babcock™

# Babcock International Group PLC full year results for the year ended 31 March 2022

**28 July 2022**

## Strong progress in first year of turnaround

### Statutory results

| | 31 March 2022 | 31 March 2021 (restated)* |
|---|---|---|
| Revenue | £4,101.8m | £3,971.6m |
| Operating profit/(loss) | £226.8m | £(1,736.7)m |
| Basic earnings/(loss) per share | 32.5p | (357.0)p |
| Cash generated from operations | £41.8m | £475.4m |

### Underlying results (note ii)

| | 31 March 2022 | 31 March 2021 (restated)* |
|---|---|---|
| Contract backlog *(note iii)* | £9.9bn | £8.2bn |
| Underlying operating profit/(loss) *(note iv)* | £237.7m | £(27.9)m |
| *of which one-off contract profitability and balance sheet (CPBS) adjustments (note v)* | *–* | *£(250.0)m* |
| *Operating profit excluding one-off CPBS adjustments* | *£237.7m* | *£222.1m* |
| *Operating margin excluding one-off CPBS adjustments* | *5.8%* | *5.5%* |
| Underlying basic earnings/(loss) per share | 30.7p | (24.6)p |
| Free cash flow | £(191.3)m | £169.6m |
| Net debt | £968.7m | £1,352.4m |
| Net debt excluding operating leases | £556.7m | £770.3m |
| Net debt/EBITDA (covenant basis) | 1.8x | 2.4x |

* Prior-year restatement is outlined in note i on page 3. Refer to Note 3 of the preliminary financial statements for more details

### David Lockwood, Chief Executive Officer, said:

*"The first year of our turnaround has seen us deliver as we said we would, despite geopolitical volatility and a challenging economic environment. We have successfully stabilised the business; strengthening our balance sheet and driving cultural change across the Group.*

*"The demand for our solutions remains strong, with significant contract wins in the year, and we see more opportunities ahead. When we perform as we should, we offer our customers availability, affordability and capability; enabling them to deliver for their stakeholders in this uncertain world. I am encouraged by our progress this year, but I am determined to continue to drive increasingly profitable growth and improved cash flow in FY23 and beyond."*

### Financial highlights *(note ii)*

- **Contract backlog** up 21% to £9.9 billion, including £3.1 billion of the c.£3.5 billion Future Maritime Support Programme (FMSP) contract
- **Revenue** up 5% organically to £4,102 million, excluding one-off CPBS adjustments of £88 million in FY21. Increase driven by recovery from COVID-19 impacts in the prior year across the Group and growth in Marine and Nuclear
- **Underlying operating** profit of £237.7 million was up 13% organically, excluding one-off CPBS adjustments of £250m in FY21. This reflects revenue growth, COVID-19 recovery, and improved performance from our new operating model, including achieving our target savings of £20 million (£40 million annualised). Improved profitability in Marine, Land and Aviation offset a decline in Nuclear, due to £22 million contract write-off
- **Group underlying operating margin** increased 30bp to 5.8%
- **Statutory operating profit** of £226.8 million compares to a £1,736.7 million loss in FY21, which included £1,815.5 million of charges from the CPBS review
- **Underlying basic earnings per share** of 30.7p (FY21: (24.6)p) up significantly, reflecting higher profitability and one-off CPBS adjustments in the prior year
- **Underlying free cash flow** of £(191.3) million better than expected due to lower net capex and a cash tax inflow from the settlement of open years with the authorities. Also, the favourable timing of customer receipts and prepayments, allowed us to accelerate the unwind of the past practice of period end working capital management
- **Balance sheet strengthened:** Net debt to EBITDA (covenant basis) down to 1.8x (FY21: 2.4x) in line with FY22 target of below 2.0x

## Strategy – strong progress on FY22 priorities

- **Portfolio – focused the group:** Generated gross proceeds of £447 million from four completed disposals, above our targeted minimum of £400 million. Disposal of part of our Aerial Emergency Services (AES) business signed in July 2022 after year end for a cash consideration of c.£115 million. Footprint expanded in Australia with acquisition of the remaining 50% interest in our Australian Naval Ship Management (NSM) joint venture
- **Operating model – implemented:** Streamlining processes and structures and improving controls drove a c.£20 million benefit in FY22 (c.£40 million annualised), as expected. Internal business reporting lines flattened. We continue to focus on improved execution to deliver efficiencies
- **People strategy - culture transforming:** New people strategy developed, including roll-out of Group Principles and agile working
- **ESG strategy – developing:** Expanded our corporate commitments to incorporate broader environmental targets and created new policies and guidance to support the governance of our sustainability programmes
- **Growth – developing opportunities:** Good order momentum including the signing of export agreements with Indonesia and Poland for the Arrowhead 140 (AH140) naval ship design (the base for the UK's Type 31 programme) and new defence contracts in Australia, France and the UK (see below).

## Business development

- **Contract backlog** at 31 March 2022 was up 21% at £9.9 billion (FY21 restated: £8.2 billion). FY21 was restated for the removal of pass-through revenue of around £0.6 billion. Excluding disposals of around £0.7 billion, backlog up 32%
- **Significant wins:**
  - FMSP, a c.£3.5 billion five-year contract award (of which c.£3.1 billion has been booked), continues our through-life, naval engineering support for the UK Royal Navy across ships, submarines and naval bases
  - Contract for defence aviation training activities in France worth up to €500 million over 11 years (including options). c.€170 million booked
  - c.£100 million, nine-year contract to deliver the new Defence Strategic Radio Service (DSRS) for critical UK MOD operations
  - c.£100 million, 13-year, contract for the design, manufacture, delivery, commissioning and in-service support to the Maritime Electronic Warfare Systems Integrated Capability (MEWSIC)
  - 10-year contract to provide dry-dock maintenance for the Royal Navy's Queen Elizabeth class (QEC) aircraft carriers
  - Naval exports – secured two design contracts for our AH140 frigate: a two-ship licence order for Indonesia and selection by Poland for its MIECZNIK (Swordfish) three-ship frigate programme
  - Selected by the Australian Government as the preferred tenderer to upgrade and sustain the Defence High Frequency Communication System (DHFC) to support the Australian armed forces over at least the next decade

## Outlook

- **Market:** The market backdrop is very dynamic. Rising geopolitical uncertainty has led to increased national defence requirements and potentially more opportunities, while macro factors such as inflation and supply chain stress increase delivery challenges
- **Inflation:** The Group's main exposure to inflation is via rising employment costs. We have sought to manage the short-term impact of inflation through an innovative and progressive pay deal with our UK workforce (details on page 5), which gives us visibility around the near-term cost base. We plan to offset this and other input cost inflation through operating improvements and efficiencies as we further embed our new operating model
- **Free cash flow:** We have taken material steps to address the balance sheet and quality of our cash flows. We expect cash outflows associated with items such as pension deficit catch-up payments and the unwind of historical management of working capital at period end to reduce significantly in FY23
- **Balance sheet:** Having achieved our previous target of leverage under 2.0x, we are now implementing a medium-term gearing ratio target of 1.0x to 2.0x, although we expect the ratio could increase above 2.0x in the short term. This reflects the pension deficit catch-up payments (c.£100 million) and unwind of the remaining historical creditor deferrals (c.£45 million), the bulk of which are expected within the first half of FY23
- **FY23 and beyond:** The second year of our turnaround will build on the strategic actions taken in FY22, with a focus on execution and growth, including an expected c.£20 million further restructuring benefit. As we continue to make further operational progress through the disciplined execution of our strategy, the Board is confident of delivering on its expectations of increasingly profitable growth and improved cash flow for FY23 and into the medium term

## Results presentation:

A presentation for investors and analysts will be webcast live on 28 July 2022 at 8:30 am (UK time). The presentation will be webcast live at www.babcockinternational.com/investors and subsequently will be available on demand at www.babcockinternational.com/investors/results-and-presentations. A transcript of the presentation and Q&A will also be made available on our website.

## For further information:


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## Notes to statutory and underlying results on page 1

**Note i – Prior year adjustments:** The Group has re-examined the presentation of revenue and cost of revenue in relation to pass-through revenue on three of the Group's contracts. The Group had previously taken the judgement that it acted as a principal in these arrangements, informed by the contractual terms and practical delivery of the contract to the customer. This approach was disclosed as a judgemental area in the FY21 annual report. Following the transition to the Group's new auditors, this has been further considered and the Group has reassessed this judgement, which had always been a finely balanced one. This change of judgement, and the resultant accounting policy, means that revenue and cost of revenue are now presented net for these contracts. Restatement of the financial information in accordance with the new accounting policy results in a decrease in revenue and a decrease in cost of revenue of £211.1 million in the year ended 31 March 2021 (no impact on profit).

In April 2021 the IFRS Interpretations Committee (IFRIC) published an agenda decision which clarified how a customer should account for the costs of configuring or customising the supplier's application software in a Software-as-a-service arrangement. This resulted in a small increase to administration and distribution costs of £0.3 million for year ended 31 March 2021. This is expected to result in higher up-front expenses in future years as certain IT implementation costs that would have previously been capitalised and amortised, will now be immediately expensed.

Further detail on prior year restatements is given in Note 3 to the preliminary financial statements.

**Note ii – Alternative performance measures:** The Group provides alternative performance measures, which we use to monitor the underlying performance of the Group. These measures are not defined by International Financial Reporting Standards (IFRS) and are therefore considered to be non-GAAP (Generally Accepted Accounting Principles) measures. The Group has defined and outlined the purpose of its alternative performance measures in the Financial Glossary starting on page 24. The Group's alternative performance measures are consistent with the year ended 31 March 2021 except for Contract Backlog which is redefined to be consistent with the revenue accounting policy change (note (i) above). Contract backlog now excludes future revenues where we are assessed as agent rather than principal (i.e. pass-through revenue).

**Note iii – Contract backlog:** Contract backlog represents amounts of future revenue under contract. This measure does not include £3.2 billion of work expected to be done by Babcock as part of framework agreements (FY21: £5.3 billion).

**Note iv – Underlying operating profit:** Underlying operating profit is a key alternative performance measure (described in note ii) for the Group. It is defined as IFRS statutory operating profit adjusted for specific adjusting items. See page 9 for a reconciliation of underlying operating profit to statutory operating profit and Note 2 of the preliminary financial statement for an analysis of specific adjusting items.

**Note v – Contract profitability and balance sheet review ('CPBS'):** The Group's CPBS in FY21 resulted in various adjustments, including in-year estimate changes, reversing FY20 errors and changes in accounting policies. Reference is made throughout this document to the CPBS last year and its impact. Commentary in this document often discusses performance before the one-off CPBS adjustments in FY21 to better reflect the year-on-year differences in performance across the Group. Going forward we will not report on this basis as there will be no CPBS year-on-year impact.

# CEO STATEMENT

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

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

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

## Stabilise - strategic actions update

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

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

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

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

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

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

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

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

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

## Execution

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

## Growth

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

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

- Availability – Our customers require high utilisation of complex assets, from ships and submarines in our Marine and Nuclear sectors to military and emergency services aircraft and vehicles in Aviation and Land. Our fleet support and sustainment models are increasingly geared to higher-value-add availability-based solutions designed to optimise asset utilisation and reduce lifetime costs.

- Affordability – Our customers are also demanding value for money on support programmes and new platforms. Our deep understanding of our customers' needs, and our ability to bring suppliers and technologies together to deliver an integrated solution, enable us to provide the affordability and flexibility they require.

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

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

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

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

### Inflation

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

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

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

## Health and safety performance in the year

The appointment of a Global Safety, Health and Environmental Protection Director, and formation of a central team, has brought additional focus to the safety improvement programme. We have strengthened our governance and introduced an electronic global safety information management system. The Group's Total Recordable Injury Rate (TRIR) in FY22, which includes work-related injuries requiring medical treatment, has reduced from 0.89 injuries for every 200,000 hours worked to 0.75 over the year, with a reduction in the number of these types of accidents of 18% against 2021. However, we have also seen a 5% increase in work-related injuries that resulted in personnel needing at least one day away from work. We continue to work hard to reduce the number of injuries and illnesses as a result of our activities.

## Summary of financial performance in FY22

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

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

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

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

## Trading in first quarter of FY23

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

## Outlook

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

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

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

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

## Delivering for all our stakeholders

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

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

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

**David Lockwood OBE**
Chief Executive Officer

* FY21 underlying EPS excluding one-off CPBS adjustments was corrected on 29 July 2022 as per RNS No: 3212U

# OTHER INFORMATION

## Dividend

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

## AGM

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

## Board changes

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

Russ Houlden will retire as a Non-Executive Director in July 2022 after two years of service, and our 2022 AGM will see Non-Executive Director and Remuneration Committee Chair Kjersti Wiklund retire from the Board after four years of service.

Myles Lee and Victoire de Margerie retired as Non-Executive Directors at the AGM in September 2021 after six and five years of service respectively.

# FINANCIAL REVIEW

## Overview

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

## Group statutory results

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

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

### Statutory performance

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

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

Other income of £6.2 million (FY21: £nil) related to pre-completion guarantee fees received in relation to one of the divested businesses during the year.

The share of results of joint ventures (JVs) and associates was higher than the prior year, mainly due to the CPBS loss in FY21 of £37.1 million.

Other net finance costs increased to £71.6 million (FY21: £62.1 million), with lower net interest costs due to lower average debt and reduced IFRS 16 lease interest, more than offset by a £7.1 million higher pension finance charge and a one-off, non-cash finance charge on derivative instruments of £9.6 million.

Profit before tax was £182.3 million (FY21: £1,811.0 million loss). Basic earnings per share, as defined by IAS 33, was 32.5 pence (FY21: (357.0) pence) per share.

A full income statement can be found on page 31.

## Underlying results

### Statutory to underlying

As described in the 'Financial Glossary – alternative performance measures' on page 24, the Group provides underlying measures to better understand the performance and earnings trends of the Group. Underlying operating profit and underlying earnings per share exclude certain specific adjusting items that can distort the reporting of underlying business performance, as set out in Note 3 of the preliminary financial statements on page 40. The reconciliation from the IFRS statutory income statement to underlying income statement is shown below:

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

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

### Specific adjusting items

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

## Underlying results excluding one-off CPBS adjustments in FY21

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

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

* Refer to Note 3 of the preliminary financial statements for details regarding the prior-year restatement
** Estimated in FY21 based on an underlying effective tax rate of 21%
*** FY21 underlying EPS excluding one-off CPBS adjustments was corrected on 29 July 2022 as per RNS No: 3212U

## Revenue performance

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

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

Revenue for the year was £4,101.8 million, 5% higher than last year on an organic basis excluding one-off FY21 CPBS adjustments, foreign exchange and the impact of acquisitions and disposals. All sectors grew organically driven by recovery from COVID-19 impacts in the prior year, with further underlying growth in Marine from the ramp-up of new and early-stage contracts, including Type 31, and in Nuclear, from additional submarine infrastructure activity. See sector operational reviews on pages 18 to 23.

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

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

## Underlying operating profit performance

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

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

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

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

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

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

Further analysis of our revenue and underlying operating profit performance is included in each sector's operating review on pages 18 to 23.

### Share of results of joint ventures and associates

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

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

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

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

### Underlying finance costs

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

### Tax charge

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

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

### Underlying earnings per share

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

### Exchange rates

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

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

### Disposal programme

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

* FY21 underlying EPS excluding one-off CPBS adjustments was corrected on 29 July 2022 as per RNS No: 3212U

# Cash flow and net debt

## Statutory cash flow summary

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

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

### Cash flows from operating activities

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

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

### Cash flows from operating activities

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

### Cash flows from financing activities

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

A full cash flow statement can be found on page 34.

## Movement in net debt

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

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

## Underlying cash flow and net debt

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

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

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

## Underlying cash performance

### Underlying operating cash flow

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

### Movements in working capital

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

### Capital expenditure

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

### Lease principal payments

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

### Pensions

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

### Interest

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

### Taxation

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

### Dividends from joint ventures and associates

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

### Exceptional cash flows

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

### Underlying free cash flow

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

### Acquisitions and disposals

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

### New lease arrangements

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

## Net debt

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

## Funding and liquidity

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

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

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

## Capital structure

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

### Net debt to EBITDA (covenant basis)

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

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

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

[1]Various adjustments made to EBITDA to reflect accounting standards at the time of inception of the original RCF agreement. The main adjustments are to the treatment of leases within operating profit and pension costs

[2]Removing loans to JVs, finance lease receivables and adjusting for an average FX rate for the previous 12 months

### Interest cover (covenant basis)

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

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

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

### Return on invested capital, pre-tax (ROIC)

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

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

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

## Pensions

The Group has a number of defined benefit pension schemes. The principal defined benefit pension schemes in the UK are the Devonport Royal Dockyard Pension Scheme, the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme (the Principal schemes).

### IAS 19

At 31 March 2022, the IAS 19 valuation for accounting purposes was a net surplus of £191.7 million (FY21: a deficit of £(278.9) million). Pension liabilities reduced by £361.1 million to £4,541.4 million, primarily as result of higher discount rates. Scheme contributions and positive net asset returns drove a c.£110 million increase in the fair value of plan assets to £4,733.1 million, net of £(283.5) million longevity swaps. The fair value of the assets and liabilities of the Group pension schemes at 31 March 2022 and the key assumptions used in the IAS 19 valuation of our schemes are set out in note 18 of the preliminary statement.

In the year ended 31 March 2022, the Group made three prior-year adjustments to the IAS 19 valuation: a changed methodology to value the longevity swaps; use of the actual known rate of pension increase, rather than the long-term inflation assumption; and actuarial roll-forward for multiple years of the Babcock Naval Services Pension Scheme (BNSPS). Further details are included in note 18.

| | 31 March 2022<br>£m | 31 March 2021<br>(restated)*<br>£m |
|---|---|---|
| Fair value of plan assets | 4,733.1 | 4,623.6 |
| Present value of benefit obligations | (4,541.5) | (4,902.5) |
| Net surplus/(deficit) at 31 March | 191.6 | (278.9) |

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

### Income statement charge

The charge included within underlying operating profit in FY22 was £38.5 million, of which £31.1 million related to service costs and £7.4 million related to expenses. In addition to this, there was an interest charge of £3.7 million. For FY23, we expect charges included within underlying operating profit of around £33 million, split between £26 million of service costs and £7 million of expenses, and an interest credit of £7 million on the surplus.

### Actuarial valuations

An estimate of the actuarial deficits of the Group's defined benefit pension schemes, including all longevity swap funding gaps, calculated using each Scheme's respective technical provisions basis, as at FY22 was approximately £350 million (FY21: c.£580million), such valuations use discount rates based on UK gilts – which differs from the corporate bond approach of IAS 19. This technical provision estimate is based on the assumptions used within the latest agreed valuation prior to 31 March 2022 for each of the three main schemes and does not fully allow for the impact of RPI reform which will be fully reflected in future technical provisions valuations.

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

### Cash contributions

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

| | 31 March 2023e<br>£m | 31 March 2022<br>£m | 31 March 2021<br>£m |
|---|---|---|---|
| Future service contributions | 19.9 | 21.1 | 24.2 |
| Deficit recovery | 88.3 | 135.2 | 51.6 |
| Longevity swap | 15.6 | 16.8 | 16.3 |
| Total cash contributions — employer | 123.8 | 173.1 | 92.1 |

## Subsequent events

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

# OPERATIONAL REVIEWS

## Marine

| | 31 March 2022 | 31 March 2021 (restated)* |
|---|---|---|
| Contract backlog | £2.5bn | £2.5bn |
| Revenue | £1,259.3m | £1,230.6m |
| Underlying operating profit | £98.0m | £56.2m |
| *of which CPBS one-off adjustment* | *-* | *£(28.9)m* |
| *Underlying operating profit excluding CPBS one-off adjustment* | *£98.0m* | *£85.1m* |
| *Underlying margin excluding CPBS one-off adjustment* | *7.8%* | *6.9%* |

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

*Revenue and underlying operating profit bridge:*

| | 31 March 2021 (restated)* £m | One-off CPBS adj. £m | 31 March 2021 restated (excl. one-off CPBS) £m | FX Impact £m | Acquisitions and disposals £m | COVID-19 recovery (estimated) £m | Pension charge £m | Other trading £m | 31 March 2022 £m |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 1,230.6 | 8.6 | 1,239.2 | (0.6) | (24.3) | (10.2) | - | 55.2 | 1,259.3 |
| Underlying operating profit | 56.2 | 28.9 | 85.1 | (1.1) | (4.6) | 15.9 | (2.9) | 5.6 | 98.0 |

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

### Financial review

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

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

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

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

### Operational review

#### UK defence

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

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

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

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

## International defence

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

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

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

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

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

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

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

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

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

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

## Nuclear

| | 31 March 2022 | 31 March 2021 (restated)* |
|---|---|---|
| Contract backlog | £2.8bn | £0.4bn |
| Revenue | £1,009.7m | £975.9m |
| Underlying operating profit | £62.4m | £63.8m |
| *of which CPBS one-off adjustment* | *-* | *£(23.4)m* |
| *Underlying operating profit excluding CPBS one-off adjustment* | *£62.4m* | *£87.2m* |
| *Underlying margin excluding CPBS one-off adjustment* | *6.2%* | *8.9%* |

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

*Revenue and underlying operating profit bridge:*

| | 31 March 2021 (restated)* £m | One-off CPBS adj. £m | 31 March 2021 restated (excl. one-off CPBS) £m | FX Impact £m | Acquisitions and disposals £m | COVID-19 recovery (estimated) £m | Pension charge £m | Other trading £m | 31 March 2022 £m |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 975.9 | 2.2 | 978.1 | - | - | 0.4 | - | 31.2 | 1,009.7 |
| Underlying operating profit | 63.8 | 23.4 | 87.2 | - | - | 2.1 | (0.3) | (26.6) | 62.4 |

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

### Financial review

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

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

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

### Operational review

#### Defence

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

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

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

#### Civil

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

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

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

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

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

# Land

| | 31 March 2022 | 31 March 2021 (restated)* |
|---|---|---|
| Contract backlog | £2.3bn | £2.4bn |
| Revenue | £1,015.5m | £910.7m |
| Underlying operating (loss) / profit | £58.8m | £(17.5)m |
| *of which CPBS one-off adjustment* | *-* | *£(69.3)m* |
| *Underlying operating profit excluding CPBS one-off adjustment* | *£58.8m* | *£51.8m* |
| *Underlying margin excluding CPBS one-off adjustment* | *5.8%* | *5.7%* |

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

*Revenue and underlying operating profit bridge:*

| | 31 March 2021 (restated)* £m | One-off CPBS adj. £m | 31 March 2021 restated (excl. one-off CPBS) £m | FX Impact £m | Acquisitions and disposals £m | COVID-19 recovery (estimated) £m | Pension charge £m | Other trading £m | 31 March 2022 £m |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 910.7 | 60.7 | 971.4 | - | (27.1) | 103.2 | - | (32.0) | 1,015.5 |
| Underlying operating profit | (17.5) | 69.3 | 51.8 | 0.1 | (3.2) | 12.8 | 0.1 | (2.8) | 58.8 |

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

## Financial review

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

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

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

## Operational review

### Defence

Overall, Land defence activities were broadly flat with further volume recovery from COVID-19 impacts across a number of contracts, offset by lower volumes on the DSG contract. In line with customer requirements, the DSG transformation programme has been fully implemented and we are now leading several key programmes of improvement focussed on specific outputs for the Army which see us integrating expertise from OEMs, SMEs, and the wider supply chain to improve overall programme potential.

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

### Emergency services

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

### South Africa

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

### Other civil markets

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

## Aviation

| | 31 March 2022 | 31 March 2021 (restated)* |
|---|---|---|
| Contract backlog | £2.3bn | £2.9bn |
| Revenue | £817.3m | £854.4m |
| Underlying operating (loss) / profit | £18.5m | £(130.4)m |
| *of which CPBS one-off adjustment* | *-* | *£(128.4)m* |
| *Underlying operating profit excluding CPBS one-off adjustment* | *£18.5m* | *£(2.0)m* |
| *Underlying margin excluding CPBS one-off adjustment* | *2.3%* | *(0.2)%* |

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

*Revenue and underlying operating profit bridge:*

| | 31 March 2021 £m | One-off CPBS adj. £m | 31 March 2021 (excl. one-off CPBS) £m | FX Impact £m | Acquisitions and disposals £m | COVID-19 recovery (estimated) £m | Pension charge £m | Other trading £m | 31 March 2022 £m |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 854.4 | 16.8 | 871.2 | (22.0) | (75.4) | 38.5 | - | 5.0 | 817.3 |
| Underlying operating profit | (130.4) | 128.4 | (2.0) | (3.6) | (1.7) | 8.1 | - | 17.7 | 18.5 |

### Financial review

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

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

The sector's contract backlog declined to £2.3 billion (FY21: £2.9 billion), primarily as a result of the removal of £580 million backlog of the Oil and Gas aviation business, sold in August 2021. Excluding disposals, FY21 restated contract backlog was £2.3 billion. At 01 April 2022, Aviation had around £580 million of FY23 expected revenue under contract (FY21: £700 million (excluding disposals)).

### Operational review

#### Defence

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

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

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

#### Aerial emergency services

Revenue across the majority of our aerial emergency services businesses ended the year flat, in line with expectations, with improvements in profitability as a result of operating model efficiencies and some COVID-19 recovery.

Performance in aerial emergency medical services has seen some good recovery this year. Modest growth in Italy, with Scandinavia flat, was offset by lower volumes in Spain over the year. Southern European bases have all remained open and experienced varying increases in profitability. Renewal contracts have been won across the UK, Italy and Sweden. The Norway fixed wing contract has matured to a steady operational state with investment in a new maintenance facility in Tromso.

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

#### Oil and gas

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

## Financial Glossary – Alternative performance measures

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

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

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

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

| Measure | Closest equivalent IFRS measure | Definition and purpose | Adjustments to reconcile to IFRS measure (and reference to reconciliation) |
|---|---|---|---|
| **Revenue measures** | | | |
| Revenue excluding the one-off CPBS adjustment | Revenue | Revenue excluding the impact of the one-off CPBS adjustment in FY21<br>- To eliminate the non-recurring element of the CPBS review from FY21 revenue to provide a better measure of growth | One-off CPBS revenue impact<br>- See table on page 9 and page 10 |
| Organic growth | Revenue growth year-on-year | Growth excluding the impact of foreign exchange (FX), and contribution from acquisitions and disposals over the prior and current year, and the one-off CPBS adjustment in FY21<br>- Used to measure the year-on-year movement in Group revenue<br>- It is a good indicator of business growth<br>- Group KPI | FX, contribution of acquisitions and disposals in the current and prior year |
| Contract backlog | IFRS15 | Contracted revenue excluding variable revenue, expected contract renewals, expected revenue from framework agreements and impact of termination for convenience clauses.<br>- Used to measure revenue under contract as a good indicator of revenue visibility | |
| **Profit measures** | | | |
| Underlying operating profit | Operating profit | Operating profit before the impact of Specific Adjusting Items[1]<br>- Underlying operating profit is the headline measure of the Group's performance | Specific Adjusting Items[1]<br>- See table on page 9<br>- See note 2 |
| Underlying operating margin | No direct equivalent | Underlying operating profit as a percentage of revenue<br>- To provide a measure of operating profitability, excluding one-off items<br>- Operating margin is an important indicator of operating efficiency across the Group<br>- Group KPI | Ratio – N/A |
| Underlying net finance costs | Net finance costs | Net finance costs excluding Specific Adjusting Items[1]<br>- To provide an alternative measure of underlying finance costs excluding items such as fair value measurements which can fluctuate significantly on inputs outside of management's control | Specific Adjusting Items[1]<br>- See table on page 9 |
| Underlying profit before tax | Profit before tax | Profit before tax adjusted for<br>- The summation of the impact of all adjusting items on profit before tax | Specific Adjusting Items[1]<br>- See table on page 9 |
| Underlying effective tax rate | Effective tax rate | Tax expense excluding the tax impact of Specific Adjusting Items[1], as a percentage of underlying profit before tax (being the summation of the impact of all adjusting items on profit before tax) excluding the share of post-tax income from joint ventures and associates<br>- To provide an indication of the ongoing tax rate across the Group, excluding one-off items | Specific Adjusting Items[1]<br>- See table on page 9 |

| Measure | Closest equivalent IFRS measure | Definition and purpose | Adjustments to reconcile to IFRS measure (and reference to reconciliation) |
|---|---|---|---|
| **Profit measures continued** | | | |
| Underlying basic earnings per share | Basic earnings per share | Based on the Group's underlying profit before tax. It includes the Group's post-tax share of results of joint ventures and associates | Specific Adjusting Items[1]<br>- See table on page 9<br>- See Note 7 on page 48 |
| Underlying operating profit (excluding one-off CPBS adjustment) | Operating profit | Underlying operating profit excluding one-off CPBS adjustment in FY21<br>- Eliminates the non-recurring element of the CPBS review to provide a better measure of underlying operating profit in FY21 | |
| Underlying operating margin (excluding one-off CPBS adjustment) | No direct equivalent | Underlying operating profit divided by revenue, both excluding one-off CPBS adjustment in FY21<br>- Eliminates the non-recurring element of the CPBS review to provide a better measure of underlying operating margin in FY21 | Ratio – N/A |
| Underlying basic (earnings per share excluding one-off CPBS adjustment) | Basic earnings per share | Underlying earnings per share excluding the impact of the one-off CPBS adjustment in FY21<br>- Eliminates the non-recurring element of the CPBS review in FY21 to provide a better measure of underlying earnings growth in the year | Specific Adjusting Items[1] |
| EBITDA | Operating profit | Underlying operating profit excluding one-off CPBS adjustments in FY21, plus depreciation and amortisation, and various covenant adjustments linked to the Revolving Credit Facility including the treatment of leases within operating profit and pension costs<br>- Used as the basis to derive the gearing ratio net debt/EBITDA, which is a key measure of balance sheet strength and the basis of our debt covenant calculations | Specific Adjusting Items[1]<br>Depreciation and amortisation<br>Covenant adjustments<br>- See table on page 16 |
| **Balance sheet** | | | |
| Net debt | No direct equivalent | Cash and cash equivalents and short-term investments, less bank and other borrowings, operating leases and net derivative financial instruments<br>- Used as a general measure of the progress in generating cash and strengthening of the Group's balance sheet position | - See table on page 12<br>- See table on page 13 |
| Net debt (excluding operating leases) | No direct equivalent | Net debt excluding lease liabilities as defined by IAS 17, the relevant standard at the inception of the banking facility. This net debt figure also includes finance lease (as defined by IAS 17) receivables and payables, loans from the Group to joint ventures and supply chain financing balances (of FY22: £12 million, FY21: £25 million).<br>- Used by management to monitor the strength of the Group's balance sheet position and to ensure the Group's capital structure is appropriate<br>- Used by credit agencies | - See table on page 12<br>- See table on page 13 |
| Net debt (covenant basis) | No direct equivalent | Net debt (excluding operating leases), excluding loans to Joint Ventures, finance lease receivables and adjusting for an average FX rate for the previous 12 months<br>- Used by debt investors<br>- Used by credit agencies | - See table on page 16 |
| Net debt/EBITDA (covenant basis) | No direct equivalent | Net debt (covenant basis) divided by EBITDA<br>- A measure of the Group's ability to meet its payment obligations<br>- Used by analysts and credit agencies<br>- Group KPI | Ratio – N/A<br>- See table on page 16 |
| Return on invested capital (pre-tax) (ROIC) | No direct equivalent | Underlying operating profit plus share of JV PAT, divided by the sum of net debt, shareholders' funds and retirement deficit (surplus)<br>- Used as a measure of profit earned by the Group generated by the debt and equity capital invested, to indicate the efficiency at which capital is allocated<br>- Group KPI | Ratio – N/A<br>- See table on page 16 |

| | | | |
|---|---|---|---|
| Return on invested capital excluding one-off CPBS adjustments (pre-tax) | No direct equivalent | Underlying operating profit plus share of JV PAT excluding one-off CPBS adjustments, divided by the sum of net debt, shareholders' funds and retirement deficit (surplus)<br>- Used as a measure of profit earned by the Group excluding the one-off impact of CPBS adjustments generated by the debt and equity capital invested, to indicate the efficiency at which capital is allocated | Ratio – N/A<br>- See table on page 16 |
| Cash flow measures | | | |
| Net capital expenditure | No direct equivalent | Property, plant and equipment and intangible assets, less proceeds on disposal of property, plant and equipment<br>- Includes underlying operating cash flow to calculate underlying operating cash conversion | |
| Underlying operating cash conversion | No direct equivalent | Underlying operating cash flow after capital expenditure as a percentage of underlying operating profit<br>- Used as a measure of the Group's efficiency in converting profits into cash | Ratio – N/A |
| Underlying free cash flow | No direct equivalent | Underlying free cash flow includes cash flows from exceptional items and the capital element of lease payment cash flows (rather than net new lease commitments, which are reflected as a debt movement)<br>- Provides a measure of cash generated by the Group's operations after servicing debt and tax obligations, available for use in line with the Group's capital allocation policy | - See page 13 |

1. Refer to Note 2 in the preliminary financial statements

# Going concern and viability statement

## Overview

The Directors have undertaken reviews of the business financial forecasts, in order to assess whether the Group has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the going concern basis of accounting.

The Directors have also looked further out to consider the viability of the business to test whether they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due.

For assessing going concern, the Board considered the 12 month period from the date of signing the Group's financial statements for the year ended 31 March 2022. For viability, the Board looked at a five-year view as this is the period over which the Group prepares its strategic plan forecasts.

That five-year view is an update from the previous three-year plan, now that we have completed the first year of turnaround and made initial steps to reshape our portfolio of businesses.

The use of a five-year period provides a planning tool against which long-term decisions can be made concerning strategic priorities, addressing the Group's stated net zero target and climate-related risks and opportunities, funding requirements (including commitments to Group pension schemes), returns made to shareholders, capital expenditure and resource planning.

The annually prepared budgets and forecasts are compiled using a bottom-up process, aggregating those from the individual business units into sector level budgets and forecasts. Those sector submissions and the consolidated Group budget and forecasts are then reviewed by the Board and used to monitor business performance.

The Board considered the budgets alongside the Group's available finances, strategy, business model, market outlook and principal risks. The process for identifying and managing the principal risks of the Group is set out in our Annual Report. The Board also considered the mitigation measures being put in place and potential for further mitigation.

The Board considers the long-term prospects of the Group underpin its conclusions on viability. As outlined in our strategy, business model and markets summaries on pages 6 to 11 of this report, our prospects are supported by:

- a diverse portfolio of businesses based on well-established market positions, focussed on naval engineering, support and systems, and on critical services in our core defence and civil markets. In FY22 55% of Group sales were defence related and 45% civil;
- a geographically diverse business with a high proportion of sales to governments and other major prime defence contractors. In FY22, 63% of sales were to defence and civil customers in the UK, and 37% were international;
- long-term visibility of sales and future sale prospects through an order backlog of £9.9bn as at 31 March 2022, including incumbent positions on major defence programmes; and
- market positions underpinned by a highly skilled workforce, intellectual property assets and proprietary know-how, which are safeguarded and developed for the future by customer- and Group-funded investment.

### Available financing

As at 31 March 2022, net debt excluding operating leases was £556.7 million and the Group therefore had liquidity headroom of £1.8 billion, including net cash and cash equivalents of £0.8 billion and undrawn facilities of £1.0 billion. These facilities are considered more than adequate to meet current and other liabilities as they fall due and supports the Group's negative working capital position largely arising from securing customer advances ahead of contract work starting.

As of June 2022, the Group's committed facilities and bonds totalling £2.4 billion were as follows:

- €550 million bond, hedged at £482 million, maturing 6 October 2022
- £300 million three-year RCF maturing 20 May 2024
- Existing £775 million revolving credit facility (RCF) maturing 28 August 2025; of which £730 million now matures 28 August 2026
- £300 million bond maturing 5 October 2026
- €550 million bond, hedged at £493 million, maturing 13 September 2027
- A committed overdraft facility of £50 million

The RCFs are the only facilities with covenants attached. The key covenant ratios are (i) net debt to EBITDA (gearing ratio) (ii) and EBITDA to net interest (interest cover).

These are measured twice per year – on 30 September and 31 March. In May 2021 our lending banks agreed to raise the covenant limit for the gearing ratio from 3.5x to 4.5x for the measurement periods ending 30 September 2021 and 31 March 2022 in order to provide sufficient downside protection for the Group as the turnaround in performance took place.

As we have now successfully delivered over £400 million from the divestment programme, amongst other turnaround dependencies in the prior 12 months, we have not considered it necessary to seek any extension to the period of time covered by those raised covenant limits. Hence for all periods in this going concern review, the gearing ratio covenant returns to 3.5x at September 2022 and remains so thereafter.

The RCF lenders are fully committed to advance funds under the RCF to the Group, provided that the Group has satisfied the usual ongoing undertakings, and the creditworthiness of the Group's relationship banks is closely monitored. Based on their credit ratings we have no credit concerns with our relationship banks. Given the importance of the RCFs to the Group's liquidity position, our assessments of going concern and viability have tested the Group's gearing ratio, interest cover and liquidity headroom throughout the period under review up to their current maturity dates.

### Base case scenario

The base case budget shows significant levels of headroom against both financial covenants and liquidity headroom based on the current committed facilities outlined above (without assuming any refinancing of the €550 million bond in October 2022). That base case largely assumes we maintain our incumbent programme positions if re-let during the five-year period, with margin recovery if they are currently below the Group average. Many opportunities available to the Group, where we do not yet have high conviction of securing the work, have been excluded from the base case to seek to maintain a degree of caution.

That base case assumes no further recurrence of business disruption from the COVID-19 pandemic, which is consistent to our trading in FY22.

It also assumes that the impact of current inflationary pressures can be managed within contract estimates assumed in our planning. The base case assumes no further reshaping of the business portfolio, so it is not dependent upon any future cash proceeds from divestments. It also maintains pension deficit contributions in excess of income statement charges of around £130 million relating to FY23 and around £75 million relating to FY24.

### Reverse stress testing of the base case

To assess the level of headroom within the available facilities, a reverse stress test was performed to see what level of performance deterioration against the base case budgets and forecasts (in both EBITDA and net debt) was required to challenge covenant levels.

Of the remaining measurement points within the available facility period, the lowest required reduction in forecast EBITDA to hit the covenant level was 46% and the lowest net debt increase was 50%. Given the mitigating actions that are available and within management's control, such movements are not considered plausible.

## Severe but plausible downside scenarios

The Directors also considered a series of severe but plausible downside scenarios which are sensitivities run against the base case budget and forecasts for the duration of the assessment period. These sensitivities include – separately – a reduction in bid pipeline closure (business winning), an erosion of operating model savings, a deterioration in large programme performance across the Group (including further inflation cost increases, or related failures in supplier resilience, as per our principal risks), a deterioration in the Group's working capital position and a regulator-imposed cessation in flying two of the largest aircraft fleets in the Group.

As stated above, a key contributor to the strengthening of the balance sheet in FY22 was the divestment programme which generated in excess of the original target of £400 million of proceeds. No sensitivities were therefore considered necessary to be tested in relation to further potential divestments.

All of these separate scenarios showed compliance with the financial covenants throughout the period, and with sufficient headroom given the strengthened balance sheet, no extensions have been sought to the temporary increase in the covenant level gearing ratio previously granted by our lending; it has therefore now reverted to the usual 3.5x at September 2022 and for all future measurement periods.

As with any company or group, it would be possible, however unlikely, to model individual risks or combinations of risks that would threaten the financial viability of the Group. The Board has not sought to model events where it considers the likelihood of such events not to be plausible. In preparing a combined severe but plausible (SBP) downside case, the Board considered the feed of individual risks from the sectors covering the above sensitivities. Overall there were c.80 profit and cash flow risks identified.

A simple aggregation of all of these risks is not considered plausible as the Group operates businesses and contracts which run largely independently of each other, albeit with a relatively small number of customers within each geography.

The majority of these identified risks were seen as 'sector independent' (ie there is no direct read across from one sector to another). A small number are deemed 'non independent' eg inflation, FX etc. The Board decided to include in its combined SBP downside all the 'non independent' risks without reduction, but reduced the aggregation of the 'sector independent' risks by 25% to reflect the implausibility of all such risks fully crystallising within the same period.

If such a severe downturn were to occur in the Group's performance, the Board would take mitigation measures to protect the Group in the short term.

Such profit and cash mitigation measures that are deemed entirely within the control of the Group and identified as part of the sector budgeting exercise have been included in the SBP scenario (eg cancelling pay rises and bonus awards, curtailing uncommitted capital expenditure and operational spend including R&D and other investment).

Despite the severity of the above combined SBP scenario, the Group maintained a sufficient amount of headroom against the financial covenants within its borrowing facilities, and sufficient liquidity when compared against existing facilities.

## Going concern assessment and viability conclusion

Based on our review, the Directors have a reasonable expectation that the Group has adequate resources to continue as a going concern for at least 12 months from the date of these financial statements.

As such, these financial statements have been prepared on the going concern basis. The Directors do not believe there are any material uncertainties to disclose in relation to the Group's ability to continue as a going concern.

In concluding on the financial viability of the Group, having considered the scenarios outlined above, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all its liabilities as they fall due up to March 2027.

## Risks and uncertainties

The principal risks and uncertainties affecting the Group are listed below and are set out in more detail in the Company's Annual Report and Financial Statements 2022, which should be read in conjunction with this announcement when published. This list is not a substitute for reading the Company's Annual Report and Financial Statements 2022 in full. The Group's principal risks and uncertainties are:

**Existing markets:** we rely heavily on winning and retaining large contracts with a relatively limited number of major clients, whether in the UK, particularly the Ministry of Defence, or overseas, many of whom are (directly or indirectly) owned or controlled by government (national or local) and/or are (wholly or partly) publicly funded

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

**Financial resilience:** The Group is exposed to a number of financial risks, some of which are of a macroeconomic nature (for example, foreign currency, interest rates) and some of which are more specific to the Group (for example, liquidity, covenant headroom and credit risks)

**Contract performance:** We operate large contracts, which often requires us to price for the long term and for risk transfer. Our contracts may include fixed price which assumes inflation risk

**Business interruption:** Failure to withstand the impact of an event or a combination of events may significantly disrupt all or a substantial part of the Group's business

**Operational resilience:** We are undertaking multiple change programmes with the introduction of a new strategy, a new operating model to restructure the shape of the Group, and a new people strategy, as well as undertaking the rationalisation of both the business portfolio and our property portfolio. Additionally, there are several new material opportunities that the Group may pursue – some in new geographies – that may further stretch management bandwidth

**Health, safety and environmental:** Our operations entail the potential risk of significant harm to people, property or the environment, wherever we operate across the world

**Regulatory and compliance burden:** Our businesses are subject to the laws, regulations and restrictions of the many jurisdictions in which they operate

**People:** We operate in many specialised engineering and technical domains, which require appropriate skills and experience

**Pensions:** The Group has significant defined benefit pension schemes in the UK, which provide for a specified level of pension funds to scheme members

**IT and security:** A key factor for our customers is our ability to deliver secure IT and other information assurance systems to maintain the confidentiality of sensitive information

**Acquisitions and disposals:** We have built our core strengths organically and through acquisition. Decisions to acquire companies, as well as the process of their acquisition and integration, are complex, time-consuming and expensive. If we believe that a business is not "core" we may decide to sell that business

**Emerging risks:** In addition, as part of its risk work, the Group has also identified two emerging risks. Both risks are not standalone risks but affect several of the Group's principal risks. The two emerging risks are:

**Inflation:** As the global economy recovers from the Covid-19 pandemic, it is experiencing increasing inflationary pressure, both in terms of supplier costs and in terms of labour rates. The inflationary environment may be exacerbated by the conflict in Ukraine. The Group has a number of long-term contracts, which may include fixed price elements or saving commitments. We also have collective bargaining agreements with our workforce at certain sites. If we experience increased costs, which we are not able to pass on, this will affect the profitability of the contracts concerned and could mean that they become loss-making or that we are unable to meet our contractual commitments, leading to an adverse financial impact and a longer-term reputational impact.

**Supplier resilience:** Our supply chain is subject to the same global inflationary pressures. Furthermore, the global supply of raw materials and parts has not fully recovered from the Covid-19 pandemic and Brexit disruption, leading to supply interruptions. As with inflation, this could be exacerbated by the conflict in Ukraine. As a result, there is a risk that our suppliers may suffer financial distress and not be able to fulfil their contracted supply agreements with us. This could add additional cost and time to our programmes, which we may not be able to pass onto our end-customer

The risks listed above, together with their potential impacts and mitigating actions we have taken in respect of them, are explained and described in more detail in the 2022 Annual Report, a copy of which will be available at www.babcockinternational.com.

## Group income statement

| For the year ended 31 March | Note | 2022 £m | 2021 (restated) £m |
|---|---|---|---|
| Revenue | 2,4 | 4,101.8 | 3,971.6 |
| Cost of revenue | | (3,756.5) | (3,945.5) |
| Gross profit | | 345.3 | 26.1 |
| Administration and distribution expenses | | (284.1) | (376.5) |
| Goodwill impairment | 8 | (7.2) | (1,336.6) |
| Profit/(loss) resulting from acquisitions and disposals | 20 | 172.8 | (49.7) |
| Operating profit/(loss) | 2,4 | 226.8 | (1,736.7) |
| Other income | | 6.2 | – |
| Share of results of joint ventures and associates | 2,4,12 | 20.1 | (13.1) |
| Finance income | 5 | 9.6 | 16.6 |
| Finance costs | 5 | (80.4) | (77.8) |
| Profit/(loss) before tax | 2,4 | 182.3 | (1,811.0) |
| Income tax (expense)/benefit | 6 | (14.4) | 8.0 |
| Profit/(loss) for the year | | 167.9 | (1,803.0) |
| Attributable to: | | | |
| Owners of the parent | | 164.2 | (1,803.0) |
| Non-controlling interest | | 3.7 | – |
| | | | |
| Earnings/(loss) per share | | | |
| Basic | 7 | 32.5p | (357.0)p |
| Diluted | | 32.1p | (357.0)p |

## Group statement of comprehensive income

| For the year ended 31 March | Note | 2022 £m | 2021 (restated) £m |
|---|---|---|---|
| Profit/(loss) for the year | | 167.9 | (1,803.0) |
| Other comprehensive income | | | |
| Items that may be subsequently reclassified to income statement | | | |
| Currency translation differences | | 0.2 | 1.7 |
| Reclassification of cumulative currency translation reserve on disposal | | (7.3) | 10.5 |
| Fair value adjustment of interest rate and foreign exchange hedges | | (14.7) | 18.4 |
| Tax, including rate change impact, on fair value adjustment of interest rate and foreign exchange hedges | | (1.0) | (4.5) |
| Hedging gains/(losses) reclassified to profit or loss | | 17.1 | 6.9 |
| Reclassification of cumulative hedge reserve on disposal of joint venture | | 20.8 | |
| Share of other comprehensive income of joint ventures and associates | 12 | 30.2 | 7.0 |
| Tax, including rate change impact, on share of other comprehensive income of joint ventures and associates | 12 | (5.7) | (1.4) |
| Items that will not be reclassified to income statement | | | |
| Remeasurement of retirement benefit obligations | 18 | 322.5 | (445.6) |
| Tax on remeasurement of retirement benefit obligations | | (64.2) | 84.7 |
| Other comprehensive income/(loss), net of tax | | 297.9 | (322.3) |
| Total comprehensive income/(loss) | | 465.8 | (2,125.3) |
| Total comprehensive income/(loss) attributable to: | | | |
| Owners of the parent | | 461.2 | (2,126.4) |
| Non-controlling interest | | 4.6 | 1.1 |
| Total comprehensive income/(loss) | | 465.8 | (2,125.3) |

In the year ended 31 March 2022, the Group restated the prior year financial information. Details of the restatement are contained in note 3.

## Group statement of changes in equity

| | Share capital £m | Share premium £m | Other reserve £m | Capital redemption £m | Retained earnings £m | Hedging reserve £m | Translation reserve £m | Total equity attributable to owners of the Company £m | Non-controlling interest £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2020 (previously stated) | 303.4 | 873.0 | 768.8 | 30.6 | 480.1 | (97.3) | (59.5) | 2,299.1 | 15.7 | 2,314.8 |
| Prior period restatements (note 3) | – | – | – | – | 8.8 | 28.2 | – | 37.0 | – | 37.0 |
| At 1 April 2020 restated | 303.4 | 873.0 | 768.8 | 30.6 | 488.9 | (69.1) | (59.5) | 2,336.1 | 15.7 | 2,351.8 |
| (Loss)/profit for the year | – | – | – | – | (1,803.0) | – | – | (1,803.0) | – | (1,803.0) |
| Other comprehensive income/(loss) | – | – | – | – | (360.9) | 26.4 | 11.1 | (323.4) | 1.1 | (322.3) |
| Total comprehensive loss | – | – | – | – | (2,163.9) | 26.4 | 11.1 | (2,126.4) | 1.1 | (2,125.3) |
| Dividends | – | – | – | – | – | – | – | – | (0.8) | (0.8) |
| Share-based payments | – | – | – | – | 3.2 | – | – | 3.2 | – | 3.2 |
| Tax on share-based payments | – | – | – | – | 2.3 | – | – | 2.3 | – | 2.3 |
| Own shares | – | – | – | – | (2.2) | – | – | (2.2) | – | (2.2) |
| Net movement in equity | – | – | – | – | (2,160.6) | 26.4 | 11.1 | (2,123.1) | 0.3 | (2,122.8) |
| At 31 March 2021 restated | 303.4 | 873.0 | 768.8 | 30.6 | (1,671.7) | (42.7) | (48.4) | 213.0 | 16.0 | 229.0 |
| | | | | | | | | | | |
| At 1 April 2021 as restated | 303.4 | 873.0 | 768.8 | 30.6 | (1,671.7) | (42.7) | (48.4) | 213.0 | 16.0 | 229.0 |
| Profit for the year | – | – | – | – | 164.2 | – | – | 164.2 | 3.7 | 167.9 |
| Other comprehensive income | – | – | – | – | 258.3 | 46.7 | (8.0) | 297.0 | 0.9 | 297.9 |
| Total comprehensive income | – | – | – | – | 422.5 | 46.7 | (8.0) | 461.2 | 4.6 | 465.8 |
| Dividends | – | – | – | – | – | – | – | – | (1.1) | (1.1) |
| Share-based payments | – | – | – | – | 5.5 | – | – | 5.5 | – | 5.5 |
| Tax on share-based payments | – | – | – | – | 2.3 | – | – | 2.3 | – | 2.3 |
| Net movement in equity | – | – | – | – | 430.3 | 46.7 | (8.0) | 469.0 | 3.5 | 472.5 |
| At 31 March 2022 | 303.4 | 873.0 | 768.8 | 30.6 | (1,241.4) | 4.0 | (56.4) | 682.0 | 19.5 | 701.5 |

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

## Group statement of financial position

| As at | Note | 31 March 2022 £m | 31 March 2021 (restated) £m | 1 April 2020 (restated) £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Goodwill | 8 | 782.4 | 956.3 | 2,381.3 |
| Other intangible assets | 9 | 175.7 | 199.9 | 332.9 |
| Property, plant and equipment | 10 | 710.6 | 734.4 | 840.9 |
| Right of use assets | 11 | 334.3 | 518.3 | 609.0 |
| Investment in joint ventures and associates | 12 | 54.3 | 73.5 | 161.9 |
| Loan to joint ventures and associates | 12 | 12.1 | 42.1 | 48.6 |
| Retirement benefits surpluses | 18 | 300.9 | 46.8 | 298.4 |
| Other financial assets | | 10.0 | 11.2 | 12.8 |
| Lease receivables | | 24.1 | 12.9 | 6.9 |
| Derivatives | | – | 4.3 | 14.6 |
| Deferred tax asset | | 47.0 | 129.7 | 69.4 |
| Trade and other receivables | 14 | 9.7 | 26.7 | 25.9 |
| | | 2,461.1 | 2,756.1 | 4,802.6 |
| **Current assets** | | | | |
| Inventories | 13 | 142.7 | 153.0 | 191.6 |
| Trade and other receivables | 14 | 488.8 | 435.7 | 480.7 |
| Contract assets | 14 | 299.3 | 276.4 | 319.2 |
| Income tax recoverable | | 25.4 | 50.0 | 57.2 |
| Lease receivables | | 23.3 | 26.7 | 31.7 |
| Derivatives | | 11.4 | 8.2 | 122.2 |
| Cash and cash equivalents | | 1,146.3 | 904.8 | 1,845.9 |
| | | 2,137.2 | 1,854.8 | 3,048.5 |
| **Total assets** | | 4,598.3 | 4,610.9 | 7,851.1 |
| **Equity and liabilities** | | | | |
| **Equity attributable to owners of the parent** | | | | |
| Share capital | | 303.4 | 303.4 | 303.4 |
| Share premium | | 873.0 | 873.0 | 873.0 |
| Capital redemption and other reserves | | 747.0 | 708.3 | 670.8 |
| Retained earnings | | (1,241.4) | (1,671.7) | 488.9 |
| | | 682.0 | 213.0 | 2,336.1 |
| Non-controlling interest | | 19.5 | 16.0 | 15.7 |
| **Total equity** | | 701.5 | 229.0 | 2,351.8 |
| **Non-current liabilities** | | | | |
| Bank and other borrowings | 16 | 847.7 | 1,323.8 | 2,055.0 |
| Lease liabilities | 11 | 329.3 | 486.2 | 548.5 |
| Trade and other payables | 15 | 1.0 | 1.9 | 2.1 |
| Deferred tax liabilities | 6 | 9.6 | 7.7 | 33.7 |
| Derivatives | | 59.3 | 51.0 | 35.5 |
| Retirement benefit deficits | | 109.3 | 325.7 | 200.2 |
| Provisions for other liabilities | 17 | 60.3 | 73.7 | 32.7 |
| | | 1,416.5 | 2,270.0 | 2,907.7 |
| **Current liabilities** | | | | |
| Bank and other borrowings | 16 | 863.4 | 383.7 | 987.9 |
| Lease liabilities | 11 | 104.8 | 126.1 | 140.9 |
| Trade and other payables | 15 | 888.1 | 1,110.2 | 1,058.0 |
| Contract liabilities | 15 | 518.3 | 396.5 | 243.2 |
| Income tax payable | | 17.7 | 9.7 | 3.8 |
| Derivatives | | 34.8 | 13.9 | 27.7 |
| Provisions for other liabilities | 17 | 53.2 | 71.8 | 130.1 |
| | | 2,480.3 | 2,111.9 | 2,591.6 |
| **Total liabilities** | | 3,896.8 | 4,381.9 | 5,499.3 |
| **Total equity and liabilities** | | 4,598.3 | 4,610.9 | 7,851.1 |

In the year ended 31 March 2022, the Group restated the prior year financial information. Details of the restatement are contained in note 3. This also impacts the Group cash flow statement.

# Group cash flow statement

| For the year ended 31 March | Note | 2022 £m | 2021 (restated) £m |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Profit/(loss) for the year | | 167.9 | (1,803.0) |
| Share of results of joint ventures and associates | 12 | (20.1) | 13.1 |
| Income tax expense/(benefit) | 6 | 14.4 | (8.0) |
| Finance income | 5 | (9.6) | (16.6) |
| Finance costs | 5 | 80.4 | 77.8 |
| Depreciation and impairment of property, plant and equipment | | 117.5 | 199.9 |
| Depreciation and impairment of right of use assets | | 123.1 | 179.8 |
| Amortisation and impairment of intangible assets | | 94.7 | 148.5 |
| Goodwill impairment | | 7.2 | 1,336.6 |
| Equity share-based payments | | 5.5 | 3.2 |
| Impairment of joint venture loans | 12 | – | 7.0 |
| Net derivative fair value and currency movement through profit or loss | | (0.9) | 6.9 |
| (Profit)/loss on disposal of subsidiaries, businesses and joint ventures and associates | 19 | (172.8) | 49.7 |
| (Profit)/loss on disposal of property, plant and equipment | | (1.5) | 26.4 |
| Profit on disposal of right of use assets | | (3.2) | – |
| Loss on disposal of intangible assets | | 0.7 | – |
| Cash generated from operations before movement in working capital and retirement benefit payments | | 403.3 | 221.3 |
| Decrease in inventories | | 10.6 | 32.9 |
| (Increase)/decrease in receivables | | (111.7) | 87.8 |
| (Decrease)/increase in payables | | (77.8) | 212.5 |
| (Decrease) in provisions | | (30.9) | (14.6) |
| Retirement benefit contributions in excess of current period expense | | (151.7) | (64.5) |
| Cash generated from operations | | 41.8 | 475.4 |
| Income tax received/(paid) | | 10.0 | 19.4 |
| Interest paid | | (54.9) | (79.4) |
| Interest received | | 9.9 | 12.0 |
| Net cash flows from operating activities | | 6.8 | 427.4 |
| Cash flows from investing activities | | | |
| Disposal of subsidiaries and joint ventures and associates, net of cash disposed | 20 | 420.7 | 90.6 |
| Acquisition of subsidiaries, net of cash acquired | | (15.5) | – |
| Dividends received from joint ventures and associates | 12 | 41.6 | 36.8 |
| Proceeds on disposal of property, plant and equipment | | 68.0 | 33.2 |
| Purchases of property, plant and equipment | | (190.8) | (156.9) |
| Purchases of intangible assets | | (12.4) | (19.6) |
| Investment in joint ventures | 12 | (2.6) | (8.8) |
| Loans repaid by joint ventures and associates | | 31.0 | 4.2 |
| Increase in loans to joint ventures and associates | | (1.4) | (3.9) |
| Net cash flows from investing activities | | 338.6 | (24.4) |
| Cash flows from financing activities | | | |
| Lease principal payments | 19 | (113.0) | (140.6) |
| Cash outflow from non-hedging derivatives | | – | (3.6) |
| Cash inflow from settlement of derivatives | | – | 52.6 |
| Bank loans repaid | 19 | (31.7) | (1,154.4) |
| Loans raised and facilities drawn down | 19 | 23.1 | 25.1 |
| Dividends paid to non-controlling interest | | (1.1) | (0.8) |
| Repurchase of own shares | | – | (2.2) |
| Net cash flows from financing activities | | (122.7) | (1,223.9) |
| Net increase/(decrease) in cash, cash equivalents and bank overdrafts | | 222.7 | (820.9) |
| Cash, cash equivalents and bank overdrafts at beginning of year | 19 | 530.9 | 1,348.7 |
| Effects of exchange rate fluctuations | 19 | 2.9 | 3.1 |
| Cash, cash equivalents and bank overdrafts at end of year | 19 | 756.5 | 530.9 |

# 1. Basis of preparation and significant accounting policies

## Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and in accordance with United Kingdom adopted International Accounting Standards (IFRS) and the Companies Act 2006 applicable to companies reporting under IFRS. These condensed consolidated financial statements do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006 and should be read in conjunction with the Annual Report for the year ended 31 March 2021. The comparative figures for the year ended 31 March 2021 are not the Group's statutory accounts for that financial year. Those financial statements have been reported upon by the Group's auditor and delivered to the registrar of companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain statements under Section 498 (2) or (3) of the Companies Act 2006. The consolidated financial statements are presented in pounds sterling and, unless stated otherwise, rounded to the nearest million. They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments).

## New and amended standards adopted by the Group

### The Group applied the following standards and amendments for the first time for the year beginning on 1 April 2021:

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2021 and did not have a material impact on the consolidated financial statements:

- The IFRS Interpretations Committee (IFRIC) published an agenda decision in April 2021 which clarified how a customer should account for the costs of configuring or customising the supplier's application software in a software-as-a-service arrangement. As a result of this decision the Group has revised its accounting policy and will not capitalise costs associated with software-as-a-service arrangements where it does not control the underlying software. This policy has been retrospectively applied and all costs capitalised in relation to software-as-a-service arrangements have been reviewed. This has not had a material impact on the consolidated financial statements.
- Interest Rate Benchmark Reform, Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

## New IFRS accounting standards, amendments and interpretations not yet adopted

The Group has not early adopted any other amendment, standard or interpretation that has been issued but is not yet effective. It is expected that these standards and amendments will be adopted on the applicable effective date. The following new or amended IFRS accounting standards, amendments and interpretations not yet adopted are not expected to have a significant impact on the Group:

- IFRS 3, 'Business Combinations., Amendment effective for periods commencing on or after 1 January 2022. The amendment relates to the identification of liabilities assumed and contingent assets acquired in a business combination.
- IAS 37, 'Provisions, contingent liabilities and contingent assets'. Amendment effective for periods commencing on or after 1 January 2022. The amendment relates to the clarification of costs that an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Management's review to determine the impact of this amendment is ongoing, however this is not expected to have a material impact.
- IAS 16, 'Property, plant and equipment'. Amendment effective for periods commencing on or after 1 January 2022. The amendment relates to proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.
- IFRS 17 'Insurance Contracts'. Amendment effective from 1 January 2023.

## Key sources of estimation uncertainty

The application of the Group's accounting policies requires the use of estimates. The key sources of estimation uncertainty at the end of the reporting period that may result in significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year are set out below:

- **Revenue and profit recognition:** The Group's revenue recognition policies require management to make an estimate of the cost to complete for long term contracts. Management estimates outturn costs on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel. Estimates of cost to complete include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge, and judgements and estimates are reviewed regularly throughout the contract life based on latest available information and adjustments are made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn. One key contract for the Group includes a critical estimate around the realisation of future transformational savings. If these savings fail to be realised, this will impact on the margin for this contract and could result in a reduction to revenue and contract assets, and therefore profit, of £10m.
- **Defined benefit pension schemes obligation:** The Group's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit pension obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit pension obligations. In addition to the inflation and discount rate estimates, management is required to make an accounting judgement relating to the expected availability of future accounting surpluses under IFRIC 14.
- **The carrying value of goodwill:** Goodwill is tested annually for impairment, in accordance with IAS 36, Impairment of Assets ('IAS 36'). The impairment assessment is based on assumptions in relation to future cash flows expected to be generated by cash generating units, together with appropriate discounting of the cash flows. The assessment of the carrying value of goodwill is included as a critical accounting estimate given the significance of the remaining carrying value of goodwill and the inherent level of estimation uncertainty required to undertake impairment testing.

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

## Critical accounting judgements

Critical accounting judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below:

- **Revenue and profit recognition:** A number of the Group's contracts include promises in relation to procurement activity undertaken on behalf of customers at low or nil margin, sub-contractor arrangements, and other pass-through costs. Management is required to exercise judgement on these revenue streams in considering whether the Group is acting as principal or agent. This is based on an assessment as to whether the Group controls the relevant goods or services under the performance obligations prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Group has under the contract for the provision of the goods or services, the extent to which the Group is incentivised to fulfil orders on time and within budget, either through gain share arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Group exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the Group then comes to a judgement as to whether it acts as principal or agent on a performance obligation-by-performance obligation basis. Note that any changes in this judgement would not have a material impact on profit, although there may be a material impact to revenue and cost of revenue. The Group has re-examined the principal versus agent assessment in relation to pass-through revenue on three of the Group's contracts. Further detail is included in note 3.
- **Determining the Group's cash generating units:** Management exercises judgement in determining the Group's cash generating units for the goodwill impairment assessment. This determination is generally straightforward and factual, however in some cases judgement is required, for example it was determined that Africa is a separate cash generating unit, whilst operations of the Group in other territories do not represent separate cash generating units. Over time management reviews the cash generating units to ensure they remain appropriate as businesses are acquired and divested and reporting structures change, including how information is reported to the Chief Operating Decision Maker.

# 2. Adjustments between statutory and underlying information

## Definition of underlying measures and specific adjusting items

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

The Group's alternative performance measures are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies and they are not intended to be a substitute for, or superior to, measures defined under IFRS. The Group's alternative performance measures are consistent with the year ended 31 March 2021.

## Underlying operating profit

Underlying operating profit excludes certain specific adjusting items that distort the reporting of underlying business performance measures if they are not adjusted for. Underlying operating profit eliminates potential differences in performance caused by purchase price allocations on business combinations in prior periods (amortisation of acquired intangibles), business acquisition, merger and divestment related items and large, infrequent restructuring programmes. Transactions such as these may happen regularly and could be lumpy and may be profits or losses.

For the year ended 31 March 2022, the Group has amended its definition of specific adjusting Items to include the fair value gain/(loss) on forward rate contracts used to hedge the operational activity of the Group. The fair value movement on these items is driven by external economic variables and not the operational activity of the Group, as such they may distort the reporting of underlying business performance measures if they are not adjusted for. On maturity, the final gain/loss on the forward rate contracts will be included in cost of revenue or administration and distribution costs, depending on the nature of the item being hedged.

Specific adjusting items include:

- Amortisation of acquired intangibles;
- Business acquisition, merger and divestment related items (being amounts related to corporate transactions and gains or losses on disposal of assets or businesses);
- Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography, including closure costs, severance costs, the disposal of assets and termination of leases;
- The costs of large restructuring programmes that significantly exceed the minor restructuring which occurs in most years as part of normal operations. Restructuring costs incurred as a result of normal operations are included in operating costs and are not excluded from underlying operating profit;
- Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes;
- Fair value gain/(loss) on open forward rate contracts; and
- Exceptional items that are significant, non-recurring and outside of the normal operating practice. These items are described as exceptional in order to appropriately represent the Group's underlying business performance. Exceptional items are set out in the Exceptional items section below.

## 2. Adjustments between statutory and underlying information (continued)

### Income statement including underlying results

| | Note | Year ended 31 March 2022 Underlying £m | Year ended 31 March 2022 Specific adjusting items £m | Year ended 31 March 2022 Statutory £m | Year ended 31 March 2021 (restated) Underlying £m | Year ended 31 March 2021 (restated) Specific adjusting items £m | Year ended 31 March 2021 (restated) Statutory £m |
|---|---|---|---|---|---|---|---|
| Revenue | 4 | 4,101.8 | – | 4,101.8 | 3,971.6 | – | 3,971.6 |
| | | | | | | | |
| Operating profit/(loss) | 4 | 237.7 | (10.9) | 226.8 | (27.9) | (1,708.8) | (1,736.7) |
| Other income | | 6.2 | – | 6.2 | – | – | – |
| Share of results of joint ventures and associates | 12 | 20.1 | – | 20.1 | (13.1) | – | (13.1) |
| Investment income | | 0.8 | – | 0.8 | 0.9 | – | 0.9 |
| Other net finance costs | 5 | (62.0) | (9.6) | (71.6) | (62.1) | – | (62.1) |
| Profit/(loss) before tax | | 202.8 | (20.5) | 182.3 | (102.2) | (1,708.8) | (1,811.0) |
| Income tax (expense)/benefit | 6 | (43.9) | 29.5 | (14.4) | (21.8) | 29.8 | 8.0 |
| Profit/(loss) after tax for the year | | 158.9 | 9.0 | 167.9 | (124.0) | (1,679.0) | (1,803.0) |

### Earnings per share including underlying measures

| | Year ended 31 March 2022 Underlying £m | Year ended 31 March 2022 Specific adjusting items £m | Year ended 31 March 2022 Statutory £m | Year ended 31 March 2021 (restated) Underlying £m | Year ended 31 March 2021 (restated) Specific adjusting items £m | Year ended 31 March 2021 (restated) Statutory £m |
|---|---|---|---|---|---|---|
| Profit/(loss) after tax for the year | 158.9 | 9.0 | 167.9 | (124.0) | (1,679.0) | (1,803.0) |
| Amount attributable to owners of the parent | 155.2 | 9.0 | 164.2 | (124.0) | (1,679.0) | (1,803.0) |
| Amount attributable to non-controlling interests | 3.7 | – | 3.7 | – | – | – |
| | | | | | | |
| Weighted average number of shares (m) | 505.1 | | 505.1 | 505.0 | | 505.0 |
| Effect of dilutive securities (m) | 6.1 | | 6.1 | 4.0 | | 4.0 |
| Diluted weighted average number of shares (m) | 511.2 | | 511.2 | 509.0 | | 509.0 |
| | | | | | | |
| Basic EPS | 30.7p | | 32.5p | (24.6)p | | (357.0)p |
| Diluted EPS | 30.4p | | 32.1p | (24.6)p | | (357.0)p |

### Details of specific adjusting items

The impact of specific adjusting items is set out below:

| For year ending 31 March | 2022 £m | 2021 £m |
|---|---|---|
| Amortisation of acquired intangibles | (21.4) | (40.2) |
| Business acquisition, merger and divestment related items | 163.1 | (49.7) |
| Gains, losses and costs directly arising from withdrawal from a specific market or geography | – | (11.1) |
| Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes | – | (8.9) |
| Restructuring | (33.8) | (8.4) |
| Fair value loss on forward rate contracts | (9.6) | – |
| Exceptional items | (118.8) | (1,590.5) |
| Loss before tax | (20.5) | (1,708.8) |
| | | |
| Income tax benefit | | |
| Amortisation of acquired intangibles | 5.5 | 8.2 |
| Gains, losses and costs directly arising from withdrawal from a specific market or geography | – | 1.0 |
| Profit or loss from amendment, curtailment, settlement or equalisation of group pension schemes | – | 1.7 |
| Restructuring | 6.5 | 0.5 |
| Fair value (loss) on forward rate contracts | 2.5 | – |
| Exceptional tax items and tax on exceptional items | 15.0 | 18.4 |
| Income tax benefit | 29.5 | 29.8 |

# 2. Adjustments between statutory and underlying information (continued)

## Explanation of specific adjusting items

### Amortisation of acquired intangibles

Underlying operating profit excludes the amortisation of acquired intangibles. This item is excluded from underlying results as it arises as a result of purchase price allocations on business combinations, and is a non-cash item which does not change each year dependent on the performance of the business. It is therefore not considered to represent the underlying activity of the Group and is removed to aid comparability with peers who have grown organically as opposed to through acquisition. Intangible assets arising as a result of the purchase price allocation on business combinations include customer lists, technology-based assets, order book and trade names. Amortisation of internally generated intangible assets is included within underlying operating profit.

### Business acquisition, merger and divestment related items

Transaction related costs and gains or losses on acquisitions, mergers and divestments of businesses are excluded from underlying operating profit as business combinations and divestments are not considered to result from underlying business performance.

The total net gain relating to business acquisition, merger and divestment related items was £163.1 million. This comprised of £172.8 million profit from acquisitions and disposals completed in the year, offset by £9.7 million of costs incurred in relation to the Group's divestment programme for disposals that had not completed at 31 March 2022. The profit resulting from acquisitions and disposals completed in the year included a £140.4 million gain on disposal of the Oil and Gas business, Frazer-Nash Consultancy, Power and AirTanker Holdings Limited, plus a gain on acquisition on Naval Ship Management (Australia) Pty Limited of £32.4 million, as detailed in note 20.

The prior year included a total net loss of £49.7 million, consisting of a £38.2 million loss on disposal of the Group's share in the Holdfast joint venture and losses arising on disposal of subsidiary undertakings of £0.6 million for Cavendish Nuclear Manufacturing Limited and £10.9 million for Conbras Servicos Tecnicos de Suporte Ltda.

### Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography

In the prior year the Group ceased its Airport baggage handling contract, incurring costs of £4.2 million. Further costs were incurred in relation to exits in the previous financial year from the oil and gas business in Congo (£3.6 million), the overseas Powerlines business (£1.4 million) and certain Rail related contracts (£1.9 million).

### Restructuring

The Group has incurred £36.8 million of restructuring costs in relation to the implementation of the new operating model announced and implemented during the year ended 31 March 2022. This has been offset by the release of £3.0 million of restructuring provisions created in previous years that were classified as exceptional but are no longer needed.

In the prior period, the Group incurred a restructuring charge of £9.3 million. This was offset by the release of £0.9 million of unused provision from prior year restructuring costs in the Nuclear and Land sectors.

### Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes.

In the prior year, the Group incurred a curtailment charge of £7.5 million in relation to the closure of the Rosyth defined benefit pension scheme to future accrual. A charge of £1.4 million was incurred following a court ruling in November 2020 regarding equalisation of pension rights.

## Exceptional items

Exceptional items are those items which are significant, non-recurring and outside the normal operating practice of the Group.

| For year ending 31 March | 2022 £m | 2021 £m |
|---|---|---|
| Operating costs | | |
| Impairment of goodwill | (7.2) | (1,336.6) |
| Impairment of acquired intangibles | (57.6) | (56.4) |
| Impairment of internally generated intangible assets | – | (32.7) |
| Impairment of property, plant and equipment and aircraft fleet rationalisation | (58.8) | (142.6) |
| Impairment of right of use assets | – | (46.4) |
| Release of onerous contract provisions | 1.8 | – |
| Release of provisions relating to the Italy fine and related costs | 3.6 | 24.2 |
| Other | (0.6) | – |
| Exceptional items – Group | (118.8) | (1,590.5) |
| Exceptional tax items and tax on exceptional items | 15.0 | 18.4 |
| Exceptional items – net of tax | (103.8) | (1,572.1) |

# 2. Adjustments between statutory and underlying information (continued)

## Explanation of exceptional items

### Impairment of goodwill

The Group has recorded a goodwill impairment of £7.2 million in the Aviation operating segment, due to changes in the forecast future business performance informed by the Group's disposal programme. This change has impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base. Previously, assets were shared cross-sector, however during the year ended 31 March 2022 management reduced the sharing of assets to a country level, which has resulted in a reduced value-in-use. Further detail is included in note 8.

The prior year impairment test resulted in an impairment of the Land operating segment goodwill of £437.4 million, the Aviation operating segment goodwill of £890.3 million and the goodwill allocated to the Aviation oil and gas business CGU of £8.9 million.

### Impairment of acquired intangibles

The Group has recorded an impairment of acquired intangibles of £57.6 million in the Aviation operating segment, due to changes in the forecast future business performance informed by the Group's disposal programme. This change has impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base. Previously, assets were shared cross-sector, however during the year ended 31 March 2022 management reduced the sharing of assets to a country level, which has resulted in a reduced value-in-use. Further detail is included in note 9.

In the prior year, the Land operating segment impaired an acquired intangible in relation to the DSG contract.

### Impairment of internally generated intangible assets

In prior year, impairment charges of £32.7 million were recorded on mainly software assets.

### Impairment of property, plant and equipment and aircraft fleet rationalisation

The Group has recorded an impairment of property, plant and equipment of £58.8 million in the Aviation operating segment, due to changes in the forecast future business performance informed by the Group's disposal programme. This change has impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base. Previously, assets were shared cross-sector, however during the year ended 31 March 2022 management reduced the sharing of assets to a country level, which has resulted in a reduced value-in-use. Further detail is included in note 10.

In the prior year, an impairment charge of £113.3 million was recorded on property, plant and equipment. This charge included the results of a major aircraft fleet rationalisation programme which resulted in a refreshed fleet strategy and the identification of surplus aircraft. Impairments were recorded on surplus aircraft and as the result of value-in-use tests. Losses on disposal were incurred on aircraft disposed of during the year. In addition, we carried out an aircraft rationalisation programme which resulted in asset impairments and crystallisation of losses on disposal of surplus aircraft of £29.3 million.

### Impairment of right of use assets

In prior year, following a review of carrying amounts, a total impairment charge of £46.4 million was recorded in relation to the Group's right of use assets. This included impairments of aircraft supporting oil and gas and emergency services contracts and the impairment of assets directly attributable to the Group's DSG contract.

### Onerous contracts

In the year ended 31 March 2022, the Group released an onerous contract provision that was no longer required and was previously classified as exceptional, which totalled £1.8 million.

### Italy fine

In the year ended 31 March 2020, the Lazio Regional Administrative Court confirmed a €51 million fine issued by the Italian Competition Authority to our subsidiary, Babcock Mission Critical Services Italia SpA (BMCS Italia), for certain anti-trust violations. As a result, the Group recognised a provision of £47.3 million.

In the year ended 31 March 2021, BMCS Italia appealed the decision of the Court to the Italian Council of State. In July 2021, the Council, whilst upholding the decision of the Court on the facts, annulled the fine, though allowing the Authority leave to re-calculate it. Taking into account the guidance given by the Council to the Authority on the recalculation, the Group expected the Authority to reduce the fine and reduced the provision to £20 million as at 31 March 2021.

In February 2022 management received notice that the fine had been set at €18 million, which was subsequently paid by the Group. This has resulted in the release of unused provision of £3.6 million.

### Tax

Tax includes tax on exceptional items (£13.1 million credit), tax recorded in the year relating to Specific Adjusting Items in prior periods (£1.0 million charge) and a credit arising from the impact on the Group's deferred tax asset of the increase in the UK rate of corporation tax to 25% with effect from 1 April 2023 (£2.9 million).

# 3. Prior year restatements

In the year ended 31 March 2022, the Group restated the prior year financial information. The impact of these restatements on underlying operating profit for the year ended 31 March 2022 was £0.3 million. The restatements are summarised below: Impact on the income statement for the year ended 31 March 2021

| | Year ended 31 March 2021 (previously published) | (i) Principal versus agent assessment | (vi) Goodwill impairment | (vii) Taxation | (viii) Land contract asset | (ix) Software-as-a-service | Year ended 31 March 2021 (restated) |
|---|---|---|---|---|---|---|---|
| **Group income statement** | | | | | | | |
| Revenue | 4,182.7 | (211.1) | – | – | – | – | 3,971.6 |
| Cost of revenue | (4,156.6) | 211.1 | – | – | – | – | (3,945.5) |
| Administration and distribution expenses | (376.2) | – | – | – | – | (0.3) | (376.5) |
| Goodwill impairment | (1,243.2) | – | (81.8) | – | (11.6) | – | (1,336.6) |
| Loss on divestments | (49.7) | – | – | – | – | – | (49.7) |
| Share of results of joint ventures and associates | (13.1) | – | – | – | – | – | (13.1) |
| Finance income | 16.6 | – | – | – | – | – | 16.6 |
| Finance costs | (77.8) | – | – | – | – | – | (77.8) |
| **Loss before tax** | (1,717.3) | – | (81.8) | – | (11.6) | (0.3) | (1,811.0) |
| Income tax benefit | 15.3 | – | – | (7.3) | – | – | 8.0 |
| **Loss for the period** | (1,702.0) | – | (81.8) | (7.3) | (11.6) | (0.3) | (1,803.0) |
| Impact on basic earnings per share (pence) | (337.0)p | – | (16.2)p | (1.4)p | (2.3)p | (0.1)p | (357.0)p |
| Impact on diluted earnings per share (pence) | (337.0)p | – | (16.2)p | (1.4)p | (2.3)p | (0.1)p | (357.0)p |

### Year ended 31 March 2021 – Group statement of other comprehensive income (extract)

The table below shows the impact of the prior year restatements on the statement of other comprehensive income.

| | Year ended 31 March 2021 (previously published) | (i) Principal versus agent assessment | (ii) Pensions | Year ended 31 March 2021 (restated) |
|---|---|---|---|---|
| **Other comprehensive income/(loss)** | | | | |
| Remeasurement of retirement benefit obligations | (506.8) | – | 61.2 | (445.6) |
| Tax, including rate change impact, on remeasurement of retirement benefit obligations | 96.3 | – | (11.6) | 84.7 |

# 3. Prior year restatements (continued)

## 1 April 2020 – Group statement of financial position (extract)

| | 1 April 2020 (previously published) | (ii) Pensions | (iii) Cross currency interest rate swap valuation | (iv) Hedging | (v) Balance sheet reclassification | (vi) Goodwill impairment | (viii) Land contract asset | (ix) Software-as-a-service | 1 April 2020 (restated) |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| **Non-current assets** | | | | | | | | | |
| Goodwill | 2,287.9 | – | – | – | – | 81.8 | 11.6 | – | 2,381.3 |
| Other intangible assets | 334.7 | – | – | – | – | – | – | (1.8) | 332.9 |
| Retirement benefit surpluses | 325.3 | (26.9) | – | – | – | – | – | – | 298.4 |
| Deferred tax asset | 60.5 | 8.9 | – | – | – | – | – | – | 69.4 |
| Trade and other receivables | – | – | – | – | 25.9 | – | – | – | 25.9 |
| **Total non-current assets *** | 4,703.1 | (18.0) | – | – | 25.9 | 81.8 | 11.6 | (1.8) | 4,802.6 |
| **Current assets** | | | | | | | | | |
| Trade and other receivables | 506.6 | – | – | – | (25.9) | – | – | – | 480.7 |
| Contract assets | 330.8 | – | – | – | – | – | (11.6) | – | 319.2 |
| **Total current assets *** | 3,086.0 | – | – | – | (25.9) | – | (11.6) | – | 3,048.5 |
| **Liabilities** | | | | | | | | | |
| **Non-current liabilities** | | | | | | | | | |
| Bank and other borrowings | (2,050.0) | – | (5.0) | – | – | – | – | – | (2,055.0) |
| Derivatives | (35.6) | – | 0.1 | – | – | – | – | – | (35.5) |
| Retirement benefit deficits | (180.1) | (20.1) | – | – | – | – | – | – | (200.2) |
| **Total non-current liabilities *** | (2,882.7) | (20.1) | (4.9) | – | – | – | – | – | (2,907.7) |
| **Equity** | | | | | | | | | |
| Capital redemption and other reserves | (642.6) | – | (11.3) | (16.9) | – | – | – | – | (670.8) |
| Retained earnings | (480.1) | 38.1 | 16.2 | 16.9 | – | (81.8) | – | 1.8 | (488.9) |
| **Total equity *** | (2,314.8) | 38.1 | 4.9 | – | – | (81.8) | – | 1.8 | (2,351.8) |

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

# 3. Prior year restatements (continued)

## 31 March 2021 – Group statement of financial position (extract)

| | 31 March 2021 (previously published) | (ii) Pensions | (iii) Cross currency interest rate swap valuation | (iv) Hedging | (v) Balance sheet reclassification | (vii) Taxation | (viii) Land contract asset | (ix) Software-as-a-service | 31 March 2021 (restated) |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| **Non-current assets** | | | | | | | | | |
| Goodwill | 956.3 | – | – | – | – | – | – | – | 956.3 |
| Other intangible assets | 202.0 | – | – | – | – | – | – | (2.1) | 199.9 |
| Property, plant and equipment | 731.5 | – | – | – | 2.9 | – | – | – | 734.4 |
| Right-of-use assets | 521.2 | – | – | – | (2.9) | – | – | – | 518.3 |
| Retirement benefit surpluses | 40.8 | 6.0 | – | – | – | – | – | – | 46.8 |
| Deferred tax asset | 141.3 | (2.7) | – | – | – | (8.9) | – | – | 129.7 |
| Trade and other receivables | – | – | – | – | 26.7 | – | – | – | 26.7 |
| **Total non-current assets *** | 2,737.1 | 3.3 | – | – | 26.7 | (8.9) | – | (2.1) | 2,756.1 |
| **Current assets** | | | | | | | | | |
| Inventory | 162.4 | – | – | – | (9.4) | – | – | – | 153.0 |
| Trade and other receivables | 462.4 | – | – | – | (26.7) | – | – | – | 435.7 |
| Contract assets | 278.6 | – | – | – | 9.4 | – | (11.6) | – | 276.4 |
| Income tax recoverable | 48.4 | – | – | – | – | 1.6 | – | – | 50.0 |
| **Total current assets *** | 1,891.5 | – | – | – | (26.7) | 1.6 | (11.6) | – | 1,854.8 |
| **Liabilities** | | | | | | | | | |
| **Non-current liabilities** | | | | | | | | | |
| Bank and other borrowings | (1,318.8) | – | (5.0) | – | – | – | – | – | (1,323.8) |
| Derivatives | (51.1) | – | 0.1 | – | – | – | – | – | (51.0) |
| Retirement benefit deficits | (333.9) | 8.2 | – | – | – | – | – | – | (325.7) |
| **Total non-current liabilities *** | (2,273.3) | 8.2 | (4.9) | – | – | – | – | – | (2,270.0) |
| **Equity** | | | | | | | | | |
| Capital redemption and other reserves | (680.1) | – | (11.3) | (16.9) | – | – | – | – | (708.3) |
| Retained earnings | 1,629.1 | (11.5) | 16.2 | 16.9 | – | 7.3 | 11.6 | 2.1 | 1,671.7 |
| **Total equity *** | (243.4) | (11.5) | 4.9 | – | – | 7.3 | 11.6 | 2.1 | (229.0) |

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

### i. Principal versus agency assessment

The Group has re-examined the presentation of revenue and cost of revenue in relation to pass-through revenue on three of the Group's contracts. The Group had previously taken the judgement that it acted as a principal in these arrangements, informed by the contractual terms and practical delivery of the contract to the customer. This approach was disclosed as a judgemental area in the Annual Report for the year ended 31 March 2021. Following the transition to the Group's new auditors, this has been further considered and the Group has reassessed this judgement, which had always been a finely balanced one. This change of judgement, and the resultant accounting policy, means that revenue and cost of revenue are now presented net for these contracts. Restatement of the financial information in accordance with the new accounting policy results in a decrease in revenue and cost of revenue of £211.1 million in the year ended 31 March 2021. There is no impact to reported profit or cash flow as a result of this adjustment.

### ii. Pensions

### Longevity swap valuation

The longevity swaps related to the three main Group pension schemes were previously valued in line with the collateral posted by each scheme with their intermediary. This was deemed a proxy for fair value in line with IAS 19. Having considered valuations of a notional replacement swap, or exit, we now believe the previous approach no longer accurately reflects fair value and so we have changed our valuation approach accordingly. This restatement has reduced retirement benefit surpluses by £26.9 million, increased deferred tax assets by £8.9 million, increased retirement benefit deficits by £20.1 million and decreased retained earnings by £38.1 million as at 1 April 2020. In the year ended 31 March 2021 there was a £5.9 million gain through the statement of other comprehensive income resulting in a cumulative reduction to retirement benefit surpluses of £26.2 million, an increase to deferred tax assets of £7.6 million and an increase to retirement benefit deficits of £13.6 million and an increase to retained earnings of £11.5 million as at 31 March 2021. There is no impact on the Group income statement. This change does not affect the technical provisions assessed for those schemes during triennial valuations, their funding requirements, or the deficit recovery cash contributions agreed with each scheme. There is no impact to earnings per share as a result of this restatement.

# 3. Prior year restatements (continued)

### ii. Pensions (continued)

#### Allowance for the 2021 pension increases in the 31 March 2021 benefit obligation

Furthermore, a refinement in the calculation of the value of defined benefit obligation for the principal schemes now allows for the inclusion of the actual known rate of the next pension increase, rather than using the longer-term assumed inflation rate of pension increases. This approach was not appropriately followed in the year ended 31 March 2021. Application of the correct methodology at 31 March 2021 results in an increase to the retirement benefit surplus of £32.2 million, a decrease to deferred tax assets of £10.3 million and a decrease to the defined benefit obligation of £21.8 million, due to actual inflation being lower than assumed long-term inflation as at 31 March 2021.

#### Babcock Naval Services Pension Scheme (BNSPS)

The Group hosts the BNSPS (Babcock Naval Services Pension Scheme), which is underwritten by the previous principal employer, with a full indemnity given by them to the Babcock Group. In the previous year a buy-in was undertaken and scheme assets and liabilities were valued by reference to the premium paid, rather than valuing the obligation in accordance with IAS 19 with a corresponding amount of plan assets. We have now adopted methodologies in line with IAS 19 'Employee Benefits' and reflected this change as a prior year restatement. There is no impact to net assets, given the underwritten nature, however scheme assets and liabilities are both reduced by £121.6m as at 31 March 2021. De-risking continues in the scheme, supported by the previous principal employer, with a buyout process expected to commence before the end of 2022, with no cost to the Group.

### iii. Cross currency interest rate swaps

The Group uses cross currency interest rate swaps to manage foreign currency and interest rate risk.

During the year ended 31 March 2022 it was identified that the valuation methodology applied by the Group was not appropriate, as it did not incorporate the impact of credit risk. Additionally, the hedge effectiveness assessment did not account for the difference in timing between when the debt facility and derivative were entered into, and was therefore incorrect. Application of the appropriate valuation methodology and hedge effectiveness has resulted in an increase to bank and other borrowings of £5.0 million, a decrease to other financial liabilities of £0.1 million, an increase in the cash flow hedge reserve of £11.3 million and a decrease to retained earnings of £16.2 million.

### iv. Hedging

In the year ended 31 March 2015 the Group disposed of its 50% ownership in the joint ventures Greenwich BSF SPV Limited and Lewisham Schools for the Future. These joint ventures had a combined accumulated balance of £12.3 million in the cash flow hedge reserve which was not eliminated when these joint ventures were disposed of. Furthermore, there is a balance of £4.6 million that has incorrectly accumulated in the cash flow hedge reserve relating to the ALC joint venture. This restatement has resulted in a reclassification from the cash flow hedge reserve to retained earnings of £16.9 million at 1 April 2020.

### v. Balance sheet reclassifications

#### Inventory to contract assets

In the year ended 31 March 2022 it was identified that certain contract assets were incorrectly recognised as inventory. Reclassifying these reduces inventory and increases contract assets by £9.4 million at 31 March 2021.

#### Non-current capitalised contract costs

Certain costs to obtain a contract and costs to fulfil a contract were capitalised as current when a portion of these balances should have been capitalised as non-current, based on when the expense it expected to be realised in the income statement. This restatement has resulted in £26.7 million at 31 March 2021 and £25.9 million at 1 April 2020 being reclassified to non-current.

#### Right of use asset to property, plant and equipment

Additionally, in the year ended 31 March 2022 it was identified that leases which were purchased during the year ended 31 March 2021 were not reclassified from right of use assets to property, plant and equipment. Reclassifying these reduces right of use assets by £2.9 million and increases property, plant and equipment by £2.9 million at 31 March 2021.

### vi. Goodwill impairment

A prior year restatement has been identified in relation to the Aviation goodwill impairment for the year ended 31 March 2020 and 31 March 2021. An impairment of acquired intangibles identified through the contract profitability and balance sheet review was not reflected in the carrying value used in the Aviation goodwill impairment assessment at 31 March 2020. This restatement results in an increase of £81.8 million to the goodwill balance at 31 March 2020, a decrease of £81.8 million to the impairment charge for the year ended 31 March 2020 and an increase of £81.8 million to the impairment charge for the year ended 31 March 2021. There is no impact on goodwill or retained earnings at 31 March 2021.

### vii. Taxation

During the year management identified that deferred tax balances recognised at 31 March 2021 were not recoverable. This restatement has decreased the deferred tax asset balance by £8.9 million at 31 March 2021. There is also an increase to income tax recoverable of £1.6 million at 31 March 2021.

### viii. Land contract asset

Management have identified a restatement in relation to one of the Group's contracts which reduces the contract asset and retained earnings by £11.6 million at 1 April 2020 and 31 March 2021. This restatement reduces the carrying value of the Land operating segment used in the impairment assessment at 1 April 2020 by £11.6 million, resulting in an increase to the goodwill balance at 1 April 2020 of £11.6 million. At 31 March 2021, the carrying value of the Land operating segment used in the impairment assessment is increased by £11.6 million, resulting in an increase to the goodwill impairment charge for the year ended 31 March 2021 of £11.6 million. There is no impact on the goodwill balance at 31 March 2021 as a result of this restatement.

## 3. Prior year restatements (continued)

### ix. Software-as-a-service

In April 2021 the IFRS Interpretations Committee (IFRIC) published an agenda decision which clarified how a customer should account for the costs of configuring or customising the supplier's application software in a Software-as-a-service arrangement.

The Group's policy has historically been to capitalise configuration and customisation costs as an intangible asset, including costs directly payable to the software provider, sub-contractor costs and related third-party costs. As a result of the IFRIC agenda decision the Group reviewed its cloud computing arrangements and, for those arrangements where the Group does not control the underlying software, the Group has derecognised the intangible asset previously capitalised. Application of this new policy accounting has resulted in a reduction to other intangible assets of £1.8 million at 1 April 2020 and £2.1 million at 31 March 2021. There is an increase to administration and distribution costs of £0.3 million for the year ended 31 March 2021.

The Group will continue to apply this accounting policy to new Software-as-a-service arrangements as we continue to upgrade and standardise our IT environment. As this policy requires costs to be expensed as incurred, this may lead to a higher up-front charge to the income statement in future years but will not impact on the Group's cash flows.

# 4. Segmental information

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

**Marine** – through-life support of naval ships, equipment and marine infrastructure in the UK and internationally.
**Nuclear** – through-life support of submarines and complex engineering services in support of major decommissioning programmes and projects, training and operation support, new build programme management and design and installation in the UK.
**Land** – large-scale critical vehicle fleet management, equipment support and training for military and civil customers.
**Aviation** – critical engineering services to defence and civil customers worldwide, including pilot training, equipment support, airbase management and operation of aviation fleets delivering emergency services.
The Board, the chief operating decision maker as defined by IFRS 8, monitors the results of these reportable segments and makes decisions about the allocation of resources. The Group's business in Africa meets the definition of an operating segment, as defined by IFRS 8. However, as permitted by IFRS 8, the Group includes the Africa operating segment in the Land reportable segment.

The table below presents the underlying results for each reportable segment in accordance with the definition of underlying revenue and underlying operating profit, as set out in note 2, and reconciles the underlying operating profit/(loss) to the statutory profit/(loss) before tax.

| Year ended 31 March 2022 | Marine £m | Nuclear £m | Land £m | Aviation £m | Unallocated £m | Total £m |
|---|---|---|---|---|---|---|
| Revenue | 1,259.3 | 1,009.7 | 1,015.5 | 817.3 | – | 4,101.8 |
| Underlying operating profit | 98.0 | 62.4 | 58.8 | 18.5 | – | 237.7 |
| Specific Adjusting Items (note 2) | | | | | | |
| Amortisation of acquired intangibles | (0.6) | – | (1.3) | (19.5) | – | (21.4) |
| Business acquisition, merger and divestment related items | 221.3 | – | (6.1) | (52.1) | – | 163.1 |
| Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography | – | – | – | – | – | – |
| Restructuring costs | (8.6) | (5.5) | (16.9) | (2.8) | – | (33.8) |
| Profit or loss from amendment, curtailment, settlement or equalisation of group pension schemes | – | – | – | – | – | – |
| Exceptional items | (0.4) | – | 1.7 | (120.1) | | (118.8) |
| Operating profit/(loss) | 309.7 | 56.9 | 36.2 | (176.0) | – | 226.8 |
| Other income | – | – | – | 6.2 | – | 6.2 |
| Share of results of joint ventures and associates | 3.5 | 0.4 | 2.5 | 13.7 | – | 20.1 |
| Investment income | – | – | 0.8 | – | – | 0.8 |
| Other net finance costs** | – | – | – | – | (71.6) | (71.6) |
| Profit/(loss) before tax | 313.2 | 57.3 | 39.5 | (156.1) | (71.6) | 182.3 |

| Year ended 31 March 2021 (restated*) | Marine £m | Nuclear £m | Land £m | Aviation £m | Unallocated £m | Total £m |
|---|---|---|---|---|---|---|
| Revenue | 1,230.6 | 975.9 | 910.7 | 854.4 | – | 3,971.6 |
| Underlying operating profit/(loss) | 56.2 | 63.8 | (17.5) | (130.4) | – | (27.9) |
| Specific Adjusting Items (note 2) | | | | | | |
| Amortisation of acquired intangibles | (0.8) | – | (16.0) | (23.4) | – | (40.2) |
| Business acquisition, merger and divestment related items | – | (0.6) | (49.1) | – | – | (49.7) |
| Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography | – | – | (7.5) | (3.6) | – | (11.1) |
| Restructuring costs | – | 0.7 | 0.2 | (9.3) | – | (8.4) |
| Profit or loss from amendment, curtailment, settlement or equalisation of group pension schemes | (7.5) | – | – | – | (1.4) | (8.9) |
| Exceptional items | (4.2) | (5.8) | (528.3) | (1,052.2) | – | (1,590.5) |
| Operating profit/(loss) | 43.7 | 58.1 | (618.2) | (1,218.9) | (1.4) | (1,736.7) |
| Share of results of joint ventures and associates | 3.1 | (15.0) | 5.1 | (6.3) | – | (13.1) |
| Investment income | – | – | 0.9 | – | – | 0.9 |
| Other net finance costs** | – | – | – | – | (62.1) | (62.1) |
| Profit/(loss) before tax | 46.8 | 43.1 | (612.2) | (1,225.2) | (63.5) | (1,811.0) |

* The results for 31 March 2021 have been restated due to a change in accounting policy.. Further details are set out in note 3.

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

## 5. Net finance costs

| For year ending 31 March | 2022 £m | 2021 £m |
|---|---|---|
| **Finance costs** | | |
| Loans, overdrafts and associated interest rate hedges | 57.3 | 50.0 |
| Lease interest | 17.4 | 23.5 |
| Amortisation of issue costs of bank loan | 2.0 | 1.4 |
| Retirement benefit interest | 3.7 | – |
| Other | – | 2.9 |
| **Total finance costs** | 80.4 | 77.8 |
| **Finance income** | | |
| Bank deposits, loans and leases | 8.8 | 11.7 |
| IFRIC 12 Investment income | 0.8 | 0.9 |
| Retirement benefit interest | – | 4.0 |
| **Total finance income** | 9.6 | 16.6 |
| **Net finance costs** | 70.8 | 61.2 |

Other net finance costs increased to £71.6 million (FY21: £62.1 million), with lower net interest costs due to lower average debt and reduced IFRS 16 lease interest, more than offset by a £7.1 million higher pension finance charge and a one-off, non-cash finance charge on derivative instruments of £9.6 million.

## 6. Taxation

### Income tax expense

| For year ending 31 March | 2022 £m | 2021 (restated) £m |
|---|---|---|
| **Analysis of tax expense/(benefit) in the year** | | |
| Current tax | | |
| • UK current year charge/(benefit) | 1.9 | 13.4 |
| • UK prior year (benefit) | (10.8) | (28.0) |
| • Overseas current year charge | 19.3 | 10.5 |
| • Overseas prior year charge | 2.5 | – |
| | 12.9 | (4.1) |
| Deferred tax | | |
| • UK current year charge/(benefit) | 17.5 | (36.7) |
| • UK prior year charge | 11.5 | 8.5 |
| • Overseas current year (benefit)/charge | (25.3) | 24.5 |
| • Overseas prior year charge | 0.7 | – |
| • Impact of changes in tax rates | (2.9) | (0.2) |
| | 1.5 | (3.9) |
| **Total income tax expense/(benefit)** | 14.4 | (8.0) |

# 6. Taxation (continued)

## Income tax expense (continued)

The tax for the year is lower (2021: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

| For year ending 31 March | 2022 £m | 2021 (restated) £m |
|---|---|---|
| Profit/(loss) before tax | 182.3 | (1,811.0) |
| Profit/(loss) on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2021: 19%) | 34.6 | (344.1) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 2.4 | 3.3 |
| Non-deductible write-off of goodwill | 1.4 | 254.0 |
| Re-measurement of deferred tax in respect of statutory rate changes | (2.9) | (0.2) |
| Difference in respect of share of results of joint ventures and associates' results | (2.1) | 2.5 |
| Prior year adjustments | 3.9 | (19.5) |
| Differences in respect of foreign rates | (0.4) | 3.9 |
| Unrecognised deferred tax movements | 25.0 | 83.4 |
| Deferred tax not previously recognised/derecognised | (8.1) | 3.3 |
| Non-taxable profits on disposals and non-deductible losses on disposals | (37.8) | 9.4 |
| Other | (1.6) | (4.0) |
| Total income tax expense/(benefit) | 14.4 | (8.0) |

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

During the year the Group concluded discussions with certain tax authorities regarding prior year tax positions, resulting in a tax credit of £12.6 million (2021: tax credit of £21.6 million).

## 6. Taxation (continued)

The Group is subject to taxation in several jurisdictions. The complexity of applicable rules may result in legitimate differences of interpretation between the Group and taxing authorities, especially where an economic judgement or valuation is involved. The principal elements of the Group's uncertain tax positions relate to the pricing of intra-group transactions and the allocation of profits in overseas territories. The outcome of tax authority disputes in such areas is not predictable, and to reflect the effect of these uncertain tax positions a provision is recorded which represents management's assessment of the most likely outcome of each issue. At 31 March 2022 the Group held uncertain tax provisions of £16.5 million (2021: £5.4 million).

During the period the Group made disposals that are expected to be exempt from UK tax due to qualification for the UK substantial shareholding exemption.

The increase in the UK rate of corporation tax to 25% with effect from 1 April 2023 was substantively enacted during the period, The effect has been to increase the Group's net deferred tax asset by £1.4 million, comprising a credit to Income Statement of £2.9 million, a debit to Other Comprehensive Income of £2.0 million and a credit to equity of £0.5 million.

## 7. Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year excluding those held in the Babcock Employee Share Trust. Where there is a loss arising the effect of potentially dilutive ordinary shares is anti-dilutive.

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

### Number of shares

| | 2022 Number | 2021 Number |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic EPS | 505,091,970 | 504,993,024 |
| Effect of dilutive potential ordinary shares: share options | 6,083,765 | 3,998,687 |
| Weighted average number of ordinary shares for the purpose of diluted EPS | 511,175,735 | 508,991,711 |

### Earnings

| | Year ended 31 March 2022 | | | Year ended 31 March 2021 (restated) | | |
|---|---|---|---|---|---|---|
| | Earnings/(loss) from continuing operations £m | Basic per share Pence | Diluted per share Pence | Earnings/(loss) from continuing operations £m | Basic per share Pence | Diluted per share Pence |
| Earnings/(loss) for the year | 164.2 | 32.5 | 32.1 | (1,803.0) | (357.0) | (357.0) |
| (Deduct)/add back: | | | | | | |
| Specific Adjusting Items, net of tax (note 2) | (9.0) | (1.8) | (1.7) | 1,679.0 | 332.4 | 332.4 |
| Earnings before Specific Adjusting Items | 155.2 | 30.7 | 30.4 | (124.0) | (24.6) | (24.6) |

# 8. Goodwill

| For year ending 31 March | 2022 £m | 2021 £m |
|---|---|---|
| **Cost** | | |
| At 1 April (restated) | 2,487.3 | 2,571.1 |
| On disposal of subsidiaries (note 20) | (197.9) | (72.6) |
| Additions (note 20) | 21.3 | – |
| Exchange adjustments | 1.0 | (11.2) |
| At 31 March | 2,311.7 | 2,487.3 |
| **Accumulated impairment** | | |
| At 1 April (restated) | 1,531.0 | 189.8 |
| On disposal of subsidiaries (note 20) | (8.9) | – |
| Impairment | 7.2 | 1,336.6 |
| Exchange adjustments | – | 4.6 |
| At 31 March | 1,529.3 | 1,531.0 |
| Net book value at 31 March | 782.4 | 956.3 |

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

| For year ending 31 March | 2022 £m | 2021 £m |
|---|---|---|
| Marine | 296.7 | 339.2 |
| Nuclear | 233.1 | 233.1 |
| Land | 218.6 | 262.7 |
| Aviation | 32.0 | 119.3 |
| Africa | 2.0 | 2.0 |
| | 782.4 | 956.3 |

During the year, goodwill was tested for impairment at 31 March 2022 in accordance with IAS 36. This impairment analysis is performed on an annual basis at operating segment level, as outlined in the Group's accounting policies. The Group monitors goodwill at operating segment level, with the exception of the establishment of a separate cash generating unit during the year for part of the Aviation business ("Aviation – Europe"). This was in response to a transaction which impacted on management's ability share assets, capability and management across the entire Aviation cash generating unit. A portion of the goodwill previously allocated in full to the Aviation operating segment has been allocated to this part of the Aviation business, and a separate value-in-use analysis has been prepared.

The Group considered the potential disposal in the context of the held for sale criteria set out in IFRS 5 and assessed that the business should not be classified as held for sale.

The goodwill allocated to the Africa operating segment is immaterial and the Directors do not consider there to be any reasonably possible changes in estimates that would result in impairment of this goodwill. No further disclosures are provided in relation to the Africa operating segment.

During the year the Group disposed of goodwill of £189.0 million through the disposal of the Oil and Gas business (£0.4 million) and AirTanker Holdings Limited (£80.0 million) in Aviation, Frazer-Nash Consultancy (£64.5 million) in Marine and Power (£44.1 million) in Land. Further details are set out in note 20. The Group recognised goodwill on the acquisition of Naval Ship Management Pty Ltd of £21.3 million.

## Results of goodwill impairment test

The current year impairment test results in an impairment of the goodwill allocated to Aviation – Europe of £7.2 million, this impairment reflects changes in the future business performance, which was informed by the Group's disposal programme. This change has impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base. Previously, assets were shared cross-sector, however during the year ended 31 March 2022 management reduced the sharing of assets to a country level, which has resulted in a reduced value-in-use. This has also resulted in an acquired intangible impairment of £57.6 million and impaired its aircraft fleet by £58.8 million. Further detail is included in notes 9 and 10, respectively.

# 9. Other intangible assets

| | Acquired intangibles – relationships £m | Internally generated software development costs and licences £m | Internally generated development costs and other £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 April 2021 | 1,031.5 | 189.3 | 26.1 | 1,246.9 |
| On acquisition of subsidiaries and joint ventures (note 20) | 62.0 | – | – | 62.0 |
| Additions | – | 7.0 | 4.4 | 11.4 |
| Reclassification to property, plant and equipment | – | 0.1 | (1.6) | (1.5) |
| Reclassification | – | 0.9 | (0.9) | – |
| Disposal of subsidiary undertakings (note 20) | – | (3.9) | – | (3.9) |
| Disposals at cost | – | (1.4) | (0.3) | (1.7) |
| Exchange adjustments | 0.8 | 0.2 | (0.1) | 0.9 |
| At 31 March 2022 | 1,094.3 | 192.2 | 27.6 | 1,314.1 |
| | | | | |
| **Accumulated amortisation and impairment** | | | | |
| At 1 April 2021 | 927.5 | 115.0 | 4.5 | 1,047.0 |
| Amortisation charge | 21.4 | 13.9 | 1.8 | 37.1 |
| Impairment | 57.6 | – | – | 57.6 |
| Reclassification | – | 0.1 | (0.1) | – |
| Disposal of subsidiary undertakings (note 20) | – | (1.8) | – | (1.8) |
| Disposals | – | (1.0) | – | (1.0) |
| Exchange adjustments | (0.7) | 0.2 | – | (0.5) |
| At 31 March 2022 | 1,005.8 | 126.4 | 6.2 | 1,138.4 |
| Net book value at 31 March 2022 | 88.5 | 65.8 | 21.4 | 175.7 |
| | | | | |
| **Cost** | | | | |
| At 1 April 2020 as previously stated | 1,042.9 | 187.1 | 26.8 | 1,256.8 |
| Prior year adjustment | – | (2.8) | – | (2.8) |
| At 1 April 2020 restated | 1,042.9 | 184.3 | 26.8 | 1,254.0 |
| On disposal of subsidiaries (note 20) | (5.2) | (0.1) | – | (5.3) |
| Additions | – | 11.0 | 7.0 | 18.0 |
| Reclassification from property, plant and equipment | – | – | 1.3 | 1.3 |
| Disposals at cost | – | (6.0) | (8.4) | (14.4) |
| Exchange adjustments | (6.2) | 0.1 | (0.6) | (6.7) |
| At 31 March 2021 | 1,031.5 | 189.3 | 26.1 | 1,246.9 |
| | | | | |
| **Accumulated amortisation and impairment** | | | | |
| At 1 April 2020 as previously stated | 840.3 | 79.8 | 2.0 | 922.1 |
| Prior year adjustment | – | (1.0) | – | (1.0) |
| At 1 April 2020 restated | 840.3 | 78.8 | 2.0 | 921.1 |
| On disposal of subsidiaries and joint ventures (note 20) | (5.2) | (0.1) | – | (5.3) |
| Amortisation charge | 40.2 | 18.2 | 1.0 | 59.4 |
| Impairment (note 2) | 56.4 | 24.0 | 8.7 | 89.1 |
| Reclassification from property, plant and equipment | – | – | 1.3 | 1.3 |
| Disposals | – | (6.0) | (8.4) | (14.4) |
| Exchange adjustments | (4.2) | 0.1 | (0.1) | (4.2) |
| At 31 March 2021 | 927.5 | 115.0 | 4.5 | 1,047.0 |
| Net book value at 31 March 2021 | 104.0 | 74.3 | 21.6 | 199.9 |

Acquired intangible amortisation charges for the year are recorded through cost of revenue.

In the year ended 31 March 2022 the Group amended its accounting policy in related to Software-as-a-service agreements, which would previously have been capitalised within 'Internally generated software development costs and licences'. Further detail is included in note 3.

In the year ended 31 March 2022, the Aviation operating segment recorded an impairment to acquired intangibles of £57.6 million on an acquired intangible that was initially recognised in relation to the acquisition of the Avincis business. Following reassessment of the value-in-use for the operating segment in line with an assessment under IAS 36, as outlined in note 8, this asset was fully impaired.

## 10. Property, plant and equipment

| | Freehold property £m | Leasehold property £m | Plant and equipment £m | Aircraft fleet £m | Assets in course of construction £m | Total £m |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| At 1 April 2021 | 159.8 | 15.8 | 506.5 | 365.3 | 187.6 | 1,235.0 |
| On acquisition of subsidiaries (note 20) | – | – | 0.4 | – | – | 0.4 |
| On disposal of subsidiaries (note 20) | (7.6) | (0.6) | (21.6) | (17.4) | (0.9) | (48.1) |
| Additions | 1.8 | 3.8 | 32.3 | 28.9 | 112.6 | 179.4 |
| Disposals | (2.5) | (0.8) | (14.2) | (56.0) | (46.5) | (120.0) |
| Reclassification | 1.5 | 4.9 | (1.5) | 0.9 | (5.8) | – |
| Reclassification from intangible assets | 0.4 | – | 1.1 | – | – | 1.5 |
| Exchange adjustments | – | 0.1 | 4.4 | (0.4) | (0.7) | 3.4 |
| At 31 March 2022 | 153.4 | 23.2 | 507.4 | 321.3 | 246.3 | 1,251.6 |
| Accumulated depreciation | | | | | | |
| At 1 April 2021 | 69.5 | 10.9 | 373.1 | 45.4 | 1.7 | 500.6 |
| On disposal of subsidiaries (note 20) | (4.7) | (0.2) | (13.7) | (7.7) | – | (26.3) |
| Charge for the year | 8.1 | 0.5 | 38.1 | 12.0 | – | 58.7 |
| Impairment | – | – | – | 58.8 | – | 58.8 |
| Disposals | (1.5) | (0.7) | (10.8) | (38.9) | (1.6) | (53.5) |
| Exchange adjustments | – | – | 1.8 | 1.0 | (0.1) | 2.7 |
| At 31 March 2022 | 71.4 | 10.5 | 388.5 | 70.6 | – | 541.0 |
| Net book value at 31 March 2022 | 82.0 | 12.7 | 118.9 | 250.7 | 246.3 | 710.6 |
| Cost | | | | | | |
| At 1 April 2020 as previously stated | 125.2 | 32.0 | 605.7 | 533.8 | 88.5 | 1,385.2 |
| Reclassification of assets in the course of construction | 18.7 | – | (61.4) | – | 42.7 | – |
| At 1 April 2020 restated | 143.9 | 32.0 | 544.3 | 533.8 | 131.2 | 1,385.2 |
| On disposal of subsidiaries (note 20) | – | – | (1.7) | – | – | (1.7) |
| Additions (restated) | 2.5 | 1.2 | 39.5 | 39.2 | 76.0 | 158.4 |
| Disposals | (3.3) | (0.4) | (79.5) | (210.7) | (4.9) | (298.8) |
| Reclassification | 16.9 | (17.0) | 0.1 | 11.1 | (11.1) | – |
| Reclassification to intangible assets | – | – | (1.3) | – | – | (1.3) |
| Capitalised borrowing costs | 0.1 | – | 1.4 | – | – | 1.5 |
| Exchange adjustments | (0.3) | – | 3.7 | (8.1) | (3.6) | (8.3) |
| At 31 March 2021 | 159.8 | 15.8 | 506.5 | 365.3 | 187.6 | 1,235.0 |
| Accumulated depreciation | | | | | | |
| At 1 April 2020 | 66.6 | 9.5 | 390.7 | 77.5 | – | 544.3 |
| On disposal of subsidiaries (note 20) | – | – | (0.9) | – | – | (0.9) |
| Charge for the year | 5.0 | 1.0 | 46.7 | 33.9 | – | 86.6 |
| Impairment (note 2) | 0.3 | 2.5 | 9.2 | 99.3 | 2.0 | 113.3 |
| Disposals | (2.9) | (0.4) | (70.9) | (165.0) | – | (239.2) |
| Reclassification | 0.7 | (1.7) | 0.2 | 0.8 | – | – |
| Reclassification to intangible assets | – | – | (1.3) | – | – | (1.3) |
| Exchange adjustments | (0.2) | – | (0.6) | (1.1) | (0.3) | (2.2) |
| At 31 March 2021 | 69.5 | 10.9 | 373.1 | 45.4 | 1.7 | 500.6 |
| Net book value at 31 March 2021 | 90.3 | 4.9 | 133.4 | 319.9 | 185.9 | 734.4 |

In the year ended 31 March 2022, the Group recognised an impairment charge of £58.8 million in relation to the Aircraft fleet in the Aviation operating segment due to changes in the future business performance, as informed by the Group's disposal programme. In making this assessment management have grouped the aircraft at the lowest level for which there are identifiable and separable cashflows, which is generally at the fleet level. The asset valuations have been calculated based on estimated discounted cashflows over the remaining useful expected lives of the assets. The impairment charge of £58.8 million is based on a recoverable amount for the relevant assets of £220.0 million.

# 11. Leases

## Group as a lessee

Lease liabilities represent rentals payable by the Group for certain operational, distribution and office properties and other assets such as aircraft. The leases have varying terms, purchase options, escalation clauses and renewal rights.

### Right of use assets

| | Leasehold property £m | Plant and equipment £m | Aircraft fleet £m | Total £m |
|---|---|---|---|---|
| Cost | | | | |
| At 1 April 2021 | 152.9 | 72.1 | 584.2 | 809.2 |
| Additions | 24.0 | 3.4 | 61.2 | 88.6 |
| Acquisition of subsidiary (note 20) | 0.5 | – | – | 0.5 |
| Disposals | (31.1) | (7.8) | (33.0) | (71.9) |
| Disposal of subsidiaries (note 20) | (21.1) | (3.0) | (228.4) | (252.5) |
| Exchange adjustments | 2.1 | – | (1.0) | 1.1 |
| At 31 March 2022 | 127.3 | 64.7 | 383.0 | 575.0 |
| Accumulated depreciation | | | | |
| At 1 April 2021 | 51.1 | 42.2 | 197.6 | 290.9 |
| Charge for the year | 23.5 | 9.5 | 72.1 | 105.1 |
| Impairment | – | – | 18.0 | 18.0 |
| Disposals | (23.7) | (6.9) | (21.8) | (52.4) |
| Disposal of subsidiaries (note 20) | (9.5) | (1.9) | (109.5) | (120.9) |
| Reclassification | – | 2.0 | 2.0 | – |
| Exchange adjustments | 1.1 | – | (1.1) | – |
| At 31 March 2022 | 42.5 | 40.9 | 157.3 | 240.7 |
| Net book value at 31 March 2022 | 84.8 | 23.8 | 225.7 | 334.3 |

| | Leasehold property £m | Plant and equipment £m | Aircraft fleet £m | Total £m |
|---|---|---|---|---|
| Cost | | | | |
| At 1 April 2020 | 148.2 | 70.6 | 549.4 | 768.2 |
| Additions | 18.2 | 8.0 | 65.5 | 91.7 |
| Disposals | (15.3) | (6.5) | (38.3) | (60.1) |
| Exchange adjustments | 1.8 | – | 7.6 | 9.4 |
| At 31 March 2021 | 152.9 | 72.1 | 584.2 | 809.2 |
| Accumulated depreciation | | | | |
| At 1 April 2020 | 26.4 | 30.1 | 102.7 | 159.2 |
| Charge for the year | 27.7 | 12.6 | 93.1 | 133.4 |
| Impairment (note 2) | 7.3 | 4.4 | 34.7 | 46.4 |
| Disposals | (10.7) | (4.8) | (32.3) | (47.8) |
| Exchange adjustments | 0.4 | (0.1) | (0.6) | (0.3) |
| At 31 March 2021 | 51.1 | 42.2 | 197.6 | 290.9 |
| Net book value at 31 March 2021 | 101.8 | 29.9 | 386.6 | 518.3 |

## 11. Leases (continued)

### Lease liabilities

The following tables show the discounted Group lease liabilities and a reconciliation of opening to closing lease liabilities:

| | Total £m |
|---|---|
| At 1 April 2021 | 612.3 |
| Additions | 93.8 |
| Acquisition of subsidiaries (note 20) | 0.5 |
| Disposals | (22.6) |
| Disposal of subsidiaries (note 20) | (137.1) |
| Exchange adjustments | 0.2 |
| Lease interest | 17.4 |
| Lease repayments | (130.4) |
| At 31 March 2022 | 434.1 |
| Non-current lease liabilities | 329.3 |
| Current lease liabilities | 104.8 |
| At 31 March 2022 | 434.1 |

| | |
|---|---|
| At 1 April 2020 | 689.4 |
| Additions | 91.7 |
| Disposals | (9.4) |
| Exchange adjustments | (18.8) |
| Lease interest | 23.5 |
| Lease repayments | (164.1) |
| At 31 March 2021 | 612.3 |
| Non-current lease liabilities | 486.2 |
| Current lease liabilities | 126.1 |
| At 31 March 2021 | 612.3 |

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

### Reconciliation to carrying amounts

| | Investment in joint ventures and associates | | Loans to joint ventures and associates | | Total | |
|---|---|---|---|---|---|---|
| | 2022 £m | 2021 £m | 2022 £m | 2021 £m | 2022 £m | 2021 £m |
| At 1 April | 73.5 | 161.9 | 42.1 | 48.6 | 115.6 | 210.5 |
| Acquisition and disposal of joint ventures and associates (note 20) | (24.5) | (53.2) | – | – | (24.5) | (53.2) |
| Loans repaid by joint ventures and associates | – | – | (31.0) | (4.2) | (31.0) | (4.2) |
| Increase in loans to joint ventures and associates | – | – | 1.4 | 3.9 | 1.4 | 3.9 |
| Impairment of loans to joint ventures and associates | – | – | – | (7.0) | – | (7.0) |
| Investment in joint ventures and associates | 2.6 | 8.8 | – | – | 2.6 | 8.8 |
| Share of profits/(losses) | 20.1 | (13.1) | – | – | 20.1 | (13.1) |
| Interest accrued and capitalised | – | – | 3.2 | 3.1 | 3.2 | 3.1 |
| Interest received | – | – | (3.6) | (2.3) | (3.6) | (2.3) |
| Dividends received | (41.6) | (36.8) | – | – | (41.6) | (36.8) |
| Fair value adjustment of derivatives | 30.2 | 7.0 | – | – | 30.2 | 7.0 |
| Tax on fair value adjustment of derivatives | (5.7) | (1.4) | – | – | (5.7) | (1.4) |
| Foreign exchange | (0.3) | 0.3 | – | – | (0.3) | 0.3 |
| At 31 March | 54.3 | 73.5 | 12.1 | 42.1 | 66.4 | 115.6 |

In the prior year, the share of results of joint ventures and associates (loss) reported of £13.1 million which was due to a £37.1 million reduction to share of results of joint ventures and associates identified through the contract profitability and balance sheet review. The contract profitability and balance sheet review also identified an impairment of £7.0 million in relation to loans to joint ventures and associates. This joint venture had entered the final stages if its operations and the loan was no longer deemed recoverable and was fully impaired.

## 13. Inventories

| For year ending 31 March | 2022 £m | 2021 (restated) £m |
|---|---|---|
| Raw materials and spares | 77.3 | 69.8 |
| Work-in-progress | 4.1 | 7.2 |
| Finished goods and goods for resale | 61.3 | 76.0 |
| Total | 142.7 | 153.0 |

£9.4m of inventory has been reclassified as contract assets at 31 March 2021. See note 3 for further details.

Write-downs of inventories amounted to £15.8 million (2021: £28.6 million). These were recognised as an expense during the year ended 31 March 2022 and included in cost of revenue in the income statement.

## 14. Trade and other receivables and contract assets

| For year ending 31 March | 2022 £m | 2021 (restated) £m |
|---|---|---|
| Non-current assets | | |
| Costs to obtain a contract | 8.9 | 17.5 |
| Costs to fulfil a contract | 0.8 | 9.2 |
| Non-current trade and other receivables | 9.7 | 26.7 |
| | | |
| Current assets | | |
| Trade receivables | 311.5 | 283.8 |
| Less: provision for impairment of receivables | (14.6) | (14.0) |
| Trade receivables – net | 296.9 | 269.8 |
| Retentions | 4.4 | 8.0 |
| Amounts due from related parties | 2.0 | 1.7 |
| Other debtors | 106.2 | 83.8 |
| Prepayments | 71.1 | 66.8 |
| Costs to obtain a contract | 7.6 | 3.7 |
| Costs to fulfil a contract | 0.6 | 1.9 |
| Trade and other receivables | 488.8 | 435.7 |
| | | |
| Contract assets | 299.3 | 276.4 |
| | | |
| Current trade and other receivables and contract assets | 788.1 | 712.1 |

Trade and other receivables are stated at amortised cost. There has been no impairment to other debtors during the year ended 31 March 2022.

£9.4m of inventory has been reclassified as contract assets at 31 March 2021. Separately, an £11.6m restatement has been recognised reducing contract assets as at 31 March 2021. See note 3 for further details.

£26.7m of costs to obtain and fulfil a contract as at 31 March 2021 have been restated as non-current assets based on when the expense is expected to be realised in the income statement. See note 3 for further details. Costs to obtain and fulfil contracts are also now presented separately from contract assets.

The Group recognises that there is an inherent element of estimation uncertainty and judgement involved in assessing contract profitability. Management have taken a best estimate view of contract outcomes based on the information currently available, after allowing for contingencies, and have applied a constraint to the variable consideration within revenue resulting a revenue estimate that is suitably cautious under IFRS 15.

In the year ended 31 March 2022, amortisation of costs to obtain a contract and costs to fulfil a contract totalled £2.8 million (2021: £11.2 million). No impairment was recorded in relation to costs to obtain a contract or costs to fulfil a contract (2021: £15.5 million).

# 14. Trade and other receivables (continued)

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

| | Contract assets £m |
|---|---|
| 31 March 2021 (restated) | 276.4 |
| Acquisition of subsidiary undertaking | 16.3 |
| Disposal of subsidiary undertaking | (20.8) |
| Transfers from contract assets recognised at the beginning of the year to trade receivables | (228.7) |
| Increase due to work done not transferred from contract assets | 255.1 |
| Exchange adjustment | 1.0 |
| 31 March 2022 | 299.3 |

| | |
|---|---|
| 31 March 2020 (restated) | 319.2 |
| Disposal of subsidiary undertaking | (4.0) |
| Transfers from contract assets recognised at the beginning of the year to trade receivables | (291.6) |
| Increase due to work done not transferred from contract assets | 262.0 |
| Write down of contract assets | (6.9) |
| Exchange adjustment | (2.3) |
| 31 March 2021 (restated) | 276.4 |

# 15. Trade and other payables and contract liabilities

| For year ending 31 March | 2022 £m | 2021 £m |
|---|---|---|
| Current liabilities | | |
| Contract liabilities | 518.3 | 396.5 |
| | | |
| Trade creditors | 164.7 | 410.6 |
| Amounts due to related parties | 1.5 | 0.4 |
| Other creditors | 26.9 | 37.4 |
| Other taxes and social security | 76.6 | 144.5 |
| Accruals | 618.4 | 517.3 |
| Trade and other payables | 888.1 | 1,110.2 |
| | | |
| Trade and other payables and contract liabilities | 1,406.4 | 1,506.7 |
| | | |
| Non-current liabilities | | |
| Other creditors | 1.0 | 1.9 |

Included in creditors is £6.7 million (2021: £19.1 million) relating to capital expenditure which has therefore not been included in working capital movements within the cash flow statement. Significant changes in contract liabilities during the year are as follows:

| | Contract liabilities £m |
|---|---|
| 31 March 2021 | 396.5 |
| Revenue recognised that was included in the contract liability balance at the beginning of the year | (294.7) |
| Cash advanced | 419.0 |
| Acquisition of subsidiary undertaking | 8.2 |
| Disposal of subsidiary undertaking | (12.5) |
| Exchange adjustment | 1.8 |
| 31 March 2022 | 518.3 |

| | |
|---|---|
| 31 March 2020 | 243.2 |
| Revenue recognised that was included in the contract liability balance at the beginning of the year | (163.5) |
| Increase due to cash received, excluding amounts recognised as revenue | 318.1 |
| Disposal | (0.5) |
| Exchange adjustment | (0.8) |
| 31 March 2021 | 396.5 |

# 16. Bank and other borrowings

| For year ending 31 March | 2022<br>£m | 2021<br>(restated**)<br>£m |
|---|---|---|
| **Current liabilities** | | |
| **Bank loans and overdrafts due within one year or on demand** | | |
| Secured | 0.4 | 0.2 |
| Unsecured | 863.0 | 383.5 |
| | 863.4 | 383.7 |
| Lease obligations* | 104.8 | 126.1 |
| | 968.2 | 509.8 |
| **Non-current liabilities** | | |
| **Bank and other borrowings** | | |
| Secured | 24.0 | 18.5 |
| Unsecured | 823.7 | 1,305.3 |
| | 847.7 | 1,323.8 |
| Lease obligations* | 329.3 | 486.2 |
| | 1,177.0 | 1,810.0 |

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

** In the year ended 31 March 2022, the Group restated the prior year financial information. Details of the restatement are contained in note 3.

### Repayment details

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

| | 31 March 2022 | | 31 March 2021 | |
|---|---|---|---|---|
| | Loans and overdrafts<br>£m | Lease obligations<br>£m | Loans and overdrafts<br>£m | Lease obligations<br>£m |
| Within one year | 863.4 | 104.8 | 383.7 | 126.1 |
| Between one and two years | 22.6 | 90.5 | 476.4 | 120.1 |
| Between two and three years | 0.6 | 67.9 | 15.0 | 91.4 |
| Between three and four years | 0.7 | 46.4 | 0.3 | 96.6 |
| Between four and five years | 356.4 | 38.7 | 0.3 | 61.9 |
| Greater than five years | 467.4 | 85.8 | 831.8 | 116.2 |
| | 1,711.1 | 434.1 | 1,707.5 | 612.3 |

### Borrowing facilities

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

| For year ending 31 March | 2022<br>£m | 2021<br>£m |
|---|---|---|
| Expiring in less than one year | – | 3.0 |
| Expiring in more than one year but not more than five years | 1,012.2 | 783.5 |
| | 1,012.2 | 786.5 |

Bank loans include £12.5 million (2021: £25.1 million) that suppliers have chosen to early-fund under supplier financing arrangements, under which the suppliers can elect to receive a discounted early payment from the partner bank rather than being paid in line with the agreed payment terms. The total supplier financing facility available to the Group is €128.5 million at 31 March 2022 (2021: £230.0 million). The typical factoring fee is 0.1% – 0.5% (2021: 0.9% – 1.5%) and the Group has payment terms with the partner banks of 120-360 days. If the option is taken the Group's liability is assigned by the supplier to be due to the partner bank rather than the supplier. The value of the liability payable by the Group remains unchanged. The Group assesses the terms and conditions of the arrangement to determine whether the arrangement should be classified as trade payables or debt.

## 17. Provisions for other liabilities

| | Contract/ warranty (a) £m | Employee benefits and business reorganisation costs (b) £m | Italian anti-trust fine (c) £m | Property (d) £m | Other (e) £m | Total provisions £m |
|---|---|---|---|---|---|---|
| At 31 March 2021 | 67.1 | 35.8 | 20.0 | 21.5 | 1.1 | 145.5 |
| On disposal of subsidiaries (note 20) | – | (1.3) | – | (1.2) | – | (2.5) |
| On acquisition of subsidiaries (note 20) | 1.3 | – | – | – | – | 1.3 |
| Net charge/(release) to income statement | (8.6) | 40.1 | (3.6) | 1.8 | 0.3 | 30.0 |
| Utilised in year | (8.5) | (35.4) | (16.1) | (0.8) | – | (60.8) |
| Unwinding of discount | – | 0.2 | – | – | – | 0.2 |
| Foreign exchange | (0.2) | 0.3 | – | (0.3) | – | (0.2) |
| At 31 March 2022 | 51.1 | 39.7 | 0.3 | 21.0 | 1.4 | 113.5 |

(a) The contract/warranty provisions relate to onerous contracts and warranty obligations on completed contracts and disposals. Warranty provisions are provided in the normal course of business and are recognised when the underlying products and services are sold. The provision is based on an assessment of future claims with reference to historical warranty data and a weighting of possible outcomes against their associated probabilities.

(b) The net charge to the employee benefits and reorganisation provision comprises a charge in the year of £43.4 million and a release of £3.4 million.

(c) For further details of the provision in relation to the Italian anti-trust fine see note 2.

(d) Property and other provisions primarily relate to dilapidation costs and contractual obligations in respect of infrastructure.

(e) Other provisions include provisions for insurance claims arising within the Group's captive insurance company, Chepstow Insurance Limited. They relate to specific claims assessed in accordance with the advice of independent actuaries.

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

| For year ending 31 March | 2022 £m | 2021 £m |
|---|---|---|
| Current | 53.2 | 71.8 |
| Non-current | 60.3 | 73.7 |
| | 113.5 | 145.5 |

Included within provisions is £7.4 million (2021: £5.0 million) expected to be utilised over approximately 10 years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

# 18. Retirement benefits and liabilities (continued)

## Pensions

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

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

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

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

## 18. Retirement benefits and liabilities (continued)

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

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

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

### Accounting valuations

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

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

## 18. Retirement benefits and liabilities (continued)

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

### Governance

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

### Pensions management

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

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

### Investment strategy

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

### Actuarial valuations

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

### Cash contributions

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

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

### Income statement charge

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

## 19. Changes in net debt excluding loans to joint ventures and associates and lease receivables

| | 31 March 2021 £m | Cash flow £m | Additional leases £m | Other non-cash movement £m | Changes in fair value £m | Exchange movement £m | 31 March 2022 £m |
|---|---|---|---|---|---|---|---|
| Cash and bank balances | 904.8 | 238.6 | – | – | – | 2.9 | 1,146.3 |
| Bank overdrafts | (373.9) | (15.9) | – | – | – | – | (389.8) |
| Cash, cash equivalents and bank overdrafts | 530.9 | 222.7 | – | – | – | 2.9 | 756.5 |
| Debt | (1,333.6) | 8.6 | – | (2.0) | (1.6) | 7.3 | (1,321.3) |
| Lease liabilities | (612.3) | 113.0 | (93.8) | 159.2 | – | (0.2) | (434.1) |
| Derivative designated as hedge of Group debt | (19.1) | – | – | – | (10.2) | – | (29.3) |
| Changes in liabilities from financing arrangements | (1,965.0) | 121.6 | (93.8) | 157.2 | (11.8) | 7.1 | (1,784.7) |
| Lease receivables | 39.6 | (36.9) | 41.9 | – | – | 2.8 | 47.4 |
| Net debt before loans to joint ventures and associates | (1,394.5) | 307.4 | (51.9) | 157.2 | (11.8) | 12.8 | (980.8) |
| Loans to joint ventures and associates | 42.1 | (29.6) | – | (0.4) | – | – | 12.1 |
| Net debt excluding loans to joint ventures and associates and lease receivables | (1,352.4) | 277.8 | (51.9) | 156.8 | (11.8) | 12.8 | (968.7) |

# 20. Acquisition and disposal of subsidiaries, businesses and joint ventures and associates

## Acquisitions

On 15 March 2022, the Group acquired the remaining 50% of Naval Ship Management (NSM) (Australia) Pty Limited. The Group had previously held a 50% interest in this entity since May 2012 which was classified as a joint venture. NSM provides repair, engineering and maintenance services to the Australian Navy. The Group paid cash consideration of £33.1 million (AUD60 million) for this acquisition.

The fair value of assets and liabilities recognised as a result of the acquisition are as follows:

| | NSM £m |
|---|---|
| **Fair value gain on previously held interest:** | |
| Carrying value of previously held interest | 0.7 |
| Fair value gain on previously held interest | 32.4 |
| **Fair value of previously held interest at acquisition date** | 33.1 |
| | |
| **Purchase consideration:** | |
| Cash consideration | 33.1 |
| Fair value of previously held interest | 33.1 |
| **Total consideration** | 66.2 |
| | |
| **Net assets acquired:** | |
| Property, plant and equipment | 0.4 |
| Right of use assets | 0.5 |
| Deferred tax assets | 0.3 |
| Contract assets | 16.3 |
| Trade and other receivables | 11.6 |
| Cash and cash equivalents | 17.6 |
| Deferred tax liability | (18.9) |
| Income tax payable | (0.4) |
| Lease liabilities | (0.5) |
| Contract liabilities | (8.2) |
| Trade and other payables | (34.5) |
| Provisions | (1.3) |
| **Net identifiable liabilities acquired** | (17.1) |
| | |
| Goodwill | 21.3 |
| Intangible assets | 62.0 |
| **Net assets acquired** | 66.2 |

Post-acquisition, Naval Ship Management (Australia) Pty Limited contributed £0.7 million to the profit before tax of the Group. If this entity had been owned for the full financial year the contribution to profit before tax would have been £10.5 million.

The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by intangible assets of £62.0 million, relating to customer relationships, and goodwill of £21.3 million, representing potential for future synergies arising from combining the acquired businesses with the Group's existing business. Goodwill is not deductible for tax purposes.

## Disposals

On 11 March 2021, the Group announced that it had entered into a sale and purchase agreement to dispose of the Oil and Gas business, which provides offshore Oil and Gas crew transportation services in the UK, Denmark and Australia. The disposal was made as part of the Group's targeted disposals programme. The disposal completed on 1 September 2021, on which date control of the Oil and Gas business passed to CHC Group LLC. The Group received consideration of £10 million.

On 13 August 2021, the Group announced that it had entered into a sale and purchase agreement to dispose of Frazer-Nash Consultancy, which provides engineering and technology solutions across a broad range of critical national infrastructure. The disposal was made as part of the Group's targeted disposals programme. The disposal completed on 20 October 2021, on which date control of Frazer-Nash Consultancy passed to KBR Inc. The Group received consideration of £291.7 million.

On 24 December 2021, the Group announced the disposal of the Power business to M Group Services, which provides engineering services in the UK overhead line electric transmission and distribution industry. The disposal was made as part of the Group's targeted disposals programme. The disposal completed on 24 December 2021, on which date control passed to M Group Services. The Group received consideration of £50 million.

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

### Disposals (continued)

On 13 September 2021, the Group announced a definitive agreement with Equitix Investment Management Limited for the sale of its 15.4% shareholding in AirTanker Holdings Limited, a joint venture with Airbus, Thales and Rolls-Royce which owns 14 A330 Voyager aircraft to support air-to-air refuelling, air transport and ancillary services for the MOD. The Group has retained its 23.5% shareholding in AirTanker Services Limited, which operates these aircraft. The disposal was made as part of the Group's targeted disposals programme. The disposal completed on 9 March 2022, on which date control passed to Equitix. The Group received consideration of £95.6 million, and shareholder loans of £31.5 million were repaid.

In the prior year the Group disposed of its 74% shareholding in Holdfast Training Services Limited for a cash consideration of £85.0 million which resulted in a loss on disposal of £38.2 million. The Group also disposed of Cavendish Nuclear Manufacturing Limited for no consideration, which resulted in a loss on disposal of £0.6 million, and Conbras Servicos Tecnicos de Suporte Ltda for a consideration of £9.7 million which resulted in a loss on disposal of £10.9 million.

| | Year ended 31 March 2022 | | | | | Year ended 31 March 2021 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Oil and Gas business £m | Frazer Nash Consultancy £m | Power £m | AirTanker £m | Total £m | Holdfast Training Services Limited £m | Cavendish Nuclear Manufacturing Limited £m | Conbras Servicos Tecnicos de Suporte Ltda £m | Total £m |
| Goodwill | 0.4 | 64.5 | 44.1 | 80.0 | 189.0 | 68.4 | – | 4.2 | 72.6 |
| Investment in joint ventures and associates | | – | – | 23.8 | 23.8 | 53.2 | – | – | 53.2 |
| Other intangible assets | – | 2.1 | – | – | 2.1 | – | – | – | – |
| Property, plant and equipment | 15.1 | 2.2 | 4.5 | – | 21.8 | – | – | 0.8 | 0.8 |
| Right of use assets | 125.8 | 3.9 | 1.9 | – | 131.6 | – | – | – | – |
| Deferred tax assets | 18.8 | 0.5 | 0.3 | – | 19.6 | – | – | – | – |
| Inventory | 3.6 | – | 0.1 | – | 3.7 | – | 0.5 | 0.1 | 0.6 |
| Trade and other receivables | 46.5 | 31.0 | 9.3 | – | 86.8 | | | | |
| Other current assets | – | – | – | – | – | – | 0.7 | 11.1 | 11.8 |
| Income tax receivable | 1.5 | 2.9 | – | – | 4.4 | – | – | – | – |
| Cash, cash equivalents and bank overdrafts | – | 4.9 | 4.2 | – | 9.1 | – | 0.4 | 3.1 | 3.5 |
| Lease liabilities | (129.7) | (5.4) | (2.0) | – | (137.1) | – | – | – | – |
| Deferred tax liability | (12.0) | – | – | – | (12.0) | – | – | – | – |
| Income tax payable | (1.0) | – | – | – | (1.0) | – | – | – | – |
| Trade and other payables | (39.6) | (13.9) | (9.9) | – | (63.4) | – | – | – | – |
| Other current liabilities | – | – | – | – | – | – | (1.0) | (8.2) | (9.2) |
| Provisions | (1.3) | – | (1.2) | – | (2.5) | – | – | (2.5) | (2.5) |
| Net assets disposed | 28.1 | 92.7 | 51.3 | 103.8 | 275.9 | 121.6 | 0.6 | 8.6 | 130.8 |
| Disposal costs | 2.0 | 10.1 | 2.7 | 2.7 | 17.5 | 1.6 | – | 1.5 | 3.1 |
| Cumulative currency translation loss | (7.3) | – | – | – | (7.3) | – | – | 10.5 | 10.5 |
| Recycle of hedge reserve | – | – | – | 20.8 | 20.8 | | | | |
| Profit/(loss) on disposal | (12.8) | 188.9 | (4.0) | (31.7) | 140.4 | (38.2) | (0.6) | (10.9) | (49.7) |
| Sale proceeds | 10.0 | 291.7 | 50.0 | 95.6 | 447.3 | 85.0 | – | 9.7 | 94.7 |
| Sale proceeds less cash disposed of | 10.0 | 286.8 | 45.8 | 95.6 | 438.2 | 85.0 | (0.4) | 6.6 | 91.2 |
| Less transaction costs | (2.0) | (10.1) | (2.7) | (2.7) | (17.5) | – | – | (0.6) | (0.6) |
| Net cash inflow/(outflow) | 8.0 | 276.7 | 43.1 | 92.9 | 420.7 | 85.0 | (0.4) | 6.0 | 90.6 |

Total profit resulting from acquisitions and disposals is £172.8 million (2021: loss £49.7 million), comprising of £140.4 million profit on disposal and £32.4 million fair value gain on previously held interest in the NSM joint venture.

## 21. Capital and other financial commitments

| For year ending 31 March | 2022 £m | 2021 £m |
|---|---|---|
| Contracts placed for future capital expenditure not provided for in the financial statements | 21.3 | 57.9 |

## 22. Events after the reporting period

On 19 July 2022, the Group announced the sale of its Aerial Emergency Services business for gross cash consideration of £115 million. This business provides aerial emergency medical services, firefighting and search & rescue to customers and communities in Italy, Spain, Portugal, Norway, Sweden and Finland. The disposal was made as part of the Group's targeted disposals programme.

## Annual General Meeting 2022

This year's Annual General Meeting will be held on 19 September 2022. Details of the resolutions to be proposed at that meeting will be included in the Notice of Annual General Meeting that will be published during mid-August 2022.

At our Annual General Meeting in 2007 our shareholders unanimously agreed to proposals to allow us to use electronic communications with them as allowed for under the Companies Act 2006. For shareholders who agreed, or who are treated as having agreed, to receive electronic communications, the Company website is now the main way for them to access shareholder information. These shareholders will be sent a 'notice of availability' notifying them when the Annual Report and Accounts is available on the Company website www.babcockinternational.com. Hard copies of the Annual Report and Accounts will be distributed to those shareholders who have requested or subsequently request them. Additional copies will be available from the Company's registered office 33 Wigmore Street, London, W1U 1QX.

## Forward-looking statements

Certain statements in this announcement are forward-looking statements. Such statements may relate to Babcock's business, strategy and plans. Statements that are not historical facts, including statements about Babcock's or its management's beliefs and expectations, are forward-looking statements. Words such as 'believe', 'anticipate', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', and variations of these words and similar future or conditional expressions are intended to identify forward-looking statements but are not the exclusive means of doing so. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions, some known and some unknown, many of which are beyond Babcock's control that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Nor are they indicative of future performance and Babcock's actual results of operations and financial condition and the development of the industry and markets in which Babcock operates may differ materially from those made in or suggested by the forward-looking statements. You should not place undue reliance on forward-looking statements because such statements relate to events and depend on circumstances that may or may not occur in the future. Except as required by law, Babcock is under no obligation to update (and will not) or keep current the forward-looking statements contained herein or to correct any inaccuracies which may become apparent in such forward-looking statements.

Forward-looking statements reflect Babcock's judgement at the time of preparation of this announcement and are not intended to give any assurance as to future results.

The Group financial statements were approved by the Board of Directors on 28 July 2022 and are signed on its behalf by:

**D Lockwood**
Director

**D Mellors**
Director