Full year results

for the year ended 31 March 2021

30 July 2021

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What we will cover

- Introduction
- Financials and the new baseline
- The improvements we are making
- Our strategy and future

Introduction

1

Life since our April update

2

Changes in numbers since April

3

Opportunities ahead

We have completed deep reviews of the Group

1. **Strategy**
2. **Portfolio**
3. **Operating model**
4. **Contract profitability**
5. **Balance sheet**
6. **People and ESG strategy**

Financial review

David Mellors

CFO

Changes in the presentation of underlying results

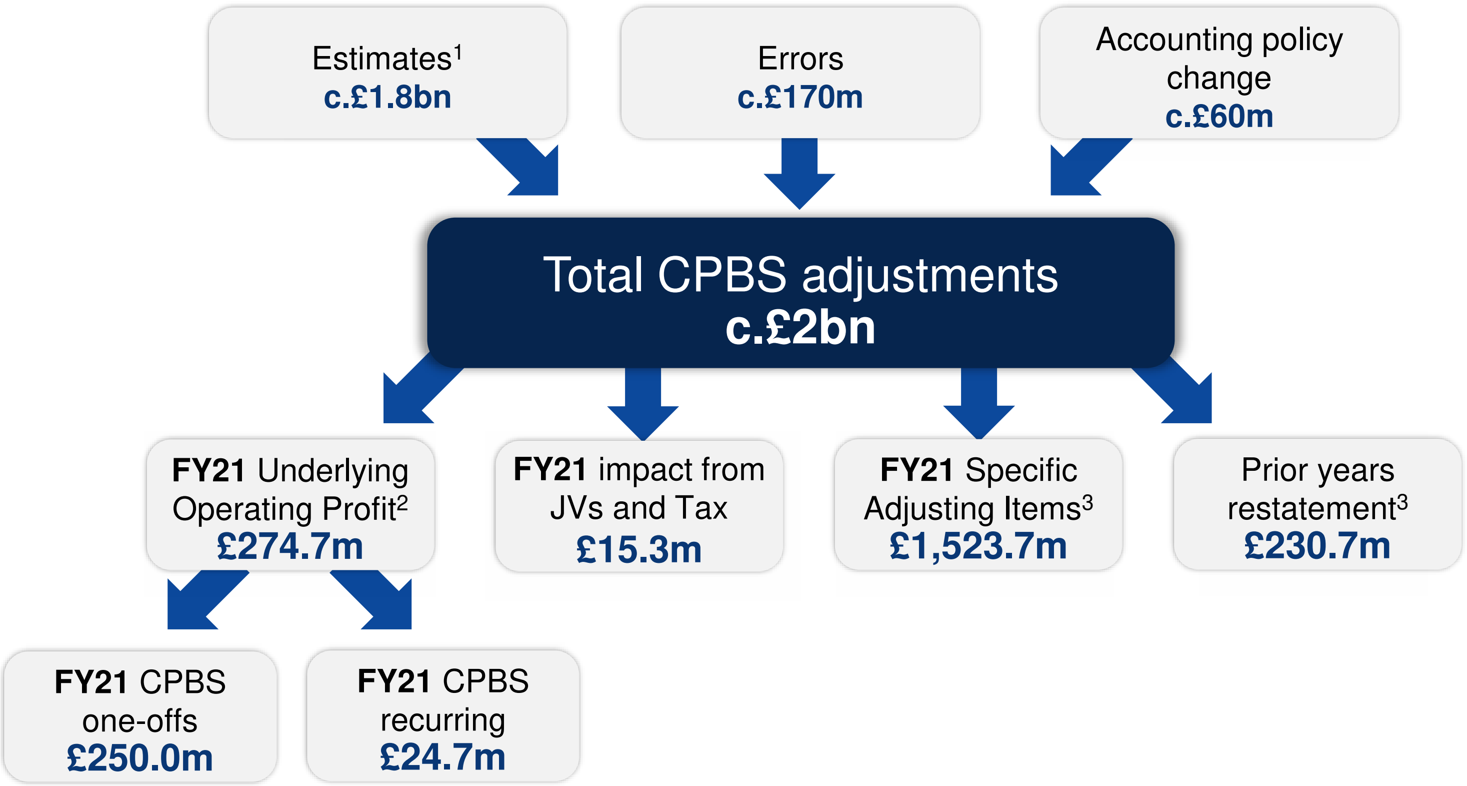
1 **Treatment of JVs and associates:**
- Single line in income statement (not in underlying operating profit)
- Aligns with IFRS

2 **IFRIC 12 investment income:**
- Taken out of underlying operating profit

3 **Three column P&L:**
- Underlying results
- Defined ‘Specific Adjusting Items’
- Statutory results

4 **Cash flow presentation:**
- Lease cash flows (‘capital element’ split out in operating cash flow)
- New lease commitments = change in debt below free cash flow
- ‘Exceptional cash flows’ no longer excluded from free cash flow

Contract profitability and balance sheet review (CPBS)



Scope:

- Work targeted by assessment of risk
  - >100 contracts (c.£2.7bn revenue)
  - Balance sheet items reviewed on risk basis

Adjustments required (c.140) = £2bn

- Prior year restatements from:
  - Correction **of prior year errors**
  - **Accounting policy change**
  - Cumulative restatement at Mar 19 = £308.1m
  - Cumulative restatement at Mar 20 = £230.7m
- **FY21 changes** of £1,813.7m
- **Underlying operating profit impact £274.7m**
  - £250.0m one-off
  - £24.7m recurring
- **JV & associate impact £37.1m**
  - £31.5m one-off
  - £5.6m recurring

1. Includes annual goodwill impairment test
2. Total FY21 loss after tax impacts from CPBS restatements was £290m. A detailed breakdown of the CPBS restatements on the income statement is shown in appendix slide 41
3. Shows loss after tax adjustments

FY20 underlying income statement restatement

	FY20 previous reported	Presentation changes: Change to JV accounting	Change to IFRIC 12 presentation and tax*	CPBS restatements	FY20 Restated
Underlying revenue	**4,871.7**	**(422.2)**	**-**	**(21.0)**	**4,428.5**
Underlying operating profit	**524.2**	**(105.7)**	**(1.1)**	**(39.8)**	**377.6**
Share of results from joint ventures and associates	-	58.6			58.6
Net finance costs	(95.8)	22.8	1.1	-	(71.9)
Underlying profit before tax	**428.4**	**(24.3)**	**-**	**(39.8)**	**364.3**
Tax	(77.1)	17.9	1.2	(9.4)	(67.4)
Underlying profit after tax	**351.3**	**(6.4)**	**1.2**	**(49.2)**	**296.9**
Underlying basic EPS	**69.1p**				**58.4p**

- Presentation changes:
  - JVs & associates
  - IFRIC 12 income
- CPBS restatements:
  - Correction of prior year errors
  - Accounting policy change

1. includes £1.2 million deferred tax movement as a result of changes in statutory tax rates

FY20 restatement underlying cash flow: (1/2)

£m	FY20 previously reported	Prior year restatements	Presentation changes	FY20 restated
Operating profit (excl. JVs)	**417.4**	**(39.8)**	**-**	**377.6**
Depreciation & amortisation	95.7	(4.7)	-	91.0
ROU asset depreciation	129.4	(6.1)	-	123.3
Non-cash items	5.4	(2.9)	(1.1)	1.4
Working capital	(26.8)	16.0	-	(10.8)
Provisions	(19.4)	9.4	-	(10.0)
Net capital expenditure	(147.5)	39.0	-	(108.5)
IFRS 16 new lease commitments	(109.8)	-	109.8	-
Capital element of lease payments	-	-	(175.0)	(175.0)
Operating cash flow	**344.4**	**10.9**	**(66.3)**	**289.0**
Cash conversion %	83%	-	-	77%
Retirement benefits in excess of income statement	(70.2)	-	-	(70.2)
Interest paid	(71.4)	-	1.1	(70.3)
Tax paid	(62.6)	-	-	(62.6)
Dividends from joint ventures	52.0	-	-	52.0
Exceptional items	-	-	(82.4)	(82.4)
Free cash flow	**192.2**	**10.9**	**(147.6)**	**55.5**

- Presentation changes:
  - Capital elements of lease payments within operating cash flow
  - New lease commitments now a ‘change in debt’ not in operating cash flow
  - Cash flow from exceptional items included in free cash flow

FY20 restatement underlying cash flow: (2/2)

£m	FY20 previously reported	Prior year restatements	Presentation changes	FY20 restated
Free cash flow	**192.2**	**10.9**	**(147.6)**	**55.5**
Acquisitions and disposals net of cash acquired	(0.8)	-	105.5	104.7
Exceptional cash flow	23.1	-	(23.1)	-
Capital element of lease payments	-	-	175.0	175.0
IFRS 16 additions	-	(7.3)	(109.8)	(117.1)
Investments in joint ventures	(0.3)	-	-	(0.3)
Own shares	(2.9)	-	-	(2.9)
Dividends paid	(153.9)	-	-	(153.9)
Net cash outflow	**57.4**	**3.6**	**-**	**61.0**
Opening net debt	**(957.7)**	-	-	-
Supply chain financing - opening adjustment	-	(113.5)	-	-
Opening net debt (restated)		-	-	**(1,071.2)**
IFRS 16 transition	(640.8)	-	-	(640.8)
Exchange movements	(53.8)	-	-	(53.8)
Movement in net debt	57.4	3.6	-	61.0
Closing net debt	**(1,594.9)**	**(109.9)**	**-**	**(1,704.8)**

- CPBS restatements:
  - Supply chain financing now included in debt (£93.2m at Mar 20, £113.5m at 1 April 2019)
  - £16.7m of lease liabilities previously not included
- Presentational changes:
  - Acquisitions and disposals separated from exceptional items (now in free cash flow)
  - Lease commitments/capital element of leases as per previous slide

Financial results overview

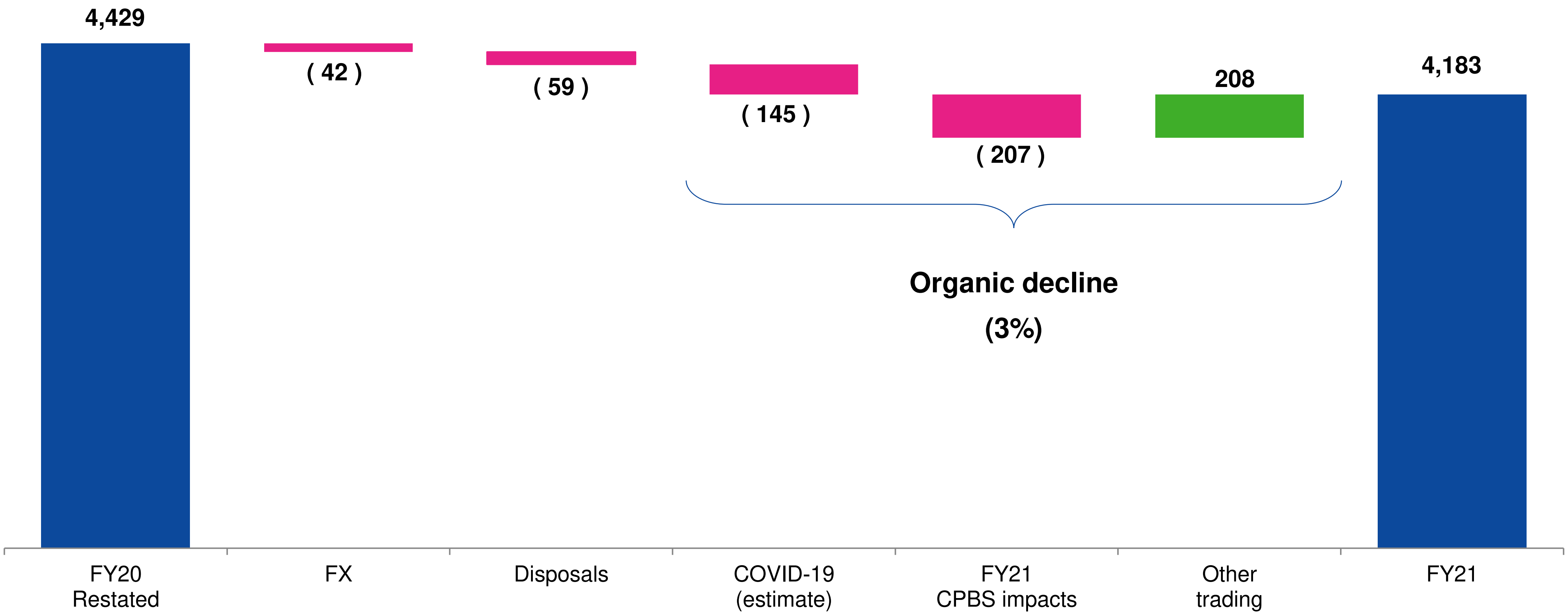
	FY21	FY20 restated[4]
Revenue	**£4,183m**	**£4,429m**
Underlying operating profit[1]	**£(27.6)m**	**£377.6m**
Underlying operating profit excluding one-off CPBS	*£222.4m*	
Underlying operating profit margin excluding one-off CPBS	*5.3%*	*8.5%*
Share of results from JV and associates[2]	**£(13.1)m**	**£58.6m**
Share of results from JV and associates excl. one-off CPBS	*£18.4m*	
Underlying basic EPS	**(23.8)p**	**58.4p**
Underlying basic EPS excluding one-off CPBS adjustments	*28.9p*	
Operating cash flow	**£299.1m**	**£289.0m**
Free cash flow	**£169.5m**	**£55.5m**
Net debt including lease obligations	**£1,354m**	**£1,705m**
Net debt excluding operating leases	**£772m**	**£1,055m**
Net debt/EBITDA (covenant basis)[3]	**2.5x**	**2.3x**

- Organic revenue down 3%
  - COVID-19 impacts
  - CPBS
  - Other trading growth
- Underlying operating profit (excluding FX and disposals) was down 40%
  - Reflecting the impact of COVID-19, CPBS and significant (profit) credit items in FY20
- Underlying free cash flow benefited from VAT timing benefit inflow (£56m) and Q4 corporation tax repayments inflow (£67m)
- Net debt at 31 March 2021 (excluding operating leases) of £772m, down from £1,055m last year

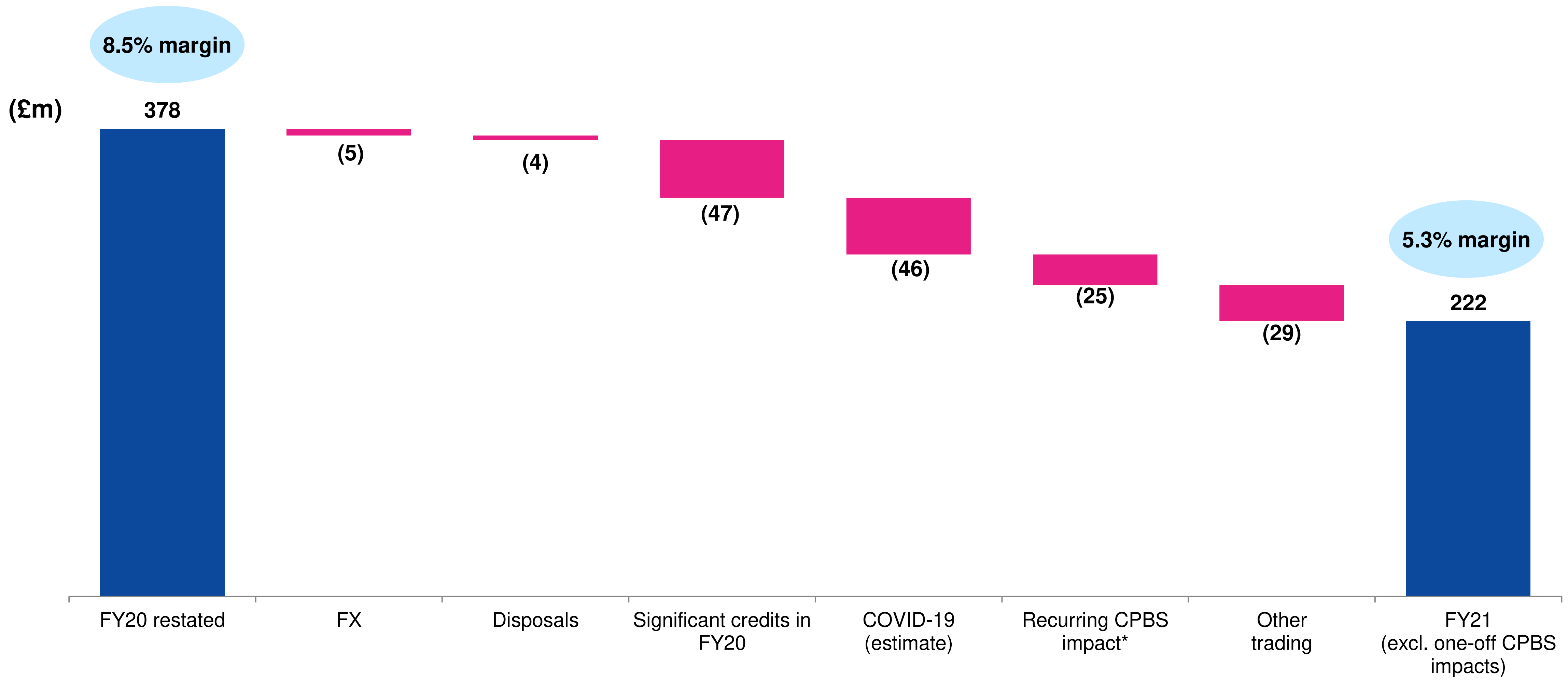
1. Underlying operating profit includes £274.7m of items relating the CPBS, of which £250.0m are one-off
2. CPBS review items reduced the share of results from joint ventures and associates by £37.1m in FY21, of which £31.5 million is one-off in nature
3. See slide 42 for calculation of net debt / EBITDA under our covenant basis
4. See restatement on slides 9 to 11

Revenue bridge

(£m)



Underlying operating profit bridge



* Recurring CPBS impact of £24.7m included in the £222.4m FY21 underlying operating profit excluding one-off CPBS

Marine

	FY20 restated[2]	FX	Disposals	Significant credits in FY20	COVID-19 (estimate)	CPBS recurring items	Other trading	**FY21 (excl. one-off CPBS)**
Contract backlog (£bn)	**2.6**							**2.5**
Revenue (£m)	**1,164**	(3)	(25)	-	9	(26)	124	**1,242**
Underlying operating profit (£m)[1]	**134**	-	(3)	(6)	(17)	(8)	(15)	**85**
Underlying margin	***11.6%***							***6.9%***

Revenue:

- Organic revenue +9%
- Driven by Type 31 ramp up and LGE business growth
- c.£250m of low or zero margin programme revenue in FY21

Operating profit:

- **Large impact from COVID-19:** impact on high margin consultancy business, Oman shutdown, additional costs
- **Recurring CPBS impact:** more cautious view on programme profit recognition including Type 31 programme
- **Other trading:** less favourable allocation of corporate costs, lower profitability on some programmes and legal case lost

1. FY21 underlying operating profit, including £(29)m of one-off CPBS adjustments, was £56m
2. See restatement on slide 9

Nuclear

	FY20 restated[2]	FX	Disposals	Significant credits in FY20	COVID-19 (estimate)	CPBS recurring items	Other trading	FY21 (excl. one-off CPBS)
Contract backlog (£bn)	**0.6**							**0.4**
Revenue (£m)	**897**	-	(4)	-	9	(22)	95	**976**
Underlying operating profit (£m)[1]	**113**	-	1	(21)	(2)	-	(3)	**87**
Underlying margin	***12.6%***							***8.9%***

Revenue:

- Organic revenue +9%
- Increased work on submarine support and ramp up of infrastructure work

Operating profit:

- **Significant credits in FY20:** higher R&D tax credits
- Lower margin earned this year on certain defence programmes
  - E.g. MSDF Interim Arrangement

1. FY21 underlying operating profit, including £(23)m of one-off CPBS adjustments, was £64m
2. See restatement on slide 9

Land

	FY20 restated[2]	FX	Disposals	Significant credits in FY20	COVID-19 (estimate)	CPBS recurring items	Other trading	**FY21 (excl. one-off CPBS)**
Contract backlog (£bn)	**3.5**							**3.0**
Revenue (£m)	**1,523**	(51)	(31)	-	(119)	(141)	(72)	**1,110**
Underlying operating profit (£m)[1]	**98**	(5)	(2)	(3)	(15)	(10)	(12)	**52**
Underlying margin	***6.4%***							***4.7%***

Revenue:

- Organic revenue down 22%
- **COVID-19 impact:** across many parts of the sector, especially South Africa and civil training and airports contracts
- **CPBS impacts:** reduced revenue on DSG and de-recognition of Phoenix pass-through revenue
- c.£200m of pass-through revenue in FY21 (zero margin)
- c.£150m of low or zero margin programme revenue

Operating profit:

- **Large impact from COVID-19:** lower activity and site closures in civil training, education, airports and in South Africa
- **Recurring CPBS impact:** reduced programme profitability, particularly DSG
- **Other trading:** Loss of Heathrow contract, lower defence volumes and increased costs

1. FY21 underlying operating profit, including £(69)m of one-off CPBS adjustments, was £(17)m
2. See restatement on slide 9

Aviation

	FY20 restated[2]	FX	Disposals	Significant credits in FY20	COVID-19 (estimate)	CPBS recurring items	Other trading	FY21 (excl. one-off CPBS)
Contract backlog (£bn)	**2.8**							**2.9**
Revenue (£m)	**846**	12	-	-	(45)	(19)	61	**854**
Underlying operating profit (£m)[1]	**32**	(0)	-	(17)	(11)	(6)	1	**(2)**
Underlying margin	***3.8%***							***(0.2)%***

Revenue:

- Organic revenue flat
- Growth from new contracts offset COVID-19 impacts from lower flying hours in the earlier stages of the pandemic

Operating profit:

- **Significant credits in FY20:** include multi-year indexation claims on contracts and, accruals and provision releases
- **Large impact from COVID-19:** lower activity and additional costs

1. FY21 underlying operating profit, including £(128)m of one-off CPBS adjustments, was £(130)m
2. See restatement on slide 9

Cash flow and movement in net debt: (1/2)

£m	FY21	FY20 restated[1]
Underlying operating profit excl. one-off CPBS adj.	**222.4**	**377.6**
Depreciation & amortisation (incl. ROU assets)	247.9	214.3
Net capital expenditure	(171.1)	(108.5)
Capital element of lease payments	(140.6)	(175.0)
Working capital movements	128.0	(10.8)
Other	12.5	(8.6)
Operating cash flow (underlying)	**299.1**	**289.0**
Cash conversion %	134%	77%
Retirement benefits in excess of income statement	(73.5)	(70.2)
Interest paid	(66.6)	(70.3)
Tax paid	18.4	(62.6)
Dividends from joint ventures	36.8	52.0
Exceptional items	(44.7)	(82.4)
Free cash flow	**169.5**	**55.5**

- FY21 comments:
  - High capex due to Type 31 and facility/IT upgrade and much lower disposals of aircraft (via sale and leaseback transactions)
  - Working capital benefit from advance receipts and £56m VAT timing benefit
  - Corporate tax receipt in Q4 = £67m
- FY22 guidance:
  - Similar capex
  - Pensions in excess of income statement c.£130m outflow
  - Tax c.£30m outflow
  - VAT reversal through working capital
  - Dividends from JVs c.£30m
  - Exceptional outflows c.£70m

1. See restatement on slide 10

Cash flow and movement in net debt: (2/2)

£m	FY21	FY20 restated[1]
Free cash flow	**169.5**	**55.5**
Acquisitions and disposals (incl. JVs)	81.8	104.4
Dividends	(0.8)	(153.9)
Leases – capital element add back	140.6	175.0
– new commitments	(82.3)	(117.1)
FX	44.6	(53.8)
Own shares	(2.2)	(2.9)
IFRS 16 transition	-	(640.8)
Movement in net debt	**351.2**	**(633.6)**

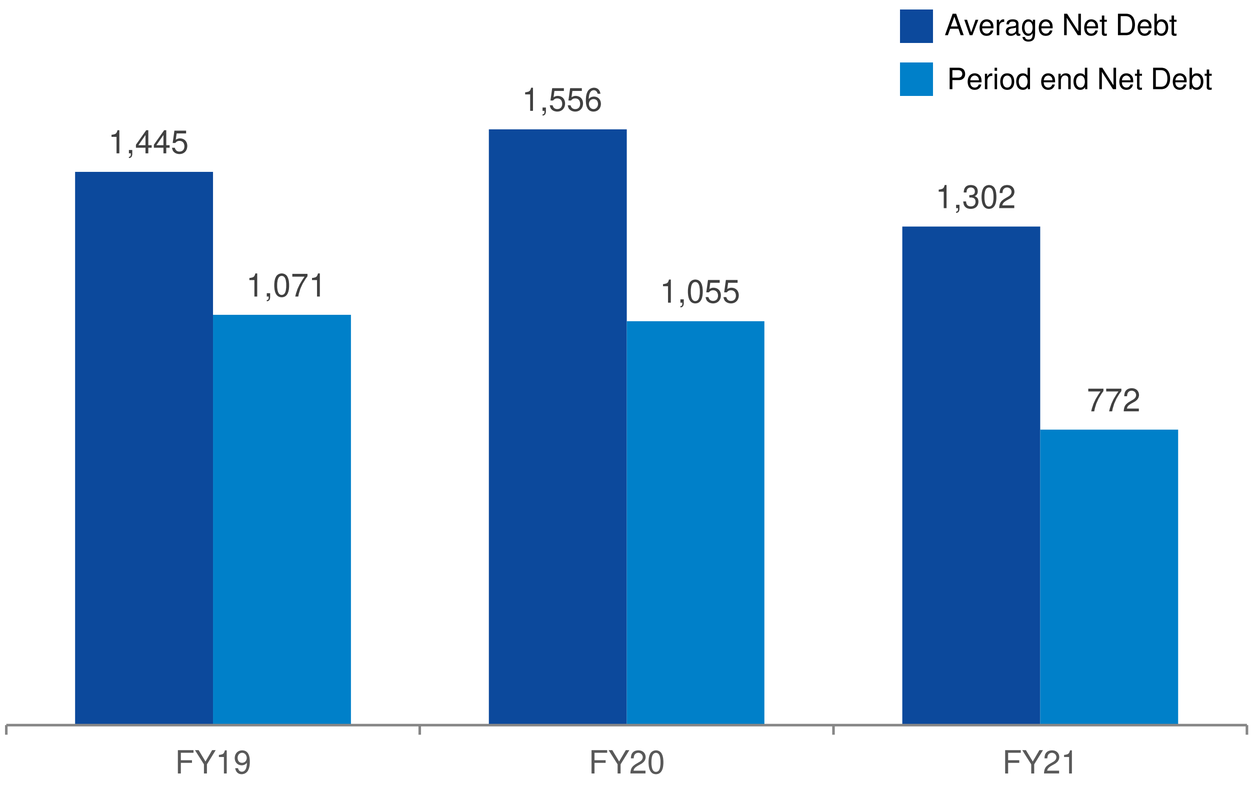
Opening net debt	**(1,704.8)**	**(1,071.2)**
Closing net debt	**(1,353.6)**	**(1,704.8)**
Net debt excl. operating leases	**(771.5)**	**(1,055.4)**
Gearing ratio (covenant basis)	**2.5x**	**2.3x**

- FY21 comments:
  - Disposals include:
    - Holdfast £85m net proceeds
    - Conbras £7m net proceeds
- FY22 guidance:
  - £400m disposals within next 12 months
  - No dividend for FY22
  - Priority to reduce gearing ratio below 2x

1. See restatement on slide 11

Significant gap between average and year end net debt

Net debt excluding operating leases (£m)



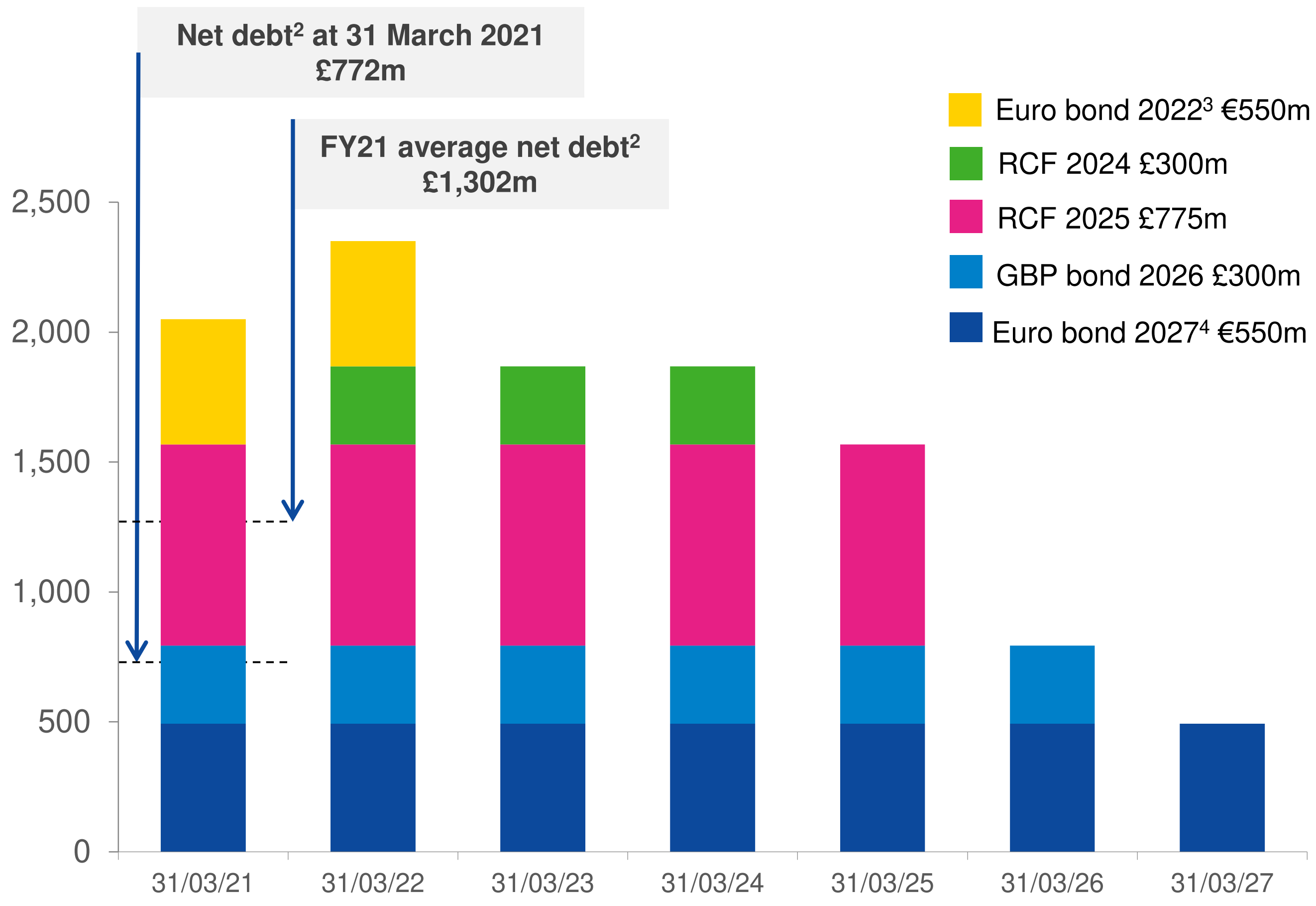
Gap between average and closing net debt in FY21:

- £67m Corp Tax receipts (March)
- c.£60m reduction in supply chain finance
- c.£30m FX
- c.£370m working capital
  - c.£50m permanent decreases
  - c.£320m[1] of 'period end timing'
  - c.£200-250m will reverse over next 2-3 years
- Q1'22 (June 2021) net debt (excl. operating leases) of £1,140m

1. NB: VAT £56m timing difference does not cause a gap on this slide as it has been a debt since June 2020

Liquidity and debt maturity profile

Debt maturity profile[1] (£m)



- Liquidity headroom of £1.2bn at 31 March 2021
- £2.4bn of total available borrowing and facilities at July 2021
- New £300m RCF signed in May 2021:
  - RCF covenant gearing ratio 4.5x until 31 Mar 2022
- Expect minimum of £400m of disposals in next 12 months

Ample liquidity and covenant headroom to prudently protect downside

1. Chart shows notional value of the debt
2. Net debt shown excluding operating leases
3. Euro bond 2022 €550m hedged at £482m
4. Euro bond 2027 €550m hedged at £493m

Key messages

- Detailed reviews completed ✓
- Financial baseline understood ✓
- Simplified reporting and increased transparency ✓
- Ample liquidity and covenant headroom ✓
- Actions in train to save £40m p.a.
- Disposals in process to raise min £400m
- Plan to strengthen the balance sheet without recourse to shareholders (<2x gearing)

Outlook

- While FY22 will benefit from operating model savings (c.£20 million), it will be a year of transition and, as such, we remain cautious
- The impact of COVID-19 on performance in FY22 is uncertain. While activity levels have broadly recovered, the additional costs from operating in a COVID-secure way remain. These costs, combined with the uncertainty over business interruption from increased cases and potential new variants, mean that we do not currently expect a material boost in profitability from COVID-19 restrictions easing
- Free cash flow will be impacted by the material cash outflows previously communicated, particularly additional pension contributions (c.£130 million in excess of the income statement) and exceptional cash costs (c.£50 million restructuring and c.£20 million Italy fine). In addition, we are still investing in facility and IT upgrades and we will be unwinding over time the historical management of working capital around period ends. As such, free cash flow (before disposal proceeds) in FY22 is expected to be significantly negative
- We are confident about our prospects for the markets we serve. We believe that with our improved strategic focus and operational delivery, and with efficiencies generated by the new operating model, we can significantly improve the Group's profitability, and most importantly its cash generation, over the medium term but this will take time to deliver

The improvements we are making

David Lockwood
CEO

Our new approach following our reviews

What the world looks like now:	Avincis expectations did not play out	UK civil nuclear opportunity smaller	Customers demand more	Evolving needs in the defence world

Created a new baseline

How are we responding:	Refreshed strategy	Aligning our portfolio	New operating model	Building a strong balance sheet	Rolling out new people and ESG strategy

Which will lead to:	A better place to work	Improved delivery for our customers	Meeting budgets	Improved quality of earnings	An appropriate balance sheet	Return to growth

A new management team and governance

Management team

- **Neal Misell** – Chief Executive, Aviation
- **Jack Borrett** – Group Company Secretary

Appointments since September 2020:

- **David Mellors** – Chief Financial Officer
- **Will Erith** - Chief Executive, Marine
- **Dominic Kieran** – Chief Executive, Nuclear (from Sept 2021)
- **Tom Newman** – Chief Executive, Land
- **Nikki Fox** – Chief Human Resources Officer
- **John Howie** – Chief Corporate Affairs Officer
- **Jon Hall** – Chief Innovation and Technology Officer
- **Collette McMullen** – Chief of Staff

Improving governance

- Clear ‘tone from the top’
- Regular drumbeat of performance reviews
- Improved risk management process
- Standardised internal financial reporting
- Improved financial controls
- Improved, standardised bid review process
- New Group-wide approach to project management and project reviews

A new operating model and culture

New operating model

- More efficient and effective business
- Simpler and flatter structure: from a maximum of 14 management layers in some parts of the business reduced to a maximum of 7 layers
- Remove duplication, especially in support functions
- The majority of the proposed 1,000 headcount reduction will be completed by the end of September: we are on target with most of our consultations

Realisable annual operating savings of approx. £40m

Developing a new culture

- A unifying company culture
- More collaboration across sectors
- Increased business flexibility and responsiveness
- Empowering our people through the flatter structure
- ESG a focus across the business

Our new people and ESG strategy

People strategy

- More collaboration, less complexity
- New purpose and culture
- Creating an agile and inclusive workplace
- Improving diversity
- New approach to talent, learning and performance
- Harmonising policies and processes

ESG strategy

- Net zero by 2040
- Sustainability to be part of programme design
- Providing high quality jobs and making a positive contribution to our communities
- Collaborative, trusted partner across the supply chain
- Ensuring the safety and wellbeing of all our people

A video on our people strategy

babcock

Our strategy and future

Our evolution

babcock

Marine

Nuclear

Land

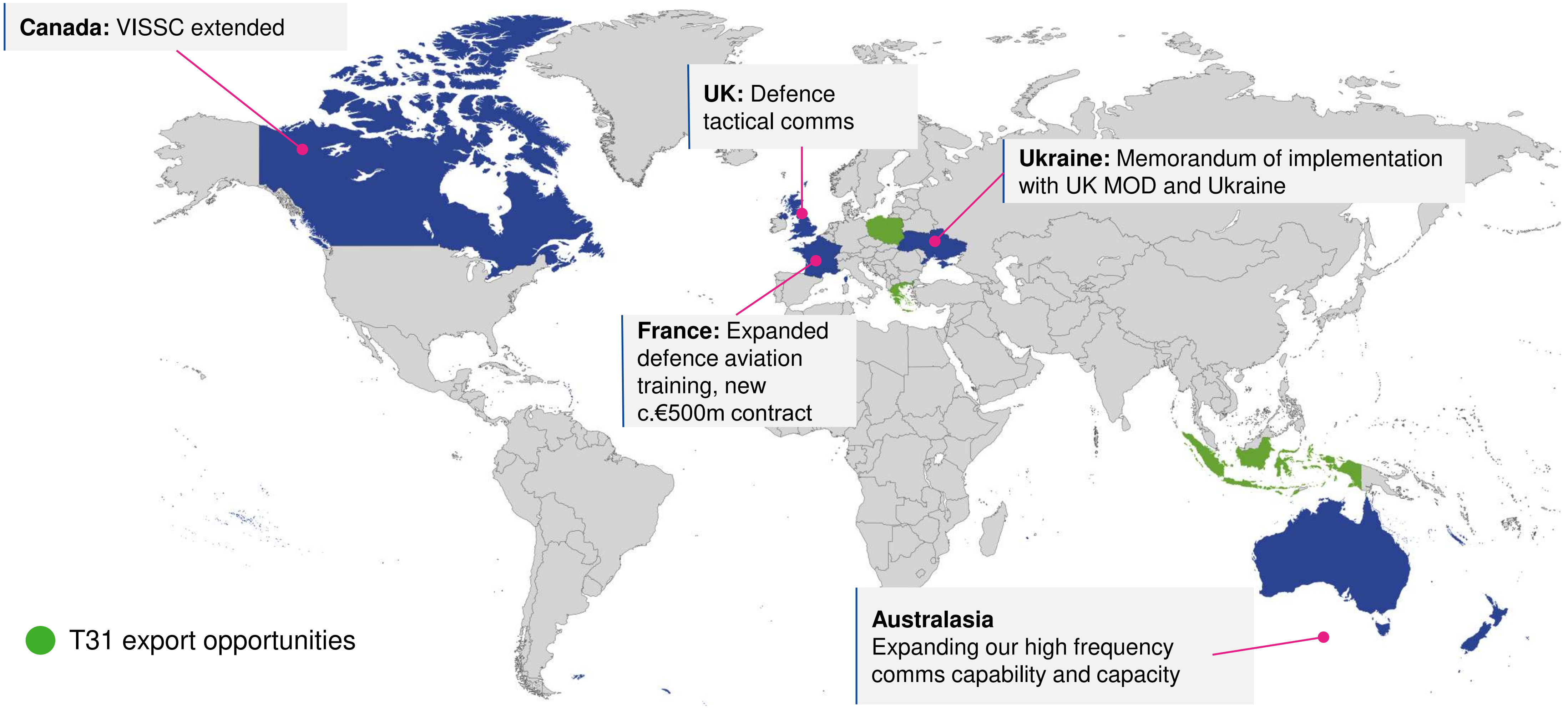
Aviation

	UK naval business	UK value add services	International
Strengths	• Own key assets • Deep technical expertise	• Technical expertise in critical and complex assets • Technical expertise in civil nuclear	• Strong niche positions • Highly competitive platforms, systems and products
Growth drivers	• Increase in defence budget • Shipbuilding • Infrastructure • Submarine support	• UK Land Industrial Strategy • National resilience and emergency response • Long term opportunities in civil nuclear	• 1st generation outsourcing • Equipment and systems growth • Potential for Type 31 exports • Strong military Aviation pipeline

Strategic actions

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

Progress since April and looking ahead



Key messages

1 Now have the appropriate financial baseline

2 Turnaround plan to restore Babcock to strength without the need for new equity

- Improvements to strengthen the Group including our new operating model

- Portfolio alignment to generate at least £400m and strengthen our balance sheet

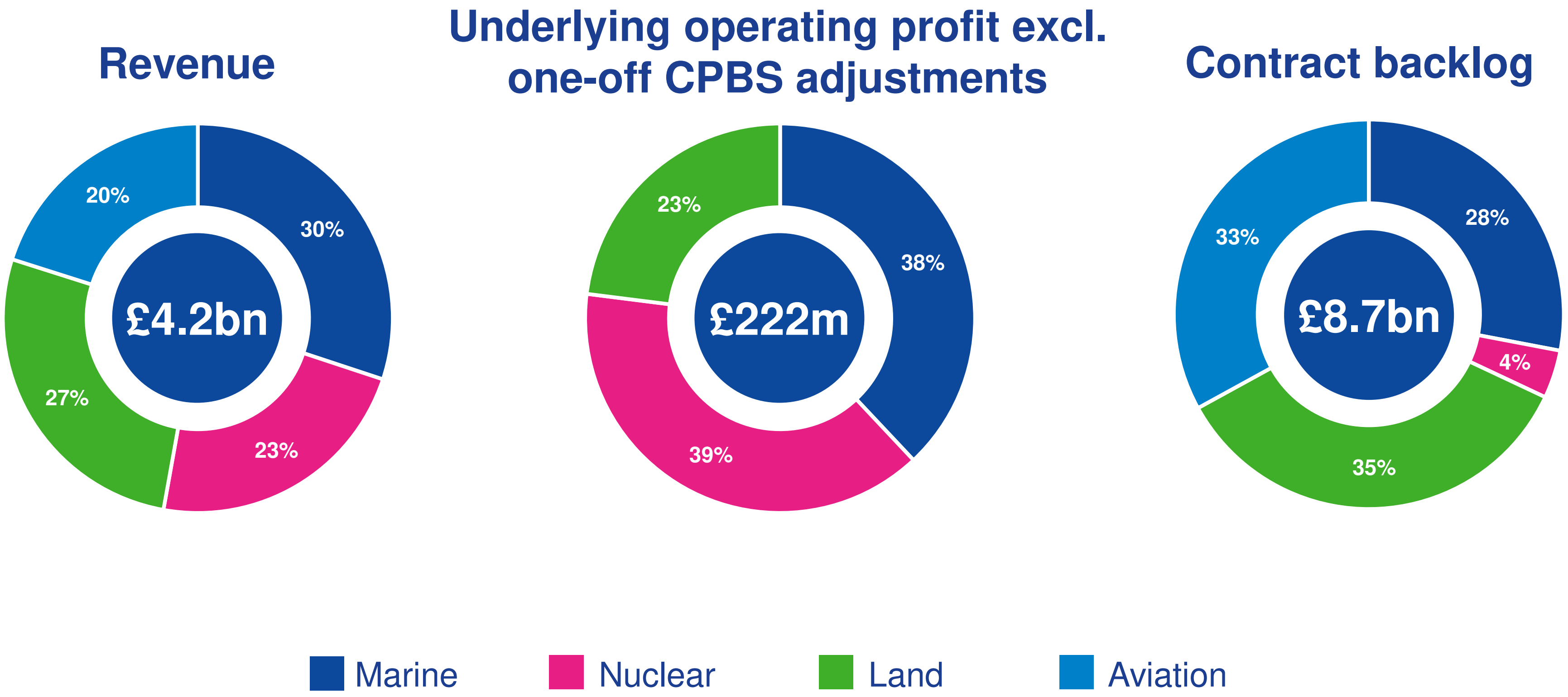
3 Exploring range of medium term opportunities

4 Aim to significantly improve profitability and cash generation over the medium term

Q&A

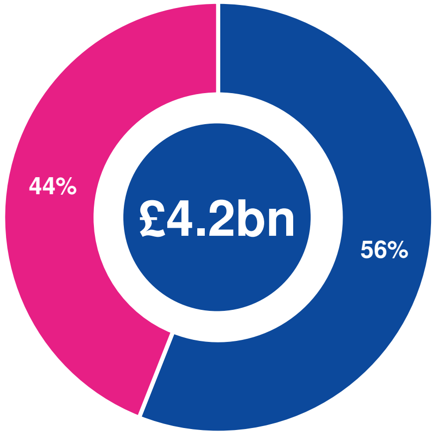
Appendix

FY21 results split by sector

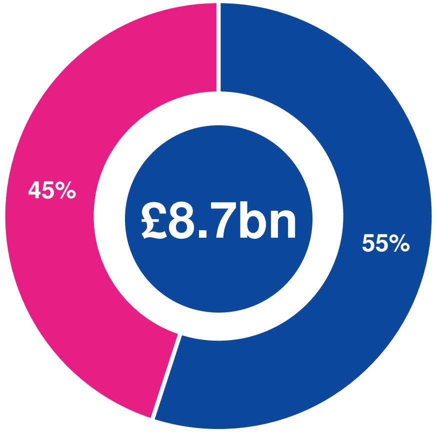


FY21 results split by market

Revenue

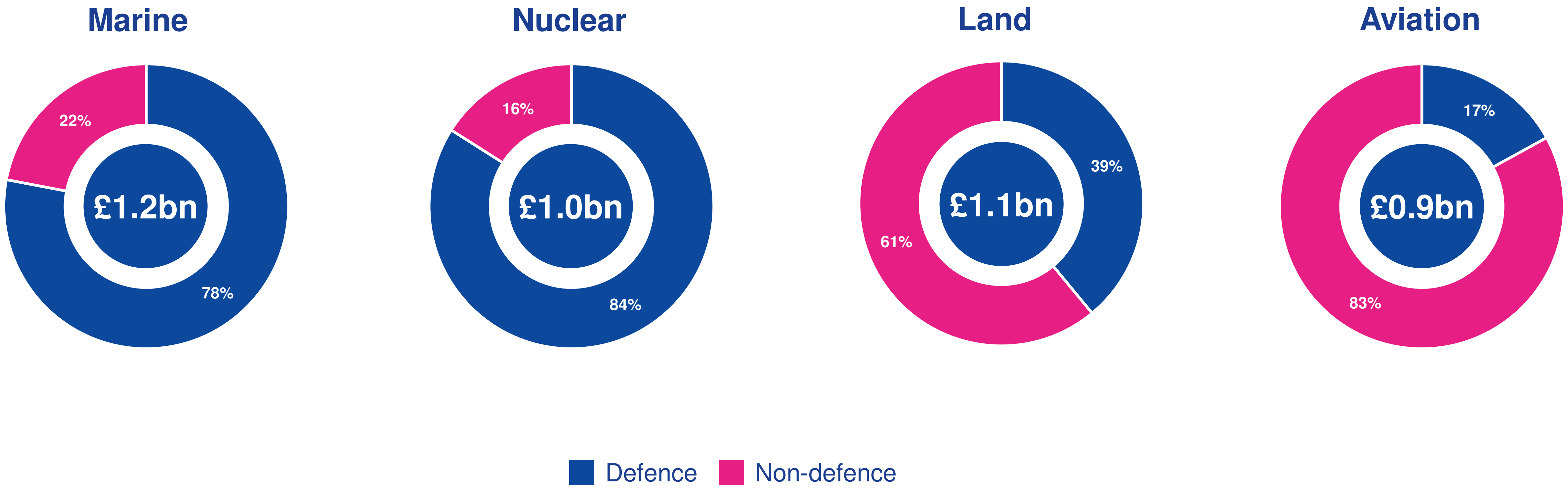


Contract backlog



Defence Non-defence

FY21 sector revenue splits



Statutory to underlying reconciliation

(£m)	FY21			FY20 restated		
	Underlying	Specific Adjusting Items	Statutory	Underlying	Specific Adjusting Items	Statutory
Revenue	**4,182.7**	**–**	**4,182.7**	**4,428.5**	**–**	**4,428.5**
Operating (loss)/profit	**(27.6)**	**(1,615.4)**	**(1,643.0)**	**377.6**	**(453.2)**	**(75.6)**
Share of results of joint ventures and associates	(13.1)	–	(13.1)	58.6	–	58.6
Investment income	0.9	–	0.9	1.1	–	1.1
Net finance costs	(62.1)	–	(62.1)	(73.0)	–	(73.0)
(Loss)/profit before tax	**(101.9)**	**(1,615.4)**	**(1,717.3)**	**364.3**	**(453.2)**	**(88.9)**
Income tax benefit/(expense)	(18.4)	33.7	15.3	(67.4)	40.5	(26.9)
(Loss)/profit after tax for the year	**(120.3)**	**(1,581.7)**	**(1,702.0)**	**296.9**	**(412.7)**	**(115.8)**
Basic EPS	**(23.8)p**		**(337.0)p**	**58.4p**		**(23.3)p**
Diluted EPS	**(23.8)p**		**(337.0)p**	**58.3p**		**(23.3)p**

Note: FY21 underlying operating profit excluding one-off CPBS adjustments was £222.4m

FY21 underlying EPS calculation excl. one-off CPBS

	Underlying (excl. one-off CPBS)
Underlying operating (loss)/profit	**222.4**
Investment income	0.9
Finance costs	(62.1)
Underlying PBT (excl. JVs)	**161.2**
Income tax based on an underlying ETR @ 21%	(33.9)
Share of JV and associates (net of tax)	18.4
Non controlling interests	-
Net Income	**145.7**
Weighted average number of shares	505.0
EPS basic	**28.9**

CPBS impacts on income statement

£m	FY21			FY20		
	Underlying	Specific adjusting items	Statutory	Underlying	Specific adjusting items	Statutory
Operating profit	**(274.7)**[1]	**(1,540.8)**	**(1,815.5)**	**(39.8)**	**129.1**	**89.3**
JVs & associates	(37.1)[2]	-	(37.1)	-	-	-
PBT	**(311.8)**	**(1,540.8)**	**(1,852.6)**	**(39.8)**	**129.1**	**89.3**
Tax adjustments	(7.5)	-	(7.5)	(12.4)	-	(12.4)
Tax effect	29.3	17.1	46.4	3.0	(2.5)	0.5
Loss after tax impacts	**(290.0)**	**(1,523.7)**	**(1,813.7)**	**(49.2)**	**126.6**	**77.4**
Prior year restatements			(230.7)			(308.1)
Total CPBS			**(2,044.4)**			**(230.7)**

1. Underlying operating profit one-off CPBS adjustments = £250.0m, recurring CPBS adjustments = £24.7m
2. JVs & associates one-off CPBS adjustments = £31.5m, recurring CPBS adjustments = £5.6m

Net debt / EBITDA (covenant basis)

(£m)	FY21	FY20 restated
Underlying operating profit excl. one-off CPBS adjustments	**222**	**378**
Depreciation and amortisation	108	91
Other covenant adjustments	(12)	(17)
EBITDA	**319**	**452**
JV and associate dividends	37	52
EBITDA + JV and associate dividends	**355**	**504**
Net debt	**(772)**	**(1,055)**
Covenant adjustments (adding back finance lease receivables, loans to JVs, avg FX)	(104)	(95)
Net debt (covenant basis)	**(875)**	**(1,150)**
Net debt / EBITDA	**2.5x**	**2.3x**

Joint ventures: summary

	Babcock underlying JVs	Share	Country	Sector	Start	End
Asset JVs	Ascent	50%	UK	Aviation	2016	2033
	AirTanker	15%	UK	Aviation	2008	2035
	Bernhard Schulte	50%	Germany	Marine	2017	2027
Operational JVs	Naval Ship Management Australia	50%	Australia	Marine	2018	2024
	AirTanker Services	22%	UK	Aviation	2008	2035

Asset JVs

- Typically assets and debt
- Dividends follow after paying down JV debt
- Typically long-term

Operational JVs

- Capability partnerships
- No debt
- Dividends follow profits, subject to short-term phasing

Pensions

IAS 19 position

(£m)	FY21	FY20
Assets	**4,785**	4,411
Obligations	**(5,078)**	(4,266)
Net surplus / (deficit)	**(293)**	145

Key assumptions	FY21	FY20
Discount rate	**2.0%**	2.4%
Inflation (RPI)	**3.2%**	2.6%

Movement in IAS 19 net position due to:

- Reduction in corporate bond yields
- Higher inflation assumptions

Technical provisions position

March 2021:	**c.£300m deficit**
March 2020:	c.£500m deficit

Why different to IAS 19 position:

- RPI reform changes not yet fully allowed for in funding valuations
- Lower corporate bond yields impact IAS 19 position

Why the actuarial deficit has decreased in FY21:

- Gilt yield rates have fallen
- Hedging has mitigated the impact of increase in inflation expectations

Cash payments:

- Pension contributions in excess of income statement: **£74m** in FY20, around **£130m** expected in FY22
- Normal additional payments included in underlying free cash flow

Key contracts: Marine

Contract	Customer	Start	End	Country	Notes
Type 31	UK MOD	2019	2028	UK	Design, build and assembly of five general purpose frigates for the Royal Navy
Maritime Support Delivery Framework (MSDF)	UK MOD	2014	2021	UK	Ship through-life management and support delivery for the Royal Navy *Will be replaced by the Future Maritime Support Programme (FMSP)*
Victoria In Service Support Contract (VISSC)	RCN	2008	2023	Can	Victoria In Service Support Contract to sustain Royal Canadian Navy's submarine programme
Marine Systems Support Partner (MSSP)	UK MOD	2017	2024	UK	Technical Authority and equipment support package for QEC aircraft carriers and T45 classes
Dreadnought systems	UK MOD	2006	2031	UK	A suite of contracts to design and manufacture weapons handling launch systems and signal ejectors for the UK's Dreadnought Class submarine build programme
NZ dockyard management	RNZN	2015	2022	NZ	Management of Devonport Dockyard in Auckland and sustainment of Royal New Zealand Navy fleet
UK/US CMC tube assemblies	General Dynamic	2014	2026	UK/US	Manufacturing tube assemblies for the joint UK US submarine programme to be used in the common missile compartments (CMC) for Dreadnought and Columbia Class submarines
Defence High Frequency Comms	UK MOD	2003	2021	UK	Operate high-tech equipment to transmit and receive messages for UK and NATO forces around the globe
Canberra Class support (NSM JV)	RAN	2019	2025	Aus	Support contract for the Royal Australian Navy's two largest warships, the Canberra Class Landing Helicopter Docks (LHDs) five-year contract with two five-year options (through our NSM JV)
Warship Asset Management Agreement (WAMA) (NSM JV)	RAN	2018	2024	Aus	Sustainment of the Royal Australian Navy's ANZAC class frigates (through our NSM JV)

Key contracts: Nuclear

Contract	Customer	Start	End	Country	Notes
MSDF	UK MOD	2014	2021	UK	Nuclear submarine, infrastructure and license site elements of MSDF *Will be replaced by the Future Maritime Support Programme (FMSP)*
10 Dock Assessment Phase	UK MOD	2019	2021	UK	Programme management and design phase activity for the upgrade works to Devonport Dockyard's 10 Dock to enable future deep maintenance for Astute Class submarines
Future Submarine Design Phase Services Contract	UK MOD	2012	2023	UK	Contract to deliver design support services for the future Dreadnought Class submarine fleet
EDF Energy Lifetime Enterprise Agreement	EDF	2015	2030	UK	Framework agreement providing fuel route and other services to advanced gas cooled reactors until the last of seven reactors ceases power generation in 2028
Hinkley Point C – MEH Alliance	EDF	2019	2028	UK	JV alliance to deliver mechanical, electrical, heating, ventilation and air conditioning at Hinkley Point C
Sellafield Glove boxes	Sellafield	2017	2027	UK	Glove box systems to process nuclear material

Key contracts: Land

Contract	Customer	Start	End	Country	Notes
DSG - Defence Support Group	UK MOD	2015	2025	UK	Maintenance, repair and overhaul to over 35,000 vehicles of the British Army's A and B vehicle fleets. Option for five, one-year extensions
Phoenix II – White fleet	UK MOD	2016	2022	UK	Fleet management services for the MOD's c.15,000 vehicle white fleet, including procurement of vehicles and services
RSME - Royal School of Mechanical Engineers	Holdfast	2008	2038	UK	Provision of training and associated support services for the UK MOD
Control Period 6&7	Network Rail	2019	2029	UK	Track and rail systems projects in Scotland through an Alliance with Network Rail
National Grid	National Grid	2021	2026	UK	Supporting new build, reconductoring, refurbishment, decommissioning and dismantling work for the high voltage overhead line network in England and Wales
Eskom power support	Eskom	2011	2021	South Africa	Maintenance and engineering support for the national power generator, Eskom, on their existing and new-build power stations with option to extend to 2022
London Metropolitan Police Service (MPS) fleet management	MPS	2006	2022	UK	Managing and overseeing the repair and maintenance for the fleet, and specialist equipment
London Metropolitan Police Service (MPS) training	MPS	2020	2028	UK	Policing Education Qualifications Framework (PEQF) providing initial training to police recruits
London Fire Brigade (LFB) fleet management	LFB	2014	2035	UK	Technical fleet management of over 400 LFB vehicles and around 45,000 pieces of firefighting equipment
London Fire Brigade (LFB) training	LFB	2012	2037	UK	Delivering over 200 training programmes to c.5,000 firefighters from two state of the art facilities, 97,000 delegate days of training per annum

Key contracts: Aviation

Contract	Customer	Start	End	Country	Notes
Victoria Air Ambulance	Victoria Gov	2016	2026	Australia	Helicopter Emergency Medical Services (HEMS) contract with six specially configured AW139 aircraft
Salvamento Sasemar	Spanish Coastguard	2018	2022	Spain	Spanish coastguard search and rescue contract, 14 aircraft, 13 bases. Option to extend by further two years
Italy Firefighting	Ministry of Interior	2018	2022	Italy	Operation and maintenance of 19 Government owned CL-415 Canadair aircraft. Option to extend by further four years
Hades air base support	UK MOD	2018	2023	UK	Provision of engineering services and technical aviation support to 17 air stations across the UK
Hawk T1&T2	BAE Systems	2004	2022	UK	Delivering engine maintenance and technical support for 54 Hawk T1 jets supporting the RAF's advanced jet training programme, T1 to be taken out of service but potential for a follow on T2 contract for a minimum of four years
H160 French Navy SAR	French DOD	2021	2032	France	Providing six H160 helicopters, technical modifications and through-life support for the French Navy search and rescue operations
Light Aircraft Flying Task II (LAFT)	UK MOD	2009	2022	UK	Provision of 91 aircraft, instructors and services to deliver RAF air squadrons up to 35,000 flying training hours across 14 sites, discussions ongoing for a five-year extension with up to three additional years
Manitoba - Firefighting	Manitoba state Government	2018	2028	Canada	Firefighting in Manitoba operated with Babcock surveillance aircraft and customer owned Canadair water bombers. Option to extend by further three years
FOMEDEC	French DOD	2017	2028	France	Provision of aircraft, training support and maintenance to the French Air Force
Mentor	French DOD	2021	2027	France	Provision of aircraft, training support and maintenance to the French Air Force contract includes five one-year options for extension
UK Military Flying Training System (UKMFTS) (Ascent JV)	UK MOD	2008	2033	UK	Ascent 50/50 JV with Lockheed Martin - rotary and fixed-wing flight training
Future Strategic Tanker Aircraft (FSTA) (AirTanker JV)	UK MOD	2008	2035	UK	JV with Thales, Rolls-Royce and Airbus. Infrastructure that supports air-to-air refueling and air-transport operations

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