



Strategic report

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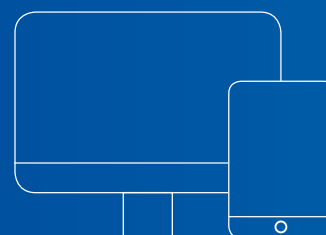
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Sustaining resilience

Babcock operates in three critical markets – defence, emergency services and civil nuclear – working to meet the needs of customers for whom failure is not an option.

We know that to serve our customers successfully we must understand them inside out, building close partnerships based on a deep knowledge of their operations, assets and technology.

We are trusted to find solutions that address our customers' most demanding requirements, ensuring that they can perform at their best wherever and whenever they are needed.



Ruth Cairnie
Chair

Committed to the customers and communities we serve

We serve customers responsible for maintaining vital services. Our work saves lives and protects communities.

I was proud and delighted to take up the role of Chair of Babcock last July. Over the year I have met a wide range of internal and external stakeholders and a common question has been, "What was it about Babcock that made you want to join?"

My initial response is always, Babcock is a company that really matters. We serve customers responsible for maintaining vital services. It's no exaggeration to say that our critical work in national defence, in emergency services and in nuclear power saves lives and protects communities. For our customers, failure is not an option.

During the year I have been building my understanding of every aspect of the business: from its people and culture to its operations, its customers worldwide, and its strategy for the future. I have visited some of our key sites, both in the UK and internationally, and have met with employees at all levels from senior management to apprentices.

On every visit I have been struck by the customer-driven service mindset. Across the Group I have found a deep commitment to the long-term relationships we have with our customers and the communities we serve. We pride ourselves on being able to put together

a team, a supply chain and a technical solution that meets our customers' requirements, building on our deep understanding of our customers' business and the challenges they face.

I have also met with our customers, including senior government representatives. I am pleased to confirm that their relationship with the Company is positive, and that the importance of our support is strongly recognised.

With the UK Government, over the last couple of years we have made real progress on the ways in which we work together, further strengthening and deepening our relationship. This has been driven in particular by the shared principles embodied in the Strategic Partnering Programme (SPP) of transformation, joint problem-solving and mutual trust. This programme is described in more detail in this report.

As part of my induction to the business, I have also undertaken a number of internal reviews. These included looking at senior-level talent within the business to confirm that we have the appropriate management strength and depth, underpinning our approach to succession planning. This work was undertaken as part of a wider review of talent management across the Group.

Additionally, mindful of the complexities of long-term contract accounting, I asked an external provider to undertake a review of significant contracts. They looked at a selection of our top contracts, representing around a third of annual Group revenue, and concluded as anticipated that our approach to long-term contract accounting is appropriately conservative.

FY20 and COVID-19

As I write, we are all living through an extraordinarily challenging period in our personal and our professional lives. You will see a number of pieces in this report on how the Group has been impacted by the pandemic so far, and how we have been contributing to the fight against the Coronavirus (COVID-19).

I would like to express my deep appreciation of our management and all our staff for the exceptional ways in which they have responded. It is precisely in times like these, through the actions of our people, that you can see the true spirit of an organisation. I have seen an extraordinary commitment and dedication from across our whole

The strategy is set out in this report and we remain confident that the fundamentals of our markets and opportunities will continue to support our medium term approach despite the inevitable near-term impact of COVID-19.

The Board will continue to focus on delivery of the strategy, in particular through reviews of progress on our six strategic priorities:

- Operational excellence
- Growing our international businesses in focused markets
- Growing our market share and expanding our offering in the UK
- Developing our people, including talent management and increased diversity
- Using technology to strengthen our offering
- Focusing on value creation, with clear actions to protect margins, generate cash, reduce gearing and deliver our targets.

Sustainable business

You will see that sustainable business is much more prominent in this year's report. We are in no doubt that sustainability is important and becoming more so, to all of our stakeholders. It is a fundamental part of our strategy, and is an integral part of our day-to-day operations. Our customers expect nothing less.

This year we have published a new Environmental, Social and Governance (ESG) Charter, which sets out in detail our areas of focus.

In some respects our business could be said to be inherently sustainable – after all we save lives, we enable our customers to increase the performance, efficiency and lifespan of their assets, and we have long recognised the need to partner with the communities we serve. However, we believe that the clear articulation of our ESG strategy at Group level will catalyse an increased focus on driving performance and good practices across our sectors and geographies.

One area to address in the coming year is our diversity strategy, which is captured directly within our strategic priorities. The benefits of diversity are particularly relevant in the markets we serve, where we work within a complex array of partnerships, rapidly changing technologies and increasing digitisation. We can see innumerable opportunities to harness the fresh thinking that should follow from having a more diverse organisation.

From experience, I have seen how diverse teams result in better business decisions, and how an inclusive approach delivers a stronger company, better able to devise the innovative solutions for future challenges and opportunities.

In the area of gender diversity there is much to be done and I am determined to see progress across the organisation, including at the executive pipeline and mid-tier management levels, where women are particularly under-represented.

Shareholders

Over the last year I have met with many shareholders and potential investors to hear and understand their views, and I look forward to meeting more in the coming year. Their support is vital to our success.

These conversations have been constructive and informative in identifying priorities for positioning the Company in the future. The strong fundamentals of the business, including long-term partnerships with customers, specialisation in non-discretionary work and valued technical expertise and know-how, are well recognised, as is our continued success in winning new business in the UK and internationally.

However, it is clear that over recent years we have not delivered the value for our shareholders that we set out to achieve. The most important shift to address this will be consistently to set budgets and guidance that can be delivered, and this will be our clear intention as soon as the exceptional uncertainties relating to COVID-19 have receded.

Board

A strong Board with the right mix of skills and experience is essential to our long-term success. Since taking up my role as Chair, securing the services of new Board members to succeed long-serving members who are retiring has been a priority.

Ian Duncan and Jeff Randall intend to step down from the Board at the forthcoming AGM after nine and six years respectively, and I would like to thank them for their dedicated service. I am delighted to welcome Russ Houlden, our new Audit Committee Chair, and Carl-Peter Forster, our new Senior Independent Director, replacing Sir David Omand who has held the role for eight years. Sir David's government experience is greatly valued,

and he has kindly agreed to remain as a Director of the Group while we finalise the search for a suitable successor.

We are also progressing the search for a new CEO following Archie Bethel's decision to retire after 16 years with the Group.

Archie has been instrumental in growing Babcock from a small cap company to a leading defence business, and his experience has been invaluable in developing the Group's strategic direction. He is a proven and respected leader whose knowledge and understanding of the sector is second to none. I'm very pleased that he has agreed to stay on until a suitable successor is found.

For more on the Board, see page 98.

Looking forward

Worldwide, all markets and sectors are facing deep uncertainty as to the impact of COVID-19, both in severity and duration. This means that, as for many companies, it is impossible for us to make firm projections for the future. We are therefore unable to give financial guidance for the year ahead at this stage.

Given the current level of uncertainty, the Board has also decided to defer the decision on our final dividend for the year ended 31 March 2020. We recognise the importance of our dividend to our shareholders, and the Board will keep this under review during the financial year as the impact of COVID-19 becomes clearer.

Nonetheless, what we are seeing so far underscores the strong fundamentals of the business, with our long-term contracts continuing to operate and provide critical support to our customers. We are making continual progress in fine-tuning our new ways of operating, within the new constraints of social distancing and protection of our staff, to drive improving profitability. With the measures taken to protect our funding position, we approach the year ahead with confidence.

[See Section 172\(1\) Statement and Stakeholder engagement on page 30](#)

s172(1) Statement and Stakeholder engagement

Why they matter to us	Their issues	How Babcock engages with its stakeholders
Customers Babcock works with public and private customers. By focusing on their needs, we aim to improve our performance and build our relationships in order to promote the long-term success of the Group.	<ul style="list-style-type: none"> • Delivery • Safety • Value for money • Relationship 	<ul style="list-style-type: none"> • Babcock engages at all levels with its customers from the front line, where we deliver our services alongside our customers, to the Board
Investors The support of our investors is vital to the long-term performance of the Company.	<ul style="list-style-type: none"> • Financial performance • Governance • People and culture 	<ul style="list-style-type: none"> • Annual Report and Accounts • AGM • Investor section of Babcock website • Investor roadshows • Results presentations • Stock exchange announcements • Investor visits
Employees With some 35,000 employees across the globe, Babcock's long-term success depends on the engagement of its employees.	<ul style="list-style-type: none"> • Remuneration and reward • Employee development • Reputation • Health & Safety • Diversity & Inclusion 	<ul style="list-style-type: none"> • Through sector and business unit line managers • Inductions • Employee training • being babcock programme • Babcock Code of Conduct • HSE teams
Regulators and industry bodies We manage complex assets in highly regulated sectors, for example, nuclear, defence and aviation. We have to maintain positive and constructive relationships with regulators in order to be able to operate as we do.	<ul style="list-style-type: none"> • Regulations, policies & standards • Governance & transparency • Trust & ethics • Compliance 	<ul style="list-style-type: none"> • Dedicated compliance teams • Participation in industry bodies
Supply chains Our external supply chains are an important part of our performance.	<ul style="list-style-type: none"> • Good working relationships • Prompt payment 	<ul style="list-style-type: none"> • Group procurement function • Supplier Code of Conduct • Supplier conferences & workshops • Supplier due diligence
Communities Where we have major operations, such as at Plymouth, Faslane or Rosyth, we are often one of the largest employers in the local area. We are aware of the impact that we have on those communities.	<ul style="list-style-type: none"> • Employment • Health & Safety • Environment • Armed Forces Reservists Support 	<ul style="list-style-type: none"> • Sponsorship • Employee volunteering • University partnerships • STEM Ambassadors

Social

People and potential continued

Employee networks

Babcock has a range of employee networks in place across the business. This year saw the development of the Neuro-diversity and Young Professionals Network. The Company is affiliated with Stonewall and our Pride in Babcock network continues to be very active, undertaking awareness-raising activities, as well as celebrating Pride month. During our Dialogue Week, we hold events across the Group, which this year included a presentation to our Devonport workforce on unconscious bias from retired footballer John Barnes.

We encourage our employees to engage with these networks as a way of promoting momentum around diversity and inclusion. For the organisation, it is not only crucial that we are able to recruit from the widest pool of talent but also to ensure that we can retain and reward those most suitable for the job. This will allow us to deliver our best for our customers and to safeguard the future of Babcock.

Gender diversity and pay gap

Like others in the defence, engineering and aviation industry, recruiting female employees with Science, Technology, Engineering and Maths (STEM) qualifications and experience can be a challenge, because of the relatively low numbers of women who choose careers in STEM. This, coupled with a low staff turnover, affects our ability to improve our gender mix. We are working hard to change this: 18.8% (6,155) of our total workforce is female, (male: 26,664) with 26% (23) female senior managers (male: 64), and, we have 4 (33.3%) female Board Directors (male: 8).

We have continued to work to improve the environment for women within our organisation, and are implementing a series of actions and development programmes across the organisation to address this.

We focus our graduate recruitment programme, particularly for engineering graduates, on those universities that have a richer gender mix. In 2020, 22% of those employed on our graduate scheme were female. We are encouraged that we have managed to reduce the gender pay gap compared to last year, with a mean pay gap of 13.4 % (2018: 14.1%) and a median pay gap of 15.8% (2018: 16.0%). This compares to a UK average of 17.3%.

Whilst this is a step in the right direction, we are committed to grow our talent pipeline in the longer term through our STEM engagement programme and to attract the best diverse talent available. We will also focus on helping all our employees to fulfil their potential. More details can be found in our 2019 Gender Pay Gap report, available on our website.

Training and education

We have found our existing employees to be great advocates for our organisation, and so we have used their experiences to give colour to our recruitment campaigns, particularly for graduates. Working with our recruitment partners, a variety of routes are used to ensure vacancies are marketed to the widest possible audience. Our aim is that candidates experience a professional, efficient and friendly recruitment and 'on-boarding' procedure.

Sectors and business units place significant emphasis on the retention and development of talent, with processes in place to identify potential for the future. In addition to local development programmes, we have a number of Group-wide management development resources.

We offer executive development opportunities to our high-potential employees. To date, 50 employees have completed our accredited MBA programme with Strathclyde University and a further 18 have been nominated for development programmes with Harvard. A further cohort started studying for the Babcock MBA this year.

We continue to invest in the capability of our leaders and managers through a variety of programmes such as our First Line Leader Development Programme, which is designed to develop our leadership capability and maximise the potential in our teams.

Babcock has always been a strong supporter of apprenticeships and is making increasing use of higher and degree apprenticeships, both to retain existing employees and to invest in future talent. We currently offer around 50 apprenticeship routes across all levels, from two to seven, although our focus remains on creating opportunities for those seeking to join the workforce and, as such, 80% of our apprentices study at levels two and three.

We have further developed our degree apprenticeship programmes with our framework of university partners. Last year we launched degree-level programmes in digital, engineering, business and commercial disciplines.

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Graduates on programme

Graduates recruited in 2019/20: 202

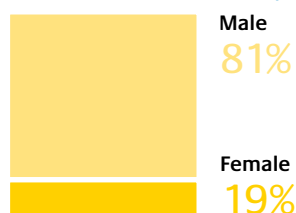
1,175

Apprentices on programme

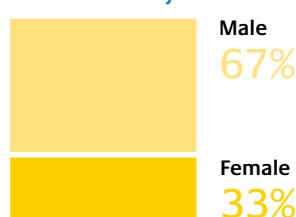
Apprentices recruited in 2019/20: 445

Diversity

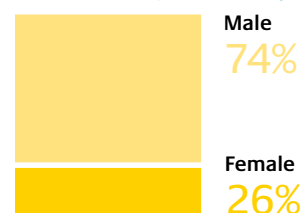
Total workforce diversity



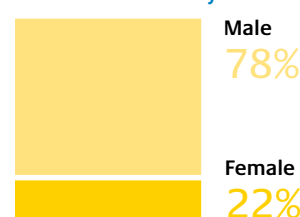
Board diversity



Senior manager diversity*



Graduate diversity



* Executive Committee and direct reports.

Women in Babcock

Like others in the engineering sector, we face challenges recruiting female employees with STEM qualifications and experience, not least because fewer women study these subjects than men. This, coupled with a low turnover of staff, means it will take time to close the gender gap – but we are committed and focused on doing just that.

Women in Defence

Babcock was proud to be one of the founder signatories to the Women in Defence Charter in 2019. Launched by the UK's Minister for Defence Procurement and the Charter's Patron, Babcock Chair Ruth Cairnie, the Charter commits defence companies, the MOD and the Armed Forces to drive diversity and inclusivity within their organisations and provide opportunities for women to succeed at all levels.

The Charter aims to enable women to thrive in the sector, enhancing the individual and collective impact of women across defence, and in doing so, improve the overall output of defence. Each signatory has pledged to report on their progress in improving gender balance in the defence community.





Women in Aviation

Babcock has joined over 100 organisations in signing the Women in Aviation and Aerospace Charter, a Government-supported initiative to make aviation a fairer and more gender-balanced sector.

Since signing, Babcock has attended numerous workshops and events linked to the Charter, including at the House of Commons, and is supporting the work to mature benchmarking and initiative targets which will help organisations in the industry achieve gender equity. Our membership of the Charter complements our internal 'Fly High' initiative, which works to increase applications from women to our Aviation graduate schemes.

Women in Nuclear

We are part of the industry initiative to achieve a target of having 40% of the nuclear sector's workforce being made up of women by 2030. Currently 29% of Cavendish Nuclear's Board of Directors are women, well above the industry average.

In January, Cavendish Nuclear's Strategy Director Lynsey Valentine took up the role of President of Women in Nuclear UK, demonstrating our continued commitment to drive and lead change to maintain an inclusive workforce culture.



Critical support: defence



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2020 underlying performance highlights

Revenue as %
of Group

32%

Operating
margin

8.6%

Revenue
growth

-4.1%

		31 March 2020 IFRS 16 basis	31 March 2019 pre-IFRS 16 basis
Underlying revenue	Group	£1,534.7m	£1,560.0m
	JV	£18.9m	£60.2m
	Total	£1,553.6m	£1,620.2m
Underlying operating profit	Group	£100.5m	£105.1m
	JV	£33.4m	£40.9m
	Total	£133.9m	£146.0m
Underlying operating margin	Group	6.5%	6.7%
	JV	176.7%	67.9%
	Total	8.6%	9.0%

The adoption of IFRS 16 increases operating profit by £2.6 million in the year.

JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue. The effect of this is that there is no revenue recognised in relation to our Holdfast (RSME) JV.

National Training Estate opportunity, which will come to market later in FY21.

Our ALC JV continued to perform well in the period but we were unsuccessful in the bid for Project Miter, the replacement contract for ALC. As such, our work supporting the Army's C vehicles will end in May 2021.

Emergency Services

Trading across our Emergency Services businesses was strong over the period with good revenue growth and a significant new contract win.

Our fleet support and training contracts for the London Fire Brigade (LFB) continue to perform well and during the year we acquired and introduced a number of new vehicles into the LFB fleet to help them meet their low carbon initiatives.

Our fleet support contract for London's Metropolitan Police Service (MPS) also performed well in the year and we completed the move to a dedicated new workshop facility to support further improvements in contract delivery. In November 2019, we won a new contract worth around £300 million to act as the MPS's learning partner. This partnership to support the UK's largest police service with its new training recruits will last at least eight years and starts during FY21.

Adjacent markets

The Land sector operates a range of contracts across markets adjacent to our key markets, all benefiting from our engineering capabilities.

In line with our strategy, we continue to exit non-strategic areas of our business. In June 2019 we concluded our services for British Airways ground support and in December 2019 we exited our final aggregates and cement fleet management contract. These exits are in addition to the set of exits and disposals made in the 2019 financial year.

In Rail, work has now started on the new ten-year CP6/7 contract for track works in Scotland, a contract worth up to £1 billion over its life. We were also awarded a signals and telecoms framework contract by Network Rail worth £65 million over five years.

Our Airports business had a solid year of contract performance and was successful in the rebid of the Schiphol Baggage Maintenance contract. Our rebid for Heathrow baggage handling was unsuccessful, with the existing contract ending in October 2020.

Our business in South Africa delivered a record year with good revenue growth, record margins and significant improvements in health and safety. However, the devaluation of the rand,

particularly in the final months of the year, reduced the Group pound sterling benefit. Revenue growth came from the energy business which saw increased work with Eskom. The construction and mining equipment supply business saw lower revenue reflecting overall market demand but we were able to grow our market share.

Outlook for the year ending 31 March 2021

Work on defence programmes, which make up around 40% of work in our Land sector, continues during the COVID-19 pandemic and is delivered across long term contracts. Work across our South African energy business and emergency services businesses also continues with relatively little disruption. The impact from COVID-19 will be greater across our adjacent markets, particularly in civil training, rail, power, airports and our South African equipment business.

Operating profit for the sector will be impacted by any revenue impact from COVID-19, as well as the sector margin impact from lower demand and productivity levels. Operating profit will also reflect only two months of contribution from our Holdfast (RSME) JV following the sale of our interest in June 2020.

Board of Directors



Ruth Cairnie
Chair

Appointed: April 2019

Tenure: One year

Nationality: British

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.

External appointments: Ruth is currently the Senior Independent Director of Associated British Foods plc. She is Patron of the Women in Defence Charter, the Chair of POWERful Women, an initiative to advance gender diversity within the energy sector and a trustee of Windsor Leadership.

Previous roles: 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.

Qualifications: She 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.



Sir David Omand GCB
Senior Independent Director

Appointed: April 2009 and Senior Independent Director January 2012

Tenure: 11 years

Nationality: British

Experience: Sir David brings extensive UK intelligence and change management experience.

External appointments: Sir David is a visiting professor in the Department of War Studies, King's College London and PSIA Sciences Po in Paris, where he teaches intelligence studies. He is a senior advisor to Paladin Capital Group LLP, investing in the cyber-security sector.

Previous roles: He served in various senior roles in the UK Government service, including as UK Government Security and Intelligence Coordinator, Permanent Secretary of the Home Office, Director of GCHQ (the UK Signals Intelligence and Information Assurance Agency) and Deputy Under-Secretary of State for Policy in the Ministry of Defence.

Qualifications: Sir David holds a degree in Economics from Cambridge University, has an honorary Doctorate from Birmingham University and he recently completed a degree in Mathematics and Theoretical Physics with the Open University.



Prof. Victoire de Margerie
Independent Non-Executive Director

Appointed: February 2016

Tenure: 4 years

Nationality: French

Experience: Victoire brings strong international strategic and commercial experience.

External appointments: Victoire is the Executive Chairman of Rondol (France), a start up developing micro machinery for advanced industry applications. She is also a Non-Executive Director of Eurazeo S.A. (France) and Arkema (France).

Previous roles: She was a Non-Executive Director of Banque Transatlantique, Italcementi S.p.A (Italy), Morgan Advanced Materials PLC (UK), Norsk Hydro ASA (Norway) and Outokumpu Oyj (Finland). During her earlier executive career, Victoire held senior management positions in France, Germany and the USA, with Atochem, Carnaud MetalBox and Pechiney.

Qualifications: Victoire holds a PhD in Strategic Management from Université Panthéon-Assas and a Master in Business Administration from HEC Paris.



Ian Duncan
Independent Non-Executive Director

Appointed: November 2010

Tenure: 9 years. Ian will retire from the Board at the 2020 AGM.

Nationality: British

Experience: Ian brings extensive financial and change management experience.

External appointments: Ian is currently the Senior Independent Director of Bodycote PLC, as well as being the Chairman of its Audit Committee. He is also a Non-Executive Director and Audit Committee Chair at SIG PLC.

Previous roles: He is a former Group Finance Director of Royal Mail Holdings PLC and has also formerly been the Corporate Finance Director at British Nuclear Fuels, the Chief Financial Officer and Senior Vice President at Westinghouse Electric Company LLC in Pennsylvania, USA, and a Non-Executive Director and the Chairman of the Audit Committee of Fiberweb PLC, Mouchel Group and WANDisco PLC.

Qualifications: Ian is a Chartered Accountant and holds an MA from Oxford University.



Lucy Dimes
Independent Non-Executive Director

Appointed: April 2018

Tenure: 2 years

Nationality: British

Experience: Lucy is currently the Group Transformation Officer at Virgin Money UK PLC and brings experience in industries at the forefront of growth and technology-based innovation and an understanding of complex outsourcing and global strategic partnerships.

Previous roles: She was a Non-Executive Director of Berendsen PLC and, in her executive career, Lucy was Chief Executive Officer of UBM EMEA until September 2018 and previously Chief Executive Officer, UK & Ireland, of Fujitsu, the Chief Operating Officer and Executive Director of Equiniti Group, Chief Executive Officer UK & Ireland of Alcatel Lucent (now Nokia) and prior to that had a 19-year career at BT.

Qualifications: Lucy holds an MBA from London Business School and a First Class Honours Degree in Business Studies from Manchester Metropolitan University.



Russ Houlden
Independent Non-Executive Director

Appointed: April 2020

Tenure: 2 months

Nationality: British

Experience: Russ brings accounting and treasury management experience along with his extensive knowledge of driving performance improvement.

External appointments: Russ is currently the Audit Committee Chairman of Orange Polska SA, which is listed on the Warsaw Stock Exchange.

Previous roles: He was Chairman of the Financial Reporting Committee of the 100 Group (from 2013 to March 2020), Chief Financial Officer (from 2010 to July 2020) of United Utilities Group PLC and Chief Financial Officer of Telecom New Zealand (from 2008 to 2010).

Qualifications: Russ holds a first class honours 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.



Myles Lee
Independent Non-Executive Director

Appointed: April 2015

Tenure: 5 years

Nationality: Irish

Experience: Myles brings extensive global experience in management, M&A and finance.

External appointments: Myles is a Non-Executive Director of UDG Healthcare PLC and Trane Technologies plc, which is listed on the New York Stock Exchange.

Previous roles: He was Chief Executive Officer (from 2009 to 2013) and Finance Director (from 2003 to 2008) of CRH PLC.

Qualifications: Myles holds a degree in Civil Engineering and is a Fellow of the Institute of Chartered Accountants in Ireland.



Kjersti Wiklund
Independent Non-Executive Director

Appointed: April 2018

Tenure: 2 years

Nationality: Norwegian

Experience: Kjersti brings broad technology and business experience gained across Europe, Eastern Europe/Russia and Asia.

External appointments: Kjersti is a Non-Executive Director of Spectris PLC, Trainline plc and Zegona Communications PLC.

Previous roles: She has held senior roles, including Director, Group Technology Operations of Vodafone, and Chief Operating Officer of VimpelCom Russia, Deputy Chief Executive Officer and Chief Technology Officer of Kyivstar in Ukraine, Executive Vice President and Chief Technology Officer of Digi Telecommunications in Malaysia, and Executive Vice President and Chief Information Officer at Telenor in Norway.

Qualifications: Kjersti holds a Master of Business Management from BI Norwegian Business School and an MSc in Electronical Engineering from Chalmers University of Technology, Sweden.



Jeff Randall
Independent Non-Executive Director

Appointed: April 2014

Tenure: 6 years. Jeff will retire from the Board at the 2020 AGM.

Nationality: British

Experience: Jeff brings extensive experience of the media, particularly in politics, business and finance.

External appointments: Jeff is an Independent Non-Executive at BDO, the accounting and business-services firm, and Fundsmith, and a Visiting Fellow at Oxford University's Saïd Business School.

Previous roles: He worked at Sky News and was editor-at-large of the Daily Telegraph. Jeff was business editor of the BBC, the launch editor of Sunday Business and, for six years, City Editor of the Sunday Times. He is a former director of Times Newspapers.

Qualifications: Jeff holds a degree in Economics from the University of Nottingham, where he is an Honorary Professor in the School of Economics.



Carl-Peter Forster
Independent Non-Executive Director

Appointed: June 2020

Nationality: German

Experience: Carl-Peter brings extensive manufacturing and international experience.

External Appointments: Carl-Peter is currently the Chairman of Chemring Group PLC and Senior Independent Director of IMI plc.

Previous roles: Carl-Peter 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.

Qualifications: Carl-Peter holds a Diploma in Economics from Bonn University and a Diploma in Aeronautical Engineering from the Technical University in Munich.



Archie Bethel CBE
Chief Executive

Appointed: Board Director May 2010 and Chief Executive September 2016

Tenure: 10 years

Nationality: British

Experience: Archie was Chief Executive, Marine and Technology division, from June 2007, having joined the Group in January 2004. He was appointed Chief Executive on 1 September 2016.

He is President of the Society of Maritime Industries and is a Lay Member of the Court of the University of Strathclyde.

Previous roles: He held various Engineering and Senior Management roles in Vetco Gray International Inc. in both the UK and US. He was also Chief Executive of Scottish Enterprise Lanarkshire and Chief Operating Officer of Motherwell Bridge Group.

Qualifications: BSc, MBA and DSc (h.c.) from University of Strathclyde. Archie is a Chartered Mechanical Engineer, a Fellow of the Royal Academy of Engineering and a Fellow of the Royal Society of Edinburgh.



Franco Martinelli
Group Finance Director

Appointed: Board Director August 2014

Tenure: 6 years

Nationality: British

Experience: Franco served 12 years with the Group as Group Financial Controller, prior to his appointment as Group Finance Director. Before joining Babcock, Franco worked across the support services and engineering sector.

Previous roles: He was Group Financial Controller at Powell Duffryn PLC and before that he held divisional and group roles at Courtaulds, James Capel and BP.

Qualifications: Franco is a Chartered Accountant and has a degree in Physics from Exeter University.

Executive Committee

B Board

Biographies for Archie Bethel CBE and Franco Martinelli are on page 99.



Archie Bethel CBE
Chief Executive



Franco Martinelli
Group Finance Director



John Howie MBE
Chief Executive, Marine



Simon Bowen
Chief Executive, Nuclear



John Davies
Chief Executive, Land



Neal Misell
Chief Executive, Aviation



Jon Hall
Managing Director,
Technology



Kevin Goodman
Group Director of
Organisation and Development



Kate Hill
Group Director of
Communications



Jack Borrett
Group Company Secretary
and General Counsel

John Howie MBE

Appointed: April 2016

Experience: John joined Babcock in April 2001. He has been sector CEO for Marine since 2016 and has 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.

Simon Bowen

Appointed: April 2017

Experience: Simon is responsible for our nuclear capability in Defence, including Babcock's submarine operations, and Civil. He joined Babcock in December 2015 as Managing Director of Cavendish Nuclear. Simon was previously the Managing Director of Urenco UK, which he joined in 2010. Prior to that, Simon worked at BP, undertaking a variety of senior roles, culminating in his appointment as Vice President of Manufacturing and Procurement for Petrochemicals. In the early part of his career, Simon was an Engineering Officer in the Royal Navy on operating submarines.

John Davies

Appointed: July 2010

Experience: John joined Babcock in 2010 on the acquisition of VT Group, and was appointed Divisional Chief Executive of the then Defence and Security division. In November 2015, he moved to lead the Support Services division and is now sector CEO, Land. Previously John worked extensively across the support services and defence sectors within Bombardier, BAE Systems and VT Group. John is a lawyer by background and a graduate of the University of Manchester and Chester Law College.

Neal Misell

Appointed: April 2020

Experience: Neal is the sector CEO for Aviation. He joined Babcock following the acquisition of VT Group in 2010. Neal worked initially as the 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.

Jon Hall

Appointed: April 2017

Experience: Jon joined Babcock in 2008 as Managing Director, Technology. Prior to that, Jon held senior roles within the Weir Group, covering defence, nuclear and commercial sectors and, before that, worked in the power and process sectors with Balfour Beatty International and Monenco Inc. Jon is a Chartered Engineer and a Fellow of the Institution of Mechanical Engineers. He holds a PhD from Bath University for research work in technology.

Kevin Goodman

Appointed: July 2010

Experience: Kevin joined Babcock in 2001. He was a Director of both our Defence and Security and Marine and Technology divisions prior to his current Group appointment. In his present role, he is responsible for remuneration, talent management, executive development and diversity. He is a trustee of the Babcock International Group pension scheme.

Kate Hill

Appointed: April 2017

Experience: Kate joined Babcock in 2014 on the acquisition of the Avincis Group. She was subsequently appointed Babcock's Group Director of Communications. Prior to her role as Communications Director at Avincis, she was a Partner in a financial PR consultancy, which she joined from Royal Dutch Shell plc where she held a number of senior communications roles. Trained as a journalist, Kate is a member of the Chartered Institute of Public Relations.

Jack Borrett

Appointed: April 2016

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 and Risk, and Nominations Committees and a member of the Executive Committee. Prior to joining Babcock, Jack was a solicitor at law firm, Clifford Chance.

Senior Independent Director

Shareholders can bring matters to his attention, if they have concerns, which have not been resolved through the normal channels of Chair, Chief Executive or Group Finance Director, or if they believe these channels are inappropriate. The Chair looks to the Senior Independent Director as a sounding board and he is available as an intermediary between the other Directors and the Chair. The Senior Independent Director is also responsible for leading the Non-Executive Directors in the annual performance evaluation of the Chair. The specific role of the Senior Independent Director has been set out in writing and approved by the Board.

Non-Executive Directors

The Non-Executive Directors bring external perspectives and insight to the deliberations of the Board and its Committees, providing a range of knowledge and business or other experience from different sectors and undertakings (see their biographies on pages 98 to 99). They play an important role in the formulation and progression of the Board's agreed strategy and monitor the performance of the executive management in the implementation of this strategy.

Audit and Risk Committee

Responsible for overseeing the Company's systems for internal financial control, risk management and financial reporting.

Remuneration Committee

Oversees the remuneration arrangements for Babcock's Directors and senior employees across all sectors. The Committee is keenly conscious of the importance of having in place a fair remuneration structure, one that strikes a balance between rewarding employees' hard work and shareholders' interests.

Nominations Committee

Reviews the structure, size and composition of the Board and Committees and oversees succession planning for the Board and across the Group.

Group Finance Committee

Approves borrowing, guarantees, treasury and related matters within its terms of reference delegated by the Board. Comprises any two Directors, one of whom must be the Group Finance Director.

Group Executive Committee

The 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 100.

Steering Groups

Group Security Committee: chaired by the Group Finance Director and made up of senior functional and operational managers with responsibility for security and information assurance at Group and operational level. See page 81.

Diversity Steering Group: co-ordinates the implementation of our equality and diversity policy. See page 45.

Corporate Safety Steering Group: ensures the delivery of Group policy and initiatives relating to all matters relevant to the health and safety of the Group's employees and any other persons affected by the Group's undertakings. See page 44.

Energy/Environmental Working Group: responsible for developing and sharing best practice for cost-effective energy and environmental control and for developing strategy for meeting energy and environmental targets. See page 40.

Sector Management Boards

Each of our four business sectors has its own management board responsible for: setting sector strategy and objectives; ensuring adequate financial and human resources to achieve those objectives; reviewing sector performance; and ensuring the sector's obligations to shareholders and other stakeholders are understood and met.

Board of Directors

The Board is satisfied that each Director has the necessary time to devote to the effective discharge of 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.

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, and can also be seen at the Company's registered office.

Board meeting attendance

The Board has ten scheduled full Board meetings each financial year, with two other meetings devoted solely to strategy. The Chair also meets separately with Non-Executive Directors without Executive Directors or other managers present. Debate and discussion at Board and Committee meetings is encouraged to be open, challenging and constructive. Directors regularly receive presentations by senior managers. In the annual Board and Committee evaluation review, no Directors expressed dissatisfaction with the timing or quality of information provided to them.

Attendance at Board meetings

Chair	
Mike Turner*	3 of 3
Ruth Cairnie	12 of 12
Executive Directors	
Archie Bethel	12 of 12
Franco Martinelli	12 of 12
John Davies	12 of 12
Non-Executive Directors	
Sir David Omand**	11 of 12
Victoire de Margerie**	11 of 12
Ian Duncan	12 of 12
Lucy Dimes**	11 of 12
Myles Lee	12 of 12
Kjersti Wiklund	12 of 12
Jeff Randall	12 of 12

* Mike Turner retired from the Board after the AGM in July 2019.

** Sir David Omand, Victoire de Margerie and Lucy Dimes were unable to attend certain meetings due to pre-existing commitments.

Composition of the Board

The composition of the Board during the year, and as it currently stands, is shown below:

Date	Chair	Executive Directors	Independent Non-Executive Directors
1 April 2019 – 2 April 2019	1	3	7
3 April 2019 – 18 July 2019	1	3	8
19 July 2019 – 31 March 2020	1	3	7
1 April 2020 – 31 May 2020	1	2	8
1 June 2020 – 10 June 2020	1	2	9

During the financial year and up to the date of this report, changes to the Board were the appointment of Ruth Cairnie, the retirement of Mike Turner, John Davies's stepping off the Board on 31 March 2020 and the appointments of Russ Houlden and Carl-Peter Forster as Independent Non-Executive Directors, on 1 April 2020 and 1 June 2020 respectively.

Board effectiveness

The Board and its Committees review their skills, experience, independence and knowledge to enable the discharge of their duties and responsibilities effectively. Each year, an evaluation is conducted to assess these aspects and also the effectiveness of the ways of working at the Board and Committees. The last two reviews have been conducted internally by the Company Secretary and so, in line with the Corporate Governance Code, this year the review should have been carried out by an external evaluator. However, with a new Chair having been appointed during the year and with a number of changes occurring to the Board composition, it was decided that an external review would add much more value in a year's time once the membership changes, and a number of procedural changes introduced by the new Chair, have bedded down. Therefore, the review for the financial year ending 31 March 2020 has once again been an internal process conducted by the Company Secretary. The Board remains fully committed to external review, which it sees as a valuable support to its continuous development and improvement.

The review was conducted via confidential one-on-one meetings between the Company Secretary and each Director. Topics considered included the balance of skills, experience, independence and knowledge on the Board; its diversity; how the Board, its Committees, the Chair and individual Directors performed and how they worked together; as well as other factors relevant to effectiveness.

The main conclusions from the prior year's review focused on the pending change of Chair and need for further recruitment, given the length of tenure of both Sir David Omand and Ian Duncan. Progress is therefore reflected in the appointments that have been announced. This year, there was general satisfaction regarding the way in which the Board and its Committees function, the support given to them, the matters covered at meetings, the way issues are dealt with, and the contribution of individual Directors. A number of developments were noted as positive including the external input received for the annual strategy review, the external review of senior talent, the participation of customers in some contract reviews at the Board, and the streamlining of membership of the Board and Committees.

The Board discussed the evaluation at its meeting in March 2020. The focus for the current financial year will be to align further the Board's agenda and workings with the strategy and strategic priorities set out in the Group's Capital Markets Day, to shift the balance of the Board's time further towards strategic rather than operational matters. At a private meeting, Sir David Omand, SID, led a review of the Chair's performance, which confirmed her effectiveness.

Board induction and development

New Non-Executive Directors receive comprehensive and tailored induction programmes. The Chair's induction, parts of which are described on pages 96 and 97, was built using induction programmes developed previously for Lucy Dimes and Kjersti Wiklund as a starting point. The Company Secretary will set up a similar programme for Carl-Peter Forster and Russ Houlden as and when circumstances allow. The programme will involve:

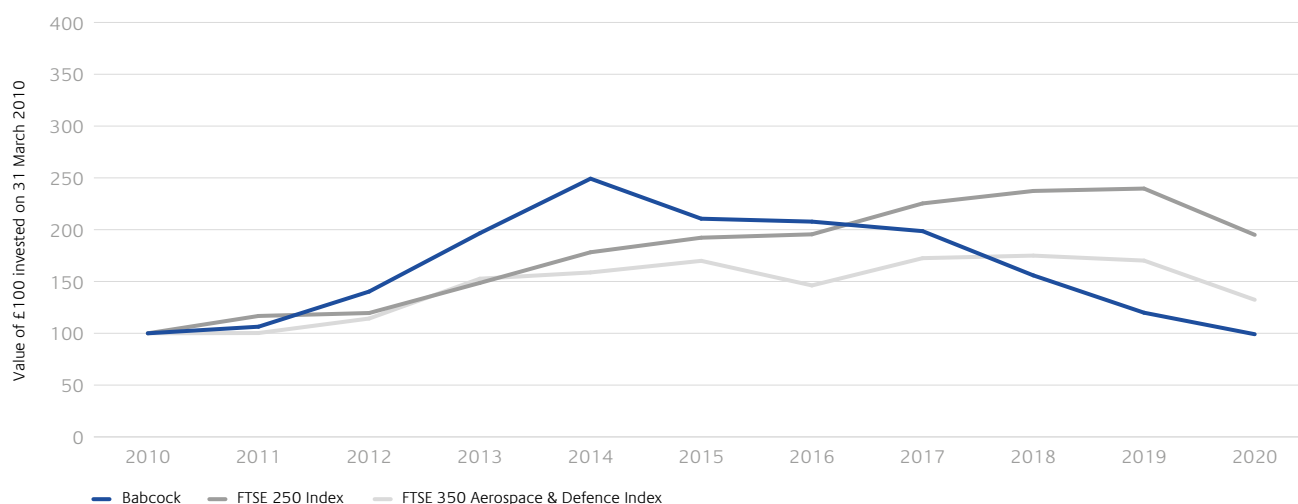
- Meetings with the Executive Directors and the sector CEOs
- An overview of the Group's governance policies, corporate structure, and business functions
- Details of risks and operating issues facing the Group
- Visits to key operational sites, which will include Devonport, Rosyth, Bristol and the Group's EU operations
- Briefings on key contracts and customers.

In addition, the Company Secretary arranges training and ongoing updates as requested or as required. Non-Executive Directors may at any time make visits to any Group business and presentations are made to the Board during the year.

Performance graphs

The following graph shows the TSR for the Company compared to the FTSE 250 and FTSE 350 Aerospace & Defence Indices, assuming £100 was invested on 31 March 2010. 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.

Babcock vs. FTSE 250 Index vs. FTSE 350 Aerospace & Defence Index



The table below details the historical CEO pay over a ten-year period.

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Peter Rogers¹										
Single figure (£'000)	1,792	2,185	2,731	3,809	4,448	2,491	1,091			
Bonus vesting (% max)	98%	99%	99%	93%	78%	60%	66%			
DBMP matching shares vesting (% max)	n/a	n/a	n/a	n/a	88.4%	57.8%	17.0%			
PSP/CSOP vesting (% max)	82.9%	57.8%	58.8%	94.7%	83.5%	37.3%	26.5%			
Archie Bethel²										
Single figure (£'000)						1,844	2,079	1,969		1,385
Bonus vesting (% max)						66%	61%	58%		14%
DBMP matching shares vesting (% max)						17.0%	20.0%	n/a		n/a
PSP vesting (% max)						26.5%	23.9%	15.1%		0%

1. Until retirement on 31 August 2016.

2. Includes remuneration received whilst undertaking the role of Chief Operating Officer until August 2016.

The Board, through the Audit and Risk Committee, reviews the effectiveness of the Company's internal control processes formally at least once a year. The Committee asks the Group Financial Controller to report on the effectiveness of the Group's internal controls, and reviews this report in light of all the other information supplied to it during the course of the year, including internal audit reports, risk reports and monthly financial and operational reports. The Board considers the system to be effective and in accordance with Guidance for Risk Management, Internal Control, and Related Financial and Business reporting. Further information on the principal internal controls in use in the Company is to be found on pages 80 to 82.

Going concern statement

The financial statements have been prepared on the going concern basis because the Directors have a reasonable expectation that the Group has adequate resources for a period of at least 12 months from the date of the approval of the financial statements and that there are no material uncertainties to disclose.

In assessing the appropriateness of the going concern basis of accounting, the Directors reviewed the resources available to the Group in the form of cash and committed facilities, which are the £775 million five year multi-currency revolving credit facility, the US\$500 million loan notes, and the three tranches of notes (€550 million 1.75% notes, £300 million 1.875% notes and €550 million 1.375% notes) issued under the Group's Eurobond programme, along with a baseline plan.

The baseline plan was adjusted to reflect a range of estimated impacts of COVID-19 on the Group over varying periods (three months and six months). This adjusted baseline plan has then been subject to a further downside stress scenario to twelve months.

The Directors also considered mitigating actions, including deferral of non-essential capital and revenue expenditure as well as the deferral of dividends.

Having considered these matters, 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.

Auditor and disclosure of relevant audit information

So far as the Directors who are in office at the time of the approval of this report are aware, there is no relevant audit information (namely, information needed by the Company's auditor in connection with the preparation of its auditor's report) of which the auditor is unaware. Each such Director has taken all steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

PricewaterhouseCoopers LLP is willing to continue in office as independent auditor of the Company, and a resolution to reappoint it will be proposed at the forthcoming Annual General Meeting.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Company's financial statements are prepared in accordance with UK Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework, and applicable law). 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 Group and the Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable IFRS as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements
- make judgements and accounting estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company, and enable them to ensure that the Group's financial statements and the Directors' Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and 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.

1. Basis of preparation and significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis, as set out in the Directors' report on page 142, and in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments. Babcock International Group PLC is listed on the London Stock Exchange and is incorporated and domiciled in the UK.

Significant accounting policies

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

New and amended standards adopted by the Group

The Group applied the following standards and amendments for the first time for the period beginning on 1 April 2019:

- IFRS 16, 'Leases', effective from 1 January 2019 and endorsed by the EU. Operating leases have now been recognised on the statement of financial position; the impact of this standard has been to recognise a lease liability and right of use asset on the Group's statement of financial position in relation to almost all leases formerly classified as operating leases. The change has resulted in an improvement in operating profit, with the depreciation of the right of use asset being less than the operating lease charge under IAS 17. This has however been offset by an increase in interest charge with an immaterial net impact on profit before tax resulting from the Group's maturity of leases on adoption. Please refer to Note 31 and below for further details.

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

The following standards and amendments to IFRSs became effective for the period beginning on 1 April 2019 and did not have a material impact on the consolidated financial statements:

- IAS 19, 'Employee Benefits', amended effective from 1 January 2019. The amendment related to treatment of plan amendments, curtailments and settlements.
- IFRIC 23, 'Uncertainty over Income Tax Treatments', effective from 1 January 2019.
- IFRS 9, 'Financial Instruments', amended effective from 1 January 2019.
- Annual improvement 2015-2017 Cycle, effective from 1 January 2019. Including clarifications on IFRS 3, IFRS 11, IAS 12 and IAS 23.

The following standards and amendments to IFRSs become effective for the period beginning on 1 April 2020 or later, but have been early adopted by the Group for the period beginning on 1 April 2019:

- IFRS 9 and IFRS 7, 'Financial Instruments' and 'Financial Instruments: Disclosures', amended effective from 1 January 2020. Amendments to IFRS 7 and IFRS 9 have been issued which modify specific hedge accounting requirements and allow it to be assumed that the interest rate benchmark is not altered as a result of the uncertainties of LIBOR reform when performing hedge effectiveness testing. These amendments are effective from 1 January 2020 with early adoption allowed. The Group has elected to early adopt for the year ending 31 March 2020. There is no impact on the Group's fair value hedge accounting as a result of adopting the amendments.

(a) IFRS 16, 'Leases'

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

Under the new standard, the Group has now recognised almost all leases, where the Group is a lessee, on the statement of financial position as the distinction between finance leases and operating leases has been removed. Both short-term leases and low-value leases are exempt from IFRS 16, and instead their lease payments continue to be recognised as expenses on a straight-line basis. The approach for lessors has remained largely unchanged.

Transition

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