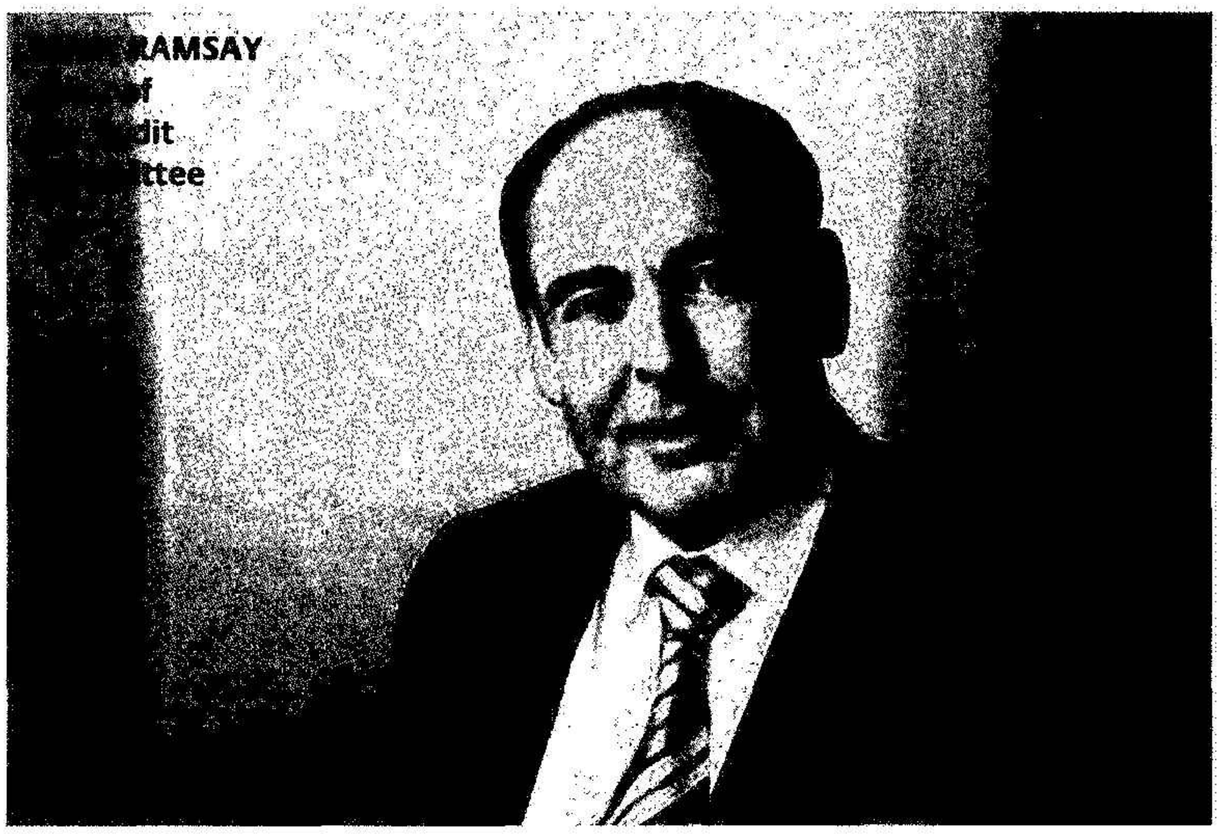
This year Babcock has started a significant change programme with a reset of its culture. The aim is to create a company that operates as one so that we can share capability, best practice and innovation Group-wide. We believe that the key to achieving this is our new Principles, which create a foundation for how the Group behaves, both as individuals and as teams. We want Babcock to be more people-focused and accountable, creating a more efficient and more effective business that is capable of delivering better outcomes for all its stakeholders. The Board reviewed the Group's Blueprint for Strength, a visual guide to explain the reset, before its launch and has received regular updates on progress. The Board also uses a variety of information sources to assess culture and progress, including discussion with executives during Board presentations, discussions with employees during site visits, summaries of inputs to our whistleblowing channels, and updates from Lord Parker in his capacity as Director designated for employee engagement. We look forward to seeing the results of Babcock's first global employee survey in 2023.

I hope this report gives you an understanding of the work of the Committee over FY22. The Committee is looking forward to continuing its support of Babcock's turnaround during FY23.

RUTH CAIRNIE
Committee Chair

Audit, risk and internal control

Audit Committee Report



Key facts

The Committee

John Ramsay chairs the Committee.

John is a Chartered Accountant, and formerly the Chief Financial Officer of Syngenta AG, as well as being an experienced Audit Committee chair (see page 94 for John's full biography). The Board has designated him as the financial expert on the Committee for the purposes of the UK Corporate Governance Code.

The other members of the Committee throughout FY22 were Russ Houlden, Lucy Dimes and Kjersti Wiklund, all independent Non-Executive Directors. Please see pages 94 and 95 for their biographies and page 103 for attendance.

During the year the Committee invited the Chair of the Board, other Non-Executive Directors, the CEO, the CFO, the Director of Group Finance, the departing PwC and incoming Deloitte lead audit partners, other representatives from both audit firms, and other key senior management to attend their meetings, as appropriate.

After each Committee meeting, the Committee meets separately with the external audit lead audit partner and the lead internal audit partner from BDO to give them the opportunity to discuss matters without executive management being present. In addition, the Chair maintains regular contact with the external audit lead audit partner and the lead BDO internal audit partner between meetings, often without the presence of management.

Highlights

The completion of the contract profitability and balance sheet review

The implementation of improvements to the control environment throughout the year

Transition of the external audit to Deloitte

Review of critical judgements and estimates adopted by management in closing FY22

Key responsibilities

Reviewing the scope and the results of the statutory audit and other financial statements

Reporting to the Board on the effectiveness of the audit process and how the independence and objectivity of the auditor has been safeguarded

Reviewing the half-year and annual financial statements and any announcements relating to financial performance, including reporting to the Board on the significant issues considered by the Committee

Reviewing the scope, remit and effectiveness of the internal audit function

Reviewing the effectiveness of the Group's internal control and risk management systems

Dear fellow Shareholder

This is both my first report as Chair of the Audit Committee and my first year on the Board of Babcock, having joined the Board on 6 January 2022. In February 2022, I was asked to take on the chair of the Committee following Russ Houlden's decision to retire from the Board, which I was more than happy to do. I am very grateful to Russ for his support and assistance to ensure a smooth handover and wish him well in his new roles. With Russ's retirement, the Nominations Committee has a process in place to appoint another Non-Executive Director with a financial background, who would also join the Committee.

This year was the first year of Babcock's renewed strategy to turn around the business. As can be seen throughout the governance section of this Annual Report, the Board and its Committees have played their full part in supporting the turnaround. For the Committee, the focus has been on the oversight of Babcock's financial reporting and controls. The Committee spent the start of the year overseeing two key processes: the audit of Babcock's FY21 financial statements and the contract profitability and balance sheet review (CPBS). The Committee finished both in July. The CPBS identified 147 accounting adjustments, described in detail in the FY21 Audit Committee report.

Since July, the Committee has shifted its focus from the CPBS to monitoring the implementation of the programme of improvement of internal and financial controls, with a particular focus on Group Head Office, the Aviation and Land sectors, and the onboarding of the new external auditor, Deloitte.

Following the CPBS, the new CFO led a Group-wide 'lessons learnt' exercise and has engaged the Audit Committee on improvements required and the monitoring of progress on implementation. This exercise has resulted in a number of control improvements, which management has already implemented, with a number of further improvements ongoing, including:

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- Introduction of an enhanced governance structure (for example, establishing a new risk framework and development of a set of standard Group accounting policies);
- Establishment of a revised minimum set of financial controls (the Babcock 'Document of Control'), which facilitates the reporting of control standards at sector level and includes enhanced tracking and reporting of open and overdue internal audit recommendations;
- Monitoring the improvement programme of internal and financial controls in Group Head Office, Aviation and Land; and
- Oversight of the key development contracts and programmes.

Management has assisted the Committee by establishing a new process of documenting the application of accounting standards to major contracts and any related material accounting estimations and judgements.

Following the publication of Babcock's FY21 Annual Report, the Financial Reporting Council reviewed our FY20 Annual Report and financial statements for compliance with the relevant reporting requirements. The FRC has since informed us that it has now closed its enquiries into our FY20 Annual Report and financial statements. However, we understand that its review of PwC's audits for FY17, FY18, FY19 and FY20 remain ongoing. As reported in the FY21 Annual Report, the Financial Conduct Authority wrote to the Company in January 2021 requesting information on the contract profitability and balance sheet review. In March 2022, the FCA informed us that it had concluded its review and did not intend to take any further action.

Shareholders formally approved the appointment of Deloitte as Babcock's new external auditor at the 2021 AGM. The Committee took a number of steps to ensure a smooth and effective transition from PwC: (i) it agreed a scope of interaction between Deloitte and PwC during FY21, which included Deloitte's attendance at key audit meetings and observing the FY21 audit; (ii) Deloitte had meetings with the Committee Chair and the CFO, as well as Group and sector management, in order to build their knowledge and to facilitate the scoping and planning of the FY22 audit; and (iii) Deloitte attended Committee meetings prior to their appointment in order to confirm their independence and to report on the audit transition plan status.

This early work helped the transition to Deloitte. Nevertheless, there was still a substantial amount of work for management and Deloitte to complete the FY22 audit. As with last year, the Committee decided to prioritise audit quality over speed and agreed to defer the publication of our preliminary full-year results.

As part of this improving quality, the following topics were presented by management and reviewed by the Committee as being the most critical judgements and estimates considered in closing FY22:

- Long-term programme cost estimates, including overhead savings and production improvements;
- Future inflation for pensions, contract estimates to complete and supplier resilience;
- Assumptions for aircraft impairments reviews of profitability by air frame and future cash flow discount rates; and
- Pension assumptions for mortality, inflation and liability discount rates.

The Committee has also reviewed certain prior period restatements to FY21 that reflected further scrutiny of prior periods and benefited from refreshed challenge from the new auditors. These include adjustments for non-cash items in pensions, impairment and derivative accounting, as well as changes in the judgements of certain pass-through revenue now being treated as net within cost of sales.

In addition to the issues that I have highlighted above, the Committee has continued with its standard work plan which included:

- Reviewing all matters relating to the external audit, including scope, independence, effectiveness, quality and fees;
- Reviewing Babcock's financial statements and associated reports;
- Overseeing readiness for the implementation of digital financial reporting using the European Single Electronic Format;
- Considering the key planning components for the main, longer lead-time changes that may arise from the UK Government's proposals on 'Restoring trust in the audit and corporate governance'; and
- Reviewing the scope of internal audit, including the conclusion that insourcing this activity in future periods will be more effective for the needs of the Group than the current outsourced model.

Looking to FY23, the Committee will continue to play its part in Babcock's turnaround. It will seek to do this by:

- Ensuring completion of a successful transition to the new Committee membership;
- Continuing its oversight of the implementation of improvements to risk management and internal control systems;
- Reviewing management's key programme watchlist process;
- Reviewing management's standardisation of bid to programme execution controls;
- Monitoring the planning and successful transition to the new insourced internal audit model; and
- Continuing to monitor the various regulatory initiatives flowing from the UK Government's stated aim to reform the corporate governance and audit regime.

Finally, I would like to thank my fellow Committee members, Russ, Kjersti and Lucy, for their support and work over the year. We will all be at the FY22 AGM, where we hope to meet as many of our fellow shareholders as possible and to be available to answer any questions you may have on this report or the Committee's activities.

JOHN RAMSAY
Committee Chair

Audit, risk and internal control continued

Risk management and internal control systems

The Board has ultimate responsibility for risk management and internal control systems, and has delegated to the Committee the review of the effectiveness of these systems in order to assist it in discharging this responsibility.

The Committee reviews internal financial controls: that is, the systems established to identify, assess, manage and monitor financial risks. The Group Executive Committee, chaired by the CEO, retains accountability for the management of operational risks, including related controls and mitigating actions. Sector CEOs and function directors are required to ensure that appropriate processes, including the maintenance of risk registers for both the sector itself and individual constituent lines of business, exist to identify and manage risks; and to regularly carry out formal risk assessments. Please see pages 76 to 86 for further information on the Group's principal risks, risk management process and internal control environment.

The Group operates under a system of internal controls which, as described above, have been upgraded during FY22 and will be subject to continued improvement in FY23. These controls will be developed over time to meet the needs of the business and the risks and opportunities to which it is exposed, recognising differences in the nature and type of each of the Group's operations. These controls include:

- The preparation and consideration of the five-year plan;
- A comprehensive budgeting system with an annual budget which the Board approves;
- Monthly review of business and financial performance in the month and year to date, and update of financial forecasts for the year;
- The monitoring of financial performance and key dependencies for the full year;
- The monitoring of project and programme management; and
- The appropriate delegation of authorities to operational management.

However, the new Babcock Document of Control establishes a minimum expectation of controls that are considered to be mandatory irrespective of the nature of the line of business.

Legacy control systems still exist from previous acquisition activity, and other key control processes, including IT, are not fully standardised and implemented across the Group. The implementation and operation of certain key controls is decentralised to business units. Sector, functional and central oversight activities and controls are in place to support this.

Across all parts of the business the Committee has overseen strengthened financial controls through: increased independent review of the most material development contracts; extended governance and regulatory training; monthly sector reviews by the CEO and CFO; the communication of a revised delegation matrix and Letter of Representation; enhanced focus and reporting of open and overdue audit recommendations; the communication of revised, proportionate minimum expectations of financial control; and a 'hard financial close' exercise for the 10 months to January, ahead of the year end.

In particular, as part of closing the prior year, the Committee concluded that internal and financial controls had not been fully effective in certain parts of the Group, most notably in Aviation, Land and Group Head Office. It therefore agreed with Group and sector management a programme of improvements in internal and financial controls. These included, for Group Head Office, changes to the treasury and Group reporting functions, whilst in Aviation and Land the plans addressed specific issues in those sectors. The Committee has monitored progress in these areas throughout the year, including attendance by the Land and Aviation sector management to present their plans and status at two meetings in the year, and a quarterly update of Group Head Office improvements to both the Audit Committee and the Board. In addition, BDO were asked to undertake an assessment of the status of progress as at 31 March 2022 during the fiscal Q4 and early FY23 period. The improvement plans were only finalised and implementation started during the year, which means that we cannot conclude they were effective for the full 12-month period of FY22. However, the Company had successfully delivered the improvement plans for it's internal controls agreed last year, whilst recognising that there remains on-going scope for further improvement in FY23, including lessons learnt from the FY22 closing.

External audit

During FY21, the Committee concluded the process to retender the external audit, with the incumbent auditor at that time, PwC, not participating. The recommendation to appoint Deloitte as external auditor was then approved by shareholders at the 2021 AGM. Steps were taken throughout FY22 to ensure an effective transition to Deloitte, including attendance at Audit Committee meetings as the previous financial year was concluded, and access and review of the final PwC audit files for the Group and its subsidiaries. In September 2021 we agreed the scope and level of materiality of the FY22 audit plan of work and discussed with Deloitte the areas that they had identified as key risks and other particular areas of focus in their first year, and the specific audit procedures that they would perform to undertake the related audit work.

As part of the original tender process it was planned that Deloitte would give an interim review opinion on the interim financial information (H1) in addition to auditing the full-year results. This was a new approach for Babcock which had not previously had interim reviews performed by the auditor. That interim financial information review timetable was delayed by the timing of the handover from PwC and the transition work being more extensive than would usually be the case given the many adjustments published in the 31 March 2021 year-end financial statements and the Group's ongoing transformation of its accounting and control environment. Although the review was not completed, a significant amount of work was performed and there were invaluable lessons learned at that time that were used to execute a successful year-end timetable, including: standard templates for accounting technical applications on contracts and their judgements; early interaction with subject matter audit experts in treasury, pensions and taxation; enhanced

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communication; and short-term interventions such as regular brief 'touch-point status' meetings with the Audit Committee Chair, CFO and lead audit partner.

The total fees paid to Deloitte in the year ended 31 March 2022 equalled £7.1 million, with non-audit fees of £0.5 million, representing 7% of the total. An analysis of the fees paid to the external auditors in respect of audit and non-audit work during the year can be found in note 5 to the Group Financial Statements on page 188.

The provision of non-audit services is controlled by a policy which states that the external auditors will not be engaged to provide any element of non-audit services without approval in advance – from the CFO for fees up to £10,000, from the Chair of the Audit Committee for fees between £10,000 and £100,000, and by the Audit Committee for fees over £100,000. The Committee recognises that there may be some element of non-audit services for which the Group might wish to use the external auditors.

Deloitte is expected to report to the Committee any material departures from Group accounting policies and procedures that they identify during the course of their audit work. The Independent auditor's report to the members of the Company can be found on page 136, which includes reference to the prior year restatements that have been required as a result of such departures.

Deloitte's presentation of their audit plan to the Committee set out the scope and objectives of the audit, together with an overview of the planned approach, an assessment of the Group's risks and controls, and proposed areas of audit focus, which was reviewed and approved by the Committee.

The Committee is responsible for the development, implementation and monitoring of the Group's policies on services from external auditors, which are designed to maintain the objectivity and independence of the external auditors. These policies set out the approach to be taken when using the external auditors for non-audit work and regulate the appointment by the Group of former employees of Deloitte. In addition to an independence review conducted by management, Deloitte has provided specific assurance and the Committee has considered the arrangements and safeguards that Deloitte has in place to maintain its independence and objectivity. The external auditors follow regulatory requirements to maintain the objectivity of the audit process; these stipulate a five-year rotation policy in relation to the senior engagement auditor. Makhan Chahal was appointed as Deloitte's first lead audit partner, with responsibility starting for FY22. The Committee continues to be satisfied that Deloitte remain independent and objective.

Audit Quality Review (AQR)

The FRC's AQR team monitors the quality of audit work of certain UK audit firms through inspections of a sample of audits and related procedures at individual audit firms. Deloitte has provided us with the findings from its latest firm-wide AQR report, the initiatives being taken in respect of the firm's evolution of its firm-wide audit approach and methodology, and how those are transferred into the Babcock audit. We have also agreed a series of audit quality indicators with the external audit team, focused on phasing of audit hours, timeliness of deliverables and subsidiary audit progress. In addition the Audit Committee Chair and the CFO met with Deloitte during the year, in order to ensure priorities were mutually adequately resourced and receiving responsiveness to be sufficient to support the Group's turnaround and execute the year-end timetable.

Internal audit and assurance

The Group's internal audit activity is entirely outsourced to BDO. Each year BDO, after discussions with management, propose a strategy and plan for the internal audit to the Committee for approval. The plan covers lines of business and countries, financial risk and other risk themes. Once approved the internal auditor implements the plan and reports back to the Committee at each of its meetings. The findings of each internal audit review are summarised for the Committee, which focuses its discussions on unsatisfactory findings and on the action plans in place to address them. Particular areas of focus for internal audit during FY22 included continuation of financial control audits in line with the increased focus on control improvements, related internal audits in line with the key programmes, assessment of the implementation of the new risk management framework, and a number of risk-based reviews.

In addition, internal audit has continued to maintain a programme of follow-up audits to assess the timely implementation of internal audit recommendations by the businesses and key matters from the internal audit reviews.

As planned, during the first six months of the financial year, the Committee reviewed the scope of internal audit and assessed whether the outsourced model was the most appropriate to support the Group's turnaround and control improvement needs. A decision was made to insource the activity and, as a first step, an executive recruitment process was started to appoint a Head of Internal Audit and Assurance. That role will be filled early in FY23 and a start made on both recruiting an in-house internal audit team and transition planning from BDO. The Committee will consider these plans and timing at an early opportunity; however, it is expected that BDO will continue to deliver the majority of internal audit work for FY23.

The Committee has approved the internal audit plan for FY23 prepared by BDO, including the proposed audit approach, coverage and allocation of resources. The FY23 plan was prepared considering a number of factors, including the principal risks of the Group. The key points in the FY23 plan include:

- Continued focus on internal financial controls assurance;
- Increased focus on non-financial areas of risk, including corporate governance and business interruption;
- Increased focus on IT controls and cyber security, including compliance with new regulations; and
- Continued improvement in the Group's assurance-mapping process across the three lines of assurance.

Audit, risk and internal control continued

Financial statements

The Committee reviews all significant issues concerning the financial statements, which include the going concern and viability statement. It agreed the parameters of, and subsequently reviewed the supporting report for, the going concern statement and the statement on the Board's assessment of the prospects of the Company (see the Going concern and viability statement on pages 88 and 89) over the five-year period used in the business plan. The Committee believes the extension of the period covered by the business plan, and therefore the viability statement, to a five-year period is the most appropriate timespan for this Group given our business planning cycle, the long-term nature of a number of our programmes and insight gained from the first year of the turnaround. In assessing going concern and viability, the Committee has considered cash flow projections and timings, which include assumptions, as far as they can be made, in respect of COVID-19 and climate change, with related sensitivity analysis and stress-testing scenarios, borrowing facilities available to the Company and covenants.

During the year we have continued to scrutinise our disclosures on environmental, social and governance (ESG) issues, particularly in respect of climate change and Task Force on Climate-related Financial Disclosures (TCFD) and other evolving reporting requirements. We have reviewed actions being taken to address this, and agreed in principle the areas for further disclosure in the FY22 Annual Report. This has included continuing to improve linkage between the Strategic report and the financial statements. Further detail on climate risk and opportunity scenario planning is set out on page 60.

For FY21 the Company made a series of changes to the reporting of underlying measures to improve transparency and provide a simpler set of financial disclosures and financial commentary for the future. We have considered alternative performance measures, amongst other matters, to ensure they continue to assist the provision of a fair, balanced and understandable Annual Report and Accounts. Other parts of this process include:

- Comprehensive guidance issued to all the contributors at operational level;
- A verification process dealing with the factual content of the reports;
- Comprehensive reviews undertaken at different levels in the Group that aim to ensure consistency and overall balance; and
- Comprehensive review by the Directors and the Executive Committee.

Following this review, the Committee was of the opinion that the FY22 Annual Report and Accounts was representative of the year and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position and performance, business model and strategy.

Code of Business Conduct violations and fraud

The Babcock Code of Business Conduct, which incorporates the Group's whistleblowing policy, contains arrangements for an independent external service provider to receive, in confidence, reports on suspected violations of the Code for reporting to the Board and the Committee as appropriate. Please see pages 71, 72 and 98 for further details. The Board regularly received reports on matters relating to the Code.

Priorities for FY23

The Committee has set the following priorities for FY23:

- Ensuring completion of a successful transition to the new Committee membership;
- Continuing its oversight of the implementation of improvements to risk management and internal control systems;
- Reviewing management's key programme watchlist process;
- Reviewing management's standardisation of bid to programme execution controls;
- Monitoring the planning and successful transition to the new insourced internal audit model; and
- Continuing to monitor the various regulatory initiatives flowing from the UK Government's stated aim to reform the corporate governance and audit regime.

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Remuneration

Remuneration Committee Report

Key facts

The Committee

Kjersti Wiklund has chaired the Committee since April 2020. She is also chair of the Remuneration Committee of Trainline plc. The other Committee members are Carl-Peter Forster, Russ Houlden and John Ramsay. Please see pages 94 and 95 for biographies and page 103 for attendance. Kjersti will retire from the Board at the 2022 AGM and Carl-Peter Forster will take over as Chair of the Committee.

Highlights

Implementation of the Company's Remuneration policy

Review of FY22 remuneration outcomes

Deciding FY23 remuneration structure

Key responsibilities

Oversight of reward matters across the Group

Maintenance of a strong link between strategy, stakeholder experience and Executive Director reward

Approval of reward outcomes for the Executive Directors

Dear fellow Shareholder

I would like to open our Directors' Remuneration report ('DRR') for the year ended 31 March 2022 by emphasising the importance that the Remuneration Committee places on the need for a clear link between strategy, performance and pay. As a Committee, we believe that our approach to remuneration plays a key role in the achievement of the Group's strategic objectives and in the delivery of sustainable growth. We continuously review our Remuneration policy to assure ourselves that our policy is fulfilling this role. This year, after our review, we are not proposing any material changes to the operation of our policy. At the end of FY23, our current policy will expire, so we will engage with our shareholders over the coming year in order to listen to and understand their views on how we can best take our policy forward and to make sure that it continues to support the Group's strategy.

Before I start the main report, I would like to say that this is my last report as I am retiring from the Board at the 2022 AGM. I want to thank all my colleagues, especially my fellow Committee members, for their help and support during my tenure as Committee Chair and to welcome Carl-Peter to the Chair, as he will take over on my retirement.

Good progress on FY22 priorities

I would like to set the context for our work over FY22. Last year the Board set out five strategic actions in the FY21 Annual Report to strengthen Babcock. As described in the Strategic report on pages 2 to 89, the Group has made good progress across each of these five actions. As a Committee reviewing those actions, we are pleased to report:

- **Portfolio:** The Company has made progress to align the Group's portfolio by divesting certain businesses. It has exceeded the target the Board set of generating £400 million of disposal proceeds, which the Company has used to pay down debt and to invest in the Group. Please see page 13.
- **Operating model:** The Company has implemented its new operating model with the aim of creating a flatter and more efficient business. It achieved its target of in-year operating model savings, helping to create a stronger Babcock. Please see page 13.
- **People strategy:** The Company has started the roll-out of its new People strategy, with a new Purpose, underpinned by new Principles. The aim of this strategy is to develop a new organisation that shares capability, talent, innovation and best practice across the Group. Please see pages 13 and 19.
- **ESG strategy:** The Company has continued to develop its ESG strategy and is working on the development of plans to reduce its emissions to meet its science-based targets so that the Group is net zero across its estate, assets and operations by 2040. Please see pages 13 and 54 to 75.
- **Growth:** The Company has continued to explore growth opportunities. It has signed an agreement for the export of the Group's Arrowhead 140 frigate design to Indonesia and Poland. In Australia, the Company acquired the remaining joint venture interest in NSM to establish the Group as a tier 1 warship sustainer. Please see pages 14 and 15.

Alignment of our Remuneration policy to the Board's strategic objectives

We as a Committee have aimed to play our part in supporting the Group's progress outlined above by implementing our Remuneration policy so that it aligns with and encourages the sustainable achievement of our five strategic actions. We have done this by:

- Setting base salary at a level to recruit and retain executive talent so that the Group can execute its strategic objectives. However, we review any increase in executive base salary to ensure that it is in line with the wider workforce.
- Structuring the annual bonus and the longer-term performance share plan (PSP) so that we link both schemes to progress on the Board's strategic objectives. For example, both schemes have measures (operating cash flow and profit before tax in the annual bonus; and cumulative free cash flow in the PSP) that incentivise the strengthening of Babcock by the implementation of the Board's five strategic actions. The annual bonus also contains non-financial measures that align to those actions (see page 127 for more detail).

Remuneration in FY22

The outcome of the contract profitability and balance sheet review was a key consideration in our discussions of remuneration at the beginning of FY22. We believe that the remuneration outcomes, which I summarise below, reflect the Company's performance and the broader context, including shareholders' experience and interests.

After due consideration, the Committee approved the following outcomes:

- **Salary:** As we disclosed in the FY21 DRR, we delayed our review of the Executive Directors' base salaries until September 2021 in line with the Company's approach for other employees. In September, we decided to award the Executive Directors an increase of 2% in alignment with increases across the Group.
- **FY22 annual bonus:** We followed the same structure for the FY22 annual bonus for Executive Directors as we did for FY21. It was based 80% on underlying financial performance measures, split equally between operating cash flow and profit before tax. In line with past practice, we maintained the percentage allocated to non-financial measures at 20%. As in FY21, we adopted a wide range for the performance measures and retained discretion to ensure that the outcome aligned to the Group's stakeholder experience. The Committee considered the good progress against the FY22 priorities, as described above, as well as shareholder experience. Following its considerations, the Committee was pleased to award an annual bonus for FY22 to the Executive Directors, having not awarded a bonus last year, and awarded a bonus of 80% of maximum for David Lockwood and 79% of maximum for David Mellors. Please see pages 126 to 128 for more detail.
- **2019 PSP awards:** Neither Executive Director was with the Company when we awarded the 2019 PSP awards and therefore they were not participants in the 2019 cycle. In any event, performance against the targets for this cycle was below threshold, resulting in the 2019 PSP awards lapsing in full.
- **2021 PSP awards:** We granted the 2021 PSP award in August 2021, following the outcome of the contract profitability and balance sheet review. We considered the measures for the awards to ensure that they would support the Board's strategic actions and would reflect the wider shareholder experience. After our review, we decided that the most appropriate measures were relative TSR and cumulative free cash flow, both equally weighted, consistent with the 2020 PSP awards. The performance period for the award is the three financial years starting with FY22; as we consider the targets for cumulative free cash flow to be commercially sensitive, we have delayed disclosing the range, but we will disclose the target no later than the FY24 annual report, being the relevant annual report for disclosing the vesting outcome for the 2021 PSP award. For further detail, please see pages 128 and 133.

ESG in FY22

We have set out in this Annual Report our strategy for ESG (please see page 54). During FY22, the Committee has considered how it might support the Group's strategy in line with stakeholders' expectations that companies start to consider how to include ESG in their remuneration plans. The Group's Remuneration policy has always included elements of ESG. For example, the Group's annual bonus has a health and safety underpin, by which the Committee can reduce or cancel any bonus if the Group's health and safety performance does not warrant a bonus. In FY22, the Committee built on this to include specific ESG objectives and measures in the FY23 annual bonus. These objectives and measures include health and safety, the pathway to net zero and diversity. In addition, the health and safety underpin will remain in place.

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The Committee has followed all the work Babcock is currently doing to develop its ESG strategy and has discussed the inclusion of PSP performance conditions on climate change and other ESG-related matters. In FY23, it will continue to monitor the progress of the ESG strategy and will consider the inclusion of ESG in the PSP as part of its review of the Remuneration policy.

Remuneration for FY23

When considering the implementation of our Remuneration policy for FY23, we have taken into account the need to support the turnaround of the Group by ensuring that we incentivise the Executive Directors to deliver the Board's strategic actions, whilst continuing to align the implementation of the policy with shareholder interests. We have done this as follows:

- **Salary:** Our normal practice is to align our review of the Executive Director salaries with the Company's review of the wider workforce. This year, the Company decided to award all UK employees (other than the Group's higher-paid earners) a standardised annual salary increase. In order to align the Executive Directors with this decision, the Committee decided not to increase the Executive Directors' salaries for FY23.
- **FY23 annual bonus:** The structure of the Executive Director annual bonus for FY23 is consistent with that for FY22, with measures based on operating cash flow, profit before tax and non-financial objectives. However, in the event of a payout, we will revert to our usual structure as per the approved Remuneration policy and pay 60% of any bonus earned for FY23 in cash and defer the remaining 40% into awards over Company shares for three years, as usual. We have set the measures and targets, which we will disclose in full in next year's DRR. Please see page 129 for more detail.
- **2022 PSP awards:** We will grant awards under the PSP to the Executive Directors in 2022 covering the three-year period FY23–FY25. We will use the same measures as used for the 2021 PSP award, being relative TSR and free cash flow, as they align with our focus on the turnaround of the Company, as well as shareholder interests. We reviewed the targets for both measures to ensure that they would be appropriately stretching. In respect of the free cash flow target, we set a three-year cumulative range. As in FY22, we consider this range commercially sensitive and will disclose the target no later than the FY25 annual report, being the relevant annual report for disclosing the vesting outcome for the 2022 PSP award. In respect of relative TSR, we decided to retain the same performance range as for 2021 PSP awards.

Focus for FY23

As usual, we will continue to support the strategic aims of the Group through our work on the Committee and the implementation of our Remuneration policy. However, over FY23, the Committee will also look to develop the channels through which it engages with employees. In the past, the Committee has engaged with employees through the Babcock Employee Forum. Following the appointment of Lord Parker as designated Director for employee engagement, the Committee has had the benefit of his reports about the views he has heard from his employee meetings. We also hope to have the opportunity to consider Babcock's global engagement survey. Previously, each sector would undertake its own surveys at different times. For the first time, the survey will cover the whole Group and will give the Committee a better insight into employee experiences and views at work, including those relating to remuneration and benefits.

We will look to use the engagement with employees when we review our Remuneration policy, which we will present to the 2023 AGM for shareholder approval. Before doing so, we will conduct a comprehensive review to ensure that our policy continues to reflect best practice and supports the Group's strategic direction in the most appropriate manner, whilst reflecting the priorities of our shareholders. In order to make sure that we understand those priorities, we will engage with shareholders over FY23. We as a Committee are looking forward to this engagement, as it is an essential underpin for our work over the lifetime of the next policy.

I hope that you have found this report useful. However, if you do have any questions, the Committee is looking forward to engaging with the Company's shareholders at its 2022 AGM.

KJERSTI WIKLUND
Committee Chair

Remuneration at a glance

This section provides an overview of the Company's performance over FY22 and the remuneration received by our Executive Directors. You can find full details in the Annual report on remuneration on pages 125 to 133.

FY22 remuneration outcomes

Annual bonus

The Committee based the FY22 bonus on a mix of financial and non-financial measures, the performance targets for which (and actual performance against these) are set out below:

Measures	Warranted payout (% of maximum bonus)				Performance targets
	D Lockwood		D Mellors		
Group Profit Before Tax (PBT)	40% Max	**21% Outturn**	40% Max	**21% Outturn**	Threshold £193.4m · Target £203.6m · Stretch £224.0m **Outturn £202.8m[2]**
Group Operating Cash Flow (OCF)	40% Max	**40% Outturn**	40% Max	**40% Outturn**	Threshold £42.4m · Target £44.6m · Stretch £49.1m **Outturn £75.8m[2]**
Non-financial[1]	20% Max	**19% Outturn**	20% Max	**18% Outturn**	
Total	100% Max	**80% Outturn**	100% Max	**79% Outturn**	

1. The Committee has merged several measures into an overall assessment in this table for disclosure purposes.
2. Please see the annual bonus table on page 127 for more detail.

2019 PSP

The current Executive Directors were not participants in the 2019 PSP as the award predated their joining Babcock. In any event, based on performance, the 2019 PSP award lapsed in full.

Implementation of the Remuneration policy in FY23

For the current financial year, the Committee intends to implement the Remuneration policy as set out in the table below.

Element of remuneration	Base salary	Pension	Benefits
Implementation for FY23	David Lockwood: £816,000 David Mellors: £571,200 In line with the approach taken for other higher-paid employees in FY23, the Committee did not increase the Executive Directors' salaries. Other UK employees below this level received a standardised salary increase for FY23.	10% of salary	Unchanged from FY22

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Implementation of the Remuneration policy in FY23 continued

Element of remuneration	Annual bonus and Deferred Bonus Plan (DBP)
Implementation for FY23	The bonus structure is consistent with that used for FY22, with awards of up to 150% of salary based on the achievement of financial targets, PBT and OCF, (each a 40% weighting) and non-financial measures (20% weighting). The Committee has returned to its normal practice of paying 60% of any bonus earned in cash, with the remaining 40% deferred in shares for three years. For more detail, please see page 129.

Element of remuneration	PSP
Implementation for FY23	PSP awards of 200% of salary with vesting based on measures the Committee believes are most appropriate: free cash flow and relative TSR, equally weighted.

Alignment of the Remuneration policy

The Committee believes that the policy complies with the pillars set out in paragraph 40 of the 2018 Corporate Governance Code:

Clarity	The Committee believes that the disclosure of the remuneration arrangements is transparent, with clear rationale provided on its maintenance and any changes to policy. The Committee remains committed to consulting with shareholders on the policy and its implementation.
Simplicity	The policy and the Committee's approach to its implementation are simple and well understood. The performance measures used in the PSP, along with those in the annual bonus, align to Babcock's strategy.
Risk	The Committee has ensured that remuneration arrangements do not encourage or reward excessive risk-taking by setting targets which are stretching, but achievable, with discretion to adjust formulaic annual bonus and PSP outcomes.
Predictability and proportionality	The link of the performance measures to strategy and the setting of targets balances predictability and proportionality by ensuring outcomes do not reward poor performance.
Culture	The policy is consistent with Babcock's culture as well as its strategy, therefore driving behaviours which promote the long-term success of the Company for the benefit of all stakeholders.

Compliance statement

This report has been prepared in compliance with all relevant remuneration reporting regulations in force at the time and in respect of the financial year under review.

This report contains both auditable and non-auditable information. The information subject to audit is so marked.

Remuneration policy report

Shareholders approved the Remuneration policy set out in this section by a binding shareholder vote at the 4 August 2020 AGM. You can find the policy at www.babcockinternational.com/who-we-are/leadership-and-governance. The Committee intends that this policy will apply for three years from that date.

Key principles of the Remuneration policy

Our Remuneration policy for Executive Directors reflects a preference that we believe the majority of our shareholders share – to rely more heavily on the value of variable performance-related rewards than on the fixed elements of pay, to incentivise and reward success. The Committee, therefore, weights the focus of executive remuneration towards performance-related pay with a particular emphasis on long-term performance. The Committee believes that, properly structured and with suitable safeguards, variable performance-related rewards are the best way of linking pay to strategy, risk management and shareholders' interests.

Remuneration policy for Executive Directors

Base salary

Purpose and link to strategy	To recruit and retain the best executive talent to execute our strategic objectives at appropriate cost.
Operation	The Committee reviews base salaries annually, with reference to the individual's role, experience and performance; salary levels at relevant comparators are considered, but do not in themselves drive decision-making.
Opportunity	The Committee anticipates that increases in salary for the wider employee population over the term of this policy will guide it on any increases for the Executive Directors. In certain circumstances (including, but not limited to, a material increase in job size or complexity, market forces, promotion or recruitment), the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain fair and competitive.
Performance metrics	Business and individual performance are considerations in setting base salary.

Pension

Purpose and link to strategy	To provide market-competitive retirement benefits.
Operation	Cash supplement in lieu (wholly or partly) of pension benefits for ongoing service and/or membership of the Group's defined benefit or defined contribution pension scheme.
Opportunity	Executive Directors receive pension benefits up to the value equivalent to the maximum level of pension benefits provided under the Company's regular defined contribution pension plans as offered to the wider workforce in the relevant market as may be in effect or amended from time to time.
Performance metrics	Not performance-related.

Benefits

Purpose and link to strategy	Designed to be competitive in the market in which the Group employs the individual, or to meet costs effectively incurred at the Company's request.
Operation	The Group provides a range of benefits, which may include (but are not limited to): life insurance; medical insurance; car and fuel benefits and allowances; home-to-work travel and related costs; and accommodation benefits and related costs. The Group may offer other benefits (eg relocation) if the Committee considered it appropriate and reasonable.
Opportunity	Benefit values vary by role and are periodically reviewed and set at a level that the Committee considers appropriate in light of relevant market practice for the role and individual circumstances. The cost of the benefits provided changes in accordance with market conditions, which will determine the maximum amount that the Company would pay in the form of benefits during the period of this policy. The Committee retains discretion to approve a higher cost in certain circumstances (eg relocation) or in circumstances where factors outside the Company's control have changed materially.
Performance metrics	Not performance-related.

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Annual bonus

Purpose and link to strategy	To underpin delivery of year-on-year financial performance and progress towards strategic non-financial objectives, being structured to motivate delivery against targets and achievement of stretching outperformance, whilst mindful of achievement of long-term strategy and longer-term risks to the Company. The requirement to defer a substantial part of bonus into Company shares strengthens the link to long-term sustainable growth.
Operation	Performance targets are set at the start of the year and reflect the responsibilities of the Executive in relation to the delivery of our strategy. At the end of the year, the Committee determines the extent to which the Group has achieved these targets. The Committee has the discretion to adjust the outcome (up or down) within the limits of the plan for corporate transactions, unforeseen events, factors outside reasonable management control, and changes to business priorities or operational arrangements, to ensure targets represent and remain a fair measure of performance. In addition, the Committee considers health and safety performance and may reduce or cancel any annual bonus otherwise payable if it considers it appropriate to do so in light of that performance. The Committee defers at least 40% of annual bonus payments for Executive Directors into Company shares for three years. Dividend equivalents accrued during the deferral period are payable in respect of deferred shares when (and to the extent) these vest. Malus and clawback provisions apply to cash and deferred bonus awards: if the accounts used to determine the bonus level have to be materially corrected; if the Committee subsequently comes to a view that bonus year performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the deferred bonus did not lapse and facts emerge which, if known at the time, would have caused the deferred bonus to lapse on leaving or would have caused the Committee to exercise any discretion differently.
Opportunity	Maximum bonus opportunity is 150% of salary. For achievement of threshold, the Executive Directors earn up to 15% of maximum bonus; for achievement of target, they earn up to 55% of maximum bonus.
Performance metrics	The Committee determines performance on an annual basis by reference to Group financial measures, eg PBT, OCF, as well as the achievement of non-financial objectives. The weighting on non-financial objectives is limited to 20%, unless the Committee believes exceptional circumstances merit a higher weighting. The Committee retains discretion to vary the financial measures and their weightings annually, to ensure alignment with the business priorities for the year.

Performance Share Plan (PSP)

Purpose and link to strategy	To incentivise delivery of top-quartile shareholder returns and earnings growth over the longer term. Long-term measures guard against the Company taking short-term steps to maximise annual rewards at the expense of future performance.
Operation	The Committee has the ability to grant nil-cost options or conditional share awards under the PSP. The Committee reviews award levels and performance conditions, on which vesting depends, from time to time to ensure they remain appropriate. Participants will receive cash or shares equal to the value of any dividends that they would have received over the vesting period on awards that vest. The Committee has the ability to exercise discretion to override the PSP outcome in circumstances where strict application of the performance conditions would produce a result inconsistent with the Company's remuneration principles. An additional two-year holding period will apply to Executive Directors' vested PSP awards before the Company releases them. Malus and clawback provisions apply to PSP awards: if there is a misstatement of the Group's financial results for any period; if the Committee subsequently comes to a view that performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the award did not lapse and facts emerge which, if known at the time, would have caused the award to lapse on leaving or caused the Committee to exercise any discretion differently.
Opportunity	Maximum annual PSP award opportunity is 200% of base pay. 16.7% of the maximum award opportunity will vest for threshold performance.
Performance metrics	Vesting of PSP awards is subject to continued employment and Company performance over a three-year performance period. The Committee intends to base PSP awards made during the life of this policy on the achievement of stretching financial targets such as EPS, cash flow, TSR and ROCE. The Committee will review the performance measures, their weightings, and performance targets annually to ensure continued alignment with Company strategy.

All-employee plans – Babcock Employee Share Plan

Purpose and link to strategy	To encourage employee ownership of Company shares.
Operation	Open to all UK tax-resident employees, including Executive Directors, of participating Group companies. The plan is an HMRC-approved share incentive plan that allows an employee to purchase shares out of pre-tax salary which, if held for a period approved by HMRC (currently three to five years), are taxed on a favourable basis. The Company can match purchased shares with an award of free shares.
Opportunity	Participants can purchase shares up to the prevailing HMRC limit from time to time. The Company currently offers to match purchases made through the plan at the rate of one free matching share for every 10 shares purchased. The Committee reviews the matching rate periodically, but it will remain bound by the prevailing HMRC limit.
Performance metrics	Not performance-related.

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Approach to recruitment remuneration

In the case of hiring or appointing a new Executive Director, the Committee may make use of any of the components of remuneration (and subject to the same limits) set out in the policy above.

In determining appropriate remuneration for new Executive Directors, the Committee will take into consideration all relevant factors (including quantum, the nature of remuneration and from where the Company recruited the candidate) to ensure that arrangements are in the best interests of the Company and its shareholders. The Committee may also make an award in respect of a new external appointment to 'replace' incentive arrangements forfeited on leaving a previous employer over and above the limits set out in the policy in the table above. In doing so, the Committee will consider relevant factors, including any performance conditions attached to these awards, time to vesting and the likelihood of those conditions being met. The fair value of the compensatory award would not be greater than the awards the Company was replacing. In order to facilitate like-for-like compensatory awards on recruitment, the Committee may avail itself of the relevant Listing Rule, if required.

When appointing a new Executive Director by way of promotion from an internal role, the pay structure will be consistent with the policy for external hires detailed above. Where an individual has contractual commitments, outstanding incentive awards and/or pension arrangements prior to their promotion to Executive Director, the Company may honour those arrangements; however, where appropriate the Committee would expect these to transition over time to the arrangements stated above.

When recruiting a new Non-Executive Director, the Committee or Board will structure pay in line with the existing policy, namely a base fee in line with the current fee schedule, with additional fees for fulfilling the role of Senior Independent Director and Chairship of the Audit and Remuneration Committees.

Payments from existing awards and commitments

Executive Directors are eligible to receive payment from any award or other commitment made prior to the approval and implementation of the Remuneration policy detailed in this report.

Performance measure selection and approach to target setting

The Committee selects measures used under annual bonus plans annually to reflect the Group's main strategic objectives for the year. They reflect both financial and non-financial priorities. The Committee sets performance targets to be stretching but achievable, taking into account the Company's strategic priorities and the economic environment in which the Company operates. The Committee sets financial targets taking into account a range of reference points, including the Group's strategic and operating plan.

The Committee considers at length the appropriate financial conditions and non-financial objectives to attach to annual bonus awards as well as the financial targets to attach to share awards to ensure they continue to be: (i) relevant to the Group's strategic objectives and aligned with shareholders' interests, mindful of risk management; and (ii) fair by being suitably stretching whilst realistic.

The Committee has discretion to adjust the calculation of short- and long-term performance outcomes in circumstances where application of the formula would produce a result inconsistent with the Company's remuneration principles. Such circumstances may include changes in accounting standards and certain major corporate events such as rights issues, share buybacks, special dividends, corporate restructurings, acquisitions and disposals.

The Committee reviews the performance conditions for share awards prior to the start of each cycle to ensure they remain appropriate. The Committee would not make a material reduction in long-term incentive targets for future awards without prior consultation with our major shareholders.

Executive Director and general employee remuneration

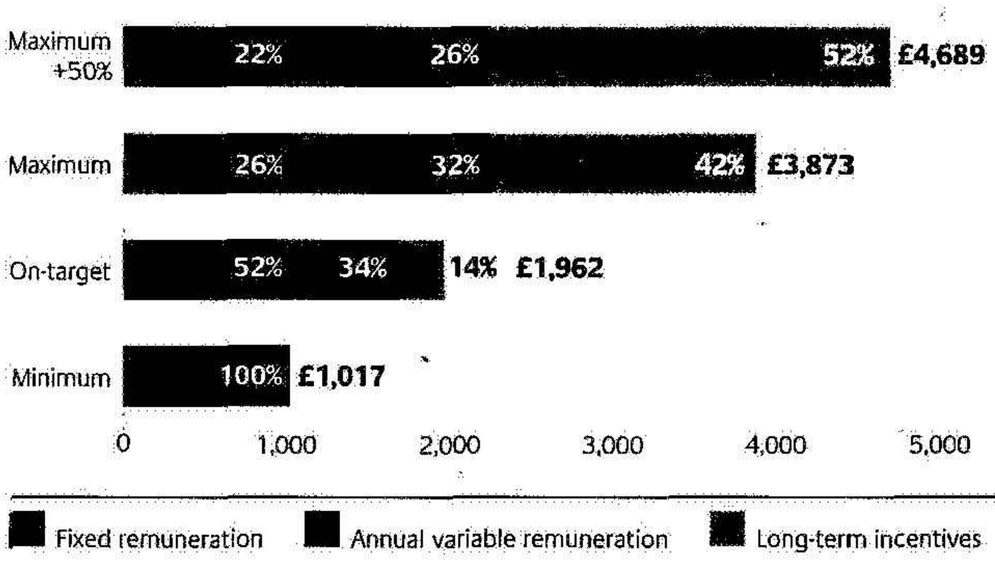
The policy with regard to the remuneration of senior executives below the Board is broadly consistent with that for the Executive Directors, in that it weights remuneration to variable components which are delivered through an annual bonus and equity-based incentives, albeit that restricted stock awards, and not the PSP, are used for participants below Board level. The Committee considers the Remuneration policy for our Executive Directors with the remuneration philosophy and principles that underpin remuneration for the wider Group in mind. The remuneration arrangements for other employees reflect local market practice and the seniority of each role. As a result, the levels and structure of remuneration for different groups of employees will differ from the policy for executives as set out above, but with the common intention that remuneration arrangements for all groups might reasonably be considered to be fair having regard to such factors.

Balance of remuneration for Executive Directors

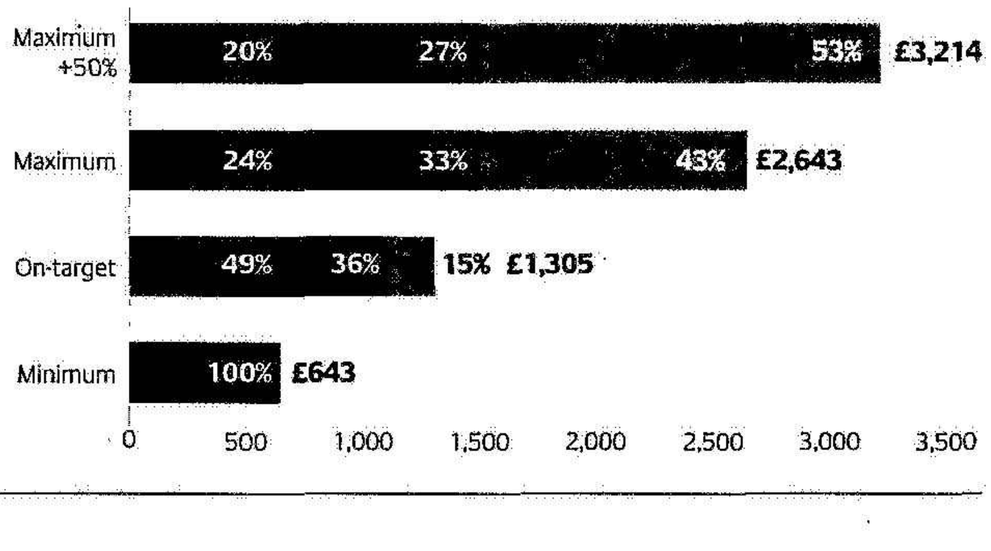
The charts below provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under four different performance scenarios: 'Minimum', 'On-target', 'Maximum' and 'Maximum+50%'.

Potential reward opportunities are based on the Company's Remuneration policy and implementation in FY23, as outlined in the Committee Chair's statement and later in the Annual report on remuneration, applied to base salaries as at 1 April 2022. Note that the projected values exclude the impact of any share price movements except in the 'Maximum+50%' scenario.

Chief Executive
David Lockwood (£'000)



Chief Financial Officer
David Mellors (£'000)



The 'Minimum' scenario shows base salary, pension (and/or pay in lieu of pension) and benefits (ie fixed remuneration). These are the only elements of the Executive Directors' remuneration packages that are not at risk.

The 'On-target' scenario reflects fixed remuneration as above, plus a payout of 55% of the annual bonus and threshold vesting of 16.7% of the maximum award under the PSP.

The 'Maximum' scenario reflects fixed remuneration, plus full payout of all incentives (150% of salary under the annual bonus, 200% of salary under the PSP).

The 'Maximum+50%' scenario reflects fixed remuneration, plus full payout of all incentives with the value of the PSP also reflecting an increase of 50% in the share price from grant.

Shareholding guidelines for Executive Directors

The Committee sets shareholding guidelines for the Executive Directors. The current guideline is to build and maintain, over time, a personal (and/or spousal) holding of shares in the Company equivalent in value to at least twice the Executive Director's annual base salary (three times for the CEO). Executive Directors are expected to retain at least half of any shares acquired on the exercise of a share award that remain after the sale of sufficient shares to cover tax and national insurance triggered by the exercise (and associated dealing costs) until the guideline level is achieved and thereafter maintained.

The shareholding requirements include a post-cessation extension such that departing Executive Directors will be required to hold vested Company shares, received through the Company's PSP, for two years at a level equal to the lower of their actual shareholding on cessation and the in-post shareholding requirement. Any shares purchased by an Executive Director will not be part of this holding requirement.

Details of Directors' service contracts and exit payments and treatment of awards on a change of control

The following summarises the key terms (excluding remuneration) of the Executive Directors' service contracts:

Executive Directors

Name	Date of service contract	Notice period
David Lockwood (Chief Executive)	29 July 2020	12 months from Company, 12 months from Director
David Mellors (Chief Financial Officer)	29 September 2020	12 months from Company, 12 months from Director

The latest service contracts are available for inspection at the Company's registered office and will also be available at the Company's Annual General Meeting.

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The Company's policy is that Executive Directors' service contracts should be capable of being terminated by the Company on not more than 12 months' notice. The Executive Directors' service contracts entitle the Company to terminate their employment without notice by making a payment of salary and benefits in lieu of notice. Under the Executive Directors' contracts, the Company may choose to make the payment in lieu by monthly instalments and mitigation applies such that the Committee may decide to reduce or discontinue further instalments.

In addition to the contractual provisions regarding payment on termination set out above, the Company's incentive plans contain provisions for termination of employment, where the Committee has the discretion to determine the level of award vesting.

Name	Treatment on a change of control	Treatment for a good leaver*	Treatment for other leavers
Annual bonus	Will be paid a time pro-rated proportion, subject to performance during the year, generally paid immediately, with Committee discretion to treat otherwise.	Will be paid a time pro-rated proportion, subject to performance during the year, generally paid at the year end, with Committee discretion to treat otherwise.	No annual bonus entitlement, unless the Committee exercises discretion to treat otherwise.
Deferred bonus awards	Participants may exercise award in full on the change of control, with Committee discretion to treat otherwise.	Entitled to retain any award, which will generally vest at the normal vesting date, with Committee discretion to treat otherwise.	Outstanding awards are forfeited unless the Committee exercises its discretion to treat otherwise.
PSP	Awards generally vest immediately and, for performance-related awards, will be pro-rated for time and remain subject to performance conditions, with Committee discretion to treat otherwise.	Entitled to retain a time pro-rated proportion, which remains subject to performance conditions tested at the normal vesting date. In very exceptional circumstances, the Committee has discretion to allow immediate vesting, but time pro-rating will always apply.	Outstanding awards are forfeited unless the Committee exercises discretion to treat otherwise.

* An individual would generally be considered a 'good leaver' if they leave the Group's employment by reason of injury, ill-health, disability, redundancy or retirement. The treatment of share awards held by Directors who leave on other grounds is entirely at the discretion of the Committee, and in deciding whether (and the extent to which) it would be appropriate to exercise that discretion the Committee will have regard to all the circumstances.

External appointments of Directors

The Directors may accept external appointments with the prior approval of the Chair, provided that such appointments do not prejudice the individual's ability to fulfil their duties for the Group. Any fees for outside appointments are retained by the Director.

Chair and Non-Executive Directors

Name	Date of appointment as a Director	Date of current appointment letter	Anticipated expiry of present term of appointment (subject to annual re-election)
Ruth Cairnie (Chair)	3 April 2019	28 March 2022	AGM 2025
Lucy Dimes	1 April 2018	28 May 2021	AGM 2024
Kjersti Wiklund	1 April 2018	28 May 2021	AGM 2024
Russ Houlden	1 April 2020	4 February 2020	AGM 2023
Carl-Peter Forster	1 June 2020	6 April 2020	AGM 2023
Lord Parker	10 November 2020	9 November 2020	AGM 2023
John Ramsay	6 January 2022	5 January 2022	AGM 2025

The Group's Non-Executive Directors serve under letters of appointment as detailed in the table above, normally for no more than three-year terms at a time; however, in all cases appointments are terminable at will at any time by the Company or the Director. All Non-Executive Directors are subject to annual re-election by the Company in general meeting in line with the UK Corporate Governance Code.

The latest written terms of appointment are available for inspection at the Company's registered office and at the Company's Annual General Meeting. The expected time commitment of Non-Executive Directors is set out in their current written terms of appointment.

Details of the Non-Executive Directors' terms of appointment are shown in the table. The appointment and re-appointment, and the remuneration, of Non-Executive Directors are matters reserved for the Nominations Committee and Executive Directors, respectively.

The Non-Executive Directors' fees have been set at a level to reflect the amount of time and level of involvement required in order to carry out their duties as members of the Board and its Committees. The Non-Executive Directors are not eligible to participate in the Company's performance-related incentive plans and do not receive any pension contributions.

Details of the policy on fees paid to our Non-Executive Directors are set out in the table below:

Function	Operation	Opportunity	Performance measures
To attract and retain high-calibre Non-Executive Directors with commercial and other experience relevant to the Company	Fee levels are reviewed against market practice from time to time (by the Chair and the Executive Directors in the case of Non-Executive Director fees and by the Committee in respect of fees payable to the Chair), with any adjustments normally being made on 1 April in the review year. Additional fees are payable for additional responsibilities such as acting as Senior Independent Director, Chair of the Audit Committee, and Chair of the Remuneration Committee. Non-Executive Directors do not participate in any incentive schemes, nor do they receive any pension or benefits (other than the cost of travel and accommodation expenses). The Company reviews fee levels by reference to FTSE listed companies of similar size and complexity. It takes into account time commitment, level of involvement required and responsibility when it reviews fee levels. This may result in higher fee levels for overseas Directors.	Non-Executive Director fee increases are applied in line with the outcome of the periodic fee review. Any increases to the Non-Executive Director fee will typically be in line with general movements in market levels of Non-Executive Director fees. In the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board has discretion to make an appropriate adjustment to the fee level.	None

Consideration of employee views

When reviewing Executive Directors' remuneration, the Committee is aware of the proposals for remuneration of all employees. When considering executive pay, the Committee takes into account the experience of employees and their pay. The Committee considers these matters when it conducts its annual review of executive remuneration.

The Company seeks to promote and maintain good relationships with employee representative bodies as part of its employee engagement strategy and consults on matters affecting employees and business performance as required. The Committee engages with employees through the Babcock Employee Forum, which representatives from across the Group's business operations attend. The Forum has the opportunity to engage with senior management including the CEO and the Chief Human Resources Officer on the Committee's policy and how it aligns with the wider Company pay policy. The Committee takes any feedback it receives into account in its decision-making on executive remuneration.

Consideration of shareholder views

When determining remuneration, the Committee takes into account views of leading shareholders and best practice guidelines issued by institutional shareholder bodies. The Committee welcomes feedback from shareholders on the Remuneration policy and arrangements. It commits to consulting with leading shareholders in advance of any significant changes to the Remuneration policy. In developing the policy set out in this report, we consulted with shareholders representing c.60% of our issued share capital, as well as shareholder representative bodies. We had a high level of engagement and are pleased to report that virtually all investors who provided feedback indicated support for the approach initially proposed.

The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate.

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Annual report on remuneration

The Committee

The Board appoints the members of the Committee on the recommendation of the Nominations Committee. In accordance with the UK Corporate Governance Code, only independent Non-Executive Directors are members of the Committee.

The membership of the Committee during the year to 31 March 2022 is shown on page 113, and attendance at Committee meetings, on page 103. In total there were nine meetings in the year to 31 March 2022. The Chair and the CEO attend meetings by invitation, as does the CFO on occasion, but they are not present when their own remuneration is being decided. The Chief HR Officer also attends meetings.

The terms of reference for the Committee are available for inspection on the Company's website. The Committee reviewed them during the year. Duties of the Committee include the review of the policy for the remuneration of the Executive Directors and the Chair, as well as their specific remuneration packages. In determining the Remuneration policy, the Committee takes into account all factors, which it deems necessary to ensure that the Company provides members of the senior executive management of the Group with appropriate incentives to encourage strong performance and rewards them for their individual contributions to the success of the Company in a fair and responsible manner. The composition of the Committee and its terms of reference comply with the provisions of the UK Corporate Governance Code.

Advisors

Ellason advised the Committee during the year. Ellason reports directly to the Committee Chair and provides objective and independent analysis, information and advice on all aspects of executive remuneration and market practice, within the context of the objectives and policy set by the Committee. A representative from Ellason typically attends Committee meetings. Ellason also provides participant communications, performance reporting, and Non-Executive Directors' fee benchmarking services to the Company. Ellason is a member of the Remuneration Consultants Group and a signatory to the Code of Conduct for consultants to remuneration committees of UK listed companies. Please see www.remunerationconsultantsgroup.com for details. Ellason adheres to this Code of Conduct. The Company paid fees to Ellason in respect of work for the Committee carried out in the year under review totalling £114,750 based on time and materials, excluding expenses and VAT.

The Committee reviews Ellason's involvement each year and considers any other relationships that it has with the Company that may limit its independence. The Committee is satisfied that the advice provided by Ellason is objective and independent.

Matters considered

The Committee considered a number of matters during the year to 31 March 2022, including:

- reviewing the Remuneration policy against market trends and corporate governance best practice
- reviewing the Committee's terms of reference
- considering trends in executive remuneration, remuneration governance and investor views
- reviewing share ownership guidelines for senior executives
- reviewing the Directors' Remuneration report
- reviewing the continued appointment of the Committee's independent advisors
- making share awards under the Company's share plans
- reviewing the performance measures and targets to be applied under the Company's PSP
- agreeing Executive Director salaries for the next financial year
- finalising performance targets and non-financial objectives for the FY23 annual bonus plan
- agreeing the level of vesting of PSP awards granted in 2018
- considering performance against the measures applied to, and level of payout of, the FY21 annual bonus
- agreeing the level of, and targets for, 2021 PSP awards.

Summary of shareholder voting

The following table shows the results of the last binding shareholder vote on the Remuneration policy at the 2020 AGM, and the advisory vote on the Annual report on remuneration, at the 2021 AGM:

	2020 Remuneration policy		2021 Annual report on remuneration	
Votes cast	Total number of votes	% of votes cast for and against	Total number of votes	% of votes cast for and against
For (including discretionary)	358,523,814	99.48%	325,685,586	87.95%
Against	1,866,823	0.52%	44,663,982	12.05%
Total votes cast (excluding withheld votes)	360,390,637	100%	370,319,568	100%
Votes withheld	16,471,678		36,510	
Total votes cast (including withheld votes)	376,862,315		370,356,078	

Single total figure of remuneration for Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director.

	David Lockwood		David Mellors	
	FY22 £'000	FY21[8] £'000	**FY22 £'000**	FY21[8] £'000
Fixed remuneration				
Salary[1]	**808**	438	**566**	188
Benefits in kind and cash[2]	**119**	65	**15**	6
Pension[3]	**81**	44	**57**	19
Annual variable remuneration				
Annual bonus (cash)[4]	**580**	n/a	**401**	n/a
DBP (deferred annual bonus)[5]	**387**	n/a	**268**	n/a
Long-term incentives				
PSP[6]	**n/a**	n/a	**n/a**	n/a
Dividends[7]	**n/a**	n/a	**n/a**	n/a
Total (of which)	**1,975**	547	**1,307**	213
Fixed remuneration[1,2,3]	**1,008**	547	**638**	213
Total variable remuneration[4,5,6,7]	**967**	n/a	**669**	n/a

The figures have been calculated as follows:

1. Salary: base salary amount paid in the year.
2. Benefits in kind and cash: the value of benefits and salary supplements (other than those in lieu of pensions) including medical insurance, home to work travel expenses incurred at the request of the Company, accommodation-related benefits, car and fuel benefits and costs in connection with accommodation. David Lockwood as an Executive Director in FY22 received £98,110 in connection with his accommodation costs in London, which were, at the Company's request, to enable him to lead the business effectively.
3. Pension: the numbers above represent for each year the value of the cash supplement, which for David Lockwood and David Mellors was 10% of base salary.
4. Annual bonus (cash): this is the part of total annual bonus earned for performance during the year (see page 127) that is not required to be mandatorily deferred into shares under the DBP (see page 119) and is paid in cash. In relation to the FY22 bonus, both David Lockwood and David Mellors agreed to defer the 60% of annual bonus usually paid in cash into awards over the Company's shares for one year.
5. DBP deferred annual bonus: this is the mandatorily deferred element of the annual bonus earned for performance during the year, which will vest after three years.
6. PSP: neither David Lockwood nor David Mellors were Directors at the time of the 2019 grant, which in any event lapsed in full.
7. Dividends: the total value of dividends accruing on long-term incentive awards (other than on mandatory deferral of bonus awards under the DBP) vesting on performance to 31 March 2022 (for FY22) and 31 March 2021 (for FY21), payable in cash on exercise of the award.
8. Amounts for David Lockwood and David Mellors for FY21 are based on their periods of service as Directors from their respective appointments to the Board on 14 September 2020 and 30 November 2020.

Neither of the Executive Directors participated in a Group pension scheme or otherwise received pension benefits from the Group for service during the year to 31 March 2022. They instead received a cash supplement equal to 10% of salary. There are no additional early retirement benefits.

Supplements paid in lieu of pension do not count for pension, share award or bonus purposes.

Directors benefit from life assurance cover of four times base salary. The cost of providing that life assurance cover was:

Director	**FY22 £'000 pa**	FY21 £'000
David Lockwood	**4**	4
David Mellors	**3**	3

FY22 annual bonus (audited)

The Committee based the FY22 annual bonus on a mix of financial and non-financial measures. The financial element, weighted 80%, was the underlying OCF and PBT performance (based on budgeted foreign exchange rates) of the Group against budget. The non-financial measures were principally the themes that the Committee considers to be of material importance to the continued success of the Company.

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The table below summarises performance against each financial measure, and the bonus outcome.

Bonus element	Threshold[1]	Target	Maximum	Outturn		David Lockwood	David Mellors
Achieving budgeted Group cash flow[2]	£42.4m	£44.6m	£49.1m	£75.8m	Maximum potential (% of salary)	60%	60%
					Outturn (% of salary)	60%	60%
Achieving budgeted Group PBT[3]	£193.4m	£203.6m	£224.0m	£202.8m	Maximum potential (% of salary)	60%	60%
					Outturn (% of salary)	31.3%	31.3%
Non-financial objectives[4]					Maximum potential (% of salary)	30%	30%
					Outturn (% of salary)	28.5%	27%
Total					Maximum potential (% of salary)	150%	150%
					Outturn (% of salary)	119.8%	118.3%

1. Threshold vesting is: 18.8% of maximum for the Group PBT and cash flow elements, and 0% for non-financial measures. In line with our policy, overall vesting at threshold is no more than15% when we consider all measures.
2. Operating cash flow after capital expenditure and before pension payments in excess of the income statement charge. To ensure that performance is assessed on a basis consistent with that on which the targets were set and the bonus appropriately rewards the right behaviours, reported OCF was adjusted by £71.4 million to reflect the accelerated settlement of deferred creditors in line with the Group's internal policies.
3. Before amortisation of acquired intangibles, with the treatment of exceptional items at the discretion of the Committee.
4. Further details on the non-financial objectives set for FY22 are given below.

FY22 annual bonus non-financial measures

The Committee set non-financial objectives for David Lockwood and David Mellors at the start of the year around strategic management 'Themes' of strategy, people and culture, as the Committee believed these themes align to the Company's turnaround. For achievement of the objectives, please see below.

David Lockwood	David Mellors
Strategy • Refreshed strategy • Established a Group-level campaign capability to lead the Group's export campaign • Secured the first exports of the Group's Arrowhead 140 frigate to Indonesia and Poland • Finalised the Group's Future Marine Support Programme so the Group continues its support spanning UK naval base operations at HMNB Clyde and HMNB Devonport • Continued development of engagement with Company's stakeholders	Strategy • Led the detailed contract profitability and balance sheet review, which re-set the Group's financial baseline • Led the disposal programme to generate disposal proceeds in excess of £400 million • Built and maintained relationships with key stakeholders, supporting confidence in the Company during the turnaround • Drove implementation of the new operating model, securing the targeted cost savings.
People • Launched the Group's new Purpose and Principles • Developed a new People strategy, aiming to create an organisation that shares capability, talent and innovation • Launched a new 'Agile' strategy • Implemented our new operating model with a flatter structure and centre-led functions	People • Professionalised the procurement function with the creation of a centre-led organisation and the implementation of common systems and technology to increase leverage of the Group's supplier spend • Centralised and strengthened the finance function • Redesigned other reporting functions such as IT, tax, treasury and insurance
Culture • Appointed Group safety lead, established forward-looking balanced score-card to re-energise Group focus on safety • Developed the Group's ESG strategy by building a baseline assessment for Babcock's Scope 1 and 2 emissions.	Culture • Led review and improvement of the control environment • Introduced standardised accounting policies • Designed new internal audit function

The FY22 bonus outcomes for each Executive Director are as follows:

	Payment for financial targets (% salary)	Payment for non-financial targets (% salary)	Total bonus (% salary)	Total bonus (£'000)
David Lockwood	91.3%	28.5%	119.8%	£967
David Mellors	91.3%	27%	118.3%	£669

Long-term incentive scheme (PSP) award granted during FY22 (audited)

The Committee granted PSP awards in the form of nil-cost options in August 2021 to the Executive Directors, consistent with the Remuneration policy.

Director	Number of shares[1]	Face value[2]	Face value (% of salary)[3]	% of award receivable for threshold performance
David Lockwood	452,450	£1,599,999	200%	16.7%
David Mellors	316,715	£1,119,999	200%	16.7%

1. Awards are in the form of nil-cost options.
2. Based on three-day average share price (of 353.63p) at time of grant.
3. Expressed as a percentage of salary at the date of the award (24 August 2021).

Vesting of the awards is based on cumulative free cash flow and relative Total Shareholder Return (TSR), equally weighted, as the Committee believes that these measures best align with shareholders' interests and the strategy reset of the Company. The performance period for these awards is the three financial years 1 April 2021 through to 31 March 2024. Free cash flow (FCF) is defined as all cash flows of the Company, including exceptional items (unless the Committee decides otherwise), but excluding disposals, on an IFRS 16 basis.

Given the reset of the Company and the absence of guidance, the Committee considers the performance range for the cumulative three-year FCF measure to be commercially sensitive. The Committee may need to use its discretion to review the outcome of the awards in 2024 to take into account the level of uncertainty at the time of award. As always, final decisions would include a check to ensure alignment with the shareholder experience. The relative TSR performance range is below:

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	50%	Median TSR	Median TSR + 9% pa

Deferred Bonus Plan awards made during FY22 (audited)

As both Executive Directors requested that the Committee waive any entitlement to a bonus that they might have had for non-financial measures in respect of their work in FY21, the Committee did not grant any DBP awards in FY22 to the Executive Directors.

Single total figure of remuneration for Non-Executive Directors (audited)

The table below sets out the total remuneration received by each Non-Executive Director:

	Base fee[1]		Additional fee[2]		Total		Total fixed remuneration		Total variable remuneration	
	FY22 £'000	FY21 £'000	**FY22 £'000**	FY21 £'000	**FY22 £'000**	FY21 £'000	**FY22 £'000**	FY21 £'000	**FY22 £'000**	FY21 £'000
Fixed remuneration										
Ruth Cairnie	**336**	319	**–**	–	**336**	319	**336**	319	**–**	–
Lucy Dimes	**61**	58	**–**	–	**61**	58	**61**	58	**–**	–
Kjersti Wiklund	**61**	58	**15**	15	**76**	73	**76**	73	**–**	–
Russ Houlden	**61**	58	**14**	10	**75**	68	**75**	68	**–**	–
Carl-Peter Forster[3]	**72**	55	**–**	–	**72**	55	**72**	55	**–**	–
Lord Parker	**61**	24	**–**	–	**61**	24	**61**	24	**–**	–
John Ramsay[4]	**15**	n/a	**1**	n/a	**16**	n/a	**16**	n/a	**–**	–
Myles Lee[5]	**33**	62	**–**	–	**33**	62	**33**	62	**–**	–
Victoire de Margerie[5]	**33**	62	**–**	–	**33**	62	**33**	62	**–**	–

1. In FY21, the Non-Executive Directors waived part of their fee in response to the impact of the COVID-19 pandemic.
2. Relating to role as Chair of the Audit Committee (Russ Houlden to February 2022 and John Ramsay from March 2022) and Remuneration Committee (Kjersti Wiklund).
3. Carl-Peter Forster is the Senior Independent Director.
4. John Ramsay joined the Board in January 2022.
5. Myles Lee and Victoire de Margerie retired from the Board in September 2021.

Sourcing of shares

Shares needed to satisfy share awards for Directors are shares that the Company either newly issues to the Group's employee share trusts or purchases in the market by the trusts using funds advanced by the Company. The Company finalises the source selection on or before vesting, depending on the Board's view of the best interests of the Company at the time, within the limits of available headroom and dilution restrictions.

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Executive Directors' remuneration for FY23

The Committee has set the remuneration for Executive Directors for FY23 in line with its approved Remuneration policy.

Fixed pay

The Committee reviewed the Executive Directors' salaries on a consistent basis as the rest of the UK workforce. Following the decision to award standardised salary increases to the UK workforce other than higher-paid employees, the Committee agreed not to increase the Executive Directors' fixed pay for FY23. The Executive Directors will receive the same pension arrangements as in FY22 (ie at 10% of salary) and the same benefits as in FY22.

	1 April 2022[1]	1 April 2021
David Lockwood	£816,000	£800,000
David Mellors	£571,200	£560,000

1. Reviewed in September 2021.

FY23 annual bonus

The structure of the Executive Director annual bonus for FY23 is consistent with that for FY22, with measures based on OCF, PBT and non-financial objectives. The Committee has agreed the measures and targets but, due to their commercial sensitivity, it will only disclose them in next year's Annual report on remuneration.

40% of any earned bonus will be deferred into shares for three years, with the remaining 60% payable in cash (in line with our normal Remuneration policy).

2022 PSP awards

The Committee intends to grant awards under the PSP to the Executive Directors in 2022 covering the three-year period FY23–FY25, with measures consistent with those used for the 2021 PSP award, being relative TSR and free cash flow, equally weighted. As in the 2021 PSP award, the relative TSR performance range is based on the Company's three-year TSR outperformance of the constituents of the FTSE 350 index (excluding investment trusts and financial services). Threshold vesting (of 16.7% of maximum) requires the Company's TSR to be median for the benchmark, with maximum vesting requiring an outperformance of median TSR by 9% pa. Given the reset of the Company and the absence of guidance, the Committee considers the FCF performance range to be commercially sensitive, but will disclose the target no later than the FY25 annual report, being the relevant annual report for disclosing the vesting outcome for the 2022 PSP award.

Payments to past Directors (audited)

Archie Bethel stepped down as an Executive Director on 14 September 2020 and retired from the Company on 31 March 2021. His 2018 DBP award (the value of which was disclosed in the 2018 Directors' Remuneration report) vested on 13 June 2021.

Franco Martinelli stepped down as an Executive Director on 30 November 2020 and retired from the Company on 30 September 2021. Franco received his base salary (£227,460) and pension (£48,904) through to his retirement. His 2018 DBP award (the value of which was disclosed in the 2018 Directors' Remuneration report) vested on 13 June 2021. He received no further payments for loss of office and no discretion was required in determining this outcome.

John Davies stepped down as an Executive Director on 31 March 2020 and retired as CEO Land on 28 June 2021. His 2018 DBP award (the value of which was disclosed in the 2018 Directors' Remuneration report) vested on 13 June 2021.

Bill Tame retired from the Company on 30 June 2018, having previously stepped down as an Executive Director on 31 March 2018. His 2018 DBP award (the value of which was disclosed in the 2018 Directors' Remuneration report) vested on 13 June 2021.

Non-Executive Directors' fees (including the Chair)

There are no changes to the fees for the Chair and the Non-Executive Directors for FY23.

Annual rate fee	FY23 £	FY22 £	% change since last review (% pa)
Chair	336,000	336,000	0%
Senior Independent Director (inclusive of basic fee)	72,000	72,000	0%
Basic Non-Executive Director's fee (UK-based Directors)[1]	61,000	61,000	0%
Chair of Audit Committee[2]	15,000	15,000	0%
Chair of Remuneration Committee[2]	15,000	15,000	0%

1. The Company sets fees for non-UK-based Directors having regard to the extra time commitment involved in attending meetings.
2. The Company pays fees for chairing Board Committees in addition to the basic applicable Non-Executive Director's fee. The Company does not pay additional fees for membership of Committees.

Percentage change in the remuneration of all Directors compared to the workforce

The table below shows the percentage change in remuneration from the prior year for each Director compared to the average UK employee, as required under The Companies (Directors' Remuneration policy and Directors' remuneration report) Regulations 2019 (the 'Regulations'). The Committee will build up this analysis in subsequent years until it displays a five-year history.

The Regulations require this disclosure to provide a comparison of year-on-year changes in Directors' remuneration compared to all other employees of the parent company in the Group. However, the Company does not have any employees, on which basis there would be no data to disclose for the broader employee population. The Committee has therefore elected to compare the change in Directors' remuneration with the change in remuneration for the average of the UK employee population, as a suitable comparator group for this purpose.

The Committee monitors this information to ensure that there is an appropriate alignment over time in fixed pay between Executive Directors, Non-Executive Directors and UK employees.

	% change FY21 to FY22[1]		
	Base salary/fees	Taxable benefits	Single-year variable
Executive Directors			
David Lockwood	1%	0%	n/a
David Mellors	1%	0%	n/a
Non-Executive Directors[2]			
Ruth Cairnie	5%	n/a	n/a
Myles Lee[3]	5%	n/a	n/a
Victoire de Margerie[3]	5%	n/a	n/a
Lucy Dimes	5%	n/a	n/a
Kjersti Wiklund	4%	n/a	n/a
Russ Houlden[4]	10%	n/a	n/a
Carl-Peter Forster[5]	11%	n/a	n/a
Lord Parker[6]	5%	n/a	n/a
John Ramsay[7]	n/a	n/a	n/a
Average for all UK employees	2%	0%	-100%

1. As this table is based on the single figure table, it has produced anomalous results. In respect of the Executive Directors, the percentage change in base salary and benefits reflects annualised values for FY21 to facilitate a comparison with FY22. In respect of the single-year variable, the result is due to the Executive Directors receiving a bonus for FY22, whereas in FY21 they did not. In respect of the Non-Executive Directors, in FY21, they all waived part of their fees due to the COVID-19 pandemic. There were also changes to the Chairs of Committees and Carl-Peter took on the role of Senior Independent Director. Together, these account for the percentage changes as there has been no change to their fee levels. Please see the 'Non-Executive Directors' fees' table on page 129.
2. Non-Executive Directors receive fees only. They do not receive taxable benefits and do not participate in incentive schemes. However in FY21 all the Non-Executive Directors waived part of their fee due to the COVID-19 pandemic, which has subsequently been restored.
3. The percentage change in fees for former Directors reflects annualised values for FY22 remuneration to facilitate a comparison with FY21.
4. Russ Houlden became chair of the Audit Committee in July 2020 and his percentage increase is due to this change.
5. Carl-Peter Forster became Senior Independent Director in July 2020 and his percentage increase is due to this change.
6. Lord Parker joined part-way through FY21. To facilitate a comparison with FY22, his FY21 fee has been annualised.
7. John Ramsay joined during FY22 and hence no year-on-year comparison is available.

	% change FY20 to FY21		
	Base salary/fees	Taxable benefits	Single-year variable
Executive Directors			
David Lockwood[1]	n/a	n/a	n/a
David Mellors[1]	n/a	n/a	n/a
Non-Executive Directors[2]			
Ruth Cairnie[3]	26%	n/a	n/a
Myles Lee	-5%	n/a	n/a
Victoire de Margerie	-5%	n/a	n/a
Lucy Dimes	-5%	n/a	n/a
Kjersti Wiklund	18%	n/a	n/a
Russ Houlden[1]	n/a	n/a	n/a
Carl-Peter Forster[1]	n/a	n/a	n/a
Lord Parker[1]	n/a	n/a	n/a
Average for all UK employees	2%	0%	-100%

1. Joined during FY21, and hence no year-on-year comparison is available.
2. Non-Executive Directors receive fees only. They do not receive taxable benefits and do not participate in incentive schemes.
3. Year-on-year change reflects appointment during FY20 as Chair of Babcock.

Relative importance of spend on pay

	FY22	FY21	% change
Distribution to shareholders	**£0m**	£0m	0%
Employee remuneration	**£1,516m**	£1,616m	-6%

Distributions to shareholders includes all amounts distributed to shareholders.

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CEO pay ratio

The table below provides disclosure of the ratio between the CEO's total remuneration and that of the lower quartile, median and upper quartile UK-based employees.

Figures for the CEO come from the Executive Directors' single figure table on page 129. The Committee determined total remuneration figures for the lower quartile (P25), median (P50) and upper quartile (P75) employees on 31 March 2022 using the 'single figure' methodology, as at 31 March 2022, to provide a like-for-like comparison with CEO remuneration.

The reporting regulations offer three calculation approaches for determining the pay ratio – Options A, B and C. We continue to adopt Option A, which, in the Committee's opinion, is the most statistically accurate approach. The Company calculated the total full-time equivalent remuneration for all UK employees throughout FY22. The Company then ranked the employees to identify the three employees representing P25, P50 and P75.

As with last year, the Company excluded bonus payments from the calculations, because it was not feasible to identify those payments for services delivered within the financial year, and because the Company does not know all bonus pay relating to FY22 at the time of publication. Analysis of past data indicates that the three employees would not typically be eligible for a bonus and the exclusion of this element is unlikely to have a significant impact on the ratios reported.

To validate that the figures presented are representative of the pay and benefits of the UK workforce, the Company considered the pay and benefits of a number of employees centred on each of the three employees. Whilst there can be variation in the pay mix for individuals throughout the organisation, the Committee believes that the information presented fairly reflects pay at the relevant quartiles amongst our UK workforce. The three individuals identified were full-time employees during the year and none received an exceptional incentive award, which would otherwise inflate their pay figures. The Company made no adjustments or assumptions to the total remuneration of these employees and calculated the total remuneration in accordance with the methodology used to calculate the single figure of the CEO.

The median CEO pay ratio in FY22 was 48:1, compared to 22:1 in FY21.

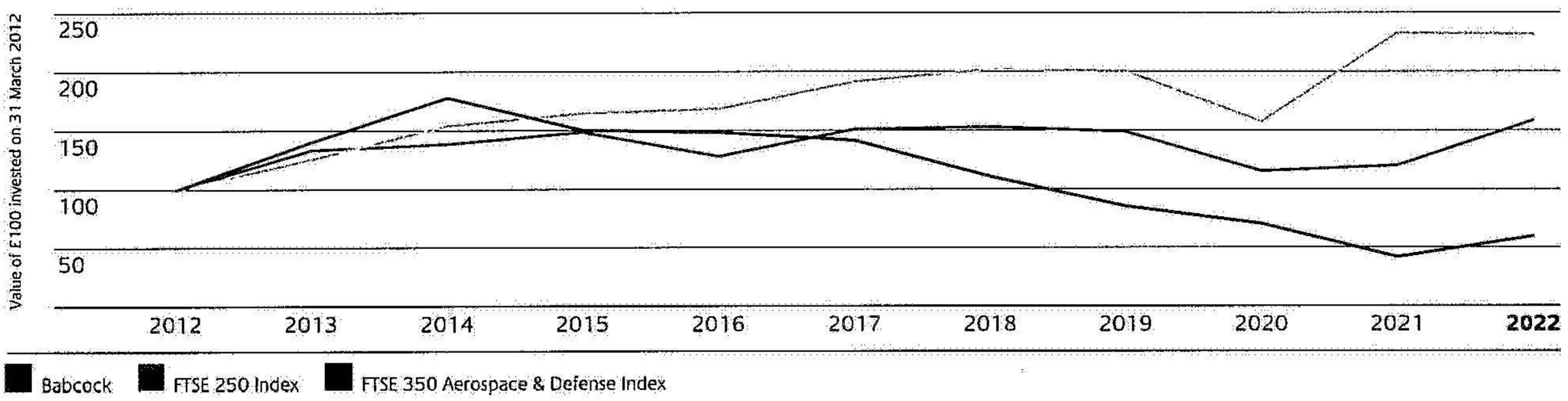
The Committee calculated the CEO pay ratio by comparing the CEO's pay to that of Babcock's UK-based workforce. The Committee expects that the ratios will be largely driven by the CEO's incentive pay outcomes, which will likely lead to greater variability in his pay than that observed at other levels which, consistent with market practices and the Company's reward policies across the organisation, have a greater proportion of their pay linked to fixed components. The Committee takes into account these ratios when making decisions around the remuneration packages for Executive Directors. Babcock takes seriously the need to ensure competitive pay packages across the organisation.

Financial year	Calculation methodology	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
FY22	Option A	61:1	48:1	36:1
FY21	Option A	30:1	22:1	17:1
FY20	Option C	47:1	37:1	27:1

Financial year		P25 (lower quartile)	P50 (median)	P75 (upper quartile)
FY22	**Total remuneration (£'000)**	**£32.3**	**£41.4**	**£54.7**
	Salary (£'000)	£28.6	£37.3	£50.0

Performance graphs

The following graph shows the TSR for the Company compared to the FTSE 250 and FTSE 350 Aerospace & Defence indices, assuming an investor invested £100 on 31 March 2012. The Board considers that the FTSE 250 Index (excluding investment trusts) and FTSE 350 Aerospace & Defence Index currently represent the most appropriate indices (of which Babcock is a constituent) against which to compare Babcock's performance.



The table below details the historical CEO pay over a 10-year period.

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	**FY22**
Peter Rogers[1]										
Single figure (£'000)	2,731	3,809	4,448	2,491	1,091					
Bonus vesting (% max)	99%	93%	78%	60%	66%					
DBMP matching shares vesting (% max)	n/a	n/a	88.4%	57.8%	17.0%					
PSP/CSOP vesting (% max)	58.8%	94.7%	83.5%	37.3%	26.5%					
Archie Bethel[2,3]										
Single figure (£'000)					1,012	2,079	1,969	1,385	334	
Bonus vesting (% max)					66%	61%	58%	14%	0%	
DBMP matching shares vesting (% max)					17.0%	20.0%	n/a	n/a	n/a	
PSP vesting (% max)					26.5%	23.9%	15.1%	0%	0%	
David Lockwood[4]										
Single figure (£'000)									547	**1,975**
Bonus vesting (% max)									0%	**80%**
PSP vesting (% max)									n/a	**n/a**

1. Until retirement on 31 August 2016.
2. Excludes remuneration received whilst undertaking the role of Chief Operating Officer until August 2016.
3. Until he stepped down as CEO on 14 September 2020.
4. Excludes his salary between joining the Company in August and joining the Board as CEO on 14 September 2021.

Directors' share ownership (audited)

The Committee sets out below the interests of the Directors (and/or their spouses) in the ordinary shares of the Company as at 31 March 2022:

	At 31 March 2021	At 31 March 2022[1]							
	Shares held	Shares held		Options held					
Director	Owned outright by Director or spouse[2]	**Owned outright by Director or spouse[2]**	**Vested but subject to holding period**	**Vested but not exercised**	**Unvested and subject to performance conditions**	**Unvested and subject to continued employment**	**S/holding req. (% salary)**	**Current shareholding (% of salary)[3]**	**Req. met?**
David Lockwood	186,924	**186,924**	–	–	**860,995**	–	**300%**	**74%**	**Building**
David Mellors	71,268	**71,268**	–	–	**602,696**	–	**200%**	**40%**	**Building**
Ruth Cairnie	120,000	**120,000**							
Myles Lee[4]	40,000	**n/a**							
Victoire de Margerie[5]	7,061	**n/a**							
Lucy Dimes	5,000	**5,000**							
Kjersti Wiklund	2,100	**2,100**							
Russ Houlden	–	**–**							
Carl-Peter Forster	10,000	**10,000**							
Lord Parker	–	**–**							
John Ramsay	n/a	**30,000**							

1. At the date of stepping down from the Board, in the case of former Directors.
2. Beneficially held shares of Director and/or spouse.
3. Current shareholdings for comparison with the shareholding requirements for Executive Directors are calculated based on salary as at 31 March 2022 and by reference to shares owned outright by Director or spouse, options vested but subject to holding periods, options vested but not exercised and options unvested but subject only to continued employment. Holdings are valued assuming options are exercised on 31 March 2022 and a three-month average share price to 31 March 2022 of 323.01p, and are calculated post tax.
4. Myles Lee retired from the Board in September 2021.
5. Victoire de Margerie retired from the Board in September 2021.

There have been no changes to the continuing Directors' (or their spouses') shareholdings between 31 March 2022 and 28 July 2022.

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Directors' share-based awards and options (audited)

The tables below show the various share awards held by Directors under the Company's various share plans. The Company's mid-market share price at close of business on 31 March 2022 was 324.50p. The highest and lowest mid-market share prices in the year ended 31 March 2022 were 380.20p and 228.40p, respectively.

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2021	Granted during the year	Exercised during the year	Lapsed during the year	**Number of shares subject to award at 31 March 2022**	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from	Expiry date[3]
David Lockwood	PSP 2020	408,545				**408,545**		352.47	Dec 2025	Dec 2026
	PSP 2021		452,450			**452,450**		353.63	Aug 2026	Aug 2027

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2021	Granted during the year	Exercised during the year	Lapsed during the year	**Number of shares subject to award at 31 March 2022**	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from	Expiry date[3]
David Mellors	PSP 2020	285,981				**285,981**		352.47	Dec 2025	Dec 2026
	PSP 2021		316,715			**316,715**		353.63	Aug 2026	Aug 2027

1. PSP = 2009 Performance Share Plan. Further details about these plans and, where applicable, performance conditions attaching to the awards listed are to be found on pages 128 and 129.
2. The PSP awards are structured as nil-priced options and are subject to the rules of the PSP, including as to meeting performance targets for PSP awards.
3. Where this date is less than 10 years from the date of award, the Committee may extend the expiry date on one or more occasions, but not beyond the 10th anniversary of the award.

Summary of share-based awards and options vested during the year

No awards vested for the Executive Directors during the year to 31 March 2022.

Other interests

None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

External appointments of Executive Directors in FY22

None of the Executive Directors received a fee for any external appointment during the year.

The Board approved this Remuneration report on 28 July 2022.

KJERSTI WIKLUND
Committee Chair

Other statutory information

Directors' report and other disclosures

The Directors' report comprises this section, the Principal risks and management controls section in the Strategic report, as well as the rest of the Governance section, the Directors' Responsibility Statement on page 139 and those sections incorporated by reference below.

Disclosures required by LR 9.8.4 R and which form part of the Directors' report can be found at the locations provided in the table below:

Listing rule	Topic	Location
9.8.4 (5)	Director waivers of emoluments	Remuneration report on page 128
9.8.4 (12-13)	Shareholder waivers of dividends and future dividends	Financial statements, note 25 on page 2017

Other disclosure requirements set out in LR 9.8.4 R are not applicable to the Company.

Disclosures required pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as updated by the Companies (Miscellaneous Reporting) Regulations 2018 can be located as follows:

Topic	Location
Financial risk management regarding financial instruments	Note 24, page 211
Greenhouse gas emissions	Page 57
Employee engagement	Pages 19, 53, 66, and 99 to 100
Fostering business relationships with suppliers, customers and others	Page 52, 69 to 72. 99 and throughout the Strategic report
Subsequent events	Note 34 on page 228
Likely future developments in the business of the Group	Page 10 and 11
Details of important events affecting the Group	Strategic and Directors' reports, in particular pages 13 to 17 and 24 to 35

For the purposes of DTR 4.1.5 R (2) and DTR 4.1.8 R the required content of the Management report can be found in the Strategic report and the Directors' report including the sections of the Annual Report and financial statements incorporated by reference.

The Company

Babcock International Group PLC, registered and domiciled in England and Wales, with the registered number 02342138, is the holding company for the Babcock International Group of companies.

Dividends

The Company did not pay an interim dividend this year (2021: nil) and, as part of our focus on building a strong balance sheet, has not recommended a final dividend (2021: nil).

Major shareholdings

As at 31 March 2022, the Company has been notified pursuant to the Disclosure and Transparency Rules (DTR) of the following major interests in voting rights attached to its ordinary shares.

Name	Number of 60 pence ordinary shares on date of notification	% of issued share capital on date of notification
Abrams Bison Investments, L.L.C.	29,311,332	5.80%
Polaris Capital Management, LLC	29,089,500	5.75%
Invesco Ltd	24,231,810	4.91%
Cobas Asset Management, SGIIC, S.A.	20,217,293	3.99%
Oaktree Capital Management (UK) LLP	15,330,960	3.03%

Since 31 March 2022 the Company has been notified by Cobas Asset Management, SGIIC, S.A. that it has increased its interest to 20,458,556 shares representing 4.04% of the share capital of the Company. There have been no further notifications between then and the date of this report.

The holdings set out above relate only to notifications of interests in the issued share capital received by the Company pursuant to DTR 5 and consequently do not necessarily represent current levels of interest.

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Employment of disabled persons/ equal opportunities

Babcock is committed to equal opportunities and will not discriminate on the basis of disability, age, race, colour, ethnic origin, gender, marital status, religious or political beliefs or sexual orientation.

We believe that only by encouraging applicants from the widest pool of talent possible, and then selecting the best candidate based on their ability to do the job, can we ensure we continue to deliver our best for our customers and safeguard the future of Babcock.

For more information about our inclusion and diversity policy, please see pages 64 and 107.

Research and development

The Group commits resources to research and development to the extent management considers necessary for the evolution and growth of its business.

Political donations

No donations were made during the year for political purposes.

Authority to purchase own shares

At the Annual General Meeting in September 2021, members authorised the Company to make market purchases of up to 50,559,660 of its own ordinary shares of 60 pence each.

That authority expires at the forthcoming Annual General Meeting when a resolution will be put to renew it so as to allow purchases of up to a maximum of 10% of the Company's issued share capital. No shares in the Company have been purchased by the Company in the period from 6 August 2021 (the date the current authority was granted) to the date of this report. The Company currently does not hold any treasury shares.

There were no purchases of the Company's shares made in the year to 31 March 2022 by the Babcock Employee Share Trust in connection with the Company's executive share plans (see note 25 on page 217).

Qualifying third-party indemnity provisions

The Company has entered into deeds of indemnity with each of its Directors (who served during the year and/or who are currently Directors) which are qualifying third-party indemnity provisions for the purposes of the Companies Act 2006 in respect of their Directorships of the Company and, if applicable, of its subsidiaries.

Under their respective Articles of Association, Directors of Group UK subsidiary companies may be indemnified by the company concerned of which they are or were Directors against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006.

Qualifying pension scheme indemnity provisions are also in place for the benefit of Directors of the Group companies that act as trustees of Group pension schemes.

Significant agreements that take effect, alter or terminate upon a change of control

Many agreements entered into by the Company or its subsidiaries contain provisions entitling the other parties to terminate them in the event of a change of control of the Group company concerned, which could be triggered by a takeover of the Company.

Although the Group has some contracts that on their own are not significant to the Group, several may be with the same customer. If, upon a change of control, the customer decided to terminate all such agreements, the aggregate impact could be very material. In addition, the National Security and Investment Act 2021 that came into force on 4 January 2022 provides the UK Government with new powers to scrutinise and potentially make void transactions on the grounds of national security. The legislation is part of a global trend towards introducing foreign investment laws which has seen a number of other countries introduce similar protections.

The following agreements are those individual agreements which the Company considers to be significant to the Group as a whole that contain provisions giving the other party a specific right to terminate them if the Company is subject to a change of control.

Borrowing facilities

The Group has a revolving credit facility of up to £300 million maturing in May 2024 and a £775 million revolving credit facility where £45 million matures in August 2025 and £730 million matures in August 2026, providing funds for general corporate and working capital purposes. In the event of a change of control, both facilities provide that the lenders may, within a certain period, call for the payment of any outstanding loans and cancel the facilities.

£1,800,000,000 Euro Medium-Term Note Programme

The Company has a Euro Medium-Term Note Programme under which it has issued three tranches: €550,000,000 1.75% Notes due in 2022; £300,000,000 1.875% Notes due in 2026; and €550,000,000 1.375 % Notes due in 2027.

If there is a change of control of the Company and the Notes then in issue carry an investment-grade credit rating which is either downgraded to non-investment-grade, or carry a non-investment-grade rating which is further downgraded or withdrawn, or do not carry an investment-grade rating and the Company does not obtain an investment-grade rating for the Notes, a Note holder may require that the Company redeem or, at the Company's option, repurchase the Notes.

Share plans

The Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

Contracts with employees or Directors

A description of those agreements with Directors that contain provisions relating to payments in the event of a termination of employment following a change of control of the Company is set out on pages 122 and 123.

Articles of Association of DRDL and RRDL
The Articles of Association of Devonport Royal Dockyard Limited (DRDL) and Rosyth Royal Dockyard Limited (RRDL), both subsidiaries of the Company, grant the MOD as the holder of a special share in each of those companies certain rights in certain circumstances. Such rights include the right to require the sale of shares in, and the right to remove Directors of, the company concerned. The circumstances in which such rights might arise include where the MOD considers that unacceptable ownership, influence or control (domestic or foreign) has been acquired over the company in question and that this is contrary to the essential security interests of the UK. This might apply, for example, in circumstances where any non-UK person(s) directly or indirectly acquire control over more than 30% of the shares of the relevant subsidiary, although such a situation is not of itself such a circumstance unless the MOD in the given situation considers it to be so.

Terms of Business Agreement (ToBA) dated 25 March 2010 between (1) The Secretary of State for Defence (2) Babcock International Group PLC (3) Devonport Royal Dockyard Limited (4) Babcock Marine (Clyde) Limited and (5) Rosyth Royal Dockyard Limited (as amended)
The ToBA confirms Babcock as a key support partner of MOD in the maritime sector and covers the 15-year period from 2010 to 2025. The MOD may terminate the ToBA in the event of a change in control of a relevant operating company or any holding company including the Company in circumstances where, acting on the grounds of national security, the MOD considers that it is inappropriate for the new owners to become involved, or interested, in the work that is the subject of the ToBA. 'Change in control' occurs where a person or group of persons that controls the relevant company ceases to do so or if another person or group of persons acquires control.

Surface Ship Support Alliance Agreement (SSSA) dated 23 September 2009 between (1) The Secretary of State for Defence, (2) Devonport Royal Dockyard Limited and (3) BAE Surface Ships Limited (as amended)
Any change of control of Devonport Royal Dockyard Limited must be approved in advance by the Secretary of State for Defence. Consent may be withheld to prevent an unsuitable third party taking control. Breach may result in exclusion from the alliance.

Competitive Design Phase Contract for the Type 31 Programme dated 7 December 2018 (as amended and restated on 15 November 2019) between (1) The Secretary of State for Defence and (2) Rosyth Royal Dockyard Limited
The Secretary of State for Defence may terminate if, in its reasonable opinion, a change of control of Rosyth Royal Dockyard or any holding company will be contrary to the defence, national security or national interest of the UK.

Future Maritime Support Programme Lot 2 (Ships Engineering) dated 30 September 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited
The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Future Maritime Support Programme Lot 1 (Naval Bases) dated 28 July 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited
The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Future Maritime Support Programme Lot 11 (Warehousing and Distribution at HMNB Clyde) dated 30 March 2021 between (1) The Secretary of State for Defence and (2) Babcock Marine (Clyde) Limited
The Secretary of State for Defence may terminate on certain grounds, including national security, immediately in the event of a change of control of Babcock Marine (Clyde) Limited or any other company in the Group that it objects to and in respect of which its concerns have not been addressed.

Future Maritime Support Programme Lot 3 (Submarine Engineering) dated 30 September 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited
The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Future Maritime Support Programme Lot 4 (Hard Facilities Management and Alongside Services at HMNB Clyde) dated 30 September 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited
The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

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Share capital and rights attaching to the Company's shares

General

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine). The Directors' practice is to seek authority from shareholders at each year's Annual General Meeting to allot shares (including authority to allot free of statutory pre-emption rights) up to specified amounts and also to buy back the Company's shares, again up to a specified amount.

At a general meeting of the Company, every member has one vote on a show of hands and, on a poll, one vote for each share held. The notice of general meeting specifies deadlines for exercising voting rights, either by proxy or by being present in person, in relation to resolutions to be proposed at a general meeting.

No member is, unless the Board decides otherwise, entitled to attend or vote, either personally or by proxy, at a general meeting or to exercise any other right conferred by being a shareholder if they or any person with an interest in their shares has been sent a notice under s793 of the Companies Act 2006 (which confers upon public companies the power to require the provision of information with respect to interests in their voting shares) and they or any interested person have failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those defaulting shares and that no transfer of any defaulting shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant Section 793 notice, whichever is the earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Conduct Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. The Directors may likewise refuse to register any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws) or by the nationality-related restrictions, more particularly described below.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights in the Company.

At the date of this report 505,596,597 ordinary shares of 60 pence each have been issued and are fully paid up and quoted on the London Stock Exchange.

Nationality-related restrictions on share ownership

Companies which provide aviation services in the EU must comply with the requirements of EC Regulation 1008/2008 (the Regulation) which, amongst other matters, requires those companies to be majority-owned and majority-controlled by EEA nationals (the licensed companies).

At the Company's Annual General Meeting in July 2014, shareholders approved the amendment of the Company's Articles of Association (the Articles) to include provisions intended to assist the Company in ensuring continuing compliance with these obligations by giving the Company and the Directors powers to monitor and, in certain circumstances, actively manage nationality requirements as regards ownership of its shares with a view to protecting the value of the Group undertakings that hold the relevant operating licences. A summary of these powers is set out below. Reference should, however, also be made to the Company's Articles, a copy of which may be found on its website at www.babcockinternational.com. In the event of any conflict between the Articles and this summary, the Articles shall prevail.

Relevant Shares

Relevant Shares are any shares which the Directors have determined or the holders have acknowledged are shares owned by non-EEA nationals for the purposes of the Regulation (Relevant Shares). It is open to shareholders to make representations to the Directors with a view to demonstrating that shares should not be treated as Relevant Shares.

Maintenance of a register of non-EEA shareholders

The Company maintains a register (which is separate from the statutory register of members) containing details of Relevant Shares. This assists the Directors in assessing, on an ongoing basis, whether the number of Relevant Shares is such that action (as outlined below) may be required to prevent or remedy a breach of the Regulation.

The Directors will remove from the separate register particulars of shares where they are satisfied that either the share is no longer a Relevant Share or that the nature of the interest in the share is such that the share should not be treated as a Relevant Share.

Disclosure obligations on share ownership

The Articles empower the Company to, at any time, require a shareholder (or other person with a confirmed or apparent interest in the shares) to provide in writing such information as the Directors determine is necessary or desirable to ascertain such person's nationality and, accordingly, whether details of the shares should be entered in the separate register as Relevant Shares or are capable of being 'Affected Shares' (see below).

If the recipient of a nationality information request from the Company does not respond satisfactorily to the request within the prescribed period (being 21 days from the receipt of the notice), the Company has the power to suspend the right of such shareholder to attend or speak (whether by proxy or in person) at any general or class meeting of the Company or to vote or exercise any other right attaching to the shares in question. Where the shares represent at least 0.25% of the aggregate nominal value of the Company's share capital, the Company may also (subject to certain exceptions) refuse to register the transfer of such shares. The Articles also require that a declaration (in a form prescribed by the Directors) relating to the nationality of the transferee is provided to the Directors upon the transfer of any shares in the Company, failing which the Directors may refuse to register such transfer (see further below).

Power to treat shares as 'Affected Shares'
The Articles empower the Directors, in certain circumstances, to treat shares as 'Affected Shares'. If the Directors determine that any shares are to be treated as Affected Shares, they may serve an 'Affected Share Notice' on the registered shareholder and any other person that appears to have an interest in those shares. The recipients of an Affected Share Notice are entitled to make representations to the Directors with a view to demonstrating that such shares should not be treated as Affected Shares. The Directors may withdraw an Affected Share Notice if they resolve that the circumstances giving rise to the shares being treated as Affected Shares no longer exist.

Consequences of holding or having an interest in Affected Shares
A holder of Affected Shares is not entitled, in respect of those shares, to attend or speak (whether by proxy or in person) at any general or class meeting of the Company or to vote or to exercise any other right at such meetings, and the rights attaching to such shares will vest in the Chair of the relevant meeting (who may exercise, or refrain from exercising, such rights at his/her sole discretion).

The Affected Shares Notice may, if the Directors determine, also require that the Affected Shares must be disposed of within 10 days of receiving such notice (or such longer period as the Directors may specify) such that the Affected Shares become owned by an EEA national, failing which the Directors may arrange for the sale of the relevant shares at the best price reasonably obtainable at the time. The net proceeds of any sale of Affected Shares would be held in trust and paid (together with such rate of interest as the Directors deem appropriate) to the former registered holder upon surrender of the relevant share certificate in respect of the shares.

Circumstances in which the Directors may determine that shares are Affected Shares
The Articles provide that where the Directors determine that it is necessary to take steps in order to protect an operating licence of the Group they may: (i) seek to identify those shares which have given rise to the determination and to deal with such shares as Affected Shares; and/or (ii) specify a maximum number of shares (which will be less than 50% of the Company's issued share capital) that may be owned by non-EEA nationals and then treat any shares owned by non-EEA nationals in excess of that limit as Affected Shares (the Directors will publish a notice of any specified maximum within two business days of resolving to impose such limit). In deciding which shares are to be dealt with as Affected Shares, the Directors shall be entitled to determine which Relevant Shares in their sole opinion have directly or indirectly caused the relevant determination. However, so far as practicable, the Directors shall have regard to the chronological order in which the Relevant Shares have been entered in the separate register.

Right to refuse registration
The Articles provide the Directors with the power to refuse registration of a share transfer if, in their reasonable opinion, such transfer would result in shares being treated or continuing to be treated as Affected Shares.

The Articles also provide that the Directors shall not register any person as a holder of any share in the Company unless the Directors receive a declaration of nationality relating to such person and such further information as they may reasonably request with respect to that nationality declaration.

The Directors believe that, following the restructuring of the Aviation sector, those companies in which the Company has an interest and which are required to comply with the Regulation, (being those companies operating aviation services in the EU) do meet the requirement of the Regulation, including those relating to nationality. This belief is based on the Company's understanding of the application of the Regulation. There can, however, be no guarantee that this will continue to be their assessment and that it will not be necessary to declare a Permitted Maximum or exercise any other of their or the Company's powers in the Articles referred to above.

Internal controls and risk management

Through improvements in processes in prior years there is a robust process in place to enable the Board to have assurance around the overall risk management together with the determination of the nature and extent of the Group's principal risks. Management monitors the financial reporting process and the process for preparing the consolidated accounts through regular reporting and review. Management reviews data for consolidation into the Group's financial statements to ensure that it gives a true and fair view of the Group's results in compliance with applicable accounting policies.

The Board, through the Audit Committee, reviews the effectiveness of the Company's internal control processes formally at least once a year. Last year, the Board found that the system of internal and financial controls was not operating effectively in certain parts of the Group, in particular, in Aviation, Land and Head Office. Since then, the Company has implemented a number of improvements, which the Audit Committee has monitored. Following this year's review of the effectiveness of the Company's internal control processes, the Board is satisfied that the Company has successfully delivered the improvement plans agreed last year, whilst recognising that there remains ongoing scope for further improvement in FY23, including lessons learnt from the FY22 closing.

For more detailed information on the improvements in internal controls please see the Audit Committee report on page 110. Further information on the principal internal controls and risk assurances in use in the Company can be found in the Strategic report on pages 76 to 78.

Auditor

Following appointment as Independent Auditor of the Company last year, after a competitive tender process, Deloitte is willing to continue in office. A resolution to re-appoint Deloitte as Independent Auditor will be proposed at the forthcoming Annual General Meeting.

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Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with United Kingdom adopted international accounting standards. The Directors have chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

So far as the Directors are aware there is no relevant audit information of which the Company's auditor is unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Responsibility statement

Each of the Directors, being each Director who is in office at the date the Directors' report is approved and whose names and functions are listed below, confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Ruth Cairnie	Chair
Carl-Peter Forster	Non-Executive Director
Kjersti Wiklund	Non-Executive Director
John Ramsay	Non-Executive Director
Russ Houlden	Non-Executive Director
Lucy Dimes	Non-Executive Director
Lord Parker	Non-Executive Director
David Lockwood	Chief Executive Officer
David Mellors	Chief Financial Officer

Approval of the Strategic report and the Directors' report

The Strategic report and the Directors' report (pages 2 to 139) for the year ending 31 March 2022 have been approved by the Board and signed on its behalf by:

RUTH CAIRNIE
Chair

DAVID LOCKWOOD
Chief Executive Officer

28 July 2022

be courageous

We believe in being brave, ambitious and determined.

When it comes to safety, Babcock expects all of our people to do the right thing, challenge unsafe acts and make sure everyone goes Home Safe Every Day.

At one of our sites, a group of contractors were due to operate at height. As they were erecting their scaffold and preparing their working space, concerns were raised about their safety.

One of our team courageously stopped the job, assessed the work the team was due to undertake and ensured that all safety protocols were understood and followed.

It's important we all do our bit to help each other stay safe and being courageous has a big role to play in this.

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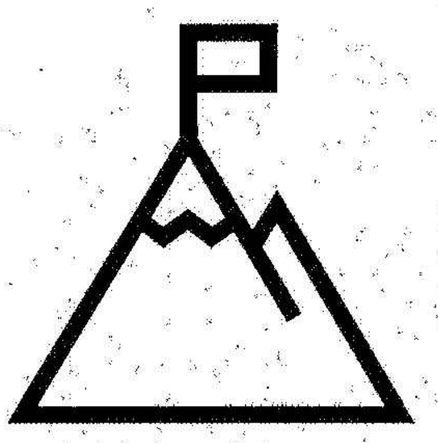

own & deliver

We believe our collective success depends on individual actions.

We support our customers' critical assets and complex programmes around the world – this means we need to work through a number of external factors including the weather.

One of our major tasks was to float up submarine HMS Vanguard. Programmes of such magnitude require extensive planning and preparation – as well as an appropriate weather window.

Understanding what we needed to do, and having mitigations in place should things change, we worked with our customer to successfully complete our task and dock down the submarine.

We know what's important and we help our customers and our people achieve success.

Report on the audit of the financial statements

1. Opinion

In our opinion:

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

We have audited the financial statements which comprise:

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

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

2. Basis for opinion

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

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

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

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3. Summary of our audit approach

Key audit matters

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

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

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

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

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

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

Materiality	We have determined materiality to be £15.6m. See section 6.1 for further details on materiality.
Scoping	Our scope covered eighteen components of the Group. Of these, seventeen were subjected to a full-scope audit and one was subject to specific procedures on certain account balances. The components contribute 97% of revenue and 95% of profit before tax. See section 7 for further details on our scoping.

4. Conclusions relating to going concern

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

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

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

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

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

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

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

The following matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Impact of control deficiencies (Group and Company)

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

Key audit matter description	In the year ended 31 March 2021 the Group performed a contract profitability and balance sheet (CPBS) review which resulted in more than 140 accounting adjustments totalling £2.0 billion (post-tax effect on retained earnings) and spanning many account balances across several years. This led to the Board concluding that the control environment was not operating effectively in certain parts of the Group, particularly in Aviation, Land and Group Head Office. As outlined in Note 3 to the financial statements and Note 5 to the Company financial statements, through the course of our audit there were 13 prior year misstatements identified at the Group level and 4 at the Company level which have been corrected. Further detail on the majority of these errors is included within subsequent key audit matters. The current year audit has identified a large number of errors that have affected both the current and prior years. A number of these relate to revenue recognition, where there was initially a lack of documented support for key accounting considerations under IFRS 15. Our expectation was that there would be significant deficiencies in the Group's control environment and that our audit plan would therefore need to be adjusted to fully respond to the resultant increased risk of material misstatement in the financial statements. The extent of the errors and control deficiencies identified had a significant impact on our audit and was a contributing factor to the extended time and effort required to complete the audit, which we consider to be a key audit matter.
How the scope of our audit responded to the key audit matter	Given the issues identified in 31 March 2021, our expectation was that the control environment would be deficient and our audit activities were enhanced in response to this increased risk of misstatement. The procedures most relevant to our key audit matter were: • reviewing historical accounting policies and accounting judgements through discussion with the Directors and review and challenge of the Directors' papers and supporting documentation; • interacting with management and the Audit Committee to understand and challenge the actions they were taking to address the control failures identified in the prior year; • performing walkthroughs on key accounting processes, with particular focus on long term contract accounting; • obtaining an understanding of the general IT control environment; • identifying relevant controls and evaluating those controls; and • inspecting the previous auditor's audit file which included the CPBS review. We considered the nature and extent of the findings in determining our assessment of the risk of material misstatement to the financial statements including as a result of fraudulent manipulation of the financial statements (including the risk of override of controls), as described elsewhere in this report. Where necessary our risk assessment and subsequent audit approach was revised in response to the misstatements (and associated control findings) identified. During the current year audit we identified a large number of errors that have affected both the current and prior years and identified significant deficiencies in control and we adjusted our audit plan accordingly. Additional procedures included: • increasing our audit scope to bring more components into full scope audit; • increasing the level of component oversight; • expanding the types of journal entries that we selected for testing due to failures within the IT environment, now being remediated, that meant we were not able to rely on their operating effectiveness; • more extensive use of specialist teams in tax, valuations, pensions and financial instruments; • embedding an IFRS 15: 'Revenue from Contracts with Customers' ("IFRS 15") specialist into our team; • requesting the preparation of over 70 key accounting papers to support accounting positions they had taken ; • using data analytics to complete our testing, over key areas such as the consolidation and contracts; and • increasing the seniority of our engagement and review teams. The control deficiencies identified meant that we adopted a fully substantive audit approach which involved a significant increase in volume of work so that we had appropriately amended the nature, timing and extent of audit work to respond to the deficiencies in the control environment.

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

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

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

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

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

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

Our contract testing approach included:

Understanding relevant controls

- We obtained an understanding of relevant manual and IT controls and project accounting processes which management have established to ensure that contracts are appropriately forecast, managed, challenged and accounted for.
- As part of this, we attended a sample of project contract status review meetings, quarterly business review meetings and Group level meetings to understand the various levels of challenge applied to the forecasts.
- As outlined in Key Audit Matter 5.1, we were not able to rely on any controls for the purposes of our substantive testing.

Challenging management's assumptions and estimates
Our work included:

- making inquiries of contract project teams and other personnel to obtain an understanding of the performance of the project throughout the year and at year-end;
- analysing historical contract performance and understanding the reason for in-year movements or changes;
- testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract and associated contingencies. We considered historical forecasting accuracy of costs, compared to similar programmes, and challenged future cost expectations with reference to those data points;
- obtaining evidence and challenging management on the assumptions used to calculate future transformational savings;
- examining external correspondence to assess the timeframe for delivery of the product or service and any judgements made in respect of these;
- examining external evidence to assess contract status and estimation of variable consideration (including associated recoverability of contract balances), such as customer correspondence and for certain contracts meeting with the customer directly;
- enquiring with in-house and external legal counsel regarding contract related litigation and claims; and
- considering whether there were any indicators of management override of controls or bias in arriving at their reported position.

Key observations

Whilst not directly related to our key audit matter, as outlined in Note 3 to the Group financial statements the Directors have corrected a prior year error of £211m relating to the presentation of revenue and cost of revenue in relation to pass-through revenue on three of the Group's contracts.

Through our testing of those contracts with the highest degree of management judgement, we identified a number of immaterial adjustments which were adjusted for by Group management.

We also identified misstatements which had a net impact of reducing revenue, that management chose not to correct on the grounds that they netted to an overall immaterial income statement impact.

We concluded overall that the judgements made by the Directors are reasonable.

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

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

Key audit matter description

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

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

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

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

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

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

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

We completed the following audit procedures:

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

Key observations

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

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

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

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

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

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

Key audit matter description	The Group holds goodwill balances with a combined carrying value of £782m as at 31 March 2022 (2021: £956m restated). As disclosed in Note 3 to the financial statements, following a computational error identified in the Aviation CGU model in the prior year, a prior year restatement recorded an additional impairment charge of £81m in respect of the Aviation CGU in the year ended 31 March 2021. The Directors perform an impairment review of the carrying value of each Cash Generating Unit ('CGU') Group on an annual basis in line with the requirements of IAS 36. As described in Note 12 to the financial statements the Group monitors goodwill at operating segment level, with the exception of the establishment of a separate CGU Group during the year for Aviation – Europe. The current year impairment test resulted in an impairment of the goodwill allocated to the Aviation segment of £7.2m and as described in Note 13 to the financial statements an impairment of £57.6m against the acquired intangible balance allocated to the Aviation CGU for the year ended 31 March 2022. The recoverable amount of the Group's goodwill was assessed by reference to value-in-use calculations. The value-in-use calculations are derived from risk-adjusted cash flows from the Group's five-year plan. Terminal value assessments are included based on year five and an estimated long-term, country-specific growth rate of 1.8–2.5% (2021: 2.0%). The process by which the Group's budget is prepared, reviewed and approved benefits from historical experience, visibility of long–term work programmes in relation to work undertaken for the UK Government, available government spending information (both UK and overseas), the Group's contract backlog, bid pipeline and the Group's tracking of pipeline which monitors opportunities prior to release of tenders. The budget process includes consideration of risks and opportunities at contract and business level, and considered matters such as supply chain disruption, inflation and climate change. The value in use calculations include the anticipated benefits of the Group's revised operating model, reflecting the fact that Group was committed to the project at 31 March 2022. From our risk assessment procedures, we have identified a key audit matter in relation to the valuation of goodwill in the Aviation and Land sectors, focused on: • discount rates used to discount future cash flows; and • key assumptions within the short-term growth forecasts such as future revenue growth and margin improvements.
How the scope of our audit responded to the key audit matter	We completed the following audit procedures: • obtained an understanding of the key controls in the impairment process, including the review controls performed at a sector level of the five-year plan, the Group level review of the five-year plan, and the Directors' review of the Goodwill model; • assessed the mechanical accuracy of the impairment models and the methodology applied for consistency with the requirements of IAS 36; • challenged the appropriateness of the Directors' change in CGU Groups with reference to the requirements of IAS36 and the level at which operations are managed and goodwill is monitored for internal reporting purposes; • assessed the completeness and accuracy of the allocation of corporate overheads to CGUs; • evaluated and challenged underlying assumptions, including forecast revenue, contract turnover rates, margins, operating model savings, future capital expenditure and working capital adjustments with reference to recent and historical performance, external industry benchmarks, specific forecast events, and considering the impact of any climate related impacts; • engaged our Deloitte valuations specialists to assess the discount rate; • determined that the prior year errors, identified in the current period, were included in the current year impairment assessment and did not apply to the current year model; • in response to the prior year error we have performed additional work over the tie in of the prior year CPBS adjustments in addition to our transition activities; • performed a 'stand-back' assessment, including consideration of enterprise value compared to the Directors' value in use and comparison to the potential sale value for the Aviation CGU to assess the appropriateness of the final recoverable amount and net book value, as well as the final impairment charge recorded; and • assessed the completeness and accuracy of disclosures in the financial statements.
Key observations	Our controls work highlighted that there was a lack of formalised documentation over model mechanics and assumptions made with limited documented evidence of review. The Directors' discount rates were originally outside of the reasonable range calculated by our internal valuations specialists, resulting in an additional impairment of £3.8m being recorded against the acquired intangible in the year ended 31 March 2022. We concur with the identification of Aviation – Europe as a separate CGU Group. Following the correction of the current and prior period errors, we are satisfied that the judgements applied, impairment charges recorded and disclosures within the financial statements are appropriate.

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

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

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

5.6. Valuation of retirement benefits and obligations (Group)

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

Key audit matter description

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

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

Longevity swap valuation

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

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

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

Babcock Naval Services Pension Scheme (BNSPS) valuation

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

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

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

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

We completed the following audit procedures:

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

Longevity swap valuation

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

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

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

Babcock Naval Services Pension Scheme (BNSPS) valuation

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

Key observations

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

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

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5.7. Carrying value of investments in subsidiaries (Company)

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

Key audit matter description	The Company holds investments in its subsidiaries of £2,467m (2021: £2,304m). Management has performed an assessment of the recoverable amount of the investments and compared this to the carrying value using the same cash flow methodology applied in the impairment test for goodwill. As outlined in Note 5 to the Company financial statements the Directors have recorded a prior period error of £163m to record an impairment against the investment in subsidiary undertakings. This impairment reversed in the year-ended 31 March 2022. We involved internal valuation specialists to assist our work in this area. We focused on this area due to the size of the investment balances and the potential impairment indicator being the fact that the investment balance exceeded the group's market capitalisation.
How the scope of our audit responded to the key audit matter	We completed the following audit procedures: • obtained an understanding of key controls in relation to the investment impairment assessment process; • evaluated management's assessment of whether any indicators of impairment existed by comparing the Company's investment carrying value to the market capitalisation of the Group; • reconciled the cash flows and other key assumptions used to determine the recoverability of the Group's CGUs for the goodwill impairment review, which were subject to separate audit procedures as detailed in the key audit matter above; • considered the recoverable value by reference to the Group's market capitalisation and to valuations implied from third party analyst reports; • reperformed the investment impairment calculation to determine the accuracy of management's calculation in conjunction with valuation specialists; • considered whether the impairment reversal indicated in the impairment model for 31 March 2022 reflected a change in service potential of the asset and therefore a valid reversal to record under IAS 36; and • assessed the appropriateness of the disclosures as they relate to company only investment impairment within the annual report.
Key observations	Through our reperformance of the investment impairment calculation we identified errors in the modelling. This did not change the current year impairment conclusion, however when applied to the prior year investment impairment model resulted in a material prior year error of £163m impairment which, as outlined in note 5 to the company only financial statements, has been corrected by management. Once the prior year error was flowed through to the current year assessment, this resulted in a £163m reversal in the current year. We have analysed the drivers of this reversal and are satisfied that the reflects a change in service potential of the asset and is therefore a valid reversal to record under IAS36. We evaluated the disclosures made in note 2 and note 6 to the company financial statements and consider these are appropriate.

6. Our application of materiality

6.1. Materiality

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

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

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

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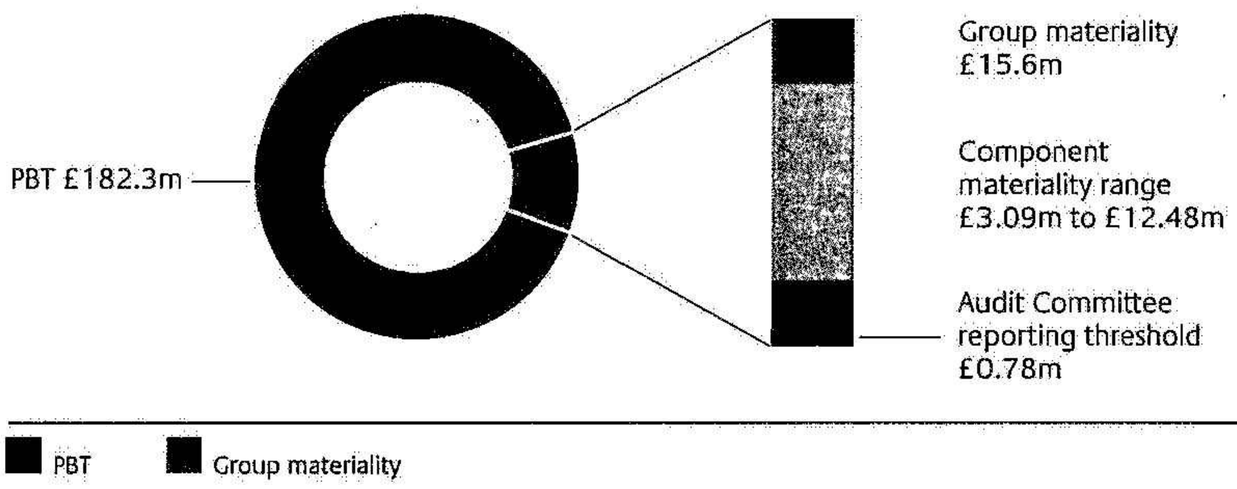
	Group financial statements	Company financial statements
Rationale for the benchmark applied	We assessed which line items are the most important to investors and analysts by reading analyst reports and Babcock's communications to shareholders, as well as the communications of peer companies. Profit before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



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

6.2. Performance materiality

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

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

6.3. Error reporting threshold

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

7. An overview of the scope of our audit

7.1. Identification and scoping of components

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

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

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

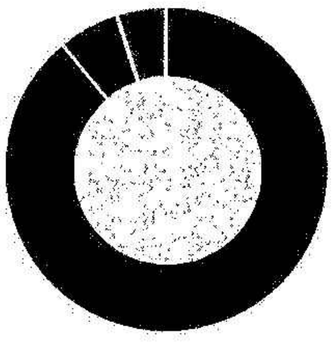
This approach also allowed us to engage local auditors who have appropriate knowledge of local regulations to perform the audit work, under a common Deloitte audit approach. We issued detailed instructions to the component auditors, including specific procedures to address group level significant risks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

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

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

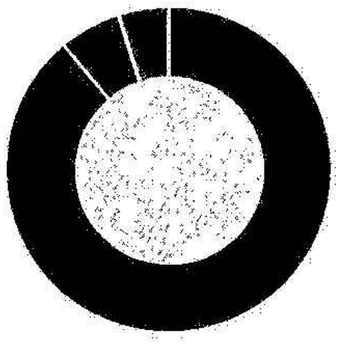
The 30 components within either full or specified account balance scope contribute the proportions of Group totals shown below.

Revenue



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

Profit before tax



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

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7.2. Our consideration of the control environment

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

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

7.3. Our consideration of climate-related risks

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

7.4. Working with other auditors

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

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

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

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

8. Other information

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

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

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

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

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

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

11.2. Audit response to risks identified

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

13. Corporate Governance Statement

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

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

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

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

14.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

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

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

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

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

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

16. Use of our report

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

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

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

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GROUP INCOME STATEMENT

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

GROUP STATEMENT OF COMPREHENSIVE INCOME

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

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

GROUP STATEMENT OF CHANGES IN EQUITY

	Note	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Total equity attributable to owners of the Company £m	Non-controlling interest £m	Total equity £m
At 1 April 2020 (previously stated)		303.4	873.0	768.8	30.6	480.1	(97.3)	(59.5)	2,299.1	15.7	2,314.8
Prior period restatements	3	–	–	–	–	8.8	28.2	–	37.0	–	37.0
At 1 April 2020 restated		303.4	873.0	768.8	30.6	488.9	(69.1)	(59.5)	2,336.1	15.7	2,351.8
(Loss)/profit for the year		–	–	–	–	(1,803.0)	–	–	(1,803.0)	–	(1,803.0)
Other comprehensive income/(loss)		–	–	–	–	(360.9)	26.4	11.1	(323.4)	1.1	(322.3)
Total comprehensive loss		–	–	–	–	(2,163.9)	26.4	11.1	(2,126.4)	1.1	(2,125.3)
Dividends		–	–	–	–	–	–	–	–	(0.8)	(0.8)
Share-based payments	26	–	–	–	–	3.2	–	–	3.2	–	3.2
Tax on share-based payments		–	–	–	–	2.3	–	–	2.3	–	2.3
Own shares		–	–	–	–	(2.2)	–	–	(2.2)	–	(2.2)
Net movement in equity		–	–	–	–	(2,160.6)	26.4	11.1	(2,123.1)	0.3	(2,122.8)
At 31 March 2021 restated		303.4	873.0	768.8	30.6	(1,671.7)	(42.7)	(48.4)	213.0	16.0	229.0
At 1 April 2021 as restated		303.4	873.0	768.8	30.6	(1,671.7)	(42.7)	(48.4)	213.0	16.0	229.0
Profit for the year		–	–	–	–	164.2	–	–	164.2	3.7	167.9
Other comprehensive income		–	–	–	–	258.3	46.7	(8.0)	297.0	0.9	297.9
Total comprehensive income		–	–	–	–	422.5	46.7	(8.0)	461.2	4.6	465.8
Dividends		–	–	–	–	–	–	–	–	(1.1)	(1.1)
Share-based payments	26	–	–	–	–	5.5	–	–	5.5	–	5.5
Tax on share-based payments		–	–	–	–	2.3	–	–	2.3	–	2.3
Net movement in equity		–	–	–	–	430.3	46.7	(8.0)	469.0	3.5	472.5
At 31 March 2022		303.4	873.0	768.8	30.6	(1,241.4)	4.0	(56.4)	682.0	19.5	701.5

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

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GROUP STATEMENT OF FINANCIAL POSITION

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

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

DAVID LOCKWOOD OBE
Director

DAVID MELLORS
Director

GROUP CASH FLOW STATEMENT

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

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1. Basis of preparation and significant accounting policies

Basis of preparation

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

New and amended standards adopted by the Group

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

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

New IFRS accounting standards, amendments and interpretations not yet adopted

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

- IFRS 3, 'Business Combinations'. Amendment effective for periods commencing on or after 1 January 2022. The amendment relates to the identification of liabilities assumed and contingent assets acquired in a business combination.
- IAS 37, 'Provisions, contingent liabilities and contingent assets'. Amendment effective for periods commencing on or after 1 January 2022. The amendment relates to the clarification of costs that an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Management's review to determine the impact of this amendment is ongoing, however this is not expected to have a material impact.
- IAS 16, 'Property, plant and equipment'. Amendment effective for periods commencing on or after 1 January 2022. The amendment relates to proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.
- IFRS 17 'Insurance Contracts'. Amendment effective from 1 January 2023.

Basis of consolidation

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

(a) Subsidiaries

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

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

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

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

Basis of consolidation (continued)

(b) Joint ventures and associates

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

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

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

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

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

Critical accounting estimates and judgements

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

Critical accounting judgements

Critical accounting judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below. Detail of the Group's key judgements involving estimates are included in the Key sources of estimation uncertainty section.

Revenue and profit recognition

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

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

Determining the Group's cash generating units

Management exercises judgement in determining the Group's cash generating units for the goodwill impairment assessment. This determination is generally straightforward and factual, however in some cases judgement is required, for example it was determined that Africa is a separate cash generating unit, whilst operations of the Group in other territories do not represent separate cash generating units. Over time management reviews the cash generating units to ensure they remain appropriate as businesses are acquired and divested and reporting structures change, including how information is reported to the Chief Operating Decision Maker. If there was a change in this judgement this could result in a material adjustment to goodwill. Further detail is included in notes 4 and 12.

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

Key sources of estimation uncertainty

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

Revenue and profit recognition

The Group's revenue recognition policies require management to make an estimate of the cost to complete for long-term contracts. Management estimates outturn costs on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel. Estimates of cost to complete include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge, and judgements and estimates are reviewed regularly throughout the contract life based on latest available information and adjustments are made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn. One key contract for the Group includes a critical estimate around the realisation of future transformational savings. If these savings fail to be realised, this will impact on the margin for this contract and could result in a reduction to revenue and contract assets, and therefore profit, of £10 million.

Defined benefit pension schemes obligations

The Group's defined benefit pension schemes are assessed annually in accordance with IAS 19, 'Employee benefits' and the valuation of the defined benefit pension obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit pension obligations. In addition to the inflation and discount rate estimates, management is required to make an accounting judgement relating to the expected availability of future accounting surpluses under IFRIC 14, `IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. Further information on the key assumptions and sensitivities is included in note 27.

The carrying value of goodwill

Goodwill is tested annually for impairment, in accordance with IAS 36, Impairment of Assets ('IAS 36'). The impairment assessment is based on assumptions in relation to future cash flows expected to be generated by cash generating units, together with appropriate discounting of the cash flows. The assessment of the carrying value of goodwill is included as a critical accounting estimate given the significance of the remaining carrying value of goodwill and the inherent level of estimation uncertainty required to undertake impairment testing. The key assumptions in estimating the carrying value of goodwill are discount rate, long-term growth rate and short-term growth rates. Further information on key assumptions and sensitivity analyses are included in note 12.

Inflation

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

Significant accounting policies

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

Revenue

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

(a) Performance obligations

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

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

The integrated output nature of many of the services provided by the Group results in some contracts only having one performance obligation.

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

Significant accounting policies (continued)

Revenue (continued)

(b) Determination of contract price

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

Inclusion of variable consideration in the contract price requires the exercise of judgement in relation to the amount to be received through unpriced contract variations and claims (see section (e) below for further details) and variable elements of existing contracts, such as performance-based penalties and incentives, and gain/pain share arrangements where cost under/over spends are shared with the customer. Elements of variable consideration are estimated at contract inception and at the end of each reporting period. Any required adjustment is made against the contract price in the period in which the adjustment occurs.

Variable consideration is estimated using either the expected value or the most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. This judgement is made by suitably qualified and experienced personnel based on the contract terms, status of negotiations with customers and historical experience with customers and with similar contracts. Variable consideration may be included in the total transaction price or, in certain circumstances, may be allocated to a specific time period. Where variable consideration is allocated to a specific time period this will typically be in relation to performance related deductions.

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

(c) Allocation of contract price to performance obligations

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

(d) Revenue and profit recognition

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

Revenue recognised over time

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

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

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

Where the Group satisfies performance obligations over time, the Group primarily uses an input method to measure satisfaction of each performance obligation based on costs incurred compared to total estimated contract costs. For the majority of the Group's contracts, this is deemed to be the most appropriate method to measure Babcock's effort in satisfying the applicable performance obligations. Costs are included in the measurement of progress towards satisfying the performance obligation to the extent that there is a direct relationship between the input and satisfaction of the performance obligation. For contracts where costs incurred is not deemed to be the most appropriate measure, the Group uses time elapsed to measure satisfaction of the performance obligation.

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

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

Significant accounting policies (continued)

Revenue (continued)

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

Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to receive payment by the Group. As can be seen from note 4, sale of goods at a point in time represents approximately 6% of Group revenues. These revenues are delivered predominantly by the Aviation and Land sectors and include sales of equipment to commercial customers and procurement of consumables on behalf of the Ministry of Defence (MOD).

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

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

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

(e) Contract modifications

Claims and variations

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

Contract modifications can also refer to changes in price only, with no change in scope, where there is a difference of view or dispute in relation to interpretation of contracts.

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

Accounting for contract modifications

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

1. Prospectively, as an additional, separate contract;

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

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

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

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

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

Significant accounting policies (continued)

Revenue (continued)

Claims and variations which are not deemed to be contract modifications

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

(f) Costs of obtaining a contract

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

Directly attributable costs to obtain a contract with a customer that the Group would not have incurred if the contract had not been won are recognised as an asset. These costs are capitalised as an asset after the point that it can be reliably expected that a contract will be obtained. The costs are capitalised as an asset in capitalised contract costs and amortised to cost of revenue on a typically straight-line basis consistent with the transfer to the customer of the goods and services to which the asset relates, provided that the contract is expected to result in future net cash inflows.

(g) Costs to fulfil a contract

Post contract award but pre contract operational start-up costs which satisfy the criteria for capitalisation under another standard, such as property, plant and equipment (IAS 16, 'Property, Plant and Equipment') or intangible assets (IAS 38, `Intangible assets'), are accounted for in accordance with those standards. Costs to fulfil a contract which do not fall within the scope of another standard are recognised under IFRS 15 as an asset in capitalised contract costs where they meet all of the following criteria:

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

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

(iii) the costs are expected to be recovered.

Costs of recruiting or training staff are expensed as incurred.

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

(h) Contract assets and liabilities

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

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

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

Significant accounting policies (continued)

Underlying financial information and specific adjusting items

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

Transactions with non-controlling interest

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

Provisions

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

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

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

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

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

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

Significant accounting policies (continued)

Goodwill and intangible assets

(a) Goodwill

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

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

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

Goodwill is reviewed for impairment annually at 31 March by assessing the recoverable amount of operating segments by reference to value-in-use calculations or fair value less cost to dispose in relation to certain businesses which the Group plans to dispose. Goodwill impairments are not subsequently reversed. See note 12 for further information on goodwill impairment reviews.

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

(b) Acquired intangibles

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

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

The carrying value of the non-contractual element is amortised over the period in which it is estimated that the relationships are likely to bring economic benefit via future orders.

Relationships are valued on a contract-by-contract and customer-by-customer basis and the pattern of amortisation reflects the expected pattern of benefit in each case. The amortisation profile is determined on a case-by-case basis and in all cases results in a front-loaded profile, reflecting the greater certainty of future orders in the near term compared with the longer term. The amortisation period is in the range one year to 20 years.

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

(c) Research and development

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

(d) Computer software

Computer software, excluding the Group's Enterprise Resource Planning (ERP) system, includes software licences acquired. Configuration and customisation costs relating to Software-as-a-service agreements are expensed as incurred. Computer software is measured at cost less accumulated amortisation and is amortised on a straight-line basis over its expected useful life of between three and seven years.

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

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

Significant accounting policies (continued)

Property, plant and equipment

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

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

Freehold property	2.0% to 8.0%
Leasehold property	Lower of useful economic life or lease term
Plant and equipment	6.6% to 33.3%
Aircraft airframes	2%

Major strategic aircraft spares are classified within property, plant and equipment. Aircraft assets, including spares, are disaggregated into separate components where the components have differing useful lives with the value of each rotable component being measured at the cost of replacement or overhaul of the component and the remaining value of the asset being attributed to the airframe component.

Depreciation is provided on a straight-line basis, or in the case of certain aircraft components on an hours flown basis, to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each financial year end).

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

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

Impairment of non-current assets

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

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

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

Net debt excluding loans to joint ventures and associates and lease receivables

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

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

Significant accounting policies (continued)

Leases

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

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

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

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

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

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

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

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

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

Inventory

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

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

Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. The Group does not recognise contingent liabilities. See note 31 for details of contingent liabilities.

Cash and cash equivalents

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

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

Significant accounting policies (continued)

Taxation

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

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

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

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

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

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

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

Foreign currencies

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

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency of subsidiaries of the Group using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the year-end exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

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

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

Significant accounting policies (continued)

Finance costs

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

Finance income

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

Employee benefits

(a) Pension obligations

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

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

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

(b) Share-based compensation

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

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

(c) Holiday pay

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

Financial instruments

(a) Financial assets and liabilities at amortised cost

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

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

(b) Derivative financial instruments

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

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

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

Interest Rate Benchmark Reform

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

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

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

Significant accounting policies (continued)

Financial instruments (continued)

Interest Rate Benchmark Reform (continued)

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

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

As a result of the Phase 2 amendments:

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

Fair value measurement

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

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

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

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

Debt factoring

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

Supply chain financing

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

Dividends

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

Identification of prior year restatements

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

Changes in accounting policies

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

Changes in presentation

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

2. Adjustments between statutory and underlying information

Definition of underlying measures and specific adjusting items

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

The Group's alternative performance measures are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies and they are not intended to be a substitute for, or superior to, measures defined under IFRS. The Group's alternative performance measures are consistent with the year ended 31 March 2021.

Underlying operating profit

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

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

Specific adjusting items include:

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

Income statement including underlying results

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

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2. Adjustments between statutory and underlying information (continued)

Earnings per share including underlying measures

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

Details of specific adjusting items

The impact of specific adjusting items is set out below:

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Amortisation of acquired intangibles	(21.4)	(40.2)
Business acquisition, merger and divestment related items	163.1	(49.7)
Gains, losses and costs directly arising from withdrawal from a specific market or geography	–	(11.1)
Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes	–	(8.9)
Restructuring	(33.8)	(8.4)
Fair value loss on forward rate contracts	(9.6)	–
Exceptional items	(118.8)	(1,590.5)
Loss before tax	(20.5)	(1,708.8)
Income tax benefit		
Amortisation of acquired intangibles	5.5	8.2
Gains, losses and costs directly arising from withdrawal from a specific market or geography	–	1.0
Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes	–	1.7
Restructuring	6.5	0.5
Fair value loss on forward rate contracts	2.5	–
Exceptional tax items and tax on exceptional items	15.0	18.4
Income tax benefit	29.5	29.8

2. Adjustments between statutory and underlying information (continued)

Explanation of specific adjusting items

Amortisation of acquired intangibles

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

Business acquisition, merger and divestment related items

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

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

The prior year included a total net loss of £49.7 million, consisting of a £38.2 million loss on disposal of the Group's share in the Holdfast joint venture and losses arising on disposal of subsidiary undertakings of £0.6 million for Cavendish Nuclear Manufacturing Limited and £10.9 million for Conbras Servicos Tecnicos de Suporte Ltda.

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

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

Restructuring

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

In the prior period, the Group incurred a restructuring charge of £9.3 million. This was offset by the release of £0.9 million of unused provision from prior year restructuring costs in the Nuclear and Land sectors.

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

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

Exceptional items

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

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

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2. Adjustments between statutory and underlying information (continued)

Explanation of exceptional items

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

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

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

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

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

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

In the prior year, an impairment charge of £113.3 million was recorded on property, plant and equipment. This charge included the results of a major aircraft fleet rationalisation programme which resulted in a refreshed fleet strategy and the identification of surplus aircraft. Impairments were recorded on surplus aircraft and as the result of value-in-use tests. Losses on disposal were incurred on aircraft disposed of during the year. In addition, we carried out an aircraft rationalisation programme which resulted in asset impairments and crystallisation of losses on disposal of surplus aircraft of £29.3 million.

Impairment of right of use assets
In prior year, following a review of carrying amounts, a total impairment charge of £46.4 million was recorded in relation to the Group's right of use assets. This included impairments of aircraft supporting oil and gas and emergency services contracts and the impairment of assets directly attributable to the Group's DSG contract.

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

Italy fine
In the year ended 31 March 2020, the Lazio Regional Administrative Court confirmed a €51 million fine issued by the Italian Competition Authority to our subsidiary, Babcock Mission Critical Services Italia SpA (BMCS Italia), for certain anti-trust violations. As a result, the Group recognised a provision of £47.3 million.

In the year ended 31 March 2021, BMCS Italia appealed the decision of the Court to the Italian Council of State. In July 2021, the Council, whilst upholding the decision of the Court on the facts, annulled the fine, though allowing the Authority leave to re-calculate it. Taking into account the guidance given by the Council to the Authority on the recalculation, the Group expected the Authority to reduce the fine and reduced the provision to £20 million as at 31 March 2021.

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

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

3. Prior year restatements

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

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

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

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

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

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

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3. Prior year restatements (continued)

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

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

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

3. Prior year restatements (continued)

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

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

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

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3. Prior year restatements (continued)

i. Principal versus agency assessment

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

ii. Pensions

Longevity swap valuation

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

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

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

Babcock Naval Services Pension Scheme (BNSPS)

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

iii. Cross currency interest rate swaps

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

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

iv. Hedging

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

v. Balance sheet reclassifications

Inventory to contract assets

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

Non-current capitalised contract costs

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

3. Prior year restatements (continued)

Right of use assets to property, plant and equipment

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

vi. Goodwill impairment

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

vii. Taxation

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

viii. Land contract asset

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

ix. Software-as-a-service

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

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

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

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4. Segmental information

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

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

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

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

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

The Board, the chief operating decision maker as defined by IFRS 8, monitors the results of these reportable segments and makes decisions about the allocation of resources. The Group's business in Africa meets the definition of an operating segment, as defined by IFRS 8. However, as permitted by IFRS 8, the Group includes the Africa operating segment in the Land reportable segment.

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

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

Year ended 31 March 2021 (restated*)	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	1,230.6	975.9	910.7	854.4	–	3,971.6
Underlying operating profit/(loss)	56.2	63.8	(17.5)	(130.4)	–	(27.9)
Specific Adjusting Items (note 2)						
Amortisation of acquired intangibles	(0.8)	–	(16.0)	(23.4)	–	(40.2)
Business acquisition, merger and divestment related items	–	(0.6)	(49.1)	–	–	(49.7)
Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography	–	–	(7.5)	(3.6)	–	(11.1)
Restructuring costs	–	0.7	0.2	(9.3)	–	(8.4)
Profit or loss from amendment, curtailment, settlement or equalisation of group pension schemes	(7.5)	–	–	–	(1.4)	(8.9)
Exceptional items	(4.2)	(5.8)	(528.3)	(1,052.2)	–	(1,590.5)
Operating profit/(loss)	43.7	58.1	(618.2)	(1,218.9)	(1.4)	(1,736.7)
Share of results of joint ventures and associates	3.1	(15.0)	5.1	(6.3)	–	(13.1)
Investment income	–	–	0.9	–	–	0.9
Other net finance costs**	–	–	–	–	(62.1)	(62.1)
Profit/(loss) before tax	46.8	43.1	(612.2)	(1,225.2)	(63.5)	(1,811.0)

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

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

4. Segmental information (continued)

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

Segment assets and liabilities

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

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

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

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

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

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

Segmental depreciation and amortisation

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

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

Segmental asset impairments

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

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

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4. Segmental information (continued)

Geographic analysis of non-current assets

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

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

Geographic analysis of revenue

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

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

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

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

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

5. Operating profit /(loss) for the year

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

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

* Included in cost of revenue in the income statement.

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

Services provided by the Group's auditor and network firms

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor as detailed below. Deloitte LLP were the Group's auditor for the year ended 31 March 2022, having replaced PricewaterhouseCoopers LLP:

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

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6. Net finance costs

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

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

7. Employee costs

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

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

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

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

Key management compensation

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

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

8. Taxation

Income tax expense

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

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

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

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

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

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

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

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

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8. Taxation (continued)

Deferred tax

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

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

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

	Tangible assets £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
At 1 April 2021	(17.0)	53.2	98.9	(13.1)	122.0
Income statement credit/(debit)	(8.4)	(28.3)	(15.7)	48.0	(4.4)
Tax credit/(debit) to other comprehensive income/equity	–	(61.2)	–	(0.2)	(61.4)
Transfer from income tax receivable	–	–	–	4.4	4.4
Acquisition of subsidiary	–	–	–	(18.6)	(18.6)
Disposal of subsidiary	(1.2)	–	–	(6.4)	(7.6)
Effect of changes in tax rates					
• Income statement	(6.6)	(8.7)	17.2	1.0	2.9
• Other comprehensive income/equity	–	(3.0)	–	1.5	(1.5)
Exchange differences	0.5	–	1.1	–	1.6
At 31 March 2022	(32.7)	(48.0)	101.5	16.6	37.4
At 1 April 2020 as previously stated	1.9	(27.7)	71.6	(19.0)	26.8
Prior year restatement (note 2)	–	8.9	–	–	8.9
At 1 April 2020 (restated)	1.9	(18.8)	71.6	(19.0)	35.7
Income statement credit/(debit)	(18.9)	(12.7)	27.1	8.2	3.7
Tax credit/(debit) to equity	–	84.7	–	(2.2)	82.5
Disposal of subsidiary	–	–	–	(0.1)	(0.1)
Effect of changes in tax rates					
• Income statement	–	–	0.2	–	0.2
Exchange differences	–	–	–	–	–
At 31 March 2021	(17.0)	53.2	98.9	(13.1)	122.0

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

The net deferred tax assets of £37.4 million (2021: £122.0 million) include deferred tax assets of £31.6 million (2021: £28.3 million) and deferred tax liabilities of £9.6 million (2021: £7.4 million) in respect of the Group's non-UK operations.

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because the Directors believe that it is probable that these assets will be recovered. The recognition of deferred tax assets in respect of losses can be subjective. The Group's approach to the recognition of deferred tax assets in respect of losses, including how the Group assesses future profitability for recognition purposes, is set out in note 1 to the Accounts.

8. Taxation (continued)

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

No deferred tax has been recognised in respect of temporary differences associated with investments in subsidiaries, branches, associates and interests in joint ventures and joint operations where the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate amount of temporary differences associated with such investments in subsidiaries, branches, associates and interests in joint ventures and joint operations is represented by their post acquisition retained earnings and amounted to £291 million (2021: restated £261 million). The aggregate amount of temporary differences previously stated at 31 March 2021 was £47 million. The difference reflects a change in the basis for determining retained earnings, which now comprise the post acquisition retained earnings of the relevant non UK subsidiaries.

At the statement of financial position date, deferred tax assets of £101.5 million (2021: £98.9 million) have been recognised in respect of unused tax losses available for carry forward. No deferred tax asset has been recognised in respect of further unutilised tax losses carried forward (excluding capital losses) of £519 million (2021: £754 million). In addition to these amounts, UK capital losses of £92.0 million (2021: £92.0 million) are being carried forward, with no deferred tax asset having been recognised. Where a deferred tax asset has not been recognised in respect of losses, this is because management considers that those jurisdictions are not likely to generate sufficient taxable income of the appropriate type in the foreseeable future (see note 1). The amounts shown can be carried forward indefinitely.

9. Dividends

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

10. Earnings/(loss) per share

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

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

Number of shares

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

Earnings

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

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11. Contract profitability and balance sheet review

As outlined in the Annual Report and financial statements for the year ended 31 March 2021, the Group performed a review of the profitability of its contract portfolio and the carrying values of assets and liabilities on the balance sheet.

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

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

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

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

12. Goodwill

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

12. Goodwill (continued)

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

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

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

The Group considered the potential disposal in the context of the held for sale criteria set out in IFRS 5 and assessed that the business should not be classified as held for sale.

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

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

Results of goodwill impairment test

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

Value-in-use calculations

The recoverable amount of the Group's goodwill was assessed by reference to value-in-use calculations. The value-in-use calculations are derived from risk-adjusted cash flows from the Group's five-year plan. Terminal value assessments are included based on year five and an estimated long-term, country-specific growth rate of 1.8 – 2.5% (2021: 2.0%). The process by which the Group's budget is prepared, reviewed and approved benefits from historical experience, visibility of long–term work programmes in relation to work undertaken for the UK Government, available government spending information (both UK and overseas), the Group's contract backlog, bid pipeline and the Group's tracking pipeline which monitors opportunities prior to release of tenders. The budget process includes consideration of risks and opportunities at contract and business level, and considered matters such as COVID-19 and inflation.

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

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

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12. Goodwill (continued)

Key assumptions

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

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

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

	31 March 2022				31 March 2021			
	Aviation	**Land**	**Marine**	**Nuclear**	Aviation	Land	Marine	Nuclear
Pre-tax discount rate	**11.3**	**11.7**	**11.3**	**11.3**	10.9	10.9	10.9	10.9
Post-tax discount rate	**8.5**	**8.8**	**8.5**	**8.5**	8.2	8.2	8.2	8.2
Long-term growth rate	**1.8**	**2.2**	**2.5**	**2.0**	2.0	2.0	2.0	2.0

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

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

Operating segment	**Key future cash flow assumption**
Marine	Continuing delivery of work programmes with the UK Ministry of Defence, including the design and build of Type 31 frigates and the production of vertical missile tubes for the US-UK common missile compartment programme.
Nuclear	Continuing delivery of naval nuclear services to the UK Ministry of Defence, including the FMSP contract. Continuing delivery of opportunities in the UK civil nuclear decommissioning programme together with maintenance of ongoing spend in provision of nuclear engineering services to operational power stations.
Land	Continuing demand for equipment support and training from both military and civil customers, noting that significant elements of equipment support and training are the subject of long-term contracts, not all of which have been assumed to renew.
Aviation	Continuing delivery of long-term contracts with the UK Ministry of Defence and key overseas territories. Delivery of cost savings through an embedded performance improvement programme.

Sensitivity

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

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

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

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

13. Other intangible assets

	Acquired intangibles – relationships £m	Internally generated software development costs and licences £m	Internally generated development costs and other £m	Total £m
Cost				
At 1 April 2021	1,031.5	189.3	26.1	1,246.9
On acquisition of subsidiaries and joint ventures (note 29)	62.0	–	–	62.0
Additions	–	7.0	4.4	11.4
Reclassification to property, plant and equipment	–	0.1	(1.6)	(1.5)
Reclassification	–	0.9	(0.9)	–
Disposal of subsidiary undertakings (note 29)	–	(3.9)	–	(3.9)
Disposals at cost	–	(1.4)	(0.3)	(1.7)
Exchange adjustments	0.8	0.2	(0.1)	0.9
At 31 March 2022	1,094.3	192.2	27.6	1,314.1
Accumulated amortisation and impairment				
At 1 April 2021	927.5	115.0	4.5	1,047.0
Amortisation charge	21.4	13.9	1.8	37.1
Impairment	57.6	–	–	57.6
Reclassification	–	0.1	(0.1)	–
Disposal of subsidiary undertakings (note 29)	–	(1.8)	–	(1.8)
Disposals	–	(1.0)	–	(1.0)
Exchange adjustments	(0.7)	0.2	–	(0.5)
At 31 March 2022	1,005.8	126.4	6.2	1,138.4
Net book value at 31 March 2022	88.5	65.8	21.4	175.7
Cost				
At 1 April 2020 as previously stated	1,042.9	187.1	26.8	1,256.8
Prior year adjustment	–	(2.8)	–	(2.8)
At 1 April 2020 restated	1,042.9	184.3	26.8	1,254.0
On disposal of subsidiaries (note 29)	(5.2)	(0.1)	–	(5.3)
Additions	–	11.0	7.0	18.0
Reclassification from property, plant and equipment	–	–	1.3	1.3
Disposals at cost	–	(6.0)	(8.4)	(14.4)
Exchange adjustments	(6.2)	0.1	(0.6)	(6.7)
At 31 March 2021	1,031.5	189.3	26.1	1,246.9
Accumulated amortisation and impairment				
At 1 April 2020 as previously stated	840.3	79.8	2.0	922.1
Prior year adjustment	–	(1.0)	–	(1.0)
At 1 April 2020 restated	840.3	78.8	2.0	921.1
On disposal of subsidiaries and joint ventures (note 29)	(5.2)	(0.1)	–	(5.3)
Amortisation charge	40.2	18.2	1.0	59.4
Impairment (note 2)	56.4	24.0	8.7	89.1
Reclassification from property, plant and equipment	–	–	1.3	1.3
Disposals	–	(6.0)	(8.4)	(14.4)
Exchange adjustments	(4.2)	0.1	(0.1)	(4.2)
At 31 March 2021	927.5	115.0	4.5	1,047.0
Net book value at 31 March 2021	104.0	74.3	21.6	199.9

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

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

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

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

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14. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2021	159.8	15.8	506.5	365.3	187.6	1,235.0
On acquisition of subsidiaries (note 29)	–	–	0.4	–	–	0.4
On disposal of subsidiaries (note 29)	(7.6)	(0.6)	(21.6)	(17.4)	(0.9)	(48.1)
Additions	1.8	3.8	32.3	28.9	112.6	179.4
Disposals	(2.5)	(0.8)	(14.2)	(56.0)	(46.5)	(120.0)
Reclassification	1.5	4.9	(1.5)	0.9	(5.8)	–
Reclassification from intangible assets	0.4	–	1.1	–	–	1.5
Exchange adjustments	–	0.1	4.4	(0.4)	(0.7)	3.4
At 31 March 2022	153.4	23.2	507.4	321.3	246.3	1,251.6
Accumulated depreciation						
At 1 April 2021	69.5	10.9	373.1	45.4	1.7	500.6
On disposal of subsidiaries (note 29)	(4.7)	(0.2)	(13.7)	(7.7)	–	(26.3)
Charge for the year	8.1	0.5	38.1	12.0	–	58.7
Impairment	–	–	–	58.8	–	58.8
Disposals	(1.5)	(0.7)	(10.8)	(38.9)	(1.6)	(53.5)
Exchange adjustments	–	–	1.8	1.0	(0.1)	2.7
At 31 March 2022	71.4	10.5	388.5	70.6	–	541.0
Net book value at 31 March 2022	82.0	12.7	118.9	250.7	246.3	710.6
Cost						
At 1 April 2020 as previously stated	125.2	32.0	605.7	533.8	88.5	1,385.2
Reclassification of assets in the course of construction	18.7	–	(61.4)	–	42.7	–
At 1 April 2020 restated	143.9	32.0	544.3	533.8	131.2	1,385.2
On disposal of subsidiaries (note 29)	–	–	(1.7)	–	–	(1.7)
Additions (restated)	2.5	1.2	39.5	39.2	76.0	158.4
Disposals	(3.3)	(0.4)	(79.5)	(210.7)	(4.9)	(298.8)
Reclassification	16.9	(17.0)	0.1	11.1	(11.1)	–
Reclassification to intangible assets	–	–	(1.3)	–	–	(1.3)
Capitalised borrowing costs	0.1	–	1.4	–	–	1.5
Exchange adjustments	(0.3)	–	3.7	(8.1)	(3.6)	(8.3)
At 31 March 2021	159.8	15.8	506.5	365.3	187.6	1,235.0
Accumulated depreciation						
At 1 April 2020	66.6	9.5	390.7	77.5	–	544.3
On disposal of subsidiaries (note 29)	–	–	(0.9)	–	–	(0.9)
Charge for the year	5.0	1.0	46.7	33.9	–	86.6
Impairment (note 2)	0.3	2.5	9.2	99.3	2.0	113.3
Disposals	(2.9)	(0.4)	(70.9)	(165.0)	–	(239.2)
Reclassification	0.7	(1.7)	0.2	0.8	–	–
Reclassification to intangible assets	–	–	(1.3)	–	–	(1.3)
Exchange adjustments	(0.2)	–	(0.6)	(1.1)	(0.3)	(2.2)
At 31 March 2021	69.5	10.9	373.1	45.4	1.7	500.6
Net book value at 31 March 2021	90.3	4.9	133.4	319.9	185.9	734.4

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

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

15. Leases

Group as a lessee

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

Right of use assets

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

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

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15. Leases (continued)

Lease liabilities

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

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

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

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

Amounts recognised in the Group income statement

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

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

15. Leases (continued)

Amounts recognised in the Group cash flow statement

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

Group as a lessor

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

Amounts recognised in the Group income statement

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

Finance lease payments receivable

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

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

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16. Investment in and loans to joint ventures and associates

The Group's principal joint ventures and associates are:

	Nature of relationship	Year end	Business activity	% interest held (2022)	% interest held (2021)	Country of incorporation	Principal area of operation
AirTanker Services Limited	Associate	31 Dec	Provision of air-to-air refuelling	23.5%	23.5%	United Kingdom	United Kingdom
Ascent Flight Training (Holdings) Limited	Joint venture	31 Mar	Provision of training services	50.0%	50.0%	United Kingdom	United Kingdom

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

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

Summarised financial information for joint ventures and associates

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

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

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

Reconciliation to carrying amounts

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

In the prior year, the share of results of joint ventures and associates loss reported of £13.1 million was due to a £37.1 million reduction to share of results of joint ventures and associates identified through the contract profitability and balance sheet review (refer to note 11 for further details). The contract profitability and balance sheet review also identified an impairment of £7.0 million in relation to loans to joint ventures and associates. This joint venture had entered the final stages of its operations and the loan was no longer deemed recoverable and was fully impaired.

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

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

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

Joint arrangements are shown as joint ventures as the Group has the right to net assets of the joint arrangement rather than separate rights and obligations to the assets and liabilities of the joint arrangement respectively.

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

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17. Inventories

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

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

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

18. Trade and other receivables and contract assets

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

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

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

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

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

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

18. Trade and other receivables (continued)

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

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

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

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

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

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

19. Cash and cash equivalents

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

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

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

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

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

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20. Trade and other payables and contract liabilities

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

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

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

	Contract liabilities £m
31 March 2021	396.5
Revenue recognised that was included in the contract liability balance at the beginning of the year	(294.7)
Cash advanced	419.0
Acquisition of subsidiary undertaking	8.2
Disposal of subsidiary undertaking	(12.5)
Exchange adjustment	1.8
31 March 2022	518.3

31 March 2020	243.2
Revenue recognised that was included in the contract liability balance at the beginning of the year	(163.5)
Increase due to cash received, excluding amounts recognised as revenue	318.1
Disposal	(0.5)
Exchange adjustment	(0.8)
31 March 2021	396.5

21. Bank and other borrowings

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

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

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

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

The Group has £3.5 million (2021: £3.9 million) of secured debt in the Land operating segment that is secured against a property owned by the Group and £20.9 million (£14.6 million) of debt that is secured against contracts with customers, which will cede to the bank in the event of default.

The Group has entered into interest rate and currency swaps, details of which are included in note 24.

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

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

* €1,100 million (2021: €550 million) has been swapped into Sterling, with €275 million (2021: €275 million) equivalent into floating rates and €825 million (2021: €275 million) equivalent into fixed rates. This is included in the Euro amount above.

The weighted average interest rate of Sterling fixed rate borrowings is 1.9% (2021: 1.9%). The weighted average period for which these interest rates are fixed is 4.6 years (2021: five years).

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

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21. Bank and other borrowings (continued)

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

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

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

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

Repayment details

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

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

Borrowing facilities

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

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

Bank loans include £12.5 million (2021: £25.1 million) that suppliers have chosen to early-fund under supplier financing arrangements, under which the suppliers can elect to receive a discounted early payment from the partner bank rather than being paid in line with the agreed payment terms. The total supplier financing facility available to the Group is £108.3 million at 31 March 2022 (2021: £230.0 million). The typical factoring fee is 0.1% – 0.5% (2021: 0.9% – 1.5%) and the Group has payment terms with the partner banks of 120-360 days. If the option is taken the Group's liability is assigned by the supplier to be due to the partner bank rather than the supplier. The value of the liability payable by the Group remains unchanged. The Group assesses the terms and conditions of the arrangement to determine whether the arrangement should be classified as trade payables or debt.

22. Provisions for other liabilities

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

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

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

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

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

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

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

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

Included within provisions is £7.4 million (2021: £5.0 million) expected to be utilised over approximately 10 years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

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23. Financial instruments and fair value measurement

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

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

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

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

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

23. Financial instruments and fair value measurement (continued)

The fair value hierarchy is as follows:

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

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

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

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

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

Derivative financial instruments and hedging activities

The Group enters into forward foreign currency contracts and cross currency interest rate swaps to hedge the currency exposures that arise on sales, purchases, deposits, borrowings and leasing arrangements denominated in foreign currencies as the transactions occur. Where derivatives do not meet the hedge accounting criteria, they are accounted for at fair value through profit or loss. The Group's policy regarding classification of derivatives is set out in note 1.

Cash flow hedges

The Group uses forward contracts to hedge the foreign currency cost of future purchases of goods to be consumed in operations, future income to be received and debt payments to be made. The Group designates the spot element of these contracts to hedge the foreign currency risk. Undesignated components of the Group's derivatives are recognised immediately in the income statement.

Fair value hedges

The Group maintains interest rate and cross-currency swap contracts as fair value hedges of the interest rate and currency risk on fixed-rate debt issued by the Group. These derivative contracts receive a fixed rate of interest and pay a variable rate of interest. These are formally designated in fair value hedging relationships and are used to hedge the exposure to changes in the fair value of debt which has been issued by the Group at fixed rates.

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24. Financial risk management

Interest rate risk

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

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

Objective	To manage exposure to interest rate fluctuations on borrowings by varying the proportion of fixed rate debt relative to floating rate debt to reflect the underlying nature of its commitments and obligations. As a result, the Group does not maintain a specific set proportion of fixed versus floating debt, but monitors the mix to ensure that it is compatible with its business requirements and capital structure.
Policy	The Group's interest rate management policy is to monitor the mix of fixed versus floating interest rate debt to ensure that it is compatible with its business requirements and capital structure.
Risk management	The Group manages interest rate risk through the maintenance of a mixture of fixed and floating rate debt and interest rate swaps, each being reviewed on a regular basis to ensure the appropriate mix is maintained.
Performance	As at 31 March 2022, the Group had 66% fixed rate debt (2021: 70%) and 34% floating rate debt (2021: 30%) based on gross debt, including derivatives, of £2,290.1 million (2021: £2,340.0 million).

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

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

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

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

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

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

Ineffectiveness is included in the income statement in finance costs.

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

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

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

24. Financial risk management (continued)

Liquidity risk

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

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

Objective	The Group's objective with regards to liquidity risk is to ensure that there is an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts and commitments and its risk profile.
Policy	The Group's policy is to ensure the business is prudently funded and that sufficient liquidity headroom is maintained on its facilities.
Risk management	Liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining cash and/or availability under committed credit lines. Each of the sectors in the Group provides regular cash forecasts for liquidity planning purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group, and to ensure that there is sufficient liquidity to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The Group utilises debt factoring in support of the non-UK operations of its Aviation sector as part of its working capital management arrangements. Further detail is included in note 21.
Performance	The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objectives. In the year ended 31 March 2022, the Group signed a new £300 million RCF maturing in 2024 and extended the maturity of £730 million of its existing RCF to 2026. Surplus cash during the year was invested in short-term deposits diversified across several well-rated financial institutions in accordance with policy.

The contracted cash outflows on bank and other borrowings and derivatives at the reporting date are shown below, based on contractual undiscounted payments.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 March 2022					
Bank and other borrowings	**968.2**	**113.1**	**510.7**	**553.2**	**2,145.2**
Derivatives cash outflows settled net	**555.7**	**300.5**	**246.4**	**549.6**	**1,652.2**
Derivatives cash outflows settled gross	**–**	**–**	**–**	**0.4**	**0.4**
At 31 March 2021					
Bank and other borrowings	509.8	596.5	265.5	948.0	2,319.8
Derivatives cash outflows settled net	97.6	167.7	132.9	545.0	943.2
Derivatives cash outflows settled gross	–	–	–	0.7	0.7

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

Lease payments maturity profile

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

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24. Financial risk management (continued)

Currency risk

Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities, when revenue or expense is denominated in a foreign currency, and the Group's net investments in foreign subsidiaries.

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

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

Objective	The Group's objective is to reduce exposure to volatility in earnings and cash flows from movements in foreign currency exchange rates. The Group is exposed to a number of foreign currencies, the most significant being the EUR, ZAR, AUD and CAD.
Policy – Transactional risk	In order to mitigate the currency risk of adverse currency movements on foreign currency denominated transactions, the Group's policy is to hedge all foreign currency transactions greater than £10k, using financial instruments where appropriate. The Group applies IFRS 9 hedge accounting treatment where appropriate.
Policy – Translational risk	The Group is also exposed to adverse foreign currency movements on translation of net assets and income statements of foreign subsidiaries and joint ventures and associates. It is not the Group's policy to hedge through the use of derivatives the translation effect of exchange rate movements on the income statements or statement of financial positions of overseas subsidiaries and joint ventures and associates it regards as long-term investments. However, where the Group has material assets denominated in a foreign currency, it will consider matching the assets with foreign currency denominated debt.
Risk management	Currency risk management includes hedging the underlying foreign currency exposures in the foreign exchange market with approved counterparties. Currency transactions are recorded and monitored in the treasury management system. Each of the sectors in the Group provides a quarterly foreign currency exposure report to monitor the level of currency hedge cover is appropriate.
Performance	All material firm transactional exposures are hedged using foreign exchange forward contracts and the Group aims, where possible, to apply hedge accounting to these transactions.

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

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

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

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

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

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

** Individually immaterial items

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

24. Financial risk management (continued)

Currency risk (continued)

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

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

Credit risk

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

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

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

Cash and cash equivalents and derivative financial instruments

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

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

Trade receivables

The Group's assessment is that credit risk in relation to customers or sub-contractors to governments is limited as their probability of default is considered to be extremely low. The provision for expected credit losses for receivables from governments and sub-contractors to government customers is therefore considered immaterial in the context of the receivables balance. The Group manages credit risk in relation to trade and other receivables for all non-government commercial customers through various mitigating controls including credit checks, credit limits and ongoing monitoring. Expected credit losses are assessed for all non-government customers, however this is not considered to be material to the financial statements.

For trade receivables, the Group measures a provision for expected credit losses at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. For all other assets the loss allowance is measured using 12-months expected credit losses unless there was a significant increase in credit risk since initial recognition.

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24. Financial risk management (continued)

Credit risk (continued)

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

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

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

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

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

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

Capital risk

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

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

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

25. Share capital

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

Potential issues of ordinary shares

The table below shows options and conditional share awards existing over the Company's shares as at 31 March 2022 that are capable of being met on exercise or vesting by the issue of new shares. They represent outstanding awards granted under the Company's executive share plans. The awards were granted directly by the Company and satisfied by the Trustees of the Babcock Employee Share Trust (BEST) – a total of 9,945,822 shares (2021: 10,438,350 shares). The Company decides from time to time whether to satisfy the awards by way of a fresh issue of shares (either to the award holder or to the employee share trust) or by way of financing the employee share trusts to purchase already issued shares in the market. This decision is made according to available headroom within the dilution limits contained in the relevant share plan rules and what the Directors consider to be in the best interest of the Company at the time.

Grant date	Type	Exercise period	**2022 Number**	2021 Number
14 June 2017	DBP[3]	14/06/2020 – 14/06/2021	**–**	12,439
13 June 2018	DBP[2]	13/06/2020 – 13/06/2021	**–**	18,092
13 June 2018	DBP[3]	13/06/2021 – 13/06/2022	**23,335**	187,433
13 June 2018	PSP[1]	13/06/2021 – 13/06/2022	**–**	1,311,264
13 June 2018	PSP[1]	13/06/2023 – 13/06/2024	**–**	758,280
13 June 2019	DBP[2]	13/06/2021 – 13/06/2022	**14,668**	83,466
13 June 2019	DBP[3]	13/06/2022 – 13/06/2023	**224,369**	313,909
13 June 2019	PSP[1]	13/06/2022 – 13/06/2023	**2,330,777**	2,545,970
13 June 2019	PSP[1]	13/06/2024 – 13/06/2025	**803,839**	1,134,950
3 August 2020	DBP[2]	3/08/2022 – 3/08/2023	**146,306**	146,306
3 August 2020	DBP[3]	3/08/2023 – 3/08/2024	**109,929**	118,320
13 August 2020	DBP[2]	13/08/2022 – 13/08/2023	**8,474**	8,474
13 August 2020	DBP[3]	13/08/2023 – 13/08/2024	**192,096**	192,096
1 December 2020	PSP[1]	1/12/2025 – 1/12/2026	**1,389,984**	1,667,742
1 December 2020	PSP[1]	1/12/2023 – 1/12/2024	**1,653,975**	1,939,609
24 August 2021	PSP[1]	24/08/2026 – 24/08/2027	**769,165**	–
24 September 2021	DBP[3]	24/09/2024 – 24/09/2025	**45,312**	–
24 September 2021	PSP[1]	24/09/2024 – 24/09/2025	**1,606,889**	–
24 September 2021	PSP[1]	24/09/2026 – 24/09/2027	**626,704**	–
			9,945,822	10,438,350

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

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

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25. Share capital (continued)

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

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

A reconciliation of PSP and DBMP movements is shown below:

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

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

During the year no ordinary shares (2021: 697,886 shares) were acquired or subscribed for through the Babcock Employee Share Trust ('the Trust'). The Trust holds shares to be used towards satisfying awards made under the Company's employee share schemes. During the year ended 31 March 2022, 263,427 shares (2021: 257,743 shares) were disposed of by the Trust resulting from options exercised. At 31 March 2022, the Trust held a total of 398,036 ordinary shares (2021: 661,463 ordinary shares) at a total market value of £1,291,682 (2021: £1,512,104) representing 0.08% (2021: 0.13%) of the issued share capital at that date. The Company did not pay dividends to the Trust during the year. The Company meets the operating expenses of the Trust.

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

26. Share-based payments

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

During the year the total charge relating to employee share-based payment plans was £5.5 million (2021: £4.2 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £4.5 million (2021: £3.3 million).

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

DBMP, PSP and DBP[1]

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – non-market conditions %	Fair value per option – TSR Pence	Fair value per option – non-market conditions Pence	Correlation %	Grant or modification date
2021 PSP	769,165	371.6	19.0%	6.0	100.0%	148.6	315.9	55.0%	24/08/21
2021 PSP	626,704	380.2	19.0%	6.0	100.0%	–	325.0	55.0%	24/09/21
2021 PSP	1,780,849	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
2021 DBP	45,312	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
2020 PSP	695,458	350.0	19.0%	6.0	100.0%	–	305.2	55.0%	01/12/20
2020 PSP	2,091,247	350.0	19.0%	4.0	100.0%	–	350.0	55.0%	01/12/20
2020 PSP	1,341,477	350.0	19.0%	6.0	100.0%	137.9	305.2	55.0%	01/12/20
2020 DBP	118,320	289.0	19.0%	4.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	146,306	289.0	19.0%	3.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	192,096	284.2	19.0%	4.0	100.0%	–	284.2	55.0%	13/08/20
2020 DBP	8,474	284.2	19.0%	3.0	100.0%	–	284.2	55.0%	13/08/20
2019 PSP	1,370,671	472.8	11.0%	6.0	–	70.9	472.8	45.0%	13/06/19
2019 PSP	3,019,033	472.8	11.0%	4.0	–	70.9	472.8	45.0%	13/06/19
2019 DBP	313,909	472.8	11.0%	4.0	100.0%	–	472.8	45.0%	13/06/19
2019 DBP	93,430	472.8	11.0%	3.0	100.0%	–	472.8	45.0%	13/06/19
2018 PSP	860,157	856.0	14.0%	6.0	–	370.9	856.0	56.0%	13/06/18
2018 PSP	1,699,323	856.0	14.0%	4.0	–	370.9	856.0	56.0%	13/06/18
2018 DBP	187,433	856.0	14.0%	4.0	100.0%	–	856.0	56.0%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100.0%	–	856.0	56.0%	13/06/18
2017 PSP	902,424	905.5	15.0%	6.0	–	131.2	905.5	46.0%	14/06/17
2017 PSP	1,769,338	905.5	15.0%	4.0	–	131.2	905.5	46.0%	14/06/17
2017 DBP	186,949	905.5	15.0%	4.0	100.0%	–	905.5	46.0%	14/06/17

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

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

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

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

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

There are no performance conditions attached to the DBP.

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

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 159,494 matching shares (2021: 180,175 matching shares) at a cost of £0.5 million (2021: £0.5 million).

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

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27. Retirement benefits and liabilities

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

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

Defined benefit schemes

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

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

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

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

The key risks in all of the defined benefit schemes relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases, and the discount rate used to value the liabilities. The Principal schemes have mitigated some of these risks by (i) in 2009, taking out longevity swaps in respect of pensioners and their spouses at the time; (ii) through investment strategies which have significantly hedged the interest rate and inflation risks; (iii) in 2019, closed the Babcock International Group Pension Scheme to future accrual for some employees; and (iv) in 2020, closed the Rosyth Royal Dockyard Pension Scheme to future accrual for all employees.

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

The defined benefit schemes are prudently funded by payments to legally separate trustee-administered funds. The trustees of each scheme are required by law to act in the best interests of each scheme's members. In addition to determining future contribution requirements (with the agreement of the Group), the trustees are responsible for setting the schemes' investment strategy (subject to consultation with the Group). All the schemes have at least one independent trustee and member nominated trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004. The details of the latest formal actuarial valuation of the scheme are as follows (the actuarial valuation of the Babcock International Group Scheme as at 31 March 2022 has commenced):

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
Date of last formal completed actuarial valuation	31/03/2020	31/03/2019	31/03/2021	31/12/2019
Number of active members at above date	1,607	643	–	180
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Attained age
Results of formal actuarial valuation:				
Value of assets	£1,894m	£1,480m	£946m	£271m
Level of funding	90%	97%	86%	92%

The Group also participates in or provides a number of other smaller pension schemes including a number of sections of the local government pension schemes where in most cases the employer contribution rates are fully reimbursed by the administering authorities. It also participates in the Magnox Electric Group Section of the Electricity Supply Pension Scheme and runs the Babcock Naval Services Pension Scheme, which commenced winding up in 2021, and for which the MOD retains liability.

27. Retirement benefits and liabilities (continued)

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

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme	Other	Total
Future service contribution rate	21.6%	51.1%	–	12.5%	15.3% – 48.0%	–
Future service cash contributions	£12.1m	£5.3m	–	£0.4m	£2.1m	£19.9m
Deficit contributions	£18.6m	–	£66.6m	£1.6m	£1.5m	£88.3m
Additional longevity swap payments	£7.3m	£3.6m	£4.7m	–	–	£15.6m
Expected employer cash costs for 2022/23	£38.0m	£8.9m	£71.3m	£2.0m	£3.6m	£123.8m
Expected salary sacrifice contributions	£6.3m	£0.4m	–	£0.5m	£0.6m	£7.8m
Expected total employer contributions	£44.3m	£9.3m	£71.3m	£2.5m	£4.2m	£131.6m

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

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

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

The latest full actuarial valuations of the Group's defined benefit pension schemes have been updated to 31 March 2022 by independent qualified actuaries for IAS 19 purposes, on a best estimate basis, using the following assumptions:

March 2022	**Devonport Royal Dockyard Scheme**	**Babcock International Group Scheme**	**Rosyth Royal Dockyard Scheme**	**Babcock Rail Ltd section of the Railways Pension Scheme**
Rate of increase in pensionable salaries	**3.4%**	**3.4%**	**–**	**0.5%**
Rate of increase in pensions	**3.2%**	**3.5%**	**3.7%**	**3.2%**
Discount rate	**2.7%**	**2.7%**	**2.7%**	**2.7%**
Inflation rate (RPI)	**3.7%**	**3.7%**	**3.7%**	**3.6%**
Inflation rate (CPI)	**3.2%**	**3.2%**	**3.2%**	**3.2%**
Weighted average duration of cash flows (years)	**16**	**14**	**16**	**17**
Total life expectancy for current pensioners aged 65 (years)	**85.9**	**86.8**	**85.0**	**85.3**
Total life expectancy for future pensioners currently aged 45 (years)	**86.6**	**87.4**	**85.9**	**86.4**

March 2021				
Rate of increase in pensionable salaries	2.9%	2.9%	2.9%	2.9%
Rate of increase in pensions (past service)	2.7%	3.1%	3.2%	2.7%
Discount rate	2.0%	2.0%	2.0%	2.0%
Inflation rate (RPI)	3.2%	3.2%	3.2%	3.2%
Inflation rate (CPI)	2.7%	2.7%	2.7%	2.7%
Weighted average duration of cash flows (years)	17	17	17	17
Total life expectancy for current pensioners aged 65 (years)	85.7	87.1	84.8	85.9
Total life expectancy for future pensioners currently aged 45 (years)	86.8	87.7	85.9	86.9

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27. Retirement benefits and liabilities (continued)

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

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

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

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

The longevity swaps have been valued in line with assumptions that are consistent with the requirements of IFRS 13 using Level 3 inputs. The key inputs to the valuation are the discount rate and mortality assumptions.

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

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

27. Retirement benefits and liabilities (continued)

Amounts recorded in the Group statement of comprehensive income

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

Analysis of movement in the Group statement of financial position

	Year ended 31 March 2022				Year ended 31 March 2021 (restated)			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets (including reimbursement rights)								
At 1 April					3,989.2	241.4	180.7	4,411.3
Restatement (note 3)					(47.0)	–	10.1	(36.9)
At 1 April (restated)	4,123.7	265.6	234.3	4,623.6	3,942.2	241.4	190.8	4,374.4
Interest on assets	82.3	5.2	4.7	92.2	91.6	5.7	4.6	101.9
Actuarial gain on assets*	77.0	13.1	(1.7)	88.4	231.5	26.3	40.0	297.8
Employer contributions	182.5	2.6	5.1	190.2	102.5	2.8	3.5	108.8
Employee contributions	0.2	–	–	0.2	0.2	–	–	0.2
Benefits paid	(245.4)	(10.7)	(5.4)	(261.5)	(244.3)	(10.6)	(4.6)	(259.5)
At 31 March	4,220.3	275.8	237.0	4,733.1	4,123.7	265.6	234.3	4,623.6
Present value of benefit obligations								
At 1 April					3,790.8	297.5	177.8	4,266.1
Restatement (note 3)					–	–	10.1	10.1
At 1 April	4,290.0	369.6	242.9	4,902.5	3,790.8	297.5	187.9	4,276.2
Service cost	25.6	2.0	3.5	31.1	24.1	2.0	2.0	28.1
Incurred expenses	6.6	0.5	0.3	7.4	6.4	0.7	0.2	7.3
Interest cost	83.8	7.3	4.8	95.9	86.4	7.0	4.5	97.9
Employee contributions	0.2	–	–	0.2	0.2	–	–	0.2
Experience (gain)/loss*	70.6	(14.2)	(2.4)	54.0	(20.5)	0.6	(2.2)	(22.1)
Actuarial loss/(gain) – demographics*	(11.5)	(3.5)	–	(15.0)	8.5	(0.6)	(0.7)	7.2
Actuarial (gain)/loss – financial*	(227.3)	(23.9)	(21.9)	(273.1)	629.7	73.0	55.6	758.3
Benefits paid	(245.4)	(10.7)	(5.4)	(261.5)	(244.5)	(10.6)	(4.4)	(259.5)
Past service costs	–	–	–	–	1.4	–	–	1.4
Curtailment	–	–	–	–	7.5	–	–	7.5
At 31 March	3,992.6	327.1	221.8	4,541.5	4,290.0	369.6	242.9	4,902.5
Net surplus/(deficit) at 31 March	227.7	(51.3)	15.2	191.6	(166.3)	(104.0)	(8.6)	(278.9)

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

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

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

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27. Retirement benefits and liabilities (continued)

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

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

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

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

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

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

Acquisitions

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

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

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

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

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

Disposals

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

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

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

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

Disposals (continued)

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

In the prior year the Group disposed of its 74% shareholding in Holdfast Training Services Limited for a cash consideration of £85.0 million which resulted in a loss on disposal of £38.2 million. The Group also disposed of Cavendish Nuclear Manufacturing Limited for no consideration, which resulted in a loss on disposal of £0.6 million, and Conbras Servicos Tecnicos de Suporte Ltda for a consideration of £9.7 million which resulted in a loss on disposal of £10.9 million.

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

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

30. Transactions with non-controlling interests

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

31. Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. The Group does not recognise contingent liabilities. There are a number of contingent liabilities that arise in the normal course of business, including:

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

b) The nature of the Group's long-term contracts means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, including liabilities that arise on completion of contracts and on conclusion of relationships with joint ventures and associates. The Group takes account of the advice of experts, both internal and external, in making judgements on contractual issues and whether the outcome of negotiations will result in an obligation to the Group. The Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position.

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

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

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

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32. Capital and other financial commitments

Capital commitments

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

Subsidiary audit exemptions

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

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

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

33. Related party transactions

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

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

2021 (restated*)	2021 Revenue to £m	2021 Purchases from £m	2021 Year-end debtor balance £m	2021 Year-end creditor balance £m
Joint ventures and associates				
Holdfast Training Services Limited	10.8	–	–	–
First Swietelsky Operation and Maintenance	9.0	–	0.8	(0.4)
Ascent Flight Training (Management) Limited	2.0	–	0.2	–
Ascent Flight Training (Holdings) Limited	0.3	–	0.1	–
ALC (Superholdco) Limited	–	–	0.1	–
Rotary Wing Training Limited	4.0	–	–	–
Fixed Wing Training Limited	4.2	–	–	–
Advanced Jet Training Limited	2.7	–	0.2	–
Rear Crew Training Limited	1.3	–	–	–
AirTanker Services Limited	11.1	–	0.1	–
Alert Communications Limited	3.5	–	–	–
Naval Ship Management (Australia) Pty Limited	–	–	–	–
Cavendish Dounreay Partnership Limited	6.7	–	0.2	–
Duqm Naval Dockyard SAOC	0.2	(0.4)	–	–
	55.8	(0.4)	1.7	(0.4)

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

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

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

c) Key management compensation is shown in note 7.

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

34. Events after the reporting period

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

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35. Group entities

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 31 March 2022 is disclosed below. Unless otherwise stated, the Group's shareholding represents ordinary shares held indirectly by Babcock International Group PLC, the entities are unlisted, and have one type of ordinary share capital, the year end is 31 March and the address of the registered office is 33 Wigmore Street, London, W1U 1QX. The Group's interest in the voting share capital is 100% unless otherwise stated. No subsidiary undertakings have been excluded from the consolidation.

Subsidiaries, wholly owned

Airwork Limited

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

Armstrong Technology Associates Limited*

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

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

Babcock (UK) Holdings Limited[1,10]

Babcock Aerospace Limited

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

Babcock Airports Limited

Babcock Assessments Limited

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

Babcock Aviation Services (Holdings) Limited[1,8]

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

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

Babcock Communications Cyprus Limited
Spyrou Kyprianou, 47, 1st Floor, Mesa Geitona, 4004 Limassol, Cyprus

Babcock Communications Limited

Babcock Contractors Limited[2]

Babcock Corporate Secretaries Limited*

Babcock Corporate Services Limited

Babcock Critical Assets Holdings LLP

Babcock Critical Services Limited
103 Waterloo Street, Glasgow, Scotland, G2 7BW, United Kingdom

Babcock Defence & Security Holdings LLP

Babcock Defence and Security Investments Limited

Babcock Defence Systems Limited

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

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

Babcock DS 2019 Limited*

Babcock Education & Training Holdings LLP

Babcock Education and Skills Limited

Babcock Education Holdings Limited

Babcock Engineering Limited*

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

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

Babcock Fire Services (SW) Limited

Babcock Fire Services Limited

Babcock Fire Training (Avonmouth) Limited

Babcock Group (US Investments) Limited

Babcock Holdings (USA) Incorporated[7]
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Babcock Holdings Limited[10]

Babcock Information Analytics and Security Holdings Limited*

Babcock Information Analytics and Security Limited[5]

Babcock Integrated Technology (Korea) Limited

Babcock Integrated Technology GmbH
Am Zoppenberg 23, 41366 Schwalmtal, Germany

Babcock Integrated Technology Limited

Babcock Integration LLP

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

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

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

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

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

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

Babcock International Limited[5]

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

Babcock International Support Services Limited

Babcock International US Inc
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Babcock Investments (Fire Services) Limited

Babcock Investments (Number Four) Limited

Babcock Investments (Number Nine) Limited

Babcock Investments Limited

Babcock IP Management (Number One) Limited

Babcock IP Management (Number Two) Limited

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

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

Babcock Land Defence Limited

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

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

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

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

Babcock M 2019 Limited*

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

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

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

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

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

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

Babcock Management 2019 Limited*

Babcock Management Limited

Babcock Marine & Technology Holdings Limited

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

Babcock Marine (Devonport) Limited[6]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, England

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

Babcock Marine Holdings (UK) Limited[5]

Babcock Marine Limited

Babcock Marine Products Limited*

Babcock Marine Training Limited[2]

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

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

35. Group entities (continued)

Subsidiaries, wholly owned (continued)

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

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

Babcock Mission Critical Services Design and Completions Limited

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

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

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

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

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

Babcock Mission Critical Services Leasing Limited

Babcock Mission Critical Services Ltd

Babcock Mission Critical Services Onshore Limited

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

Babcock Mission Critical Services Topco Ltd[2]

Babcock Mission Critical Services UK Limited

Babcock MSS Limited

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

Babcock Norway AS
Rådhusgata 3, 9008 TROMSØ, Norway

Babcock Nuclear Limited

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

Babcock Overseas Investments Limited

Babcock Project Investments Limited

Babcock Project Services Limited

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

Babcock Rail Limited

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

Babcock Services Group Limited

Babcock Services Limited

Babcock Skills Development and Training Limited

Babcock Southern Careers Limited*[3]

Babcock Southern Holdings Limited[6]

Babcock Support Services (Investments) Limited

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

Babcock Support Services Limited[10]
103 Waterloo Street, Glasgow, Scotland, G2 7BW, United Kingdom

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

Babcock Training Limited

Babcock UK Finance

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

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

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

Babcock US Investments Limited[5]

Babcock Vehicle Engineering Limited[4]

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

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

Bond Aviation Topco Limited[5]

Brooke Marine Shipbuilders Limited*

Cavendish Nuclear (Overseas) Limited

Cavendish Nuclear (USA) Incorporated
251 Little Falls Drive, Wilmington, Delaware 19808, United States

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

Cavendish Nuclear Limited[5]

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

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

Devonport Royal Dockyard Pension Trustees Limited*

Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

FBM Babcock Marine Holdings (UK) Limited*

FBM Babcock Marine Limited*

FBM Marine International (UK) Limited*

Flagship Fire Fighting Training Limited

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

iMAST Limited*

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

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

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

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

Marine Engineering & Fabrications (Holdings) Limited*

Marine Engineering & Fabrications Limited*

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

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

Peterhouse Group Limited

Peterhouse GmbH
Am Zoppenberg 23, 41366 Schwalmtal, Germany

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

Rosyth Royal Dockyard Limited[12]
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

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

SBRail Limited*

Skills2Learn Ltd

Vosper Thornycroft (UK) Limited

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35. Group entities (continued)

Subsidiaries, partly owned:

Airwork Technical Services & Partners LLC (51.0%)
PO Box 248 (Muaskar Al Murtafa'a (MAM) Garrison), Muscat, 100, Sultanate of Oman

Babcock Africa (Pty) Limited (90.0%)[7]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Holdings (Pty) Ltd (90.0%)[13]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

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

Babcock Aviation Services Holdings International Limited (49.82%)[13]
52 St Christopher Street, Valletta, VLT 1462, Malta

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

Babcock Emergencias Aéreas España Holding, S.L.U. (49.82%)
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

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

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

Babcock Learning and Development Partnership LLP (80.1%)

Babcock MCS Ghana Limited (90%)
No. 9, Carrot Avenue, Adjacent Lizzy Sport Complex, East Legon, Accra, Ghana

Babcock MCS Mozambique, Limitada (90.0%)
Sala no. 2022, 1 Andar, Terminal A, Aeroporto Internacional do Maputo, Distrito Urbano 2, Mozambique

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

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

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

Babcock Mission Critical Services Galicia SL (91.1%)
Partida La Almaina, nro. 92, 03110, Mutxamel, Alicante, Spain

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

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

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

Babcock Moçambique Limitada (90.0%)
Av. Zedequias Manganhela, no 267, 1 Andar, Direito, Mozambique

Babcock Namibia Services Pty Ltd (90.0%)
Unit 3 Ground Floor, Dr Agostinho Neto Road, Ausspann Plaza, Ausspanplatz, Windhoek, Namibia

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

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

Babcock Ntuthuko Powerlines (Pty) Lim (46.81%)*
Unit G3 Victoria House, Plot 132 Independenc Avenue, Gaborone, Botswana

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

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

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

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

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

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

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

Babcock TCM Plant (Proprietary) Limite (90%)[7]
Unit G3 Victoria House, Plot 132 Independenc Avenue, Gaborone, Botswana

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

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

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

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

35. Group entities (continued)

Joint ventures and associates (equity accounted):

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

AirTanker Services Limited (23.5%)[15]
AirTanker Hub RAF Brize Norton, Carterton, Oxfordshire, England, OX18 3LX, United Kingdom

Alert Communications Group Holdings Limited (20.0%)

Ascent Flight Training (Holdings) Limited (50.0%)

Cavendish Boccard Nuclear Limited (51.0%)

Cavendish Dounreay Partnership Limited (50.0%)[12]

Cavendish Fluor Partnership Limited (65.0%)

Debut Services (South West) Limited (50.0%)
20 Triton Street, Regent's Place, London, NW1 3BF, United Kingdom

Duqm Naval Dockyard SAOC (49.0%)
The Special Economic Zone at Duqm, Al-Duqm, Al-Wusta'a, 3972 112, Oman

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

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

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

Wholly owned subsidiaries with registered office at 55 Baker Street, London, W1U 7EU, United Kingdom, currently in Members Voluntary Liquidation:
2019 S&H Limited; Babcock Civil Infrastructure Limited; Babcock Infrastructure Holdings LLP; BIL Solutions Limited; Bond Aviation Leasing Limited.

Wholly owned subsidiaries with registered office at 5 Temple Square, Temple Street, Liverpool L2 5RH, United Kingdom, currently in Members Voluntary Liquidation:
Babcock Emergency Services Limited; Babcock Leaseco Limited; Babcock Technical Services Limited; HCTC Limited; INS Innovation Limited; KML (UK) Limited; Scimco Limited; Touchstone Learning & Skills Ltd; Westminster Education Consultants Limited.

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

Joint venture, with registered office at 18-22 Lloyd Street, Manchester, M2 5WA United Kingdom, currently in Members Voluntary Liquidation:
ALC (Superholdco) Limited (50.0%)[15]

Notes

* Dormant entity.

1. Babcock International Group PLC has direct holdings in Babcock (UK) Holdings Limited, and preference shares class A and B in Babcock Aviation Services (Holdings) Limited.
2. Holding of two types of ordinary shares.
3. Holding of three types of ordinary shares.
4. Holding of six types of ordinary shares.
5. Holding of ordinary and preference shares.
6. Holding of ordinary and deferred shares.
7. Holding of ordinary and redeemable preference shares.
8. Holding of ordinary and three types of preference shares.
9. Holding of ordinary and five types of preference shares.
10. Holding of two types of ordinary shares and two types of preference shares.
11. Holding of one type of ordinary share only, where more than one type of share is authorised or in issue.
12. Holding of two types of ordinary shares, where more than two types of share are authorised or in issue.
13. Holding of one type of ordinary share and one type of preference share, where more than two types of share are authorised or in issue.
14. Year end 31 December.
15. Year end 30 June.

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COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 March	Note	2022 £m	2021 (restated)* £m
Non-current assets			
Investment in subsidiaries	6	2,466.5	2,303.5
Trade and other receivables	7	2,633.5	2,570.0
		5,100.0	4,873.5
Current assets			
Trade and other receivables	7	1,175.7	1,175.9
Cash and cash equivalents		337.1	115.0
		1,512.8	1,290.9
Total assets		6,612.8	6,164.4
Non-current liabilities			
Bank and other borrowings	8	819.4	1,283.1
Other financial liabilities	9	51.4	39.3
		870.8	1,322.4
Current liabilities			
Bank and other borrowings	8	502.5	203.3
Other financial liabilities	9	41.5	4.7
Trade and other payables	10	2,465.2	2,067.5
		3,009.2	2,275.5
Total liabilities		3,880.0	3,597.9
Net assets		2,732.8	2,566.5
Equity			
Called up share capital	11	303.4	303.4
Share premium account		873.0	873.0
Capital redemption reserve		30.6	30.6
Other reserve		768.8	768.8
Retained earnings		757.0	590.7
Total equity		2,732.8	2,566.5

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

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

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

The financial statements on pages 233 to 243 were approved by the Board of Directors on 28 July 2022 and are signed on its behalf by:

DAVID LOCKWOOD OBE
Director

DAVID MELLORS
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Total equity £m
At 31 March 2020	303.4	873.0	768.8	30.6	763.1	2,738.9
Profit for the year (restated)	–	–	–	–	(156.2)	(156.2)
Other comprehensive income	–	–	–	–	(19.5)	(19.5)
Total comprehensive income (restated)	–	–	–	–	(175.7)	(175.7)
Share-based payments	–	–	–	–	3.2	3.2
Tax on share-based payments	–	–	–	–	2.3	2.3
Own shares	–	–	–	–	(2.2)	(2.2)
Net movement in equity	–	–	–	–	(172.4)	(172.4)
At 31 March 2021 (restated)	303.4	873.0	768.8	30.6	590.7	2,566.5
Profit for the year	–	–	–	–	169.4	169.4
Other comprehensive income	–	–	–	–	(8.6)	(8.6)
Total comprehensive income	–	–	–	–	160.8	160.8
Share-based payments	–	–	–	–	5.5	5.5
Tax on share-based payments	–	–	–	–	–	–
Net movement in equity	–	–	–	–	166.3	166.3
At 31 March 2022	303.4	873.0	768.8	30.6	757.0	2,732.8

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

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

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1. General information

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

2. Significant accounting policies

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

Basis of accounting

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments on a going concern basis. The financial statements are prepared in Sterling which is the functional currency of the Company and rounded to the nearest £ million.

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

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

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

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

New standards adopted by the Company

The Company has applied the following standards and amendments for the first time for its annual reporting period commencing 1 April 2021:

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

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

2. Significant accounting policies (continued)

Investments

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

Taxation

Current income tax

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

Deferred income tax

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

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

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

Finance costs

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

Employee benefits

(a) Share-based compensation

The Company operates equity-settled, share-based compensation plans which are recharged to the relevant subsidiaries. Full details of the share-based compensation plans are disclosed in note 26 to the Group financial statements.

(b) Pension arrangements

The Company operates a multi-employer defined benefit pension scheme, however all assets and liabilities are recognised in the relevant subsidiary in which the employee operates. See note 27 to the Group financial statements for further details.

Financial instruments

(a) Financial assets and liabilities at amortised cost

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

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

(b) Derivative financial instruments

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

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

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised. These gains or losses are then realised through the income statement as the asset is sold.

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

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2. Significant accounting policies (continued)

Financial risk management
All treasury transactions are carried out only with investment grade counterparties as are investments of cash and cash equivalents.

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

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

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key assumptions about the future, and other key sources of estimation uncertainty at the reporting year end that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Critical accounting estimates – Impairment of investment in subsidiaries
The carrying value of investment in subsidiaries is tested annually for impairment, in accordance with IAS 36. The impairment assessment is based on assumptions in relation to the cash flows expected to be generated by the subsidiaries, together with appropriate discounting of the cash flows. Note 5 provides information on key assumptions and sensitivity analyses performed.

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

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

Fees payable to the parent auditor and its associates in respect of the audit of the Company's financial statements were £1.8 million (2021: £0.7 million).

4. Directors' emoluments
Under Schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 5), total Directors' emoluments, excluding Company pension contributions, were £3.9 million (2021: £2.9 million); these amounts are calculated on a different basis from emoluments in the Remuneration report which are calculated under Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Schedule 8 (2013)). These emoluments were paid for the Directors' services on behalf of Babcock International Group. No emoluments relate specifically to their work for the Company. Under Schedule 5, the aggregate gain made by Directors from the exercise of Long Term Incentive Plans in 2022 as at the date of exercise was £nil million (2021: £0.1 million) and the net aggregate value of assets received by Directors in the year ended 31 March 2022 from Long Term Incentive Plans as calculated at the date of vesting was £nil million (2021: £0.1 million); these amounts are calculated on a different basis from the valuation of share plan benefits under Schedule 8 (2013) in the Remuneration report.

5. Prior year restatement

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

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

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

i. Cross currency interest rate swaps

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

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

ii. Impairment of investment in subsidiary undertakings

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

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

iii. Tax

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

iv. Balance sheet reclassification

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

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6. Investment in subsidiary undertakings

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

Prior year impairment

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

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

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

Impairment methodology

Cash-generating units

The CGU for the purpose of this analysis is the Group as a whole, as the Company has an investment in a single holding company through which it indirectly owns the rest of the Group. The recoverable amount of the CGU is the higher of its value-in-use and its fair value less costs of disposal.

Calculation of recoverable amount

The recoverable amount of the Company's investment in subsidiary undertakings was assessed by reference to value-in-use calculations. Note 12 of the Group financial statements sets out further details in relation to how the value-in-use calculations are determined.

6. Investment in subsidiary undertakings (continued)

Impairment methodology (continued)

Key assumptions

The key assumptions to which the recoverable amount of the Company's investment in subsidiary undertakings is most sensitive are future cash flows, long-term growth rates and discount rates. Further details on how these inputs are determined are set out in note 12 of the Group financial statements. The value-in-use calculations do not include the anticipated benefits of the Group's revised operating model or the implementation costs of this project, reflecting that the Group was not committed to the project at 31 March 2022.

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

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

Sensitivity

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

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

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

The Directors carried out sensitivity analyses on the reasonably possible changes in key assumptions used to determine the recoverable value of the Company's investment in subsidiary undertakings.

The Company's calculation of recoverable value presents a headroom of £405.0 million following reversal of impairment (2021: £163.0 million impairment). Accordingly, reasonably possible changes in estimates could give rise to a material impairment in the following year. The Company carried out sensitivity analyses on the reasonably possible changes in the discount rate and long-term growth rate used in the value-in-use models for the Company's investment in subsidiary undertakings. An increase to the pre-tax discount rate of 100 basis points would cause an impairment of £115.1 million. A decrease to the long-term growth rate of 50 basis points would reduce headroom by £199.5 million.

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

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7. Trade and other receivables

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

There are no material provisions held against trade and other receivables under the expected credit loss model. Amounts due from subsidiary undertakings that do not carry interest are repayable on demand.

Based on the investment in subsidiary undertakings impairment analysis above, the Company does not consider that there was an increased credit risk in relation to amounts due from subsidiaries. The Group concluded that the credit risk for intercompany balances is low as the borrower has a strong capacity to meet the contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Of the preference shares in a subsidiary undertaking, the B preference shares of USD500 million mature by mutual agreement of both parties and carry interest at 5.64%. The remaining preference shares in subsidiary undertakings are Euro-denominated preference shares, totalling €652 million, carrying a coupon rate of EURIBOR + 4.0%.

Interest rates on amounts owed by subsidiary operations:

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

8. Bank and other borrowings

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

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

	31 March 2022 %	31 March 2021 %
UK bank overdraft	**1.1**	1.1
UK bank borrowings	**0.6**	0.5
8-year Eurobond October 2022	**1.8**	1.8
8-year Eurobond September 2027 – fixed	**2.9**	2.9
8-year Eurobond September 2027 – floating	**3.3**	2.8
£300 million bond	**1.9**	1.9

9. Other financial liabilities

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

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

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10. Trade and other payables

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

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

11. Share capital

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

12. Contingent liabilities

(a) The Company has guaranteed or has joint and several liability for bank facilities with nil utilisation at 31 March 2022 (2021: nil) provided to certain Group companies.

(b) Throughout the Group, guarantees exist in respect of performance bonds and indemnities issued on behalf of Group companies by banks and insurance companies in the ordinary course of business. At 31 March 2022 these amounted to £396.5 million (2021: £329.7 million), of which the Company had counter-indemnified £378.9 million (2021: £307.1 million).

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

13. Group entities

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

14. Events after the reporting period

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

SHAREHOLDER INFORMATION

Financial calendar

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

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Email: enquiries@linkgroup.co.uk

www.babcock-shares.com

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

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

ShareGift

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

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

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