

26 July 2024

## Strong progress towards our medium-term guidance

| Statutory results               | 31 March 2024 | 31 March 2023 |
|---------------------------------|---------------|---------------|
| Revenue <sup>2</sup>            | £4,390.1m     | £4,438.6m     |
| Operating profit                | £241.6m       | £45.5m        |
| Basic earnings/(loss) per share | 32.9p         | (6.9)p        |
| Cash generated from operations  | £374.3m       | £348.9m       |

| Underlying results <sup>1</sup>                           | 31 March 2024 | 31 March 2023 |
|---|---------------|---------------|
| Contract backlog  | £10.3bn       | £9.5bn        |
| Underlying operating profit <sup>3</sup>                  | £237.8m       | £177.9m       |
| Underlying operating margin <sup>4</sup>                  | 5.4%          | 4.0%          |
| Underlying basic earnings per share                       | 30.8p         | 17.7p         |
| <i>Type 31 loss</i>                                       | £(90.0)m      | £(100.1)m     |
| <i>Underlying operating profit excluding Type 31 loss</i> | £327.8m       | £278.0m       |
| Full year dividend per share                              | 5.0p          | -             |

|                                  |           |           |
|----------------------------------|-----------|-----------|
| Underlying free cash flow        | £160.4m   | £75.3m    |
| Net debt <sup>5</sup>            | £(435.4)m | £(564.4)m |
| Net debt excluding leases        | £(210.9)m | £(346.2)m |
| Net debt/EBITDA (covenant basis) | 0.8x      | 1.5x      |

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

*"We have made good strategic progress, delivering another year of strong growth with cash flow ahead of expectations. Babcock is well positioned to benefit from the sustained uplift in global defence budgets, driven by the need to recapitalise, re-equip and modernise militaries, resulting in an increase in our opportunity set.*

*We combine strong engineering know-how, high customer intimacy and extensive operational asset knowledge together with highly collaborative relationships and product development capability. This differentiated proposition is increasingly attractive to our customers. We look to the future with confidence as we continue to progress towards our medium-term targets."*

### Financial highlights

- **Contract backlog** £10.3 billion, up 9%, driven by Nuclear and Marine
- **Revenue** of £4,390.1 million grew 11% on an organic basis, driven by strong growth in Nuclear and Land
- **Statutory operating profit** increased to £241.6 million driven by improved performance across the Group, a one-off £17 million profit on property disposal and non-repeat of a £118 million loss on disposals in FY23. Within operating profit is the £90 million loss on the Type 31 contract as set out in our trading update on 17 July 2024
- **Underlying operating profit** increased 34% to £237.8 million, which includes the loss on Type 31 and profit on property disposal. Strong performance in Nuclear, Land and Aviation
- **Underlying operating margin** improved 140 basis points to 5.4%, which includes (2.0)% from the Type 31 loss and 0.4% from the profit on property disposal
- **Underlying free cash flow** of £160 million was significantly better than expected, with operational performance and early customer receipts affording an accelerated £35 million pension deficit repair contribution. Underlying operating cash conversion was 136% (FY23: 173%); excluding Type 31 this was 98% (FY23: 110%)
- **Net debt to EBITDA** reduced to 0.8x on a covenant basis. Net debt reduced by £129.0 million to £435.4 million
- **Dividend reinstated:** recommended final dividend of 3.3 pence per share, taking the total dividend for FY24 to 5.0 pence per share (FY23: nil)

## Outlook

- Our expectations for FY25 remain unchanged
- With c.70% of FY25 expected revenue under contract at 1 April 2024, we enter the year strongly positioned with good momentum and are confident of making further progress against our medium-term guidance: to deliver mid-single digit average annual revenue growth and achieve underlying operating margins of at least 8% and underlying operating cash conversion of at least 80%

## Strategic highlights

- Cooperation agreement with Saab to develop an advanced naval corvette for Sweden with initial design contract award
- Strategic agreement with HII to collaborate on nuclear-powered submarine capabilities to support the AUKUS endeavour
- Babcock General Logistics Vehicle (GLV) launched to target emerging UK and international opportunities
- Type 31 programme restructured following detailed operational review
- Babcock Skills Academy launched in Devonport to develop submarine support capabilities in our growing workforce
- Gained validation of our net-zero targets from the Science based Targets initiative (SBTi)
- Long-term funding agreements reached with two of our three large pension schemes

## Operational highlights

### Marine

- Type 31: HMS Venturer (ship 1) superstructure almost complete, HMS Active (ship 2) keel laid and HMS Formidable (ship 3) steel cut due in FY25. Programme restructured following a detailed operational review
- Three Arrowhead 140 licences delivered for the MIECZNIK Class frigate for the Polish Navy
- Awarded contract by Saab to support design of the Swedish Navy's Luleå Class Next Generation Surface Combatant
- Achieved Operation Service Commencement of the Skynet Service Delivery Wrap space communications contract
- Contract awarded by Government of Ukraine to support two Mine Countermeasure Vessels (MCMVs) purchased from the UK

### Nuclear

- Commenced deep maintenance on the second of the UK's Vanguard Class nuclear submarines, HMS Victorious, under a c.£560 million full cost recovery contract
- Awarded contracts to develop the support solution for the UK's Dreadnought and SSN-AUKUS submarine programmes
- X-energy and Cavendish Nuclear selected for UK Government's Future Nuclear Enabling Fund (FNEF)
- Nuclear submarine Major Infrastructure Programme (MIP) revenue increased to £459 million (FY23: £267 million).
- Awarded c.£750 million infrastructure contract in preparation for Astute Class deep maintenance programme (DMP)

### Land

- DSG contract extension under negotiation following notification by UK MOD of its intention to exercise up to five option years
- Awarded second Land contract to deliver ground and equipment support to the French Navy, Army and Air Force
- Signed a collaboration agreement with Singapore Technology Engineering for manufacture of UK mortar systems
- Contract expansion to support UK-gifted platforms to Ukraine
- Won the seven-year ARMCCEN support contract for armoured vehicle technical training for the British Army

### Aviation

- Completed delivery of the six H160 helicopters to the French Navy as part of a 10-year contract with the French MOD
- Delivered the first Elementary Flying Training (EFT) phase of the Ukrainian Pilot Force programme to fly F-16 jets
- Delivered unprecedented volume of firefighting operations in Canada with >1,500 flight hours and >99% aircraft availability
- Exploring opportunities with Zero Petroleum for synthetic fuel to minimise the environmental impact of military aircraft
- In May 2024, awarded 12-year contract with Airbus to support 48 French Civil Security and police EC145 helicopters

[See page 18 for segmental analysis](#)

## Notes to statutory and underlying results on page 1

### 1. Alternative Performance Measures (APMs):

The Group provides APMs, including underlying operating profit, underlying margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, net debt, net debt excluding leases and contract backlog to enable users to have a more consistent view of 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 APMs 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 APMs are consistent with the year ended 31 March 2023. The Group has defined and outlined the purpose of its APMs in the Financial Glossary on page 31.

### 2. Revenue:

- FY24 included a revenue reversal of £66.3 million from the Type 31 loss. Excluding this, FY24 revenue was £4,456.4 million
- FY23 included £421.6 million from disposals, a revenue reversal of £42.6 million from the Type 31 loss and a £11.6 million one-off credit (revenue and profit). Excluding these, FY23 revenue was £4,048.0 million
- See table on page 19

### 3. Underlying operating profit:

- FY24 underlying operating profit included a £90.0 million Type 31 loss and a profit on property disposal of £17.0 million. Excluding these, FY24 underlying operating profit was **£310.8 million**
- FY23 underlying operating profit included the £100.1 million Type 31 loss, a one-off accounting credit (£11.6 million as above), and £1.1 million operating profit contribution from businesses divested in the year. Excluding these, FY23 underlying operating profit was **£265.3 million**
- See table on page 19

### 4. Underlying operating margin:

- Excluding the Type 31 loss and profit on property disposal, FY24 underlying operating margin was **7.0%**
- Excluding disposals, the Type 31 loss and the one-off credit, FY23 underlying operating margin was **6.6%**
- See table on page 19

### 5. Net debt:

- See a reconciliation of net debt on page 14 and in our financial glossary on page 34

See page 18 for segmental analysis and page 31 for financial glossary.

## Results presentation:

A webcast presentation for investors and analysts will be held on 26 July 2024 at 09:00 am (BST). The presentation will be webcast live and will be available on demand at [www.babcockinternational.com/investors/results-and-presentations](http://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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## CEO REVIEW

### Introduction

FY24 was another year of improving delivery and increasing momentum for Babcock, with growth in underlying profit and cash flow performance ahead of our expectations. Revenue grew organically<sup>1</sup> by 11% to £4.4 billion and underlying operating profit<sup>1</sup> improved 34% to £238 million, which generated underlying operating cash flow<sup>1</sup> of £323 million, an underlying operating cash conversion<sup>1</sup> of 136%. On a statutory basis, we delivered operating profit of £242 million and cash generated from operations of £374 million. We ended the year strongly positioned for future success, and remain confident of delivering sustainable growth and improving margins in the medium term and beyond.

Our contract backlog<sup>1</sup> increased by 9% to £10.3 billion, reflecting demand for our specialist capabilities in our core defence and security markets and demonstrating our potential for continued growth. In addition, we made good strategic progress, entering into a number of important partnerships and cooperation agreements, including with Saab in Sweden and Huntington Ingalls Industries (HII) in the US, where we will leverage our complementary technical capabilities to address opportunities emerging in both existing and new markets.

Our balance sheet continues to strengthen. Since we began our transformation during FY21, net debt<sup>1</sup> is down £1.2 billion to £435 million at the end of FY24, and our aggregate pension deficit has reduced by more than £500 million to c.£200 million on a technical provision basis.

Reflecting this strengthened financial base and improved outlook, in December 2023, S&P Global upgraded our credit rating for the second time in 15 months to BBB+ (stable). In November 2023, following a four-year hiatus, the Board reinstated the dividend, and has recommended a final dividend of 3.3 pence per share, taking the total dividend for FY24 to 5.0 pence per share (FY23: nil), in line with our capital allocation priorities set out in FY23 to deliver shareholder value.

Our global people strategy continues to place our c.26,000 workforce at the heart of our business, fostering inclusion and diversity and providing the critical skills training, development, recruitment and retention that will enable us to deliver our growth aspirations.

### Strong underlying FY24 results

Revenue of £4,390 million was in line with FY23, with strong organic revenue growth<sup>1</sup> of 11%. The growth was delivered across Nuclear (+29%) and Land (+17%), which offset an expected revenue decline in Aviation (-17%).

The 34% increase in underlying operating profit<sup>1</sup> to £238 million (FY23: £178 million) reflects strong performance across the Group, in particular Nuclear, Aviation and Land, and a £17 million one-off profit on a property disposal. Also within underlying operating profit is a £90 million loss on the Type 31 contract (FY23: £100 million loss), as set out in our trading update 17 July 2024. As a result, underlying operating margin improved 140 basis points to 5.4%.

Excluding the Type 31 impact and material one-off credits, underlying operating profit<sup>1</sup> increased 17% to £311 million, generating a margin of 7.0% (as described on page 3). The FY23 baseline underlying operating profit and underlying operating margin for our medium-term guidance was £265 million and 6.6% respectively (see page 19).

Margin expansion remains a key focus. At a sector level, Nuclear delivered a 180 basis points improvement in underlying operating margin<sup>1</sup> to 7.2%. Land also performed well, delivering an underlying operating margin of 8.8% including the one-off profit on property disposal. Aviation profitability improved significantly, with a 360 basis points improvement to 5.6% driven by pricing, contract timing and prior year disposals. Marine underlying operating margin of 0.9% was impacted by the Type 31 loss, which more than offset the positive impact of licence income on the Polish frigate programme.

Due to our strong underlying operating cash performance, we made additional pension deficit repair payments of £35 million as part of a long-term funding agreement in one of our three major pension schemes. As a result, this scheme has reached self-sufficiency and is not expected to require further deficit repair contributions and we are in the process of closure to future accruals. We also reached an agreement with the Trustees on another of our major pension schemes regarding a long-term funding plan and closure of the scheme to future accrual, providing clarity to both the scheme and the Company. As a result of these actions, we now expect the total Group pension deficit repair payments to reduce to around £40 million per annum (previously £65 million per annum).

Our aggregate pension deficit position on a technical provision basis reduced to c.£200 million (FY23: c.£400 million). We also reduced our net debt excluding leases<sup>1</sup> to £211 million. As a result of this and improved profitability, net debt to EBITDA (covenant basis) reduced to 0.8x (FY23: 1.5x).

Babcock is strongly positioned with a wide opportunity set. As a result, we are confident that we can deliver sustainable growth and improved margins and cash flow over the medium term and beyond.

### **Type 31 programme**

Signed in 2019, the Type 31 contract for five ships is the last material legacy onerous contract the Group is managing. We have continued to make good operational progress on the programme through the year, with the superstructure of the first ship almost complete and work is also progressing on the second ship. During the year we settled the Dispute Resolution Process with the customer, which has enabled the restructuring of the programme to drive efficiency.

However, overall estimated programme costs have increased due to the maturing of the design and an increase in the forecast cost of labour in Rosyth, which is expected to be higher than CPI, the indexation within the Type 31 contract. These cost increases have caused the total contract outturn to deteriorate by £90 million over the life of the programme.

During the year, we initiated an operational improvement programme to challenge all aspects of the contract, facilitated by the fact that the design is now more mature. Although this has increased the volume of work, the design maturity has allowed us to target improvements in productivity and ongoing support costs as well as benefitting prospective export sales of our Arrowhead 140 design. As a result, we expect to deliver additional programme benefits over the course of the programme from improvements in productivity and further work relating to the continuation of the Type 31 contract. We considered the available evidence in respect of these benefits against the evidential bar required to recognise them and decided not to take them fully into account in the loss, although we do expect the benefits to be delivered over the course of the programme.

### **Strongly positioned**

With 74% of Group revenue and 78% total contract backlog<sup>1</sup> in the Defence sector, our portfolio is increasingly focused and well-placed to address rising global security requirements. Rising geopolitical tensions are driving the recent growth in defence budgets. However, the growth in defence budgets is still not matched by the growth in military demand, making Babcock's ability to affordably add increased value, essential. Additionally, the threats that governments face are here today, while typically new product development programmes take years to deliver. Increasing availability and capability with existing assets have become ever more important.

Our deep understanding of our customers' needs, their assets and the regulatory environment in which they operate is embedded in our workforce, creating high barriers to entry. As a through-life capability partner, we are able to not only support assets but deliver capability and system upgrades and apply our own product development capabilities to deliver a full lifecycle engineering offering.

### **Sustainable growth**

Current market dynamics, in particular the growth in defence budgets driven by the need to recapitalise, re-equip and modernise militaries, have resulted in an increase in our opportunity set. This translated to a 9% increase in our contract backlog in FY24 to £10.3 billion. This was driven by further major contract awards and renewals, for example in Nuclear, both major infrastructure and programme contracts related to the UK's nuclear submarine enterprise, and in Marine, extension of the Canadian submarine support contract. Our contract backlog gives us significant visibility and a deep understanding of customer requirements.

We have a clear strategy to deliver sustainable growth across the Group by leveraging our technical capability, developing our people and building strategic partnerships.

### **UK growth**

In UK defence, our largest market, accounting for around 60% of Group revenue, we continue to optimise our position as the second largest supplier to the UK MOD, strengthening our relationships and targeting selective new programmes.

### **Optimise our position**

The major recapitalisation of our Devonport facility, which plays a critical role in delivering the UK's nuclear submarine support capability, continues at pace, in preparation for the next 50+ years of nuclear submarine support. In November 2023, we were awarded a c.£750 million infrastructure contract to upgrade a key dry dock in readiness for the deep maintenance programme for the Royal Navy's Astute Class submarines, scheduled to commence in the coming years. This, together with more Astute Class submarines entering the fleet and further infrastructure programme contract awards, including ongoing refurbishment of the

dry dock for deep maintenance of Vanguard Class nuclear deterrent submarines and the future Dreadnought Class deterrent submarine, will underpin revenue growth in our defence nuclear activities over the medium and long-term. Discussions are also ongoing to establish a formal long-term partnership to help improve submarine availability against a backdrop of increasing operational requirements.

We continue to develop our position as a leading provider in secure communications to the military, having successfully begun the management and operation of Skynet, the UK MOD's military communication system following a 12-month mobilisation process. This vital work is being delivered with our partners SES, Intelsat and GovSat, global leaders in the commercial and military satellite industry. We believe that the successful implementation of this operationally critical service will create opportunities for further growth.

### **Selective new programmes**

We are also selectively targeting new programmes in the UK, many of which will also position Babcock for emerging international opportunities.

We continue to develop our Land portfolio of product-based offerings which reflect our deep understanding of customer requirements. Babcock's General Logistics Vehicle (GLV), built around the proven Toyota Land Cruiser 70 series platform, was launched in September 2023 with an initial focus on the upcoming UK MOD tender to replace the current British Army Land Rover fleet. The GLV meets the requirements of military and security forces across the world and we are pursuing a number of export opportunities. In June 2024 we launched a medium wheelbase variant and a six-wheel drive variant will follow in FY25. We have also signed a collaboration agreement with Singapore Technology Engineering for the manufacture of its 120mm mortar system in the UK and we are tracking a number of opportunities to supply and integrate this capability.

In Devonport, we commenced initial production of the Jackal 3 High Mobility Transporter vehicle at our newly created facility within the Plymouth Freeport. The contract, to deliver 70 vehicles for the British Army, is one of the first to deliver on the UK's Land Industrial Strategy. Production is ramping up and we see opportunity to provide further vehicles to the UK, whilst also pursuing international opportunities in collaboration with Supacat.

Our bid to become the Strategic Training Partner for the Army Collective Training Service (ACTS), together with our partners in Team Crucible, has progressed to the Invitation to Tender stage. We are offering a digitally enabled and data driven solution, building out the technological and commercial infrastructure needed to support an ever-evolving collective training system that can adapt as fast as the operating environment evolves.

In naval nuclear, AUKUS represents a significant opportunity, both in the UK and internationally. In October 2023 we signed a five-year contract with the UK MOD to provide input in the detailed design for the new Ship Submersible Nuclear AUKUS (SSN-A) submarine, which will replace the Astute Class and is planned to be the design on which the Australian Navy builds its future fleet. Ensuring that future support is properly considered at the design stage is expected to result in increased availability throughout the life of the submarine.

### **International growth**

We see significant opportunity to grow international revenues through expansion in our focus countries, increased direct exports and the establishment of strategic industrial partnerships.

#### **Expansion in focus countries:**

In France we continue to support military fighter pilot training. As a result of the success of that programme, the French Air Force has decided to outsource further training support opportunities for the first time. We are currently bidding for an initial training stage outsourcing opportunity, MENTOR2, and are undergoing pre-qualification on the future transport pilot training opportunity.

We are also looking at opportunities to expand our operations in mainland Europe and are actively bidding an opportunity to support fighter pilot training for the Belgian Air Force from Babcock France. The French and Belgian Air Forces have a long history of working closely together, so our track record in France represents a compelling reference case.

In Canada, we have signed a Technical Cooperation Agreement with Hanwha Ocean and HD Hyundai Heavy Industries to collaborate on the Canadian Patrol Submarine Project, which will research procurement options for its next generation submarines.

## Direct exports

We celebrated a number of major milestones in the MIECZNIK frigate programme in Poland, including the keel-laying of the first ship in the programme. Following the Strategic Cooperation Agreement signed in 2022, we were pleased to finalise the design licence agreement which allows the PGZ-MIECZNIK consortium to build three frigates for the Polish Navy. We also entered into a framework agreement that will further strengthen our partnership.

We continue to support Ukraine. In July 2023, we were awarded a contract by the UK MOD to support urgent operational requirements for Ukraine's military assets. The contract sees Babcock provide operational support to armoured vehicles provided by the UK to the Ukrainian military, such as Challenger 2 tanks and the Combat Vehicle Reconnaissance (Tracked) – known as CVRT, train Ukrainian personnel and manage vital equipment, supply chains and spares. In May 2024, we announced work was underway on an in-country facility to deliver engineering support, including the repair and overhaul of military vehicles. In partnership with UDI, Ukraine's state-owned defence industry, Babcock will ensure that critical military assets are available when and where they are needed most, enhancing the country's defence capability.

## Strategic partnerships

Our ability to form partnerships with leading industry players is a key part of our growth strategy. Working with a strong local partner represents the highest-value, lowest-risk and fastest route to effective market entry.

We formed a number of significant strategic partnerships in FY24. In July 2023, we entered into a global strategic agreement with HII, America's largest shipbuilder, to collaborate on naval and civil nuclear decommissioning and construction opportunities in the UK and US, as well as for AUKUS. The companies agreed to apply their complementary capabilities, including in build and support, to existing nuclear decommissioning contracts for US ships and UK submarines, and to look at opportunities to work together to upskill and enhance both organisations' capability for the benefit of the UK, US and future Australian programmes. The memorandum of understanding (MoU) also identified opportunities for cooperation in civil nuclear, including power plant and component design, fabrication and construction in North America and the UK. The launch of the H&B Defence Joint Venture in Australia in June 2024 is the first tangible outcome from that collaboration and offers Australia a one-stop-shop for support of their emerging nuclear submarine operational and support requirements.

In addition, Babcock, HII and Bechtel signed an MoU to collaborate in Australia to support the AUKUS nuclear submarine enterprise. Our complementary capabilities represent an opportunity to play a key role in development of the specialist infrastructure needed for the planned fleet of up to eight Virginia Class and SSN-AUKUS nuclear-powered submarines.

In September 2023, we signed a Strategic Cooperation Agreement with Saab to enable the delivery of enhanced capabilities to customers by leveraging our collective strengths to offer a broad range of products, services and integrated solutions. Subsequently, in May 2024 Babcock was selected by Saab to support the development of the Swedish Navy's new Luleå-class Surface Combatant. Babcock will initially provide engineering support, including structural design and auxiliary systems, supporting Saab to complete the basic design phase. The two companies will also work together to identify potential export markets for the Luleå design.

In November, we signed an MoU with South Korea's Hanwha Aerospace to offer enhanced capabilities across land, air and sea domains. Under the agreement we will work together to pursue global opportunities, with an initial focus on conventional submarines.

## Improving margins and cash flow

We are making good progress towards delivering our medium-term guidance set out in FY23 of average annual revenue growth in the mid-single digits, an underlying operating margin<sup>1</sup> of at least 8% and underlying operating cash conversion<sup>1</sup> of at least 80%. We will achieve this through further progress in execution and delivery, improved systems and overhead rationalisation, supported by the improvements we have made to internal governance. Our systematic approach to programme risk management through the coordination of our technical capability, commercial processes and contract governance is driving contract discipline and an improving mix of higher-margin new business.

Our focus on improving programme execution and efficiency is evidenced in the 10-year DSG contract to support the British Army land vehicles fleet. Following a major overhaul of operations in recent years, delivery has significantly improved, resulting in a de-risking of the final two years of delivery of the base contract which will complete in FY25. As a result, profitability improved sufficiently in FY24 to elevate the contract out of the category of legacy low to zero margin programmes. Following notification by our UK MOD customer of its intention to exercise up to five option years for DSG from FY26, we have commenced a period of negotiation and transition as we move towards contract signature. The revised model will result in better outcomes for all stakeholders throughout the rest of the decade.

In FY24, we returned HMS Vanguard to the Royal Navy after the most complex nuclear submarine deep maintenance programme (DMP) and life-extension (LIFEX) ever undertaken in the UK, representing a significant de-risking of our nuclear business. DMP and LIFEX of the second of the class, HMS Victorious, is underway following an agreed full cost recovery contract in March 2024 worth an estimated £560 million, with the Submarine Delivery Agency (SDA). The new commercial framework for the delivery of this programme represents a truly collaborative effort with the SDA to support an essential part of the UK's defences.

Our focus on operational cash efficiency has delivered overperformance in cash generation over the last two years, with average underlying operating cash conversion of over 100%, despite ongoing investment catch up in systems and assets. There remains some risk of reversal of the contract timing factors such as early customer receipts that drove strong cash outperformance in FY24 and FY23, leading to an expected second half cash flow weighting in FY25.

### Trading in the first quarter of FY25

Trading in the first quarter ended 30 June 2024 was in line with expectations.

### Outlook

Our expectations for FY25 remain unchanged. With c.70% of FY25 expected revenue under contract at 1 April 2024, we enter the year strongly positioned with good momentum and are confident of making further progress against our medium-term guidance: to deliver mid-single digit average annual revenue growth and achieve underlying operating margins of at least 8% and underlying operating cash conversion of at least 80%.

### David Lockwood OBE

Chief Executive

## OTHER INFORMATION

### Dividend

A dividend of 3.3 pence per ordinary share (FY23: nil) is payable on Monday 30 September 2024 to shareholders whose names appear on the register at the close of business on Friday 23 August 2024. Shareholders may participate in the dividend re-investment plan and elections must be made by Monday 9 September 2024. Details of the dividend re-investment plan can be found, and shareholders can make elections, at [www.babcock-shares.com](http://www.babcock-shares.com).

### Change of Auditor

Following completion of a tender process, the Audit Committee has recommended to the Board that, subject to shareholder approval at the 2024 AGM on 19 September, Forvis Mazars should be appointed as the Company's auditor for FY25.

### Board changes

As we look to shape and deliver our growth strategy, we were delighted to welcome Sir Kevin Smith and Claudia Natanson to the Board this year. Sir Kevin is an experienced industrialist who spent his career in the defence sector, culminating in being the CEO of GKN for eight years. Claudia brings over 20 years of experience working in the security, IT and cyber sector for companies such as Diageo, Smiths Group and AccuWeather.

### Notes to CEO Statement

1. A defined Alternative Performance Measure (APM) as set out on page 3 and in the Financial Glossary on page 31.



## FINANCIAL REVIEW

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The reconciliation from the IFRS statutory income statement to the underlying income statement is shown below.

### Income statement

|  | 31 March 2024    |                                      |                 | 31 March 2023    |                                      |                 |
|--|------------------|--------------------------------------|-----------------|------------------|--------------------------------------|-----------------|
|  | Underlying<br>£m | Specific<br>adjusting<br>items<br>£m | Statutory<br>£m | Underlying<br>£m | Specific<br>adjusting<br>items<br>£m | Statutory<br>£m |
| Revenue  | 4,390.1          | -                                    | 4,390.1         | 4,438.6          | -                                    | 4,438.6         |
| Operating profit                                       | 237.8            | 3.8                                  | 241.6           | 177.9            | (132.4)                              | 45.5            |
| Operating margin                                       | 5.4%             |                                      | 5.5%            | 4.0%             |                                      | 1.0%            |
| Share of results of joint ventures and associates      | 9.2              | -                                    | 9.2             | 9.3              | -                                    | 9.3             |
| Net finance costs                                      | (35.9)           | 1.8                                  | (34.1)          | (58.3)           | 9.7                                  | (48.6)          |
| Profit before tax                                      | 211.1            | 5.6                                  | 216.7           | 128.9            | (122.7)                              | 6.2             |
| Income tax (expense)/benefit                           | (53.5)           | 5.0                                  | (48.5)          | (37.7)           | (1.8)                                | (39.5)          |
| Profit/(loss) after tax                                | 157.6            | 10.6                                 | 168.2           | 91.2             | (124.5)                              | (33.3)          |
| Non-controlling interest                               | (2.5)            | -                                    | (2.5)           | (1.7)            | -                                    | (1.7)           |
| Profit/(loss) attributable to the owners of the parent | 155.1            | 10.6                                 | 165.7           | 89.5             | (124.5)                              | (35.0)          |
| Basic EPS  | 30.8p            |                                      | 32.9p           | 17.7p            |                                      | (6.9)p          |
| Diluted EPS  | 30.1p            |                                      | 32.2p           | 17.4p            |                                      | (6.9)p          |

A full statutory income statement can be found on page 40.

As described on page 3, statutory operating profit includes specific adjusting items (SAIs) that are not included in underlying operating profit, which is a key APM for the Group. A reconciliation of statutory operating profit to underlying operating profit is shown in the table below and in note 2 of the preliminary financial statements.

**Revenue** of £4,390.1 million was similar to FY23 with 11% organic growth offset by a (9)% impact of disposals and a (2)% currency translation headwind. The European AES and Civil Training businesses, both sold in February 2023, contributed £421.6 million to FY23 revenue. The organic increase was driven by strong growth in Nuclear and Land, while Marine was in line with the prior year and Aviation decreased as expected, due to the phasing of French military contracts. By sector:

- **Marine** revenue of £1,429.1 million, was similar to the prior year, with growth led by major ship and submarine programmes including the Polish MIECZNIK frigate programme and Dreadnought, offset by lower volumes in LGE and ship support.
- **Nuclear** revenue increased 29% to £1,520.9 million. Growth was driven by Major Infrastructure Programme (MIP) revenue, submarine support and new defence contracts in our civil nuclear business.
- **Land** revenue increased 8% to £1,098.6 million, or 17% on an organic basis. Growth was from a broad range of military activities in both UK and international markets, including the first full year of the Defence High Frequency Communications contract in Australia and higher vehicle volumes in defence vehicle engineering as well as in our South Africa business.
- **Aviation** revenue declined 57% to £341.5 million primarily due to the disposal of the European AES business in FY23. Organic revenue declined by 17% due to the expected change in revenue profile of our French defence contracts between aircraft delivery and service phases.

**Underlying operating profit** increased by 34% to £237.8 million driven by improved performance across the Group and a one-off £17.0 million profit on property disposal, partly offset by a 4% currency translation impact. Also within underlying operating profit is a £90.0 million loss on the Type 31 contract (FY23: £100.1 million loss). By sector:

- **Marine** underlying operating profit was in line with FY23, with improvement driven by three licence sales on the Polish Arrowhead 140 programme and a £10.1 million lower loss on Type 31, offset by lower volume in LGE and lower profitability in Mission Systems, primarily due to contract timing. Excluding the impact of the Type 31 loss, Marine underlying operating profit declined (9%) to £103.1 million.
- **Nuclear** underlying operating profit grew to £109.2 million, a 72% organic increase, driven by revenue growth and non-repeat of a £16 million contract loss in FY23 (this contract has now finished).
- **Land** underlying operating profit grew to £96.3 million, a 12% increase including a one off £17 million profit on property disposal. FY23 underlying operating profit of £85.9 million included a one-off accounting credit of £11.6 million.
- **Aviation** underlying operating profit grew to £19.2 million, a 22% increase reflecting improved pricing, contract timing and lower bid costs.

See segmental analysis tables on page 18.

### Type 31 programme

The Type 31 programme represents around 5% of the Group's revenue. Over the year, overall costs have increased due to the maturing of the design and the increase in the cost of labour in the market available in Rosyth, which is forecast to be higher than CPI, the indexation within the Type 31 contract. As a result, the outturn over the lifetime of the contract has deteriorated by £90 million, which has been fully recognised in FY24. The cash impact of this loss is expected to be realised over the remainder of the contract.

During the year, we initiated an operational improvement programme to challenge all aspects of the contract, including a significant focus on cost drivers and financial modelling, supported by external consultants. The Audit Committee has reviewed the programme team's plans to deliver additional programme benefits from improvements in productivity and further work relating to the continuation of the Type 31 contract. We considered the available evidence in respect of these benefits against the evidential bar required to recognise them, and decided not to take them fully into account in the loss, although we do expect the benefits to be delivered over the course of the programme.

**Statutory operating profit** of £241.6 million increased from £45.5 million in FY23, driven by improved performance across the Group, a one-off £17.0 million profit on disposal and non-repeat of a £117.7 million loss on disposals in FY23, mainly associated with the divestment of the European AES business in February 2023.

### Reconciliation of statutory to underlying operating profit

|  | 31 March 2024<br>£m | 31 March 2023<br>£m |
|--|---------------------|---------------------|
| <b>Operating profit</b>                                    | <b>241.6</b>        | <b>45.5</b>         |
| Amortisation of acquired intangibles                       | 10.8                | 15.8                |
| Business acquisition, merger and divestment related items  | (8.2)               | 117.7               |
| Fair value movement on derivatives                         | (6.4)               | (1.1)               |
| <b>Specific adjusting items impacting operating profit</b> | <b>(3.8)</b>        | <b>132.4</b>        |
| <b>Underlying operating profit</b>                         | <b>237.8</b>        | <b>177.9</b>        |

**Underlying operating margin** of 5.4% (FY23: 4.0%), which includes (2.0)% from the Type 31 loss and 0.4% from the profit on property disposal. The increase in the year was driven by improved operating performance and a lower Type 31 charge. Excluding the impact of the Type 31 loss and the profit on property disposal, the underlying operating margin was 7.0% (FY23: 6.6%) (see page 19).

**Statutory operating margin** of 5.5% reflects the same drivers as underlying operating margin. The FY23 statutory operating margin of 1.0% was also impacted by a £117.7 million loss on disposals, mainly associated with the divestment of the European AES business in February 2023.

Further analysis of financial performance is included in each sector's operational reviews on page 20 to 30.

**Share of joint ventures and associates:** The Group's share of results of joint ventures and associates of £9.2 million was similar to FY23, reflecting improved trading in the core Ascent Training (Holdings) Limited and AirTanker Services Limited joint ventures, offset by a £1.1 million write down in Oman.

**Underlying net finance costs** decreased to £35.9 million (FY23: £58.3 million). Reduced interest costs were driven by a combination of lower debt balances, reduced finance costs following termination of the £300 million RCF in October 2023 and higher interest rates applied to surplus cash balances. In addition, underlying lease interest decreased to £9.8 million (FY23: £16.1 million) following the sale of our European AES business in the prior year and net finance costs associated with defence contract receivables in France reduced to £4.4 million (FY23: £12 million). IAS19 retirement benefit interest represents a charge of £0.8 million (FY23: credit of £7.5 million).

**Statutory net finance costs** decreased to £34.1 million (FY23: £48.6 million). In addition to the £22.4 million improvement in underlying net finance costs, there was a £7.9 million reduction in the credit related to the fair value movement on derivative and related items to £1.8 million (FY23: £9.7 million).

**Underlying income tax expense:** Group underlying income tax expense increased to £53.5 million (FY23: £37.7 million) reflecting higher underlying pre-tax profit and a higher UK corporation tax rate in the year. This represents an effective underlying tax rate of 27% (FY23: 32%), or 26% excluding the impact of the Type 31 loss (FY23: 26%), calculated on underlying profit before tax excluding the share of income from joint ventures and associates (which is a post-tax number). The Group's effective underlying tax rate is expected to remain broadly stable over the medium term depending on country profit mix.

**Statutory income tax expense:** The Group income tax expense was £48.5 million (FY23: £39.5 million), lower than the underlying income tax expense due to the tax impact of the specific adjusting items outlined above and in note 2 of the preliminary financial statements.

**Underlying basic earnings per share** of 30.8 pence (FY23: 17.7 pence) represents an increase of 74%, driven by higher underlying operating profit for the year. The impact on earnings per share of the £17.0 million profit on disposal and the Type 31 loss was 3.3 pence and (13.4) pence respectively.

**Basic earnings per share**, on a statutory basis, increased to 32.9 pence (FY23: 6.9 pence loss) reflecting improved profit for the year. The FY23 loss per share was due to lower underlying profit for the year, including the £100.1 million loss on the Type 31 contract, and a loss after tax of £124.5 million from specific adjusting items, mainly associated with the loss on disposal of the European AES business.

**Dividend:** A final dividend of 3.3 pence per ordinary share (FY23: nil) is payable on Monday 30 September 2024 to shareholders whose names appear on the register at the close of business on Friday 23 August 2024. Shareholders may participate in the dividend re-investment plan and elections must be made by Monday 9 September 2024. Details of the dividend re-investment plan can be found, and shareholders can make elections, at [www.babcock-shares.com](http://www.babcock-shares.com).

## Reconciliation of statutory profit/(loss) and basic EPS to underlying profit and basic EPS

|   | 31 March 2024 |              | 31 March 2023 |               |
|---|---------------|--------------|---------------|---------------|
|   | £m            | Basic EPS    | £m            | Basic EPS     |
| <b>Profit/(loss) after tax for the year</b>     | <b>168.2</b>  | <b>32.9p</b> | <b>(33.3)</b> | <b>(6.9)p</b> |
| Specific adjusting items, net of tax            | (10.6)        | (2.1)p       | 124.5         | 24.6p         |
| <b>Underlying profit after tax for the year</b> | <b>157.6</b>  | <b>30.8p</b> | <b>91.2</b>   | <b>17.7p</b>  |

## Exchange rates

The translation impact of foreign currency movements resulted in a decrease in revenue of £76 million and a decrease in underlying operating profit of £8 million. The main currencies that have impacted our results are the Canadian Dollar, South African Rand, Euro and Australian Dollar. The currencies with the greatest potential to impact results are the South African Rand and the Australian and Canadian Dollar:

- A 10% movement in the South African Rand against Sterling would affect revenue by around £33 million and underlying operating profit by around £3 million per annum
- A 10% movement in the Australian Dollar against Sterling would affect revenue by around £30 million and underlying operating profit by around £2 million per annum
- A 10% movement in the Canadian Dollar against Sterling would affect revenue by around £16 million and underlying operating profit by around £1 million per annum

## Cash flow and net debt

### Underlying cash flow and net debt

Underlying cash flows are used by the Group to measure operating performance as they provide a more consistent measure of business performance from year to year.

|   | 31 March 2024<br>£m | 31 March 2023<br>£m |
|---|---------------------|---------------------|
| <b>Statutory operating profit</b>                         | <b>241.6</b>        | <b>45.5</b>         |
| Add back: specific adjusting items (see table on page 10) | (3.8)               | 132.4               |
| <b>Underlying operating profit</b>                        | <b>237.8</b>        | <b>177.9</b>        |
| Right of use asset depreciation                           | 39.8                | 91.3                |
| Other depreciation & amortisation                         | 67.3                | 84.9                |
| Non-cash items  | (8.7)               | 6.9                 |
| Working capital movements                                 | 127.5               | 103.5               |
| Provisions  | 20.4                | 37.2                |
| Net capital expenditure                                   | (111.8)             | (86.2)              |
| Lease principal payments                                  | (49.6)              | (108.5)             |
| <b>Underlying operating cash flow</b>                     | <b>322.7</b>        | <b>307.0</b>        |
| <i>Underlying operating cash conversion (%)</i>           | <i>136%</i>         | <i>173%</i>         |
| Pension contributions in excess of income statement       | (107.6)             | (141.9)             |
| Interest paid (net)                                       | (32.2)              | (62.2)              |
| Tax paid  | (27.4)              | (25.4)              |
| Dividends from joint ventures and associates              | 7.1                 | 8.7                 |
| Cash flows related to specific adjusting items            | (2.2)               | (10.9)              |
| <b>Underlying free cash flow</b>                          | <b>160.4</b>        | <b>75.3</b>         |
| Net acquisitions and disposals of subsidiaries            | (1.3)               | 158.6               |
| Dividends paid (including non-controlling interests)      | (10.3)              | (2.2)               |
| Purchase of own shares                                    | (12.5)              | -                   |
| Lease principal payments                                  | 49.6                | 108.5               |
| Net new lease arrangements                                | (54.8)              | (115.1)             |
| Leases disposed of/(acquired) with subsidiaries           | -                   | 218.1               |
| Other non-cash debt movements                             | (3.2)               | (1.8)               |
| Clarification of net debt definition                      | -                   | (36.1)              |
| Fair value movement in debt and related derivatives       | 0.5                 | 56.0                |
| Exchange movements  | 0.6                 | (57.0)              |
| <b>Movement in net debt</b>                               | <b>129.0</b>        | <b>404.3</b>        |
| Opening net debt  | (564.4)             | (968.7)             |
| <b>Closing net debt</b>                                   | <b>(435.4)</b>      | <b>(564.4)</b>      |
| Add back: leases  | 224.5               | 218.2               |
| <b>Closing net debt excluding leases</b>                  | <b>(210.9)</b>      | <b>(346.2)</b>      |

A full statutory cash flow statement can be found on page 43 and a reconciliation to net debt on page 66.

**Underlying operating cash flow** increased to £322.7 million (FY23: £307.0 million). The conversion ratio to underlying operating profit of 136% (FY23: 173%) reflects reduced working capital and the impact of the Type 31 long-term contract accounting loss on underlying operating profit. Operating cash conversion was higher in FY23 primarily reflecting lower net capital expenditure and a higher Type 31 loss. Excluding the Type 31 impact on operating profit, underlying operating cash conversion was 98% (FY23: 110%).

- **Working capital:** An inflow of £127.5 million, compared to an inflow of £103.5 million last year, reflects our continued focus on cash flow as a performance measure coupled with earlier than anticipated customer receipts, as well as the impact of the Type 31 loss. There is some risk that favourable timing factors on cash receipts could reverse in the short term depending on the flow of new orders and contract phasing.

- **Net capital expenditure** of £111.8 million increased £25.6 million, driven by a combination of continued investment across the Group to support programme delivery and drive operational performance, and lower proceeds from asset disposals.
  - Gross capex increased to £142.4 million (FY23: £125.1 million) driven by further investment in Devonport to support future growth and ongoing upgrades to systems and controls across the Group, including the roll-out of SAP. We expect FY25 gross capital expenditure to be in the range of £120 million to £150 million.
  - Proceeds from asset disposals reduced £8.3 million to £30.6 million despite a £20.1 million inflow on a property sale in Land in the year, primarily due to lower aircraft sales in our Aviation business.
- **Lease principal payments**, representing the capital element of payments on lease obligations, reduced to £49.6 million (FY23: £108.5 million) following the sale of the European AES business in FY23. This is reversed out below underlying free cash flow as the payment reduces our lease liability (ie no effect on net debt).

**Underlying free cash flow** of £160.4 million compares to £75.3 million in the prior year, reflecting higher underlying operating cash flow, lower pension contributions and lower net interest payments.

- **Pension:** A cash outflow in excess of the income statement charge of £107.6 million (FY23: £141.9 million) was higher than expected due to acceleration of £35 million of contributions as part of a long-term funding deal agreed with Babcock International Group Pension Fund (BIGPF). The higher outflow in FY23, which also included a £35 million accelerated pension payment, reflects the decreasing contribution profile as deficits reduce. As a result of the agreed funding deals (see page 17), we expect future annual pension deficit payments to reduce from around £65 million to around £40 million.
- **Interest:** Net interest paid, excluding that paid by JVs and associates, decreased to £32.2 million (FY23: £62.2 million) due to lower net debt and higher interest earned on surplus cash, lower interest on leases and a reduced finance charge associated with the financing of long-term French defence contract receivables.
- **Taxation:** Tax paid in the year was £27.4 million (FY23: £25.4 million). We expect cash tax paid in FY25 to be approximately £35 million.
- **Dividends received from joint ventures and associates** decreased to £7.1 million (FY23: £8.7 million). We expect dividends from JVs and associates to be slightly higher in FY25.
- **Cash flows related to specific adjusting items:** The £2.2 million cash flows relate mainly to the final costs of disposals provided for as a specific adjusting item in the prior year.

### Acquisitions and disposals

A £1.3 million outflow was due to final settlement of certain items in relation to the disposal of businesses in the prior year. An inflow of £158.6 million in FY23 represents net proceeds from the disposal of the European AES business and the sale of the civil training business, net of costs.

### New lease arrangements

In addition to net capital expenditure, and not included in underlying free cash flow, £55.2 million (FY23: £117.0 million) of additional lease liabilities were entered into in the period, significantly lower than FY23 following the sale of the European AES business in February 2023. These represent new lease obligations and so are included in net debt but do not involve any cash outflows at inception.

### Reconciliation of underlying operating cash flow to statutory net cash flows from operating activities

|   | 31 March 2024 | 31 March 2023 |
|---|---------------|---------------|
|   | £m            | £m            |
| <b>Underlying operating cash flow</b>                     | <b>322.7</b>  | <b>307.0</b>  |
| Add: net capital expenditure                              | 111.8         | 86.2          |
| Add: lease principal payments                             | 49.6          | 108.5         |
| Less: pension contributions in excess of income statement | (107.6)       | (141.9)       |
| Cash flows related to specific adjusting items            | (2.2)         | (10.9)        |
| <b>Cash generated from operations</b>                     | <b>374.3</b>  | <b>348.9</b>  |
| Tax paid  | (27.4)        | (25.4)        |
| Net interest paid   | (32.2)        | (62.2)        |
| <b>Net cash flows from operating activities</b>           | <b>314.7</b>  | <b>261.3</b>  |

## Statutory cash flow summary

|  | 31 March 2024<br>£m | 31 March 2023<br>£m |
|--|---------------------|---------------------|
| <b>Net cash flow from operating activities</b>                               | <b>314.7</b>        | <b>261.3</b>        |
| Net cash flow from investing activities                                      | (100.6)             | 83.5                |
| Net cash flow from financing activities                                      | (85.5)              | (666.1)             |
| <b>Net increase/(decrease) in cash, cash equivalents and bank overdrafts</b> | <b>128.6</b>        | <b>(321.3)</b>      |

**Net cash flow from operating activities** was £314.7 million, an increase of £53.4 million. The main drivers were higher Group operating profit, lower net interest and pension deficit payments.

**Net cash flow from investing activities** was an outflow of £100.6 million (FY23: inflow of £83.5 million), reflecting continued capital investment across the Group and lower proceeds from asset disposals. On a gross basis, capital expenditure increased to £142.4 million (FY23: £125.1 million). The FY23 inflow included £158.6 million of proceeds from disposals, primarily from the sale of the European AES business.

**Net cash flow from financing activities** was an outflow of £85.5 million (FY23: outflow of £666.1 million), including £49.6 million lease payments (FY23: £108.5 million), £12.5 million purchase of own shares (FY23: £nil) and £13.1 million repayment of debt (FY23: £556.2 million net repayment, primarily repayment of the €550 million Eurobond in October 2022).

## Movement in net debt – reconciliation of statutory cash flows to net debt

|  | 31 March 2024<br>£m | 31 March 2023<br>£m |
|--|---------------------|---------------------|
| <b>Net increase/(decrease) in cash, cash equivalents and bank overdrafts</b> | <b>128.6</b>        | <b>(321.3)</b>      |
| Cash flow from the (increase)/decrease in debt                               | 25.3                | 629.6               |
| <b>Change in net funds resulting from cash flows</b>                         | <b>153.9</b>        | <b>308.3</b>        |
| Additional lease obligations   | (55.2)              | (117.0)             |
| New lease receivables granted  | 32.4                | 28.5                |
| Debt held by disposed subsidiaries   | -                   | 219.7               |
| Other non-cash movements and changes in fair value                           | (2.7)               | 57.9                |
| Clarification of net debt definition   | -                   | (36.1)              |
| Foreign currency translation differences                                     | 0.6                 | (57.0)              |
| <b>Movement in net debt in the year</b>                                      | <b>129.0</b>        | <b>404.3</b>        |
| Opening net debt   | (564.4)             | (968.7)             |
| <b>Closing net debt</b>  | <b>(435.4)</b>      | <b>(564.4)</b>      |

### Net debt

Net debt at 31 March 2024 was £435.4 million, a reduction of £129.0 million driven primarily by underlying free cash flow, offset by payment of the interim dividend reinstated in November 2023 and £12.5 million to purchase own shares for Babcock share schemes. Net debt excluding leases was £210.9 million, representing a reduction of £135.3 million compared to the beginning of the year.

### Balance sheet

|   | 31 March 2024<br>£m | 31 March 2023<br>£m |
|---|---------------------|---------------------|
| Intangible assets                                     | 928.9               | 922.2               |
| Property, plant and equipment and right of use assets | 692.7               | 637.6               |
| Investment in joint ventures and associates           | 59.7                | 57.4                |
| Working capital                                       | (691.4)             | (565.8)             |
| Provisions  | (158.2)             | (148.7)             |
| Net retirement benefit deficits                       | (109.7)             | (61.4)              |
| Net tax assets  | 119.9               | 97.1                |
| Net other financial assets and liabilities            | (0.4)               | (3.1)               |
| Leases  | (224.5)             | (218.2)             |
| Net debt excluding leases                             | (210.9)             | (346.2)             |
| <b>Net assets</b>                                     | <b>406.1</b>        | <b>370.9</b>        |

**Property, plant and equipment (PP&E) and right of use assets** was £693 million, an increase of £55 million. PP&E increased by £39 million to £517 million reflecting net capital expenditure of £(93) million less depreciation and currency adjustments. Right of use assets increased £17 million to £176 million reflecting net new leases of £59 million less depreciation and currency adjustments.

**Working capital** was £(691) million, a decrease of £126 million. Net contract liabilities increased £131 million, driven by earlier than anticipated customer receipts, as well as the impact of the Type 31 loss.

**Net retirement benefit deficits** were £(110) million, an increase of £48 million. The fair value of plan assets of £3,084 million decreased £104 million, driven by negative asset returns less contributions. The present value of pension benefit obligations of £3,194 million decreased £55 million driven by modest changes in actuarial financial and demographic assumptions.

### Funding and liquidity

As of 31 March 2024, the Group had access to a total of £1.6 billion of borrowings and facilities. These comprised:

- £775 million RCF, with £45 million maturing on 28 August 2025 and £730 million extended to 28 August 2026
- £300 million bond maturing on 5 October 2026
- €550 million bond, hedged at £493 million, maturing on 13 September 2027
- Two committed overdraft facilities totalling £100 million

At 31 March 2024, the Group's net cash (cash and cash equivalents less overdrafts) balance was £553 million. This, combined with the undrawn amounts under our committed RCFs and overdraft facilities, gave us liquidity headroom of around £1.4 billion.

### Net debt to EBITDA (covenant basis)

While there are several facets to balance sheet strength, a primary measurement relevant to Babcock is the net debt/EBITDA gearing ratio within our debt covenant of 3.5x. This measure is used in the covenant in our RCF facility and includes several adjustments from reported net debt and EBITDA. The net debt/EBITDA gearing ratio (covenant basis) at 31 March 2024 reduced to 0.8x (FY23: 1.5x) due to strong underlying free cash flow and higher underlying operating profit.

|   | 31 March 2024<br>£m | 31 March 2023<br>£m |
|---|---------------------|---------------------|
| <b>Underlying operating profit</b>                          | <b>237.8</b>        | <b>177.9</b>        |
| Depreciation and amortisation                               | 67.3                | 84.9                |
| Covenant adjustments <sup>1</sup>                           | (6.3)               | (8.4)               |
| <b>EBITDA</b>   | <b>298.8</b>        | <b>254.4</b>        |
| JV and associate dividends                                  | 7.1                 | 8.7                 |
| <b>EBITDA + JV and associate dividends (covenant basis)</b> | <b>305.9</b>        | <b>263.1</b>        |
| <b>Net debt excluding lease liabilities</b>                 | <b>(210.9)</b>      | <b>(346.2)</b>      |
| Covenant adjustments <sup>2</sup>                           | (41.8)              | (49.3)              |
| <b>Net debt (covenant basis)</b>                            | <b>(252.7)</b>      | <b>(395.5)</b>      |
| <b>Net debt/EBITDA</b>                                      | <b>0.8x</b>         | <b>1.5x</b>         |

<sup>1</sup>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.

<sup>2</sup>Removing loans to JVs, finance lease receivables and non-recourse debt.

### Interest cover (covenant basis)

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

|   | 31 March 2024<br>£m | 31 March 2023<br>£m |
|---|---------------------|---------------------|
| <b>EBITDA + JV and associate dividends (covenant basis)</b> | <b>305.9</b>        | <b>263.1</b>        |
| Net finance costs   | (34.1)              | (48.6)              |
| Covenant adjustments <sup>1</sup>                           | 9.6                 | 7.1                 |
| <b>Net finance costs (covenant basis)</b>                   | <b>(24.5)</b>       | <b>(41.5)</b>       |
| <b>Interest cover</b>                                       | <b>12.5x</b>        | <b>6.3x</b>         |

<sup>1</sup>Various adjustments made to reflect accounting standards at the time of inception of the original RCF agreement, including lease and retirement benefit interest.

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

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

|   | 31 March 2024<br>£m | 31 March 2023<br>£m |
|---|---------------------|---------------------|
| <b>Underlying operating profit</b>                                    | <b>237.8</b>        | <b>177.9</b>        |
| Share of results of joint ventures and associates                     | 9.2                 | 9.3                 |
| <b>Underlying operating profit plus results of JVs and associates</b> | <b>247.0</b>        | <b>187.2</b>        |
| Net debt excluding leases   | 210.9               | 346.2               |
| Leases – note 10, 15  | 224.5               | 218.2               |
| Shareholder funds – see balance sheet on page 42                      | 406.1               | 370.9               |
| Retirement deficit/(surplus) – note 17                                | 109.7               | 61.4                |
| <b>Invested capital</b>   | <b>951.2</b>        | <b>996.7</b>        |
| <b>ROIC</b>   | <b>26.0%</b>        | <b>18.8%</b>        |



## 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 (DRDPS), the Babcock International Group Pension Scheme (BIGPS) and the Rosyth Royal Dockyard Pension Scheme (RRDPS) – the principal schemes.

### IAS 19

At 31 March 2024, the IAS 19 valuation for accounting purposes was a net deficit of £109.7 million (FY23: a net deficit of £61.4 million). The increase in net accounting deficit is a result of a greater reduction in the fair value of plan assets (by £103.7 million to £3,084.3 million, net of £250.8 million longevity swaps) than the reduction in present value of pension benefit obligations (by £55.4 million to £3,194.0 million). The reduction in fair value of plan assets was driven by negative net asset returns, partly offset by scheme contributions. The reduction in pension benefit obligations was mainly a result of modest changes in actuarial financial and demographic assumptions. The fair value of the assets and liabilities of the Group pension schemes at 31 March 2024 and the key assumptions used in the IAS 19 valuation of our schemes are set out in note 17 of the preliminary financial statements.

|  | 31 March 2024<br>£m | 31 March 2023<br>£m |
|--|---------------------|---------------------|
| Fair value of plan assets (note 17)            | 3,084.3             | 3,188.0             |
| Present value of benefit obligations (note 17) | (3,194.0)           | (3,249.4)           |
| <b>Net (deficit) at 31 March</b>               | <b>(109.7)</b>      | <b>(61.4)</b>       |

### Income statement charge

The charge included within underlying operating profit in FY24 was £23.9 million (FY23: £32.6 million), of which £15.4 million (FY23: £25.8 million) related to service costs and £8.5 million (FY23: £6.8 million) related to expenses. In addition to this, there was an interest charge of £0.8 million (FY23: credit of £7.5 million).

### Technical provision

An estimate of the aggregate actuarial deficits of the Group's defined benefit pension schemes, including all longevity swap funding gaps, calculated using each scheme's technical provision basis, as at FY24 was approximately £200 million (FY23: c.£400 million). Such valuations use discount rates based on UK gilts – which differs from the corporate bond approach of IAS 19. This technical provision estimate reflects the discussions and agreements on assumptions with the Trustee of the Babcock Rail Section of the Railways Pension Scheme with respect to the actuarial valuation as at 31 December 2022, and for the other schemes uses assumptions within the latest agreed valuation prior to 31 March 2024.

Actuarial valuations are carried out every three years 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, to spread the financial impact of market conditions. The valuation of the BIGPS as at 31 March 2022 was completed in the last financial year, the valuation of the DRDPS as at 31 March 2023 has been agreed, and work has commenced on the valuation of the RRDPS at 31 March 2024.

There has been significant progress in reducing the risk of pension scheme deficits during the year. We made additional pension deficit repair payments of £35 million. The BIGPS has around £985 million of pension liabilities (less than 30% of the total Group pension liabilities) on a technical provision basis. The scheme has now reached self-sufficiency and is not expected to require further deficit repair contributions from the company ahead of reaching either buy-in or buy-out, expected by FY29. The Scheme is also in the process of closing to future service accruals.

In addition, the Company has now reached agreement with the Trustees of the DRDPS regarding a long-term funding plan and closure of the scheme to future accrual as well as the most recent triennial valuation. The DRDPS has around £1,400 million of pension liabilities on a technical provision basis (around 40% of total Group pension liabilities). As a result, we expect the total Group pension deficit repair payments to reduce to around £40 million in FY25 (previously £65 million).

### Cash contributions

Group cash contributions made into the defined benefit pension schemes, excluding expenses and salary sacrifice contributions:

|  | 31 March 2024<br>£m | 31 March 2023<br>£m |
|--|---------------------|---------------------|
| Future service contributions               | 17.2                | 20.0                |
| Deficit recovery                           | 82.8                | 123.5               |
| Longevity swap                             | 15.2                | 15.6                |
| <b>Total cash contributions – employer</b> | <b>115.2</b>        | <b>159.1</b>        |

## Segmental analysis

The Group reports its performance through four reporting sectors.

| 31 March 2024               | Marine<br>£m         | Nuclear<br>£m         | Land<br>£m         | Aviation<br>£m         | Total<br>£m         |
|-----------------------------|----------------------|-----------------------|--------------------|------------------------|---------------------|
| Contract backlog            | 2,992.7              | 3,104.8               | 2,593.7            | 1,641.4                | 10,332.6            |
| Revenue                     | 1,429.1              | 1,520.9               | 1,098.6            | 341.5                  | 4,390.1             |
| Operating profit            | 11.0                 | 109.2                 | 96.1               | 25.3                   | 241.6               |
| Operating margin            | 0.8%                 | 7.2%                  | 8.7%               | 7.4%                   | 5.5%                |
| Underlying operating profit | 13.1                 | 109.2                 | 96.3               | 19.2                   | 237.8               |
| Underlying operating margin | 0.9%                 | 7.2%                  | 8.8%               | 5.6%                   | 5.4%                |
| <b>31 March 2023</b>        | <b>Marine<br/>£m</b> | <b>Nuclear<br/>£m</b> | <b>Land<br/>£m</b> | <b>Aviation<br/>£m</b> | <b>Total<br/>£m</b> |
| Contract backlog            | 2,580.7              | 2,453.8               | 2,809.8            | 1,633.0                | 9,477.3             |
| Revenue                     | 1,439.6              | 1,179.2               | 1,017.1            | 802.7                  | 4,438.6             |
| Operating profit            | 5.8                  | 63.6                  | 80.9               | (104.8)                | 45.5                |
| Operating profit margin     | 0.4%                 | 5.4%                  | 8.0%               | (13.1)%                | 1.0%                |
| Underlying operating profit | 12.7                 | 63.5                  | 85.9               | 15.8                   | 177.9               |
| Underlying operating margin | 0.9%                 | 5.4%                  | 8.4%               | 2.0%                   | 4.0%                |

## Segmental analysis continued

| <b>FY24</b>   |                |                |                |              |                |
|---|----------------|----------------|----------------|--------------|----------------|
| <b>Revenue (£m)</b>                                   | Marine         | Nuclear        | Land           | Aviation     | Group          |
| Revenue   | 1,429.1        | 1,520.9        | 1,098.6        | 341.5        | <b>4,390.1</b> |
| Add: reversal of Type 31 revenue                      | 66.3           | -              | -              | -            | 66.3           |
| <b>Revenue excl. Type 31 loss</b>                     | <b>1,495.4</b> | <b>1,520.9</b> | <b>1,098.6</b> | <b>341.5</b> | <b>4,456.4</b> |
| <b>Underlying operating profit (£m)</b>               |                |                |                |              |                |
| Underlying operating profit (UOP)                     | 13.1           | 109.2          | 96.3           | 19.2         | <b>237.8</b>   |
| Add: Type 31 loss                                     | 90.0           | -              | -              | -            | 90.0           |
| UOP excluding Type 31 loss                            | 103.1          | 109.2          | 96.3           | 19.2         | 327.8          |
| Less: non-trading credits                             | -              | -              | (17.0)         | -            | (17.0)         |
| <b>UOP excl. Type 31 loss and non-trading credits</b> | <b>103.1</b>   | <b>109.2</b>   | <b>79.3</b>    | <b>19.2</b>  | <b>310.8</b>   |
| <b>Underlying operating margin</b>                    |                |                |                |              |                |
| Underlying operating margin (UOM)                     | 0.9%           | 7.2%           | 8.8%           | 5.6%         | 5.4%           |
| <b>UOM excl. Type 31 loss and non-trading credits</b> | <b>6.9%</b>    | <b>7.2%</b>    | <b>7.2%</b>    | <b>5.6%</b>  | <b>7.0%</b>    |

| <b>FY23</b>  |                |                |              |              |                |
|--|----------------|----------------|--------------|--------------|----------------|
| <b>Revenue (£m)</b>  | Marine         | Nuclear        | Land         | Aviation     | Group          |
| Revenue  | 1,439.6        | 1,179.2        | 1,017.1      | 802.7        | 4,438.6        |
| Less: Non-trading credits and disposals                              | -              | -              | (46.7)       | (386.5)      | (433.2)        |
| Revenue excluding non-trading credits and disposals                  | 1,439.6        | 1,179.2        | 970.4        | 416.2        | 4,005.4        |
| Add: reversal of Type 31 revenue                                     | 42.6           | -              | -            | -            | 42.6           |
| <b>Revenue excl. non-trading credits, disposals and Type 31 loss</b> | <b>1,482.2</b> | <b>1,179.2</b> | <b>970.4</b> | <b>416.2</b> | <b>4,048.0</b> |
| <b>Underlying operating profit (£m)</b>                              |                |                |              |              |                |
| Underlying operating profit (UOP)                                    | 12.7           | 63.5           | 85.9         | 15.8         | 177.9          |
| Add: Type 31 loss  | 100.1          | -              | -            | -            | 100.1          |
| UOP excluding Type 31 loss   | 112.8          | 63.5           | 85.9         | 15.8         | 278.0          |
| Less: non-trading (credits)/debits                                   | -              | -              | (13.8)       | 1.1          | (12.7)         |
| <b>UOP excl. non-trading credits, disposals and Type 31 loss</b>     | <b>112.8</b>   | <b>63.5</b>    | <b>72.1</b>  | <b>16.9</b>  | <b>265.3</b>   |
| <b>Underlying operating margin</b>                                   |                |                |              |              |                |
| Underlying operating margin (UOM)                                    | 0.9%           | 5.4%           | 8.4%         | 2.0%         | 4.0%           |
| <b>UOM excl. non-trading credits, disposals and Type 31 loss</b>     | <b>7.6%</b>    | <b>5.4%</b>    | <b>7.4%</b>  | <b>4.1%</b>  | <b>6.6%</b>    |

## OPERATIONAL REVIEWS

### Marine

Our c.7,200 employees design, develop, manufacture and integrate specialist systems, and deliver technical through-life support for complex platforms in the marine sector. Around 80% of Marine's revenue is derived from defence, with the remainder primarily comprising our Liquid Gas Equipment (LGE) business.

#### Operational highlights

- Type 31: HMS Venturer (ship 1) superstructure almost complete, HMS Active (ship 2) keel laid, and HMS Formidable (ship 3) steel cut due 2024. Programme restructured following a detailed operational review
- Three Arrowhead 140 licences delivered and keel laid on first MIECZNIK-Class frigate for the Polish Navy
- Selected by Saab to support the design of the Swedish Navy's Surface Combatant, Luleå Class. Initial contract awarded
- Achieved Operation Service Commencement of the Skynet Service Delivery Wrap space communications contract
- Ukraine Mine Counter Measure Vessel (MCMV) upgrade and support contract fully operational
- Achieved Operative Date for the Australian Regional Maintenance Provider (RMP) West contract

#### Financial review

|                              | 31 March 2024<br>£m | 31 March 2023<br>£m |
|------------------------------|---------------------|---------------------|
| Contract backlog*            | 2,992.7             | 2,580.7             |
| Revenue                      | 1,429.1             | 1,439.6             |
| Underlying operating profit* | 13.1                | 12.7                |
| Underlying operating margin* | 0.9%                | 0.9%                |

\*Alternative Performance Measures are defined in the Financial Glossary on page 31.

Revenue decreased by 1% to £1,429.1 million which primarily related to FX translation. Growth from our Arrowhead 140 programmes, including the Polish MIECZNIK frigate programme, and increased activity on Dreadnought systems, was offset by lower volumes in warship support and LGE.

Underlying operating profit of £13.1 million (FY23 £12.7 million), representing an underlying operating margin of 0.9% (FY23: 0.9%), was impacted by a £90.0 million loss on the Type 31 contract (FY23: £100.1 million loss) (see below). Excluding the Type 31 loss, underlying operating profit decreased by 9% to £103.1 million with the positive contribution from licence fees on the Polish Arrowhead 140 programme more than offset by lower activity in warship support and the LGE business, as well as lower profitability in Mission Systems, primarily due to contract timing and therefore expected to recover.

**Type 31:** As set out in the CEO review on page 4 and the Financial review on page 9, we have fully reviewed the Type 31 programme during the year, including resolving the Dispute Resolution Process. Over the year, overall costs have increased due to the maturing of the design and the increase in costs of labour in the market available in Rosyth, which is forecast to be higher than CPI, the indexation contained within the Type 31 contract. As a result, the outturn over the life of the contract has deteriorated by £90.0 million, which has been fully recognised in FY24. The cash impact of this loss is expected to be realised over the remainder of the contract.

Contract backlog increased 16% in the year to £2,993 million (FY23: £2,581 million), driven by a two-year extension to the Canadian Victoria Class submarine support contract, strong LGE orders and service expansion of the UK MOD's Skynet satellite communications support contract, offsetting revenue traded on long-term contracts.

## Operational review

### Defence

#### UK defence

We continue to deliver the Type 31 frigate programme, with the superstructure of HMS *Venturer* almost complete. Work on the second ship, HMS *Active*, is progressing, with the keel laid and first double bottom blocks in the build cradle. In March 2024, we announced the intention to create more than 1,000 new jobs over the next four years at our advanced manufacturing and shipbuilding facility in Rosyth. These new roles, which include 400 apprenticeships, will benefit the UK economy and local community.

Following award of the 10-year warship support contract for the UK Royal Navy's QEC aircraft carriers, HMS *Prince of Wales* departed our Rosyth dockyard in July 2023 following a docking period to repair shaft lines, as well as undertaking planned activities on other underwater equipment and systems. We also welcomed HMS *Queen Elizabeth* back to Rosyth in March 2024 for docking, repairs and planned maintenance.

At Devonport, the Type 23 frigate life-extension (LIFEX) programme continues, with HMS *Iron Duke* achieving Ready for Sea and HMS *Argyll* achieving her undocking ahead of schedule. HMS *Argyll* is the first Type 23 to undergo a post-LIFEX upkeep under Project *RENOWN*, designed to reduce the amount of time spent in dock. Also in the period, we completed repairs and docking activity on HMS *Somerset*, and commenced the use of new hull and structure survey technology on HMS *Richmond*.

We continue to prepare for the arrival of the first Type 26 frigate, establishing the first remote office at BAE's Scotstoun shipyard to support the transition of the Type 26 Class to in-service support, with the new fleet of frigates base-ported at HMNB Devonport.

We were awarded two new five-year contracts by the UK Ministry of Defence (MOD) to continue providing in-service support for the Royal Navy's Ships Protective System (SPS) equipment.

The US-UK common missile compartment tube assembly programme continues for the US *Columbia* submarine programme, with further assemblies being delivered in support of the UK's *Dreadnought* programme. We have a market leading position in submarine missile tube assembly, underpinned by our deployment of advanced manufacturing technology.

Babcock is now on contract to deliver major systems modules for all four *Dreadnought* Class submarines, with a contract uplift for the remaining boats. During the period, we demonstrated our new complex weapons stowage equipment which will also be installed on the *Dreadnought* Class.

We were awarded a three-year contract to continue providing critical support to the Royal Navy's *Phalanx* Close-In Weapon System (CIWS), a rapid-fire, computer-controlled, radar-guided gun that can defeat anti-ship missiles and other close-in threats. The system is installed on multiple Royal Navy platforms, including the *Queen Elizabeth* Class aircraft carriers.

We achieved the Critical Design Review in the delivery of the UK Royal Navy's next-generation Maritime Electronic Warfare Systems Integrated Capability (MEWSIC) to install cutting edge radar electronic support and electronic warfare command and control capabilities across the new Type 31 and Type 26 frigates, Type 45 air-defence destroyers and QEC aircraft carriers.

Babcock has also been awarded a configuration management contract for the Royal Navy and the Royal Fleet Auxiliary surface ship fleet. The five-year contract will see us continue to operate the Master Record Data Centre, through which the configuration data and information of all surface ships will be managed.

Following a successful mobilisation and seamless transition, Babcock and its partners took over the operation of *SKYNET*, the UK's military satellite communications capability. The six-year service delivery wrap contract includes the management of the UK military satellite fleet and ground infrastructure for this 24/7 critical capability. When combined with our existing Defence Strategic Radio Service (DSRS) contract to deliver the MOD's secure High Frequency communications capability, Babcock now has a leading position delivering the UK Armed Force's critical communications in both a satcom and satcom-denied environment.

#### International defence

**In Australasia**, our contract to sustain the Royal Australian Navy (RAN) ANZAC frigate fleet, in alliance with BAE and Saab Australia, is due to phase into the new RAN Maritime Sustainment Model at the end of 2026. Babcock has completed the first maintenance periods on the replacement contract, Regional Maintenance Provider (RMP) – West, which will provide support for all RAN major surface ships located in Western Australia for the next five years. We were unsuccessful in our tender to deliver the replacement contract, RMP – East capability, however a sub-contract to transition our support from the RAN's flagship LHD amphibious platforms to the new sustainment model has been secured.

We agreed a new Capability Partnering Arrangement for sustainment of Australia's Collins Class submarines which will see us support existing operational requirements and seek to extend the life of the Babcock managed systems. We continue to deliver the Maritime Fleet Sustainment Services contract which supports the entire New Zealand navy fleet, including the operation of the main naval base infrastructure in Auckland.

**In Canada**, we continue to deliver the Victoria Class in-service submarine support (VISSC), which was extended to 2027, and are currently working on HMCS Victoria's extended docking work period. Milestones through the year include completion of over 800 hull and system surveys, removal of the diesel generators – a first-in-class evolution – and the commencement of major structural repairs, a large and complex work package to maintain the availability of the ageing platform.

We also signed Technical Cooperation Agreements with Hanwha Ocean and HD Hyundai Heavy Industries and have had ongoing engagements with other submarine OEMs. These activities position Babcock to be an integral partner in the Canadian Patrol Submarine Project, which will succeed the current Victoria Class in the mid-to-late 2030s.

**In Poland**, we finalised the design licence agreement with the MIECZNIK consortium for the build of three Arrowhead 140 frigates for the Polish Navy. The steel-cut for ship one was held at the Gdynia shipyard in August 2023.

**In Sweden**, we were selected by Saab as their programme partner to support their work on the Swedish Navy's next generation Luleå Class naval corvette programme. Under the initial contract, Babcock will provide front-end engineering and programme management for design.

**In Indonesia**, our customer PT PAL laid the keel for the first of two frigates, based on our Arrowhead 140 design.

**In Ukraine**, we completed the regeneration of UK Sandown Class Mine Counter Measure Vessels (MCMVs) at our Rosyth facility. The Royal Navy provided two of the vessels to the Navy of Ukraine who awarded Babcock a three-year contract to maintain and support the two minehunters. A further two MCMVs have been sold to the Romanian Navy with Babcock providing refurbishment support.

**In South Korea**, we are delivering systems for Boat 4 of the Jangbogo-III Class submarine programme. Additionally, we have been awarded a seven-year contract to manufacture and install the weapons handling and launch system for Boat 6 of the programme. Babcock is working with the Republic of Korea Navy and Hanwha Ocean to develop an in-service support strategy for the Class.

## Civil

Our LGE business marked another year of significant achievements with record order intake of over £300 million. We have cemented our significant market share, winning new orders from existing and new customers and delivery of 50 projects in South East Asia.

With increasing utilisation of hydrogen as a sustainable fuel and with broad application across several sectors, our ecoVLAC® technology is well positioned for growth, and we have secured six contracts for design and build of Cargo Handling Systems for Very Large Ammonia Carriers (VLAC). Additionally, we launched ecoFGSS-FLEX® technology for the use of Ammonia as a ship main engine fuel.

At our Rosyth facility we welcomed two of the UK's fleet of scientific research vessels for planned maintenance. RRS Discovery and RRS Sir David Attenborough spent a total of 16 weeks at Rosyth undergoing through-life support and will return to Rosyth in 2024. We also converted a former UK Royal Navy patrol ship into a medical vessel for Vine Trust at Portsmouth, an international volunteering charity supporting some of the most isolated communities in Tanzania and Peru.

## Nuclear

Our c.8,600 employees provide complex through-life engineering support to the entirety of the UK's nuclear submarine fleet, own and manage critical national infrastructure and provide engineering integration support to AWE. We operate across UK civil nuclear, including new build, generation support and decommissioning.

### Operational highlights

- Commenced deep maintenance on the second of the UK's Vanguard Class nuclear submarines, HMS Victorious, under a c.£560 million contract
- Returned HMS Vanguard to the Royal Navy after her Deep Maintenance Period (DMP) and Life Extension Programme
- Awarded £750 million infrastructure contract in preparation for Astute Class DMP
- Awarded contracts to develop the support solution for the UK's Dreadnought and SSN-AUKUS submarine programmes
- X-energy and Cavendish Nuclear selected for UK Government's Future Nuclear Enabling Fund (FNEF)

### Financial review

|                              | 31 March 2024<br>£m | 31 March 2023<br>£m |
|------------------------------|---------------------|---------------------|
| Contract backlog*            | 3,104.8             | 2,453.8             |
| Revenue                      | 1,520.9             | 1,179.2             |
| Underlying operating profit* | 109.2               | 63.5                |
| Underlying operating margin* | 7.2%                | 5.4%                |

\*Alternative Performance Measures are defined in the Financial Glossary on page 31.

Revenue increased by 29% to £1,520.9 million, driven by strong growth in Major Infrastructure Programme (MIP) revenue, increased Future Maritime Support Programme (FMSP) submarine support activity and new contracts in our civil nuclear business. MIP revenue increased to £459 million (FY23: £267 million).

Underlying operating profit increased by 72% to £109.2 million driven by the revenue growth above and non-recurrence of a £16 million loss on a FY23 programme, which has now completed. As a result, underlying operating margin improved 180 basis points to 7.2%.

Contract backlog increased 27% in the year to £3,105 million (FY23: £2,454 million), driven primarily by the £750 million MIP contract to modernise 10 Dock at our Devonport facility.

### Operational review

#### Defence

##### UK defence

The UK is going through a phase of class transition for nuclear submarines. Astute Class submarines are currently replacing the Trafalgar Class and the future Dreadnought Class will replace the Vanguard Class. We continue to make progress in meeting the current and future requirements of the UK MOD and Royal Navy and are working closely with them to jointly develop long-term strategies for people, infrastructure and transformation.

We are delivering substantial upgrades to existing critical infrastructure at Devonport to support the UK's future capability through a Major Infrastructure Programme (MIP). Following the award of the manufacturing phase contract, the programme to upgrade 10 Dock has entered the formal construction phase, which will deliver a new dock, berth, logistics and production support facilities, primarily for the Astute Class. We are also undertaking the refurbishment of 9 Dock, currently used for the Vanguard Class, the most significant work carried out on the dock for over 20 years, and 15 Dock.

Deep maintenance and life-extension of the second of the UK's Vanguard Class nuclear submarines, HMS Victorious, are underway at Babcock's facility at Devonport following an agreed full cost recovery contract worth an estimated £560 million with the Submarine Delivery Agency (SDA). This follows the completion in-year of HMS Vanguard's deep maintenance period, the most complex submarine maintenance and life-extension programme that has ever been delivered within the enterprise. The first Astute Class submarine has also been received in Devonport and is currently undergoing surveys and work ahead of an in-dock base maintenance programme (BMP). At HMNB Clyde, we continue to deliver a strong performance on submarine maintenance periods against a backdrop of increasing operational demands.

We were awarded a five-year contract to provide input into the detailed design for the new Ship Submersible Nuclear AUKUS (SSNA) submarines which will replace the Astute Class from the late 2030s and will be the future SSN design for the Royal Australian Navy. We also agreed with the SDA a 12-month extension to our Interim Support to the AUKUS Contract to provide consultancy support to the UK and Australian Governments in acquiring, operating, and maintaining nuclear powered submarines for the Royal Australian Navy.

Babcock was awarded a further contract to support the UK's new Dreadnought Class submarines, providing input into the development of the support solution, with a focus on engineering best practice and submarine maintenance to enable improved in-service availability. We continue to deliver good performance and ongoing improvements against our FMSP contract.

We are supporting the SDA on the Submarine Dismantling Project, working towards the full dismantling of the ex-HMS Swiftsure, which will be a UK first. The decision has been made to undertake the full vessel recycling at Rosyth. We are engaging to shape the future Submarine Disposal Capability programme with the SDA.

Work continues to deliver the Process, Plant and Equipment (PP&E) contract for AWE Aldermaston, with Babcock leading the design, installation and commissioning of complex plant and equipment engineering.

We have taken a leading role to support the UK's Nuclear Skills Task Force, following the recent announcement by the UK Prime Minister of a funded skills plan. We continue to lead on the collaborative work to deliver critically needed skills across the Babcock Nuclear enterprise, developing on the Babcock Skills Academy offering, significantly increasing our early careers intake, upskilling the Babcock workforce and targeting mid-career switchers through our engagement in Destination Nuclear, the first national communications campaign targeting recruitment into the industry.

### **International defence**

Babcock and HII have combined forces in Australia to work together to support the critical capabilities required to deliver the AUKUS programme, collaborating to develop the optimal models for nuclear-powered submarine capability, including infrastructure, sustainment, and the necessary skills development.

We have signed an MoU with Bechtel Australia to identify opportunities to leverage complementary expertise to establish and support Australia's conventionally armed nuclear-powered submarine programme (AUKUS). Babcock Australasia has also joined forces with HII, the University of Adelaide, Curtin University and the University of NSW to form the AUKUS Workforce Alliance.

## **Civil**

### **UK civil nuclear**

We continue to support Sellafield with their decommissioning programme and have been short-listed for the Invitation to Tender phase for two key Lots of the 15-year Decommissioning and Nuclear Waste Partners programme.

We have diversified our customer portfolio in the UK, securing work with both Westinghouse and Urenco, supporting the Government's focus on security and front-end fuel cycle. The reprocessed uranium front end conversion project for Westinghouse will design and build a facility to process uranium to enable its future enrichment and use as a nuclear fuel, while the tails management facility project for Urenco will convert depleted uranium hexafluoride to the lower hazard uranium oxide material for long term storage. At Magnox we have mobilised the Hinkley Point A Vault Retrievals Phase 2 contract to provide the design and delivery of an automated solution to safely retrieve, process and package waste from the site's vaults, ready for safe storage.

Cavendish Nuclear and X-energy welcomed a funding award from the UK Government's Future Nuclear Enabling Fund to further develop Advanced Modular Reactors (AMRs) in the UK. The Government's award of £3.4 million will be matched by X-energy for a total programme of £6.8 million. The funds will be used to develop UK-specific deployment plans including an assessment of domestic manufacturing and supply chain opportunities, constructability, modularisation studies, and spent fuel management.

In addition to AMRs, we continue to support Rolls Royce and GE-Hitachi, two of the six Small Modular Reactor (SMR) vendors whose designs have recently advanced to the next phase of the UK's SMR competition. We continue to support EDF with Large Gigawatt Reactor delivery at Hinkley Point C and Sizewell C through the MEH Alliance, an unincorporated JV.

### **International civil nuclear**

In Japan, work is now underway to deliver a 10-year contract with Japan Atomic Energy Agency (JAEA), providing specialist capability in support of decommissioning and sodium treatment of the Monju Prototype Fast Reactor in Fukui Prefecture, Japan.

In the US we are continuing to position for other major Tier 1 clean-up opportunities, on the back of the successful award last year of the Portsmouth Gaseous Diffusion Plant Decontamination and Decommissioning Contract with our joint venture partners.



## Land

Our c.6,400 employees provide essential services to our customers through three core capabilities, Build, Support and Train. We do this through management, the delivery of through-life engineering support and systems integration for military vehicles and equipment. We provide individual and collective training for customers with critical missions and deliver engineering services in power generation and transport networks and through-life support of mining equipment.

### Operational highlights

- DSG contract extension under negotiation following notification by UK MOD of its intention to exercise up to five option years
- Launched the General Logistics Vehicle (GLV) for the upcoming MOD tender to replace the legacy Army Land Rover fleet; actively exploring export opportunities with a range of international customers
- Officially launched production of 70 High Mobility Transporter Jackal 3s for the British Army, with partner Supacat
- Signed a collaboration agreement with Singapore Technology Engineering for manufacture of UK mortar systems
- Awarded second contract to deliver ground and equipment support to the French Navy, Army and Air Force
- Contract expansion to support UK gifted in-kind platforms to Ukraine
- Secured the rebid for the REME Apprenticeships contract to 2029
- Won the seven-year ARMCEN support contract for armoured vehicle technical training for the British Army

### Financial review

|                              | 31 March 2024<br>£m | 31 March 2023<br>£m |
|------------------------------|---------------------|---------------------|
| Contract backlog*            | 2,593.7             | 2,809.8             |
| Revenue                      | 1,098.6             | 1,017.1             |
| Underlying operating profit* | 96.3                | 85.9                |
| Underlying operating margin* | 8.8%                | 8.4%                |

\*Alternative Performance Measures are defined in the Financial Glossary on page 31.

Revenue increased 8% to £1,098.6 million (FY23: £1,017.1 million) with organic growth of 17% offset by a 5% FX translation headwind due to the weakening of the South African Rand against the Pound Sterling and the impact of the disposal of the Civil Training business in FY23. Strong organic growth was across our military activities including equipment support and training for our UK and international customers, ramp up of vehicle engineering contracts and the Australian Defence High Frequency Communication (DHFC) system contract, and continued growth in our South African business, driven by demand for mining equipment.

Underlying operating profit increased 12% to £96.3 million, including a £17.0 million profit on freehold property disposal. FY23 included an £11.6 million one-off accounting credit. The increase was also driven by revenue growth outlined above and improved performance across a number of our Land contracts, including the legacy DSG contract as it approaches its final delivery year. Performance in our South African business was in line with FY23, which benefitted from the close out of the Eskom contract. Underlying margin improved 40 basis points to 8.8% (FY23: 8.4%), including a 1.5% impact (FY23: 1.0%) from the one-off items described above.

Contract backlog decreased 8% to £2,594 million (FY23: £2,810 million) due to revenue traded on long-term contracts and the end of the Metropolitan Police Support contract in FY24.

### Operational review

#### Defence

##### UK defence

We delivered a strong performance in our defence equipment business. We provided critical support to prepare, repair and regenerate the Army's fleet for the Steadfast Defender exercise, the largest NATO exercise since the Cold War. Following notification by our UK MOD customer of its intention to exercise up to five option years for DSG from FY25/26, we have commenced a period of negotiation and transition as we move through the approvals process to contract signature. The transition activity will result in better outcomes for all stakeholders throughout the rest of the decade.

Babcock's steadfast commitment to providing critical support to Ukraine's military operations continues, providing training of personnel and the refurbishment and regeneration of equipment for Ukraine's Armed Forces through our Project HECTOR contract with the MOD. Having been awarded a contract in June 2023 to support the UK's gifted platforms to Ukraine, we achieved full operational capability and contract expansion in the period. In May 2024, we announced work was underway on an in-country facility to deliver engineering support, including the repair and overhaul of military vehicles, to be delivered in partnership with UDI, Ukraine's state-owned defence industry.

Our ambition to develop a portfolio of product-based offerings remains on track. In February, in collaboration with Supacat, we launched the production of 70 High Mobility Transporters (HMT 400 series) Jackal 3 for the British Army. Production will be undertaken at our new facility within the free port of Devonport.

We launched the Babcock General Logistics Vehicle in September 2023, with a focus on the upcoming MOD tender to replace the legacy Army Land Rover fleet and are pursuing other international opportunities. In June 2024, we launched a medium wheelbase variant and expect to add six-wheel drive variant in FY26.

Babcock remains the principal supplier of Toyota LC300 Civilian Armoured Vehicles to UK government agencies and we celebrated the successful conversion of the 50<sup>th</sup> vehicle in August 2023.

We signed a collaboration agreement with Singapore Technology Engineering for the manufacture of 120 mm mortar systems in the UK.

Our Advanced Manufacturing Business continues to make significant developments in tackling supply chain problems caused by obsolete parts. We co-chair the defence accelerator programme which seeks to increase the availability of defence materiel. Babcock has also successfully converted 25% of the MOD's white fleet to electric vehicles. The programme is creating greater fuel efficiencies and supporting the MODs sustainability goals.

Our Defence Training business performed well in the period, securing a number of key contracts including the Armour Support Contract, an extension to our contract to provide driver training and a further contract to support REME Apprenticeships to August 2029.

We have been awarded a three-year contract, supporting Mabway, for the provision of support for the design, preparation and delivery of military training exercises, which will replace our current Hannibal contract.

Our bid to become the Strategic Training Partner for the Army Collective Training System (ACTS) has progressed to the Invitation to Tender stage and we continue to have positive engagements with the customer as part of the bid process.

We continue to develop leading edge capabilities. Most notably we were recently able to announce an Enterprise Agreement with Palantir Technologies UK to strengthen our integrated planning function by enhancing our digital capabilities across the Sector. Working with Palantir and investing in our own data science and data engineering capabilities, we are on a journey of better cohering, understanding and modelling thousands of data-points relating to both critical and complex assets and their value chains. The relationship also extends to the synthesis of performance and behavioural data relating to individual and collective training to optimise learning and enhance training outcomes.

## International defence

**In France**, we have successfully completed the transition of the ground support equipment contract awarded last year. Babcock has also been awarded a new seven-year contract to provide in-service support to airfield ground support equipment throughout France's mainland and overseas military bases. This is Babcock's second significant Land Sector contract in France.

**In Australasia**, we continue to mature design of the new Defence Australian High Frequency Communications System through the JP9101 programme. We also signed a three-year contract extension to provide the Australian Department of Defence with streamlining sustainment and acquisition processes for Counter-Chemical Biological Radiological, Nuclear and Explosive (C-CBRNE) capability using our industry-leading asset management systems. We continue to work closely with the New Zealand Ministry of Defence on the Fixed High Frequency Radio Refresh programme.

We continue to be in an active process with the Australian Defence Force (ADF) for a first generation contract for sustainment management services for Land equipment. We are developing solutions to export leading capabilities from the UK to streamline existing support provision, and enhance fleet management, inventory management, engineering and technical management, procurement management, and support to ADF Operations.

**In Canada**, we signed a Memorandum of Understanding with Roshel to collaboratively explore opportunities to support the Canadian Armed Force's land requirements, providing innovative solutions through the combination of our global asset management expertise and Roshel's specialist vehicle manufacturing. This relationship provides us with the potential to build our civilian armoured vehicle (CAV) in Canada and support the Government of Canada, and address export opportunities in the North American defence and security market.

## Civil

### UK civil

Both our London Fire Brigade and Metropolitan Police (MPS) training contracts have performed well in the period. However, we have seen lower volumes on the MPS contract as the customer seeks to meet its challenging recruitment targets. We are leading an optimisation programme to support the design of a new entry route programme, focused on improving operational performance in support of transforming the approach to initial recruit training.

We continue to provide effective support to the London Fire Brigade through equipment and vehicle management, servicing and repair. The trial to reduce the number of planned vehicle movements by up to 50% across the Greater London region will reduce wear and tear and emissions. This allows for greater flexibility in fleet management practices such as vehicle rotation and whole life cost, helping to preserve high-vehicle availability. The trial has provided successful results with a full roll-out across the London Fire Brigade fleet being implemented.

We continue to explore ways in which we can support the UK Government's increasing focus on national resilience efforts, including enhancing the asset management services we provide as part of the New Dimensions programme for event response readiness at national, regional and local level.

Our Rail business continues to deliver strong performance in its key regions of Scotland and Northern Ireland and has started to expand its operations into the significant market in Ireland. Major investment in national rail infrastructure by the Irish Government is a key enabler for building on, levelling up and sustaining recent economic growth across the country. Engagement with industry stakeholders around major engineering programmes progresses, which will see the network modernised, decarbonised and have capacity more than doubled over the next 5 to 10 years.

### International civil

**South Africa** performed strongly, primarily driven by the equipment business, which supplies vehicles and vehicle support to the mining industry. A sustained high demand for commodities continues to drive open cast mining activities, resulting in an expansion of our market share. Our Engineering and Plant businesses delivered results in accordance with forecast. We are actively exploring opportunities within the marine and nuclear sectors to further diversify our portfolio and drive future growth.

We received orders for delivery of strategic spares for Eskom power stations to be delivered over three years. We were awarded five-year milling plant maintenance contracts for two power stations and began work on a significant contract to engineer and replace electrostatic plates at Lethabo power station to reduce particulate emissions.

## Aviation

Our c.2,500 employees deliver military pilot training support for the two largest Air Forces in Europe (France and UK), through-life support to operational military flying assets and critical air operations for government customers.

### Operational highlights

- Completed delivery of the six H160 helicopters to the French Navy as part of a 10-year contract with the French MOD
- Partnered with the RAF to deliver the first Elementary Flying Training (EFT) phase of the Ukrainian Pilot Force programme as they prepare to fly F-16 jets
- Delivered unprecedented firefighting operations in Canada with >1,500 flight hours, >670 fire missions and >5,000 water drops with a >99% aircraft availability
- Explored opportunities with Zero Petroleum for the use of synthetic fuels in defence aircraft to minimise the environmental impact of flying training
- Secured a five-year contract extension to keep providing air ambulance operations in Victoria state in Australia
- After the year end, awarded a new 12-year contract alongside Airbus to support 48 EC145 helicopters of the Direction Générale de la Sécurité Civile and the French Gendarmerie Nationale across France mainland and overseas

### Financial review

|                              | 31 March 2024<br>£m | 31 March 2023<br>£m |
|------------------------------|---------------------|---------------------|
| Contract backlog*            | 1,641.4             | 1,633.0             |
| Revenue                      | 341.5               | 802.7               |
| Underlying operating profit* | 19.2                | 15.8                |
| Underlying operating margin* | 5.6%                | 2.0%                |

\*Alternative Performance Measures are defined in the Financial Glossary on page 31.

Revenue decreased 57% to £341.5 million (FY23: £802.7 million) primarily due to the impact of the sale of the European Aerial Emergency Services (AES) business in February 2023, which contributed revenue of £387 million in FY23. On an organic basis, revenue declined 17% due to the sales mix of our French defence contracts, particularly MENTOR, between aircraft delivery and service phases. Our remaining UK, Australia and Canada aviation businesses all delivered modest growth.

Underlying operating profit increased 22% to £19.2 million (FY23: £15.8 million), despite lower revenue due to favourable sales mix of our French defence contracts, improved pricing and lower bid costs. The prior year also included a £1.1 million loss contribution from the disposed European AES business. As a result, underlying operating margin increased 360bp to 5.6%.

Contract backlog was in line with the prior year at £1,641 million (FY23: £1,633 million), with new orders matched by revenue traded on long-term contracts.

### Operational review

#### Defence

##### UK defence

Performance on the RAF HADES contract remains strong against a background of customer site laydown and base closures and we are in positive discussions regarding a further contract extension.

We continue to deliver good organic growth in our 11-year agreement with BAE Systems, supporting the RAF's Hawk TMk1 and TMk2 fleet.

Despite some fleet challenges earlier in the year, operations on the RAF Light Aircraft Flying Task contract (LAFT2) are continuing as normal with high levels of availability. We delivered the first Elementary Flying Training (EFT) phase of the Ukrainian Pilot Force training as they prepare to fly F-16 jets, with zero sorties lost due to aircraft unavailability.

We successfully negotiated a 13-year extension to the ground handling support contract for the Future Strategic Tanker Aircraft contract. We continue to provide IT service and improvement projects for the customer and are continuing to build a strong working relationship.

Project MONET, a two-year research and development project to explore the application of emerging technologies to minimise the environmental impact of the Light Aircraft Flying Task, has concluded its first year with a successful environmental impact assessment of the Grob Tutor. Work continues on the next phase to develop a flying testbed aircraft to test technologies in the air.

We signed the Defence Aviation Net Zero Charter, confirming our commitment to help UK Defence meet the challenges of climate change and to advance the testing of synthetic fuels in the military environment across air defence platforms.

We are exploring the use of uncrewed air system technologies to support UK defence, security and government aviation, and working on methods of integrating autonomous and collaborative platforms into the RAF.

## International defence

**In France,** activity continues to ramp up on the MENTOR contract with flying activity above forecast, further enhancing the training delivery. On the FOMEDEC contract, an additional simulator has been set up to deliver 1,500 additional simulator hours (+18%) to the customer. In total, we delivered c.13,500 flight hours and 8,500 simulator hours this year for the French Air Force under both contracts (FOMEDEC and MENTOR). We are also extremely proud to have reached a key milestone this year of 40,000 flight hours on our PC-21 aircraft.

We completed the delivery of our six Airbus H160 helicopters to the French Navy as part of our contract with the French MOD. The aircraft are used to perform Search and Rescue (SAR) missions and have already flown more than 1,750 hours and carried out numerous rescue missions in the Mediterranean and across the Normandy and Brittany coasts. We have also opened the first H160 site for SAR operations in the world, located in Cherbourg (France).

After the year end, we have been awarded a new contract alongside Airbus Helicopters to support the EC145 fleet of the Direction Générale de la Sécurité Civile and the French Gendarmerie Nationale. The 12-year contract covers the aircraft in-service support of 48 Airbus EC145 helicopters fleet across France mainland and overseas. Additional maintenance work has been delivered to our current seven-year contract with French Customs and Gendarmerie Nationale where we deliver in-service support to their EC135 helicopter fleets. Flying activity is also above contract expectations with a total of 8,141 flight hours (expected 6,500 flying hours).

Bidding activity on military aviation tenders remains high with many ongoing opportunities such as Mentor 2 contract (outsourcing of French military pilots initial training stage), French Air Force tactical and combat training contract and BFTC (outsourcing of the Belgium fighter pilot training).

**In Canada,** we were unsuccessful in our bid to deliver Canada's Future Aircrew Training (FAcT). We continue to explore opportunities in the military spectrum, leveraging our current civilian capabilities and our international military know-how to support the Royal Canadian Air Force and other Federal Departments in the future.

## Civil

### UK civil

We have been awarded a new contract with Midlands Air Ambulance Charity (MAAC) to continue as the charity's aviation partner for the next 10 years, operating MAAC's fleet of helicopters as well as providing ground support, engineering and pilots. We have been by MAAC's side since the charity started operating over 33 years ago, responding to over 75,000 lifesaving missions. We are continuing to deliver our other air ambulance activities in the country with a fleet availability at over 98%.

### International civil

**In France,** we are growing our ambition to protect citizens and communities in new territories, by developing a joint solution with the Sultanate of Oman to implement a robust and comprehensive Aerial Emergency Medical Service for all citizens and tourists in the country.

**In Australasia,** we continue to deliver critical emergency services while strengthening our relationships with our customers. We were awarded three key contract extensions this year, making Babcock the biggest provider of aerial emergency medical services in Australia.

The Queensland Government has extended our contract to provide emergency medical services and search and rescue for a further 12 years. The South Australian Government granted a four-year contract extension for the delivery of a State Rescue Helicopter Service. Lastly, we have been awarded a five-year contract extension to continue to provide critical air ambulance operations in Victoria until December 2030.

**In Canada,** we continued to deliver air ambulance and wildfire suppression services for the Province of Manitoba, helping to protect citizens, communities and natural resources. Last year Canada experienced an unprecedented number of wildfires, which saw our operations deliver over 1,500 flight hours, 674 fire missions and 5,006 water drops. In March 2024, we successfully completed the delivery of the LifeFlight critical care air ambulance services contract for the Province of Manitoba which saw 100% aircraft availability during the year.

We have begun to ramp up the in-service support for British Columbia's new aerial emergency services contract using a fleet of AW169 aircraft. This 10-year contract will start in FY25 with facilities construction.

## Financial glossary – Alternative Performance Measures (APMs)

The Group provides APMs, including underlying operating profit, underlying margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, net debt and net debt excluding leases to enable users to have a more consistent view of 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 APMs 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 APMs are consistent with the prior year. Measures, definitions and reconciliations to relevant IFRS measures are included below, where appropriate.

### Organic revenue growth – Group KPI

**Closest equivalent IFRS measure:** Revenue growth year on year

**Definition:** Growth excluding the impact of foreign exchange (FX) and contribution from acquisitions and disposals over the year.

**Purpose:** A good indicator of business growth.

|  | 31 March 2024<br>£m | 31 March 2023<br>£m |
|--|---------------------|---------------------|
| Prior year revenue                                   | 4,438.6             | 4,101.8             |
| FX   | (76.1)              | 23.5                |
| (Disposals) / acquisitions                           | (421.6)             | (92.3)              |
| Prior year revenue adjusted for FX and disposals (b) | 3,940.9             | 4,033.0             |
| Revenue growth (a)                                   | 449.2               | 405.6               |
| Current year revenue                                 | 4,390.1             | 4,438.6             |
| Organic revenue growth (a)/(b)                       | 11%                 | 10%                 |

### Contract backlog

**Closest equivalent IFRS measure:** No direct equivalent

**Definition:** The remaining transaction price on contracts with customers that has been allocated to unsatisfied or partially satisfied performance obligations adjusted for the impact of termination for convenience clauses and excluding orders not yet secured on framework agreements.

**Purpose:** Contract backlog is used to support future years' sales performance.

|                  | 31 March 2024<br>£m | 31 March 2023<br>£m |
|------------------|---------------------|---------------------|
| Contract backlog | 10,333              | 9,477               |

### Underlying operating profit

**Closest equivalent IFRS measure:** Operating profit

**Definition:** Operating profit before the impact of specific adjusting items (see below).

**Purpose:** Underlying operating profit is a key measure of the Group's performance.

|                             | 31 March 2024<br>£m | 31 March 2023<br>£m |
|-----------------------------|---------------------|---------------------|
| Underlying operating profit | 237.8               | 177.9               |
| Specific adjusting items    | 3.8                 | (132.4)             |
| Operating profit (note 2)   | 241.6               | 45.5                |

## Specific adjusting items (note 2)

|  | 31 March 2024<br>£m | 31 March 2023<br>£m |
|--|---------------------|---------------------|
| Amortisation of acquired intangibles                                   | (10.8)              | (15.8)              |
| Business acquisition, merger and divestment related items (note 2)     | 8.2                 | (117.7)             |
| Fair value movement on derivatives (note 2)                            | 6.4                 | 1.1                 |
| <b>Specific adjusting items impacting operating profit/(loss)</b>      | <b>3.8</b>          | <b>(132.4)</b>      |
| Fair value movement on derivatives and related items                   | 1.8                 | 9.7                 |
| <b>Specific adjusting items impacting profit/(loss) before tax</b>     | <b>5.6</b>          | <b>(122.7)</b>      |
| <b>Income tax benefit/(expense)</b>                                    |                     |                     |
| Amortisation of acquired intangibles                                   | 3.9                 | 4.1                 |
| Business acquisition, merger and divestment related items              | (1.0)               | (2.1)               |
| Fair value movement on derivatives and related items                   | (2.0)               | (2.6)               |
| Tax on Group reorganisation activities                                 | 4.7                 | –                   |
| Other tax items including rate change impact                           | (0.6)               | (1.2)               |
| <b>Specific adjusting items impacting income tax benefit/(expense)</b> | <b>5.0</b>          | <b>(1.8)</b>        |

## Underlying operating margin – Group KPI

**Closest equivalent IFRS measure:** Operating margin

**Definition:** Underlying operating profit as a percentage of revenue.

**Purpose:** Provides a measure of operating profitability, excluding specific adjusting items and is an important indicator of operating efficiency across the Group.

|                             | 31 March 2024<br>£m | 31 March 2023<br>£m |
|-----------------------------|---------------------|---------------------|
| Revenue                     | 4,390.1             | 4,438.6             |
| Underlying operating profit | 237.8               | 177.9               |
| Underlying operating margin | 5.4%                | 4.0%                |

## Underlying net finance costs

**Closest equivalent IFRS measure:** Net finance costs

**Definition:** Net finance costs excluding specific adjusting items.

**Purpose:** To provide an alternative measure of finance costs excluding items such as fair value re-measurement of derivatives which are economically hedged.

|  | 31 March 2024<br>£m | 31 March 2023<br>£m |
|--|---------------------|---------------------|
| <b>Underlying net finance costs</b>                            | <b>(35.9)</b>       | <b>(58.3)</b>       |
| Add: specific adjusting items impacting finance costs (note 2) | 1.8                 | 9.7                 |
| <b>Net finance costs (note 5)</b>                              | <b>(34.1)</b>       | <b>(48.6)</b>       |

## Underlying profit before tax

**Closest equivalent IFRS measure:** Profit before tax

**Definition:** Profit before tax excluding all specific adjusting items.

**Purpose:** Provides a measure of profitability which includes finance costs.

|   | 31 March 2024<br>£m | 31 March 2023<br>£m |
|---|---------------------|---------------------|
| <b>Underlying profit before tax</b>                           | <b>211.1</b>        | <b>128.9</b>        |
| Specific adjusting items impacting profit before tax (note 2) | 5.6                 | (122.7)             |
| <b>Profit before tax (note 2)</b>                             | <b>216.7</b>        | <b>6.2</b>          |



## Underlying effective tax rate

**Closest equivalent IFRS measure:** Effective tax rate

**Definition:** Tax expense excluding the impact of specific adjusting items, as a percentage of underlying profit before tax excluding the share of post-tax income from joint ventures and associates.

**Purpose:** This provides an indication of the ongoing tax rate across the Group, excluding one-off items.

|  | Year ended 31 March 2024 |                                      |                 | Year ended 31 March 2023 |                                      |                  |
|--|--------------------------|--------------------------------------|-----------------|--------------------------|--------------------------------------|------------------|
|  | Underlying<br>£m         | Specific<br>adjusting<br>items<br>£m | Statutory<br>£m | Underlying<br>£m         | Specific<br>adjusting<br>items<br>£m | Statutory<br>£m  |
| Profit before tax (note 2)   | 211.1                    | 5.6                                  | 216.7           | 128.9                    | (122.7)                              | 6.2              |
| Share of profit from joint ventures and associates* (note 11)                    | (10.3)                   | –                                    | (10.3)          | (9.3)                    | –                                    | (9.3)            |
| Profit/(loss) before tax excluding profit from joint ventures and associates (a) | 200.8                    | 5.6                                  | 206.4           | 119.6                    | (122.7)                              | (3.1)            |
| Income tax expense (b)   | (53.5)                   | 5.0                                  | (48.5)          | (37.7)                   | (1.8)                                | (39.5)           |
| <b>Effective tax rate (b)/(a)</b>  | <b>26.6%</b>             |                                      | <b>23.5%</b>    | <b>31.5%</b>             |                                      | <b>(1274.2%)</b> |

\* Share of profit from joint ventures and associates excludes an impairment of £1.1 million, see note 11.

## Underlying basic and diluted earnings per share

**Closest equivalent IFRS measure:** Basic earnings per share

**Definition:** The Group's underlying profit after tax less items attributable to non-controlling interest, being underlying net income attributable to shareholders, divided by the weighted average number of shares.

**Purpose:** A measure of the Group's underlying performance.

|  | Year ended 31 March 2024 |                                      |                 | Year ended 31 March 2023 |                                      |                 |
|--|--------------------------|--------------------------------------|-----------------|--------------------------|--------------------------------------|-----------------|
|  | Underlying<br>£m         | Specific<br>adjusting<br>items<br>£m | Statutory<br>£m | Underlying<br>£m         | Specific<br>adjusting<br>items<br>£m | Statutory<br>£m |
| Profit/(loss) before tax (note 2)                | 211.1                    | 5.6                                  | 216.7           | 128.9                    | (122.7)                              | 6.2             |
| Income tax (expense)/benefit (note 2)            | (53.5)                   | 5.0                                  | (48.5)          | (37.7)                   | (1.8)                                | (39.5)          |
| Profit/(loss) after tax for the year             | 157.6                    | 10.6                                 | 168.2           | 91.2                     | (124.5)                              | (33.3)          |
| Amount attributable to owners of the parent      | 155.1                    | 10.6                                 | 165.7           | 89.5                     | (124.5)                              | (35.0)          |
| Amount attributable to non-controlling interests | 2.5                      | –                                    | 2.5             | 1.7                      | –                                    | 1.7             |
| Weighted average number of shares (m)            | 503.5                    |                                      | 503.5           | 505.4                    |                                      | 505.4           |
| Effect of dilutive securities (m)                | 11.8                     |                                      | 11.8            | 9.5                      |                                      | 9.5             |
| Diluted weighted average number of shares (m)    | 515.3                    |                                      | 515.3           | 514.9                    |                                      | 514.9           |
| Basic EPS (note 6)                               | 30.8p                    |                                      | 32.9p           | 17.7p                    |                                      | (6.9)p          |
| Diluted EPS (note 6)                             | 30.1p                    |                                      | 32.2p           | 17.4p                    |                                      | (6.9)p          |

## Net debt

**Closest equivalent IFRS measure:** No direct equivalent

**Definition:** Cash and cash equivalents, bank overdrafts, loans, including the interest rate and foreign exchange derivatives which hedge the loans, lease liabilities, lease receivables and loans to joint ventures and associates.

**Purpose:** Used as a measure of the Group's cash position and balance sheet strength.

|   | 31 March 2024<br>£m | 31 March 2023<br>£m |
|---|---------------------|---------------------|
| Cash and bank balances                            | 570.6               | 451.7               |
| Bank overdrafts                                   | (18.0)              | (22.2)              |
| <b>Cash, cash equivalents and bank overdrafts</b> | <b>552.6</b>        | <b>429.5</b>        |
| Debt  | (749.5)             | (765.8)             |
| Derivatives hedging debt                          | (11.1)              | (8.3)               |
| Lease liabilities                                 | (230.5)             | (228.8)             |
| <b>Liabilities from financing arrangements</b>    | <b>(991.1)</b>      | <b>(1,002.9)</b>    |
| Lease receivables                                 | 35.5                | 38.6                |
| Loans to joint ventures and associates            | 3.9                 | 9.5                 |
| Derivatives hedging interest on debt              | (36.3)              | (39.1)              |
| <b>Net debt</b>                                   | <b>(435.4)</b>      | <b>(564.4)</b>      |

## Net debt (excluding leases)

**Closest equivalent IFRS measure:** No direct equivalent

**Definition:** Net debt (defined above) excluding lease liabilities recognised under IFRS 16.

**Purpose:** Used by credit agencies as a measure of the Group's net cash position and balance sheet strength.

|                                    | 31 March 2024<br>£m | 31 March 2023<br>£m |
|------------------------------------|---------------------|---------------------|
| <b>Net debt</b>                    | <b>(435.4)</b>      | <b>(564.4)</b>      |
| Leases                             | 224.5               | 218.2               |
| <b>Net debt (excluding leases)</b> | <b>(210.9)</b>      | <b>(346.2)</b>      |

## Net debt / EBITDA (covenant basis) – Group KPI

**Closest equivalent IFRS measure:** No direct equivalents

**Definition:** Net debt (excluding leases), before loans to joint ventures and associates and finance lease receivables, divided by EBITDA (as defined in our banking covenants – being underlying operating profit, defined on page 31, excluding depreciation and amortisation and including certain covenant adjustments) plus JV and associate dividends. See page 15.

**Purpose:** A key measure of balance sheet strength used by analysts and credit agencies, and the basis of our debt covenant over the RCF (3.5x).

## Interest cover (covenant basis)

**Closest equivalent IFRS measure:** No direct equivalent

**Definition:** EBITDA (on a covenant basis), divided by net finance costs and various covenant adjustments made to reflect accounting standards at the time of inception of the RCF agreement, including lease and retirement benefit interest. See page 16.

**Purpose:** Used in the covenant over our RCF facility with a covenant ratio of 4.0x.

## Return on invested capital (pre-tax) (ROIC) – Group KPI

**Closest equivalent IFRS measure:** No direct equivalent

**Definition:** Underlying operating profit plus share of JV profit after tax, divided by the sum of net debt (excluding leases), shareholders' funds and retirement benefit deficit/(surplus). See page 16.

**Purpose:** Used as a measure of profit earned by the Group generated by the debt and equity capital invested, to indicate the efficiency of allocated capital.

## Net capital expenditure

**Closest equivalent IFRS measure:** Property, plant and equipment and intangible additions

**Definition:** Property, plant and equipment and intangible additions less proceeds on disposal of property, plant and equipment and intangible assets.

**Purpose:** To understand net capital investment included in underlying operating cash flow.

|  | 31 March 2024<br>£m | 31 March 2023<br>£m |
|--|---------------------|---------------------|
| Purchases of property, plant and equipment (PP&E) (note 9)                   | (107.6)             | (109.9)             |
| Purchases of intangible assets (note 8)                                      | (33.3)              | (21.5)              |
| Movements in unpaid capital expenditure                                      | (1.5)               | 6.3                 |
| <b>Gross capital expenditure</b>   | <b>(142.4)</b>      | <b>(125.1)</b>      |
| Proceeds on disposal of PP&E and intangible assets (statement of cash flows) | 30.6                | 38.9                |
| <b>Net capital expenditure</b>   | <b>(111.8)</b>      | <b>(86.2)</b>       |

## Underlying operating cash flow

**Closest equivalent IFRS measure:** Net cash flow from operating activities

**Definition:** Cash flow from operating activities excluding net income tax, net interest paid, pension contributions in excess of the income statement charge and cash flows related to specific adjusting items and including net capital expenditure and lease principal payments. See page 12

**Purpose:** Provides a measure of operating cash generation on an equivalent basis to underlying operating profit.

|   | 31 March 2024<br>£m | 31 March 2023<br>£m |
|---|---------------------|---------------------|
| <b>Underlying operating cash flow</b>                         | <b>322.7</b>        | <b>307.0</b>        |
| Add: net capex  | 111.8               | 86.2                |
| Add: capital element of lease payments                        | 49.6                | 108.5               |
| Less: pension contributions in excess of income statement     | (107.6)             | (141.9)             |
| Non-operating cash items (excluded from underlying cash flow) | (2.2)               | (10.9)              |
| <b>Cash generated from operations</b>                         | <b>374.3</b>        | <b>348.9</b>        |
| Tax (paid)  | (27.4)              | (25.4)              |
| Less: net interest paid                                       | (32.2)              | (62.2)              |
| <b>Net cash flow from operating activities</b>                | <b>314.7</b>        | <b>261.3</b>        |

## Underlying operating cash conversion – Group KPI

**Closest equivalent IFRS measure:** No direct equivalent

**Definition:** Underlying operating cash flow as a percentage of underlying operating profit.

**Purpose:** Used as a measure of the Group's efficiency in converting profits into cash.

|                                  | 31 March 2024<br>£m | 31 March 2023<br>£m |
|----------------------------------|---------------------|---------------------|
| Underlying operating profit      | 237.8               | 177.9               |
| Underlying operating cash flow   | 322.7               | 307.0               |
| <b>Operating cash conversion</b> | <b>136%</b>         | <b>173%</b>         |

## Underlying free cash flow

**Closest equivalent IFRS measure:** No direct equivalent

**Definition:** Underlying free cash flow includes cash flows from pension deficit payments, interest, tax, JV dividends, specific adjusting items, in addition to underlying operating cash flow. See page 12.

**Purpose:** Provides a measure of cash generated which is available for use in line with the Group's capital allocation policy.

## 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 2024. For viability, the Board looked at a five-year view as this is the period over which the Group prepares its strategic plan forecasts.

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 the Principal risks and management controls section on page 38. The Board also considered the mitigation measures being put in place and potential for further mitigation.

The Board considers that the long-term prospects of the Group underpin its conclusions on viability. As outlined in our strategy, business model and markets summaries on pages 14, 16 and 20 of the 2024 Annual Report and Financial Statements, our prospects are supported by:

- a diverse portfolio of businesses based on well-established market positions, focused on naval engineering, support and systems, and on critical services in our core defence and civil markets. In FY24, 74% of Group revenue was defence related and 26% civil;
- a geographically diverse business with a high proportion of sales to governments and other major prime defence contractors. In FY24, 70% of revenue was to UK defence and civil customers, and 30% was international;
- long-term visibility of sales and future sale prospects through an order backlog of £10.3 billion as at 31 March 2024, 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 2024, net debt excluding leases was £210.9 million and the Group therefore had liquidity headroom of £1.4 billion, including net cash of £0.6 billion and undrawn facilities of £0.8 billion. These facilities are considered more than adequate to meet current and other liabilities as they fall due, and support the Group's negative working capital position largely arising from securing customer advances ahead of contract work starting. All of the Group's facilities mature during the viability period, and therefore in assessing liquidity in future periods we have assumed that it will be possible to re-finance the Group's facilities at current market rates.

As of June 2024, the Group's committed facilities and bonds totalling £1.6 billion were as follows:

- £775 million revolving Credit Facility (RCF), of which £45 million matures on 28 August 2025 and £730 million matures on 28 August 2026
- £300 million bond maturing on 5 October 2026
- €550 million bond, hedged at £493 million, maturing on 13 September 2027
- Two committed overdraft facilities totalling £100 million

The RCF is the only facility with covenants attached. The key covenant ratios are net debt to EBITDA (covenant basis), gearing ratio, of 3.5x and EBITDA to net interest (interest cover) of 4.0x. These are measured twice per year – on 30 September and 31 March.

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 RCF 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 and to the end of the five-year plan assuming renewal of the RCF with consistent covenants to those currently applied.

**Base case scenario:** The base case budgets and forecasts show significant levels of headroom against both financial covenants and liquidity headroom based on the current committed facilities outlined above. 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 maintain a degree of caution.

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 £44 million relating to FY25 and around £40 million in each year thereafter.

**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 the level of performance deterioration against the base case budgets and forecasts (in both EBITDA and net debt) 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 gearing covenant level was £165 million and the lowest net debt increase was 150%. The lowest required reduction in forecast EBITDA to hit the interest cover covenant was £140 million. Given the mitigating actions that are available and within management's control, such movements are not considered plausible.

**Severe but plausible (SBP) downside scenarios:** The Directors also considered a series of SBP 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), a deterioration in large programme performance across the Group, 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. All these separate scenarios showed compliance with the financial covenants throughout the period.

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 SBP downside case, the Board considered the feed of individual risks from the sectors covering the above sensitivities. Overall, there were around 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. These identified risks were seen as 'sector independent' (ie there is no direct read across from one sector to another). The Board decided to reduce the aggregation of the 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 (both before and after mitigation measures).

**Going concern assessment and viability conclusion:** Based on our review, the Directors have concluded that the Group has adequate resources to continue as a going concern for at least 12 months from the date of these financial statements. The Directors have not identified any material uncertainties concerning the Group's ability to continue as a going concern.

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 2029.

## 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 2024, 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 2024 in full. The Group's principal risks and uncertainties are:

**Contract and project performance:** We execute large contracts, which often require us to price for the long term and for risk transfer. Our contracts can include fixed prices. Risk appetite: Medium. Contract and project performance risk appetite is classified as 'medium' due to the intricate nature of our work in defence and emergency services sectors. As a company, we are in the business of strategically taking on risks that we can manage effectively. While our aim is to minimise risks to a manageable level, it is important to acknowledge that uncertainties are inherent in project delivery. We prioritise robust risk management within our contracts to mitigate these uncertainties and ensure successful outcomes. It is important to make clear that despite our vast efforts, some level of risk remains unavoidable.

**Market:** We rely on winning and retaining large contracts in both existing and new markets often characterised by a relatively small number of major customers, which are owned or controlled by local or national governments. Risk appetite: Medium. This reflects that the successful pursuit and maintenance of a secure and assured pipeline is essential for continued growth, and we may therefore choose to accept the challenge of market risks that we can confidently and securely manage.

**IT & cyber 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. Risk appetite: Low. IT and Cyber Security are fundamental components to Babcock's operations; we continually review the emergence of cyber threats, in an effort to eradicate and mitigate the risk as far as possible.

**Defined benefit pensions:** The Group has significant defined benefit pension schemes in the UK, which provide for a specified level of pension benefits to scheme members. Risk appetite: Low. Babcock utilises engagement with the pensions schemes' trustees and a balanced pension management approach that looks to mitigate and reduce the risks associated with pensions over the journey to settling the pension obligations.

**Supply chain management:** The Group is exposed to several risks within its supply chain, and these can typically be the following. Volatile markets such as inflation, supplier financial risks and energy costs. Disruptions to established supply chains such as natural hazards, logistics and mass layoffs. Geopolitical and regulatory risk inclusive of conflicts, industrial action, and sanctions. Supply chain cyber security including increased alerts of potential disruption from cyber-attacks in our multi-tiered supply chain. Part availability for aged customer assets such as maintaining assets that are too old to source essential parts, or where cost is prohibitive. Risk appetite: Low. Babcock has a preference for safe delivery options that have a low degree of inherent risk and only for limited reward potential.

**Operational resilience and business interruption:** Babcock provides critical support to governments and commercial customers, requiring a high level of resilience in operational systems and processes. We provide this support in an increasingly volatile, uncertain, and complex operating environment. A diverse range of internal and external threats could severely interrupt our business, reducing our ability to operate safely and effectively and to the high standards expected by our customers, regulators, and partners. As a result, Babcock, must ensure it maintains an Operational Resilience programme that is capable and adaptable to multiple forms of business interruption events. Risk appetite: Low. Ineffective operational resilience arrangements can significantly undermine safety, financial stability, reputation and meeting our regulatory requirements. Given the context in which we operate, Babcock seeks to identify and eliminate risks to its operations where possible and applies stringent controls to mitigate remaining areas of residual risk to as low as reasonably practical (ALARP). Babcock is committed to continually improving and building upon the foundations of our Operational Resilience programme. Investment is being made to assess and enhance the effectiveness of our plans and procedures through development of an overarching framework within FY25 in order to provide greater consistency, adaptability, and capability across Babcock.

**Financial resilience of the Group:** The Group is exposed to a number of financial risks, some of which are of a macroeconomic nature (for example, foreign currency, interest rates) and some of which are more specific to the Group (for example, liquidity and credit risks). Risk appetite: Low. Babcock recognises the adverse effects of the financial resilience risk on our balance sheet and actively manages this risk via its capital allocation policy, substantial committed debt facilities and maintaining an investment grade credit rating allowing access to debt capital markets. However, this risk cannot be eliminated and will always require management.

**Safety, health and environmental protection including product safety** Our operations entail the potential risk of significant harm to people and property, wherever we operate across the world. Risk appetite: Low. For moral, financial and reputational reasons we should keep the risk as low as possible.

**Climate and environmental sustainability:** Climate change is impacting every corner of the earth and poses an existential threat to global stability. Sustainability is an integral part of our corporate strategy, and we are working hard to address the climate crisis and minimise the impacts of our operations. Risk appetite: Low. Across our global operations we are looking to continually improve our understanding of climate and environmental risks and we are committed to mitigating risks, unlocking opportunities and reducing our environmental impacts.

**Corporate technological disruption:** We have identified three main attributes to potential technological disruption that potentially effects Babcock: the digital change agenda, both within our customers and internal to Babcock; our approach to data management; and finally, the disruption of new technology offerings. Risk appetite: Low. Given the materially adverse nature of digital and data risks, Babcock looks to recognise and eradicate the emergence of risks to operations where possible, hence risk appetite being set at low. Exploiting new technology in an appropriate manner can open new markets. However, Babcock does survey the market for new technology to develop into new opportunities. These are assessed for benefit individually and if deemed of interest, integrated into our research and development programme and managed with project management.

**Compliance with legislation or other regulatory requirements:** Our businesses are subject to the laws, regulations and restrictions of the many jurisdictions in which they operate. Risk appetite: Low. As a diverse global organisation, Babcock operates in multiple highly regulated industries for customers with specialist requirements. The compliance landscape is vast and complex with many regulations, legal obligations, contractual and certification requirements in each area including export controls, data protection and site licences. The laws and regulations that we are subject to include anti-bribery laws, import and export controls, tax, procurement rules, human rights laws, and data protection regulations.

**Resourcing, retention & skills:** We operate in many specialised engineering and technical domains, which require appropriate skills and experience. Risk appetite: Medium. Avoidance of the risk would increase costs through significant wage inflation, which would have an industry-wide impact, and require over-resourcing and potential negative workforce engagement and retention. Some risk is accepted given the high cost of avoidance and the potential mitigations within our control, such as sharing capability across our global business and compensating for skills shortages in particular areas through investment in training and early careers.

**Acquisitions and divestments:** 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. Risk appetite: Medium. Babcock will continue to review potential opportunities within the market in a considered and measured way, M&A activity continues to be inherently high risk. Future M&A activity will be undertaken only where it is possible to reduce inherent risk to an acceptable level when balanced against potential rewards and opportunity.

The risks listed above, together with their potential impacts and mitigating actions we have taken in respect of them, are explained and described in detail in the 2024 Annual Report, a copy of which will be available at [www.babcockinternational.com](http://www.babcockinternational.com).

## Group income statement

| For the year ended 31 March                       | Note   | 2024<br>£m | 2023<br>£m |
|---|--------|------------|------------|
| <b>Revenue</b>                                    | 2,3    | 4,390.1    | 4,438.6    |
| Operating costs                                   |        | (4,145.0)  | (4,315.7)  |
| Loss resulting from acquisitions and disposals    |        | (3.5)      | (77.4)     |
| <b>Operating profit</b>                           |        | 241.6      | 45.5       |
| Share of results of joint ventures and associates | 2,3,11 | 9.2        | 9.3        |
| Finance income                                    | 4      | 22.1       | 21.9       |
| Finance costs                                     | 4      | (56.2)     | (70.5)     |
| <b>Profit before tax</b>                          |        | 216.7      | 6.2        |
| Income tax expense                                | 5      | (48.5)     | (39.5)     |
| <b>Profit/(loss) for the year</b>                 |        | 168.2      | (33.3)     |
| <b>Attributable to:</b>                           |        |            |            |
| Owners of the parent                              |        | 165.7      | (35.0)     |
| Non-controlling interest                          |        | 2.5        | 1.7        |
| <b>Earnings/(loss) per share</b>                  |        |            |            |
| Basic   | 6      | 32.9p      | (6.9)p     |
| Diluted   | 6      | 32.2p      | (6.9)p     |

## Group statement of comprehensive income

| For the year ended 31 March  | Note | 2024<br>£m | 2023<br>£m |
|--|------|------------|------------|
| <b>Profit/(loss) for the year</b>  |      | 168.2      | (33.3)     |
| <b>Other comprehensive income</b>  |      |            |            |
| <b>Items that may be subsequently reclassified to income statement</b>                                     |      |            |            |
| Currency translation differences   |      | (13.4)     | (0.5)      |
| Reclassification of cumulative currency translation reserve on disposal                                    |      | -          | (1.2)      |
| Fair value adjustment of interest rate and foreign exchange hedges   |      | (4.0)      | 9.4        |
| Tax, including rate change impact, on fair value adjustment of interest rate and foreign exchange hedges   |      | (0.5)      | (3.1)      |
| Hedging gains/(losses) reclassified to profit or loss  |      | 6.6        | (10.8)     |
| Share of other comprehensive income of joint ventures and associates                                       | 11   | 0.3        | 4.7        |
| Tax, including rate change impact, on share of other comprehensive income of joint ventures and associates | 11   | (0.1)      | (1.2)      |
| <b>Items that will not be reclassified to income statement</b>   |      |            |            |
| Remeasurement of retirement benefit obligations  | 17   | (155.1)    | (402.4)    |
| Tax on remeasurement of retirement benefit obligations   |      | 38.4       | 100.8      |
| <b>Other comprehensive loss, net of tax</b>  |      | (127.8)    | (304.3)    |
| <b>Total comprehensive income/(loss)</b>   |      | 40.4       | (337.6)    |
| <b>Total comprehensive income/(loss) attributable to:</b>  |      |            |            |
| Owners of the parent   |      | 39.1       | (337.3)    |
| Non-controlling interest   |      | 1.3        | (0.3)      |
| <b>Total comprehensive income/(loss)</b>   |      | 40.4       | (337.6)    |



## Group statement of changes in equity

|  | Share capital<br>£m | Share premium<br>£m | Other reserve<br>£m | Capital redemption<br>£m | Retained earnings<br>£m | Hedging reserve<br>£m | Translation reserve<br>£m | Total equity attributable to owners of the Company<br>£m | Non-controlling interest<br>£m | Total equity<br>£m |
|--|---------------------|---------------------|---------------------|--------------------------|-------------------------|-----------------------|---------------------------|--|--------------------------------|--------------------|
| <b>At 1 April 2022</b>                   | 303.4               | 873.0               | 768.8               | 30.6                     | (1,241.4)               | 4.0                   | (56.4)                    | 682.0  | 19.5                           | 701.5              |
| Loss for the year                        | -                   | -                   | -                   | -                        | (35.0)                  | -                     | -                         | (35.0)   | 1.7                            | (33.3)             |
| Other comprehensive (loss)/income        | -                   | -                   | -                   | -                        | (301.6)                 | (1.0)                 | 0.3                       | (302.3)  | (2.0)                          | (304.3)            |
| <b>Total comprehensive (loss)/income</b> | -                   | -                   | -                   | -                        | (336.6)                 | (1.0)                 | 0.3                       | (337.3)  | (0.3)                          | (337.6)            |
| Dividends                                | -                   | -                   | -                   | -                        | -                       | -                     | -                         | -  | (2.2)                          | (2.2)              |
| Share-based payments                     | -                   | -                   | -                   | -                        | 9.4                     | -                     | -                         | 9.4  | -                              | 9.4                |
| Tax on share-based payments              | -                   | -                   | -                   | -                        | (0.2)                   | -                     | -                         | (0.2)  | -                              | (0.2)              |
| Net movement in equity                   | -                   | -                   | -                   | -                        | (327.4)                 | (1.0)                 | 0.3                       | (328.1)  | (2.5)                          | (330.6)            |
| <b>At 31 March 2023</b>                  | 303.4               | 873.0               | 768.8               | 30.6                     | (1,568.8)               | 3.0                   | (56.1)                    | 353.9  | 17.0                           | 370.9              |
| <b>At 1 April 2023</b>                   | 303.4               | 873.0               | 768.8               | 30.6                     | (1,568.8)               | 3.0                   | (56.1)                    | 353.9  | 17.0                           | 370.9              |
| Profit for the year                      | -                   | -                   | -                   | -                        | 165.7                   | -                     | -                         | 165.7  | 2.5                            | 168.2              |
| Other comprehensive (loss)/income        | -                   | -                   | -                   | -                        | (116.7)                 | 2.3                   | (12.2)                    | (126.6)  | (1.2)                          | (127.8)            |
| <b>Total comprehensive income</b>        | -                   | -                   | -                   | -                        | 49.0                    | 2.3                   | (12.2)                    | 39.1   | 1.3                            | 40.4               |
| Dividends                                | -                   | -                   | -                   | -                        | (8.5)                   | -                     | -                         | (8.5)  | (1.8)                          | (10.3)             |
| Disposal of subsidiary                   | -                   | -                   | -                   | -                        | -                       | -                     | -                         | -  | 0.7                            | 0.7                |
| Purchase of own shares                   | -                   | -                   | -                   | -                        | (12.5)                  | -                     | -                         | (12.5)   | -                              | (12.5)             |
| Share-based payments                     | -                   | -                   | -                   | -                        | 12.4                    | -                     | -                         | 12.4   | -                              | 12.4               |
| Tax on share-based payments              | -                   | -                   | -                   | -                        | 4.5                     | -                     | -                         | 4.5  | -                              | 4.5                |
| Net movement in equity                   | -                   | -                   | -                   | -                        | 44.9                    | 2.3                   | (12.2)                    | 35.0   | 0.2                            | 35.2               |
| <b>At 31 March 2024</b>                  | 303.4               | 873.0               | 768.8               | 30.6                     | (1,523.9)               | 5.3                   | (68.3)                    | 388.9  | 17.2                           | 406.1              |

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

|  | Note | 31 March<br>2024<br>£m | 31 March<br>2023<br>£m |
|--|------|------------------------|------------------------|
| <b>Assets</b>                                      |      |                        |                        |
| <b>Non-current assets</b>                          |      |                        |                        |
| Goodwill   | 7    | 780.1                  | 781.4                  |
| Other intangible assets                            | 8    | 148.8                  | 140.8                  |
| Property, plant and equipment                      | 9    | 517.1                  | 478.5                  |
| Right of use assets                                | 10   | 175.6                  | 159.1                  |
| Investment in joint ventures and associates        | 11   | 59.7                   | 57.4                   |
| Loan to joint ventures and associates              | 11   | 3.9                    | 9.5                    |
| Retirement benefits surpluses                      | 17   | 107.3                  | 94.8                   |
| Other financial assets                             |      | 5.3                    | 7.3                    |
| Lease receivables                                  |      | 22.5                   | 22.2                   |
| Derivatives  |      | 2.8                    | 2.6                    |
| Deferred tax asset                                 |      | 132.3                  | 112.2                  |
| Trade and other receivables                        | 13   | 13.0                   | 6.4                    |
|  |      | <b>1,968.4</b>         | <b>1,872.2</b>         |
| <b>Current assets</b>                              |      |                        |                        |
| Inventories  | 12   | 187.4                  | 126.8                  |
| Trade and other receivables                        | 13   | 487.2                  | 506.9                  |
| Contract assets                                    | 13   | 337.4                  | 322.5                  |
| Income tax recoverable                             |      | 10.6                   | 7.7                    |
| Lease receivables                                  |      | 13.0                   | 16.4                   |
| Other financial assets                             |      | 1.1                    | 1.4                    |
| Derivatives  |      | 4.4                    | 4.3                    |
| Cash and cash equivalents                          |      | 570.6                  | 451.7                  |
|  |      | <b>1,611.7</b>         | <b>1,437.7</b>         |
| <b>Total assets</b>                                |      | <b>3,580.1</b>         | <b>3,309.9</b>         |
| <b>Equity and liabilities</b>                      |      |                        |                        |
| <b>Equity attributable to owners of the parent</b> |      |                        |                        |
| Share capital                                      |      | 303.4                  | 303.4                  |
| Share premium                                      |      | 873.0                  | 873.0                  |
| Capital redemption and other reserves              |      | 736.4                  | 746.3                  |
| Retained earnings                                  |      | (1,523.9)              | (1,568.8)              |
|  |      | <b>388.9</b>           | <b>353.9</b>           |
| Non-controlling interest                           |      | 17.2                   | 17.0                   |
| <b>Total equity</b>                                |      | <b>406.1</b>           | <b>370.9</b>           |
| <b>Non-current liabilities</b>                     |      |                        |                        |
| Bank and other borrowings                          | 15   | 747.1                  | 768.4                  |
| Lease liabilities                                  | 10   | 185.9                  | 178.9                  |
| Trade and other payables                           | 14   | 5.4                    | 0.9                    |
| Deferred tax liabilities                           |      | 6.4                    | 7.0                    |
| Derivatives  |      | 51.9                   | 53.3                   |
| Retirement benefit deficits                        | 17   | 217.0                  | 156.2                  |
| Provisions for other liabilities                   | 16   | 79.1                   | 80.8                   |
|  |      | <b>1,292.8</b>         | <b>1,245.5</b>         |
| <b>Current liabilities</b>                         |      |                        |                        |
| Bank and other borrowings                          | 15   | 20.4                   | 19.6                   |
| Lease liabilities                                  | 10   | 44.6                   | 49.9                   |
| Trade and other payables                           | 14   | 949.2                  | 911.1                  |
| Contract liabilities                               | 14   | 761.8                  | 616.4                  |
| Income tax payable                                 |      | 16.6                   | 15.8                   |
| Derivatives  |      | 9.5                    | 12.8                   |
| Provisions for other liabilities                   | 16   | 79.1                   | 67.9                   |
|  |      | <b>1,881.2</b>         | <b>1,693.5</b>         |
| <b>Total liabilities</b>                           |      | <b>3,174.0</b>         | <b>2,939.0</b>         |
| <b>Total equity and liabilities</b>                |      | <b>3,580.1</b>         | <b>3,309.9</b>         |

# Group cash flow statement

| For the year ended 31 March  | Note | 2024<br>£m | 2023<br>£m |
|--|------|------------|------------|
| <b>Cash flows from operating activities</b>  |      |            |            |
| <b>Profit/(loss) for the year</b>  |      | 168.2      | (33.3)     |
| Share of results of joint ventures and associates  | 11   | (9.2)      | (9.3)      |
| Income tax expense   | 5    | 48.5       | 39.5       |
| Finance income   | 4    | (22.1)     | (21.9)     |
| Finance costs  | 4    | 56.2       | 70.5       |
| Depreciation and impairment of property, plant and equipment   | 9    | 54.1       | 77.0       |
| Depreciation and impairment of right of use assets   | 10   | 39.8       | 91.3       |
| Amortisation and impairment of intangible assets   | 8    | 24.0       | 37.1       |
| Equity share-based payments  |      | 12.4       | 9.4        |
| Net derivative fair value and currency movement through profit or loss                                   |      | (4.9)      | (7.5)      |
| Fair value movement on assets held at fair value through profit or loss                                  |      | (2.0)      | -          |
| Loss on disposal of subsidiaries, businesses and joint ventures and associates                           |      | 3.5        | 77.4       |
| Profit on disposal of property, plant and equipment  |      | (17.1)     | (2.0)      |
| (Profit)/loss on disposal of right of use assets   |      | (3.6)      | 0.8        |
| Loss on disposal of intangible assets  |      | 0.1        | 1.7        |
| <b>Cash generated from operations before movement in working capital and retirement benefit payments</b> |      | 347.9      | 330.7      |
| Increase in inventories  |      | (67.1)     | (25.7)     |
| Decrease/(increase) in receivables   |      | 6.1        | (71.6)     |
| Increase in contract assets  |      | (18.3)     | (54.2)     |
| Increase in payables   |      | 56.1       | 131.4      |
| Increase in contract liabilities   |      | 149.1      | 132.3      |
| Increase in provisions   |      | 8.1        | 47.9       |
| Retirement benefit contributions in excess of current period expense                                     |      | (107.6)    | (141.9)    |
| <b>Cash generated from operations</b>  |      | 374.3      | 348.9      |
| Income tax paid  |      | (27.4)     | (25.4)     |
| Interest paid  |      | (54.3)     | (77.0)     |
| Interest received  |      | 22.1       | 14.8       |
| <b>Net cash flows from operating activities</b>  |      | 314.7      | 261.3      |
| <b>Cash flows from investing activities</b>  |      |            |            |
| Disposal of subsidiaries and joint ventures and associates, net of cash disposed                         |      | (1.3)      | 158.6      |
| Dividends received from joint ventures and associates  | 11   | 7.1        | 8.7        |
| Proceeds on disposal of property, plant and equipment  |      | 30.6       | 38.5       |
| Proceeds on disposal of intangible assets  |      | -          | 0.4        |
| Purchases of property, plant and equipment   |      | (109.7)    | (104.2)    |
| Purchases of intangible assets   |      | (32.7)     | (20.9)     |
| Loans repaid by joint ventures and associates  | 11   | 7.5        | 2.4        |
| Loans advanced to joint ventures and associates  | 11   | (2.1)      | -          |
| <b>Net cash flows from investing activities</b>  |      | (100.6)    | 83.5       |
| <b>Cash flows from financing activities</b>  |      |            |            |
| Dividends paid   |      | (8.5)      | -          |
| Lease payments   | 18   | (49.6)     | (108.5)    |
| Cash inflow from settlement of derivatives   |      | -          | 0.8        |
| Bank loans repaid  | 18   | (13.1)     | (972.8)    |
| Loans raised and facilities drawn down   | 18   | -          | 416.6      |
| Dividends paid to non-controlling interest   |      | (1.8)      | (2.2)      |
| Purchase of own shares by Babcock Employee Share Trust   |      | (12.5)     | -          |
| <b>Net cash flows from financing activities</b>  |      | (85.5)     | (666.1)    |
| <b>Net increase/(decrease) in cash, cash equivalents and bank overdrafts</b>                             |      | 128.6      | (321.3)    |
| <b>Cash, cash equivalents and bank overdrafts at beginning of year</b>                                   | 18   | 429.5      | 756.5      |
| Effects of exchange rate fluctuations  | 18   | (5.5)      | (5.7)      |
| <b>Cash, cash equivalents and bank overdrafts at end of year</b>   | 18   | 552.6      | 429.5      |

## 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 2024. The comparative figures for the year ended 31 March 2023 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 2023:

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2023 and did not have a material impact on the consolidated financial statements:

- IFRS 17, *'Insurance Contracts'*: IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4.

IFRS 17 allows an entity a policy choice to instead apply IFRS 15 to contracts which would otherwise meet the definition of an insurance contract providing their primary purpose is to provide a service at a fixed fee and provided certain specific conditions are met. Where these conditions are satisfied, the Group's policy is to apply IFRS 15 in all such instances.

IFRS 17 also contains a number of scope exclusions – for example, warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer are outside the scope of IFRS 17.

Whilst the Group holds a number of long-term support and maintenance contracts, it has been concluded that such contracts are either subject to the above scope exclusions and policy choices, or do not constitute insurance contracts because there is no transfer of significant insurance risk due to pricing structure such that additional cost are recoverable from the customer through variable consideration or final pricing adjustment. As such, none of the long-term support and maintenance contracts are accounted for under IFRS 17.

The Group has assessed that the standard would impact its captive insurance company as it issues insurance contracts, however, since the contracts insure other Group companies, there is no impact on the Consolidated Financial Statements.

The impact of adopting IFRS 17 is not material for the Group and no restatement of the prior period Income Statement or Statement of Financial Position was required.

- Amendments to IAS 1, *'Presentation of Financial Statements'*: The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.
- The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.
- Amendments to IAS 8, *'Accounting Policies, Changes in Accounting Estimates and Errors'*: The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Amendments to IAS 12, *'Income Taxes'*: The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit.

### Critical accounting estimates and judgements

In the course of preparation of the financial statements, judgements and estimates have been made in applying the Group's accounting policies that have had a material effect on the amounts recognised in the financial statements. The application of the Group's accounting policies requires the use of estimates and the inherent uncertainty in certain forward-looking estimates may result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates and judgements in relation to these financial statements are considered below:

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

## (a) Critical accounting judgements

Critical accounting judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below. Detail of the Group's key judgements involving estimates are included in the Key sources of estimation uncertainty section.

### (i) Acting as principal or agent

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. Any changes in this judgement would not have a material impact on profit, although there may be a material impact to revenue and operating costs.

### (ii) Determining the groups of cash generating units to which goodwill is allocated

IFRS 8 requires that, for the purpose of subsequent impairment testing, goodwill acquired in business combinations be allocated to cash generating units ('CGUs') or groups of CGUs expected to benefit from the synergies of the combination. Such CGUs or groups of CGUs shall represent the lowest level at which goodwill is monitored for internal management purposes and shall not be larger than an operating segment.

This determination is generally straightforward and factual, however in some cases judgement is required.

The Group has identified four operating segments – Aviation, Land, Marine and Nuclear – and in the case of Aviation, Marine and Nuclear, goodwill is allocated and monitored at the operating segment level (with these three operating segments each also comprising a group of CGUs).

Although Land is considered a single operating segment, goodwill is separately allocated and monitored between the Africa business (as one group of CGUs) and the remainder of Land (as a second group of CGUs). This distinction exists due to historic assessments of the Group's operating segments and the fact that previous Africa business combinations were only anticipated to provide synergies and benefits across the Africa CGUs.

Other territories may represent separate CGUs or groups of CGUs but are neither separate operating segments nor is goodwill separately allocated or monitored at these territory levels.

Over time management reviews the basis upon which goodwill is allocated to ensure it remains appropriate as businesses are acquired and divested and reporting structures change, including how information is reported to the Chief Operating Decision Maker. If there was a change in this judgement this could result in a material adjustment to goodwill. Further detail is included in notes 3 and 7.

### (iii) Additional work expected under the Type 31 contract

There is judgement in determining whether the Type 31 onerous contract provision should reflect the benefit of the expected continuation of the programme. IAS 37.10 states that "a contract is onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it." Judgement is required in determining whether additional work is treated as a benefit expected to be received under the Type 31 contract, reducing the onerous contract provision. The key factors considered in making this judgement are the additional work expected at contract inception and the economic linkage with the pricing and other terms of the Type 31 contract. Having carefully considered the available evidence against the evidential bar required to recognise future benefits, it was concluded that the expected continuation of the programme should not be treated as a benefit expected under the Type 31 contract.

## (b) Key sources of estimation uncertainty

The key sources of estimation uncertainty at the reporting period end that may result in significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year are set out below:

### (i) Revenue and profit recognition

The following represent the notable assumptions impacting upon revenue and profit recognition as a result of the Group's contracts with customers:

- Stage of completion & costs to complete – 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 with adjustments made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn. The most significant estimate of contract outturn relates to the Type 31 programme as outlined below.

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

- Variable consideration – the Group's contracts are often subject to variable consideration including performance-based penalties and incentives, gain/pain share arrangements and other items. Variable consideration is added to the transaction price only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised once the underlying uncertainty is resolved.
- Inflation – The level to which the Group's revenue and cost for each contract will be impacted by inflation is a key accounting estimate, as this could cause the revenue and cost of contract delivery to be greater than was expected at the time of contracting. The Group's contracts are exposed to inflation due to rising employment costs, as well as increased costs of raw materials. The Group endeavours to include cost recovery mechanisms or index-linked pricing within its contracts with customers in order to mitigate any inflation risk arising from increasing employment and raw material costs.

### Type 31 Programme estimates

The contract to produce 5 Type 31 frigates was won under competitive tender in 2019, based on Babcock's Arrowhead 140 design. The contract is important in providing access to an expected pipeline of Type 31 work and developing our Arrowhead 140 design for opportunities overseas. Although the contract contained certain escalation clauses, it provided limited protection from the macroeconomic changes of recent years relating to Brexit, Covid, raw material prices and UK labour shortages, which have significantly increased our costs. Following the outcome of discussions with the customer over these matters, a £100 million charge was recorded in the prior financial year.

This year we launched an operational improvement programme to address all areas of the Type 31 programme. This has included a significant focus on cost drivers and financial modelling, supported by external consultants, and has led to a number of management changes. This has enabled a more detailed reassessment, robustly supported by actual cost data, other empirical evidence and a further year of experience of the programme.

We recorded a £90 million charge at the end of the year. Estimated costs over the life of the contract have increased due to the maturing of the design and an increase in the forecast cost of labour. The £90 million charge has been recognised as a £66 million reduction in revenue (which increases the contract liability within working capital) and £24 million increase in the onerous contract provision.

Determining the contract outturn, and therefore revenue and onerous contract provision recognised, requires assumptions and complex judgements to be made about the future performance of the contract. The level of uncertainty in the estimates made in assessing the outturn is linked to the complexity of the underlying contract.

The estimates in assessing the outturn are set out below, along with the related estimation methods, data sources and management actions to offset the increases in the year.

- a) The number of production hours – which requires estimation of a standard level of hours for manufacturing, structural and outfitting activities, determined with reference to previous experience of comparable programmes and industry data where available. The estimation of the time taken to improve to this standard level is also relevant, based on a detailed enablement plan which is a key output of the operational improvement programme. The volume of activities is based on a detailed assessment of the Bill of Materials, supported by dedicated engineering software
- b) The cost of labour – which is dependent on our ability to recruit, the mix of the workforce between permanent and contingent workers from the UK and overseas, the utilisation of semi-skilled and apprentice workers and shift patterns and premiums. A detailed resourcing plan is used to support this estimate with actions required to achieve an efficient labour mix
- c) The cost of bought-in parts and services through suppliers and sub-contractors – which includes the outcome of procurement tenders, finalisation of other areas of unagreed pricing and the agreement of discounts and incentive arrangements
- d) The ability to improve operational performance through process efficiencies, quality and engineering improvements over the five ships – which requires actions to reduce re-work, optimise the location in which outfitting is performed, deliver specific productivity initiatives and make engineering changes to reduce the cost of manufacture, structural assembly and outfitting
- e) The number of hours required by support functions - primarily in engineering which is impacted by the timely completion of remaining design activities and effective management of production support and change requests. A detailed engineering scope review has been performed to support this estimate. The maturity of the design and estimation process has allowed us to target improvements in ongoing support and overhead costs
- f) The determination of non-incremental costs which relate directly to fulfilling the contract and are therefore partially allocated to the contract to determine the loss provision – including facility and overhead costs
- g) The impact of inflation on the contract price and costs to fulfil the contract – particularly in relation to labour which may be impacted by changes in the local, UK and overseas labour markets, competitor activity and government policy
- h) The achievement of the build schedule to completion and final acceptance – including the satisfaction of all contractual performance criteria. The schedule analysis is based on detailed modelling and the performance of multiple scenario analysis

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

The cost estimation process has involved a number of key elements:

- Regular governance at the Group level to monitor progress and enable support as required
- Bottom-up costing at the activity level performed by individual business areas
- Reassessment of risk based on the updated cost estimates, considering ranges of outcomes and probabilities
- Input from functional specialists from across the Group
- Development of financial models based on cost drivers, using actual data and other evidence to inform the forecast outcome
- Detailed documentation of estimates made, including process followed, sources of evidence and basis for conclusions
- Review and challenge at the Programme, Sector and Groups levels, culminating in a number of dedicated reviews with the Audit Committee

The range of possible future outcomes in respect of assumptions made to determine the contract outcome could result in a material increase or decrease in revenue and the value of the onerous contract provision, and hence on the Group's profitability, in the next financial year. The estimates described above are by their nature inter-related for this programme and are unlikely to change with everything else constant. However, for illustrative purposes, we have provided sensitivities to certain isolated changes in key estimates on the basis that all other factors remain constant:

- Production hours - which are impacted by production norms, rate of improvement, process efficiencies and quality/engineering improvements (see a) and d) above). A 10% increase/decrease in production hours would increase/decrease the loss by £32m
- Labour rate - which is impacted by our ability to recruit permanent staff, the mix of the workforce, ancillary costs and inflation (see b) and g) above). A 10% increase/decrease in the average labour rate would increase/decrease the loss by £45m
- Supply chain costs - (see c) above) - which are impacted by the agreement of remaining pricing, discounts and incentive arrangements. A 10% increase/decrease in supply chain costs would increase/decrease the loss by £31 million
- Non-production costs - (see e), f) and h) above)- which are impacted by the build schedule. A 6-month delay beyond the current planning assumption would increase/decrease the loss by £24 million

Overall, with c£1bn of estimated costs to go over the life of the contract, if actual costs were to differ from those assumed by 10%, the potential impact on the contract outcome could be c.£100 million.

To mitigate this, comparisons of actual contract performance and previous forecasts used to assess the contract outcome are performed regularly, with consideration given to whether any revisions to assumptions are required. In the next financial year, many of the 'first time' tasks and work to integrate the various elements of the first ship will be substantially complete. This will reduce the uncertainty over the contract outcome but a significant element will remain due to the substantial activity which extends over the remaining years. In a major ship build programme of this nature, it is inherently possible that there may be changes in circumstances which cannot reasonably be foreseen at the present time.

### (ii) Defined benefit pension schemes obligations

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, discount rate, actuarial and life expectancy 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, discount rate and life expectancy estimates, management is required to make an accounting judgement relating to the expected availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 17.

## 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 have a more consistent view of 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 2023.

### Underlying operating profit

In any given year the statutory measure of operating profit includes a number of items which the Group considers to either be one-off in nature or otherwise not reflective of underlying performance. Underlying operating profit therefore adjusts statutory operating profit to provide readers with a measure of business performance which the Group considers more consistently analyses the underlying performance of the Group by removing these one-off and other items not reflective of underlying performance that otherwise add volatility to performance.

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, large, infrequent restructuring programmes and fair value movements on derivatives. Transactions such as these may happen regularly and could significantly impact the statutory result in any given year. Adjustments to underlying operating profit may include both income and expenditure items.

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 forward rate contracts that are open during the period; and
- Exceptional items that are significant, non-recurring and outside of the normal operating practice. These items are described as exceptional in order to appropriately represent the Group's underlying business performance. Exceptional items are set out in the Exceptional items section below.

### Income statement including underlying results

|  | Note | Year ended 31 March 2024 |                                      |                 | Year ended 31 March 2023 |                                      |                 |
|--|------|--------------------------|--------------------------------------|-----------------|--------------------------|--------------------------------------|-----------------|
|  |      | Underlying<br>£m         | Specific<br>adjusting<br>items<br>£m | Statutory<br>£m | Underlying<br>£m         | Specific<br>adjusting<br>items<br>£m | Statutory<br>£m |
| Revenue                                    | 3    | 4,390.1                  | –                                    | 4,390.1         | 4,438.6                  | –                                    | 4,438.6         |
| Operating profit/(loss)                    | 3    | 237.8                    | 3.8                                  | 241.6           | 177.9                    | (132.4)                              | 45.5            |
| Operating margin %                         |      | 5.4%                     | –                                    | 5.5%            | 4.0%                     | –                                    | 1.0%            |
| Results from joint ventures and associates | 11   | 9.2                      | –                                    | 9.2             | 9.3                      | –                                    | 9.3             |
| Net finance costs                          | 4    | (35.9)                   | 1.8                                  | (34.1)          | (58.3)                   | 9.7                                  | (48.6)          |
| Profit/(loss) before tax                   |      | 211.1                    | 5.6                                  | 216.7           | 128.9                    | (122.7)                              | 6.2             |
| Income tax (expense)/benefit               | 5    | (53.5)                   | 5.0                                  | (48.5)          | (37.7)                   | (1.8)                                | (39.5)          |
| Profit/(loss) after tax for the year       |      | 157.6                    | 10.6                                 | 168.2           | 91.2                     | (124.5)                              | (33.3)          |



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

### Earnings per share including underlying measures

|  | Year ended 31 March 2024 |                                      |                 | Year ended 31 March 2023 |                                      |                 |
|--|--------------------------|--------------------------------------|-----------------|--------------------------|--------------------------------------|-----------------|
|  | Underlying<br>£m         | Specific<br>adjusting<br>items<br>£m | Statutory<br>£m | Underlying<br>£m         | Specific<br>adjusting<br>items<br>£m | Statutory<br>£m |
| <b>Profit/(loss) after tax for the year</b>      | 157.6                    | 10.6                                 | 168.2           | 91.2                     | (124.5)                              | (33.3)          |
| Amount attributable to owners of the parent      | 155.1                    | 10.6                                 | 165.7           | 89.5                     | (124.5)                              | (35.0)          |
| Amount attributable to non-controlling interests | 2.5                      | –                                    | 2.5             | 1.7                      | –                                    | 1.7             |
| Weighted average number of shares (m)            | 503.5                    |                                      | 503.5           | 505.4                    |                                      | 505.4           |
| Effect of dilutive securities (m)                | 11.8                     |                                      | 11.8            | 9.5                      |                                      | 9.5             |
| Diluted weighted average number of shares (m)    | 515.3                    |                                      | 515.3           | 514.9                    |                                      | 514.9           |
| Basic EPS  | 30.8p                    |                                      | 32.9p           | 17.7p                    |                                      | (6.9)p          |
| Diluted EPS                                      | 30.1p                    |                                      | 32.2p           | 17.4p                    |                                      | (6.9)p          |

### Details of specific adjusting items

The impact of specific adjusting items is set out below:

|   | Year ended<br>31 March<br>2024<br>£m | Year ended<br>31 March<br>2023<br>£m |
|---|--------------------------------------|--------------------------------------|
| Amortisation of acquired intangibles                      | (10.8)                               | (15.8)                               |
| Business acquisition, merger and divestment related items | 8.2                                  | (117.7)                              |
| Fair value movement on derivatives and related items      | 6.4                                  | 1.1                                  |
| <b>Adjusting items impacting operating profit/(loss)</b>  | <b>3.8</b>                           | <b>(132.4)</b>                       |
| Fair value movement on derivatives and related items      | 1.8                                  | 9.7                                  |
| <b>Adjusting items impacting loss before tax</b>          | <b>5.6</b>                           | <b>(122.7)</b>                       |
| <b>Income tax benefit</b>                                 |                                      |                                      |
| Amortisation of acquired intangibles                      | 3.9                                  | 4.1                                  |
| Business acquisition, merger and divestment related items | (1.0)                                | (2.1)                                |
| Fair value movement on derivatives and related items      | (2.0)                                | (2.6)                                |
| Exceptional tax on Group reorganisation activities        | 4.7                                  | –                                    |
| Other tax items including rate change impact              | (0.6)                                | (1.2)                                |
| <b>Income tax benefit/(expense)</b>                       | <b>5.0</b>                           | <b>(1.8)</b>                         |

### 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 profit relating to business acquisition, merger and divestment related items for the year ended 31 March 2024 was £8.2 million (2023: loss of £117.7 million). The prior year balance consisted of a loss on the disposal of the Aerial Emergency Services business in Europe of £116.9 million, a loss on disposal of the Group's Civil Training business of £3.9 million and a gain relating to the disposal of the Oil & Gas business in Aviation of £3.1 million. The current year profit relates to changes in the cash consideration and provision balances following settlement of certain warranties in respect of prior disposals.

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

### Fair value movement on derivatives and related items

These are open forward currency contracts, taken out in the ordinary course of business to manage foreign currency exposures, where the transaction will occur in future periods. Hedge accounting under IFRS is not applied, however these do represent economic hedges. On maturity the currency contract will be closed and recognised in full within underlying operating profit at the same time as the hedged sale or purchase. The net result, at that time, will then more appropriately reflect the related sales price or supplier cost being hedged (which is fixed to ensure ultimately profitable outcomes).

Hedge ineffectiveness on debt and debt-related derivatives that are designated in a hedge relationship are also presented as a specific adjusting item in finance costs. This is presented as a specific adjusting item as this ineffectiveness is caused by a historic off-market designation, the transactions are considered by the Group to represent an economic hedge.

The fair value movement on lease-related derivatives and foreign exchange movements on lease liabilities are also presented as a specific adjusting item in finance costs, as hedge accounting under IFRS is also not applied to these transactions but are also considered by the Group to represent an economic hedge.

### Tax

Specific adjusting items in respect of tax comprises a charge of £0.6 million (2023: £1.2 million) arising from the impact of the increase in the rate of corporation tax and a credit of £4.7 million (2023: £nil million) arising from the release of uncertain tax positions in respect of historic group reorganisation activities.

## 3. 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. In accordance with IFRS 8, the Africa operating segment is included in the Land reportable segment.

The table below presents the underlying results for each reportable segment in accordance with the definition of 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 2024   | Marine<br>£m | Nuclear<br>£m | Land<br>£m  | Aviation<br>£m | Unallocated<br>£m | Total<br>£m  |
|--|--------------|---------------|-------------|----------------|-------------------|--------------|
| Revenue  | 1,429.1      | 1,520.9       | 1,098.6     | 341.5          | –                 | 4,390.1      |
| Underlying operating profit  | 13.1         | 109.2         | 96.3        | 19.2           | –                 | 237.8        |
| <b>Specific Adjusting Items (note 2)</b>   |              |               |             |                |                   |              |
| Amortisation of acquired intangibles   | (7.5)        | –             | –           | (3.3)          | –                 | (10.8)       |
| Business acquisition, merger and divestment related items                        | (1.5)        | –             | (0.2)       | 9.9            | –                 | 8.2          |
| Fair value gain/(loss) on forward rate contracts to be settled in future periods | 6.9          | –             | –           | (0.5)          | –                 | 6.4          |
| <b>Operating profit</b>  | <b>11.0</b>  | <b>109.2</b>  | <b>96.1</b> | <b>25.3</b>    | <b>–</b>          | <b>241.6</b> |
| Results from joint ventures and associates                                       | (2.3)        | 0.2           | 0.3         | 11.0           | –                 | 9.2          |
| IFRIC 12 investment income   | –            | –             | 0.5         | –              | –                 | 0.5          |
| Other net finance costs*   | –            | –             | –           | –              | (34.6)            | (34.6)       |
| <b>Profit/(loss) before tax</b>  | <b>8.7</b>   | <b>109.4</b>  | <b>96.9</b> | <b>36.3</b>    | <b>(34.6)</b>     | <b>216.7</b> |

### 3. Segmental information (continued)

| Year ended 31 March 2023   | Marine<br>£m | Nuclear<br>£m | Land<br>£m  | Aviation<br>£m | Unallocated<br>£m | Total<br>£m |
|--|--------------|---------------|-------------|----------------|-------------------|-------------|
| Revenue  | 1,439.6      | 1,179.2       | 1,017.1     | 802.7          | –                 | 4,438.6     |
| Underlying operating profit  | 12.7         | 63.5          | 85.9        | 15.8           | –                 | 177.9       |
| <b>Specific Adjusting Items (note 2)</b>   |              |               |             |                |                   |             |
| Amortisation of acquired intangibles   | (9.7)        | –             | (1.1)       | (5.0)          | –                 | (15.8)      |
| Business acquisition, merger and divestment related items                        | –            | –             | (4.0)       | (113.7)        | –                 | (117.7)     |
| Fair value gain/(loss) on forward rate contracts to be settled in future periods | 2.8          | 0.1           | 0.1         | (1.9)          | –                 | 1.1         |
| <b>Operating profit/(loss)</b>   | <b>5.8</b>   | <b>63.6</b>   | <b>80.9</b> | <b>(104.8)</b> | <b>–</b>          | <b>45.5</b> |
| Results from joint ventures and associates                                       | (1.2)        | 1.1           | 0.4         | 9.0            | –                 | 9.3         |
| IFRIC 12 investment income   | –            | –             | 0.7         | –              | –                 | 0.7         |
| Other net finance costs*   | –            | –             | –           | –              | (49.3)            | (49.3)      |
| <b>Profit/(loss) before tax</b>  | <b>4.6</b>   | <b>64.7</b>   | <b>82.0</b> | <b>(95.8)</b>  | <b>(49.3)</b>     | <b>6.2</b>  |

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

Revenues of £2.5 billion (2023: £2.2 billion) are derived from a single external customer. These revenues are attributable across all reportable segments.

### 4. Net finance costs

|  | Year ended<br>31 March<br>2024<br>£m | Year ended<br>31 March<br>2023<br>£m |
|--|--------------------------------------|--------------------------------------|
| <b>Finance costs</b>   |                                      |                                      |
| Loans, overdrafts and associated interest rate hedges              | 38.5                                 | 29.6                                 |
| Lease interest and foreign exchange movements on lease liabilities | 9.6                                  | 21.7                                 |
| Amortisation of issue costs of bank loan                           | 3.0                                  | 3.3                                  |
| Retirement benefit interest cost                                   | 0.8                                  | –                                    |
| Other  | 4.3                                  | 15.9                                 |
| <b>Total finance costs</b>   | <b>56.2</b>                          | <b>70.5</b>                          |
| <b>Finance income</b>  |                                      |                                      |
| Bank deposits, loans and leases                                    | 21.6                                 | 13.7                                 |
| IFRIC 12 Investment income   | 0.5                                  | 0.7                                  |
| Retirement benefit interest income                                 | –                                    | 7.5                                  |
| <b>Total finance income</b>  | <b>22.1</b>                          | <b>21.9</b>                          |
| <b>Net finance costs</b>   | <b>34.1</b>                          | <b>48.6</b>                          |

Net finance costs decreased to £34.1 million (2023: £48.6 million). Included in finance costs are £4.4 million (2023: £12 million) relating to the factoring of receivables for the Mentor contract in France (within other finance costs).

The prior year included a one-off gain of £18 million relating to the valuation of interest rate swaps (within loans, overdrafts and associated interest rate hedges).

## 5. Taxation

### Income tax expense

|  | Total                                |                                      |
|--|--------------------------------------|--------------------------------------|
|  | Year ended<br>31 March<br>2024<br>£m | Year ended<br>31 March<br>2023<br>£m |
| <b>Analysis of tax expense in the year</b> |                                      |                                      |
| Current tax                                |                                      |                                      |
| • UK current year expense                  | –                                    | 0.6                                  |
| • Overseas current year expense            | 21.8                                 | 24.5                                 |
| • Overseas prior year (benefit) / expense  | (0.1)                                | 2.9                                  |
|  | 21.7                                 | 28.0                                 |
| Deferred tax                               |                                      |                                      |
| • UK current year expense                  | 26.1                                 | 11.1                                 |
| • UK prior year expense / (benefit)        | 0.5                                  | (3.3)                                |
| • Overseas current year expense            | 1.8                                  | 3.6                                  |
| • Overseas prior year benefit              | (2.2)                                | (1.1)                                |
| • Impact of changes in tax rates           | 0.6                                  | 1.2                                  |
|  | 26.8                                 | 11.5                                 |
| <b>Total income tax expense</b>            | <b>48.5</b>                          | <b>39.5</b>                          |

The tax for the year is lower (2023: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

|  | Year ended<br>31 March<br>2024<br>£m | Year ended<br>31 March<br>2023<br>£m |
|--|--------------------------------------|--------------------------------------|
| <b>Profit before tax</b>   | <b>216.7</b>                         | <b>6.2</b>                           |
| Profit on ordinary activities multiplied by rate of corporation tax in the UK of 25% (2023: 19%) | 54.2                                 | 1.2                                  |
| Effects of:  |                                      |                                      |
| Expenses not deductible for tax purposes   | 3.4                                  | 8.6                                  |
| Re-measurement of deferred tax in respect of statutory rate changes                              | 0.6                                  | 1.2                                  |
| Difference in respect of share of results of joint ventures and associates' results              | (2.6)                                | (1.8)                                |
| Prior year adjustments   | (1.8)                                | (1.5)                                |
| Differences in respect of foreign rates  | 2.0                                  | 5.8                                  |
| Unrecognised deferred tax movements  | 2.5                                  | 9.0                                  |
| Deferred tax not previously recognised / derecognised  | (3.1)                                | –                                    |
| Non-taxable profits on disposals and non-deductible losses on disposals                          | (2.1)                                | 22.4                                 |
| Other  | (4.6)                                | (5.4)                                |
| <b>Total income tax expense</b>  | <b>48.5</b>                          | <b>39.5</b>                          |

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 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 2024 the Group held uncertain tax positions of £23.7 million (2023: £20.3 million).

During the prior period the Group made disposals that are expected to be exempt from UK tax due to qualification for the UK substantial shareholding exemption, and from overseas tax as a consequence of local reliefs.

## 6. Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the earnings/(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

|   | 2024<br>Number | 2023<br>Number |
|---|----------------|----------------|
| Weighted average number of ordinary shares for the purpose of basic EPS   | 503,452,989    | 505,391,563    |
| Effect of dilutive potential ordinary shares: share options               | 11,869,860     | 9,528,985      |
| Weighted average number of ordinary shares for the purpose of diluted EPS | 515,322,849    | 514,920,548    |

### Earnings per share

|                              | Year ended 31 March 2024                          |                             |                               | Year ended 31 March 2023                      |                             |                               |
|------------------------------|---|-----------------------------|-------------------------------|---|-----------------------------|-------------------------------|
|                              | Earnings<br>attributable to<br>shareholders<br>£m | Basic<br>per share<br>Pence | Diluted<br>per share<br>Pence | Loss<br>attributable to<br>shareholders<br>£m | Basic<br>per share<br>Pence | Diluted<br>per share<br>Pence |
| Earnings/(loss) for the year | 165.7   | 32.9                        | 32.2                          | (35.0)  | (6.9)                       | (6.9)                         |

## 7. Goodwill

|                               | 31 March 2024<br>£m | 31 March 2023<br>£m |
|-------------------------------|---------------------|---------------------|
| <b>Cost</b>                   |                     |                     |
| At 1 April                    | 1,823.3             | 2,312.7             |
| On disposal of subsidiaries   | –                   | (488.0)             |
| Exchange adjustments          | (1.3)               | (1.4)               |
| At 31 March                   | 1,822.0             | 1,823.3             |
| <b>Accumulated impairment</b> |                     |                     |
| At 1 April                    | 1,041.9             | 1,529.3             |
| On disposal of subsidiaries   | –                   | (487.4)             |
| At 31 March                   | 1,041.9             | 1,041.9             |
| Net book value at 31 March    | 780.1               | 781.4               |

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

|                         | 31 March 2024<br>£m | 31 March 2023<br>£m |
|-------------------------|---------------------|---------------------|
| Marine                  | 295.5               | 296.6               |
| Nuclear                 | 233.1               | 233.1               |
| Land (excluding Africa) | 218.0               | 218.0               |
| Aviation                | 32.0                | 32.0                |
| Africa                  | 1.5                 | 1.7                 |
|                         | 780.1               | 781.4               |

Goodwill was tested for impairment at 31 March 2024 in accordance with IAS 36. This impairment analysis is performed at least annually, as outlined in the Group's accounting policies. The Group monitors goodwill at groups of CGUs aligned to the Group's operating segments for Marine, Aviation and Nuclear. Goodwill is separately allocated and monitored between two groups of CGUs in the Land operating segment – Africa and Land (excluding Africa).

### Results of goodwill impairment test

The current year impairment test results have not resulted in an impairment for any of the Group's cash generating units. The recoverable amount of the Group's goodwill was assessed by reference to value-in-use calculations. The value-in-use calculations are derived from risk-adjusted cash flows from the Group's five-year plan. Terminal value assessments are included based on year five and an estimated long-term, country-specific growth rate of 2.0 – 4.6% (2023: 1.9 – 4.6%). The process by which the Group's budget is prepared, reviewed and approved benefits from historical experience, visibility of long-term work programmes in relation to work undertaken for the UK Government, available government spending information (both UK and overseas), the Group's contract backlog, bid pipeline and the Group's tracking pipeline which monitors opportunities prior to release of tenders. The budget process includes consideration of risks and opportunities at contract and business level and considered matters such as inflation.

## 8. Other intangible assets

|  | Acquired intangibles – relationships<br>£m | Internally generated software development costs and licences<br>£m | Internally generated development costs and other<br>£m | Assets under construction<br>£m | Total<br>£m |
|--|--|--|--|---------------------------------|-------------|
| <b>Cost</b>  |  |  |  |                                 |             |
| At 1 April 2023  | 861.0                                      | 231.3  | 15.0   | –                               | 1,107.3     |
| Additions  | –  | 6.9  | 10.0   | 16.4                            | 33.3        |
| Reclassification from property, plant and equipment (note 9) | –  | –  | –  | 1.4                             | 1.4         |
| Reclassification from AUC to in-use assets                   | –  | 16.4   | 0.1  | (16.5)                          | –           |
| Disposals at cost  | –  | (1.0)  | –  | –                               | (1.0)       |
| Exchange adjustments   | (10.1)                                     | (0.2)  | (0.1)  | –                               | (10.4)      |
| At 31 March 2024   | 850.9                                      | 253.4  | 25.0   | 1.3                             | 1,130.6     |
| <b>Accumulated amortisation and impairment</b>               |  |  |  |                                 |             |
| At 1 April 2023  | 794.4                                      | 166.5  | 5.6  | –                               | 966.5       |
| Amortisation charge  | 10.8                                       | 8.6  | 4.6  | –                               | 24.0        |
| Disposals  | –  | (0.9)  | –  | –                               | (0.9)       |
| Exchange adjustments   | (7.4)                                      | (0.5)  | 0.1  | –                               | (7.8)       |
| At 31 March 2024   | 797.8                                      | 173.7  | 10.3   | –                               | 981.8       |
| Net book value at 31 March 2024                              | 53.1                                       | 79.7   | 14.7   | 1.3                             | 148.8       |
| <b>Cost</b>  |  |  |  |                                 |             |
| At 1 April 2022  | 1,095.3                                    | 222.6  | 27.6   | –                               | 1,345.5     |
| Additions  | –  | 18.1   | 3.4  | –                               | 21.5        |
| Reclassification from property, plant and equipment (note 9) | –  | 3.0  | 0.3  | –                               | 3.3         |
| Disposal of subsidiary undertakings                          | (237.0)                                    | (4.9)  | (13.9)   | –                               | (255.8)     |
| Disposals at cost  | (2.0)                                      | (7.4)  | (3.0)  | –                               | (12.4)      |
| Exchange adjustments   | 4.7  | (0.1)  | 0.6  | –                               | 5.2         |
| At 31 March 2023   | 861.0                                      | 231.3  | 15.0   | –                               | 1,107.3     |
| <b>Accumulated amortisation and impairment</b>               |  |  |  |                                 |             |
| At 1 April 2022  | 1,005.8                                    | 156.8  | 6.2  | –                               | 1,168.8     |
| Amortisation charge  | 15.8                                       | 10.5   | 1.8  | –                               | 28.1        |
| Impairment   | –  | 9.0  | –  | –                               | 9.0         |
| Disposal of subsidiary undertakings                          | (233.0)                                    | (3.1)  | (0.8)  | –                               | (236.9)     |
| Disposals  | (2.0)                                      | (6.6)  | (1.7)  | –                               | (10.3)      |
| Exchange adjustments   | 7.8  | (0.1)  | 0.1  | –                               | 7.8         |
| At 31 March 2023   | 794.4                                      | 166.5  | 5.6  | –                               | 966.5       |
| Net book value at 31 March 2023                              | 66.6                                       | 64.8   | 9.4  | –                               | 140.8       |

Acquired intangible amortisation charges for the year are recorded in operating costs.

Included in Internally generated software development costs and licences is £36.9 million (2023: £38.6 million) relating to the Group's ERP system, which is amortised over a 10-year period. Included in the acquired intangible balance is £42.8 million (2023: £52.3 million) relating to the acquisition of NSM. This is being amortised over a period of 20 years.

## 9. Property, plant and equipment

|  | Freehold property<br>£m | Leasehold property<br>£m | Plant and equipment<br>£m | Aircraft fleet<br>£m | Assets in course of construction<br>£m | Total<br>£m |
|--|-------------------------|--------------------------|---------------------------|----------------------|--|-------------|
| <b>Cost</b>                                      |                         |                          |                           |                      |  |             |
| At 1 April 2023                                  | 212.2                   | 15.2                     | 571.0                     | 97.5                 | 90.8                                   | 986.7       |
| Additions  | 2.3                     | 0.1                      | 22.2                      | 5.3                  | 77.7                                   | 107.6       |
| Reclassified to other intangible assets (note 8) | –                       | –                        | (1.4)                     | –                    | –                                      | (1.4)       |
| Reclassification from AUC to in-use assets       | 10.4                    | 0.2                      | 37.2                      | 0.3                  | (48.1)                                 | –           |
| Disposals  | (4.1)                   | –                        | (12.0)                    | (21.0)               | –                                      | (37.1)      |
| Capitalised borrowing costs                      | –                       | –                        | –                         | –                    | 3.9                                    | 3.9         |
| Exchange adjustments                             | (0.2)                   | (0.1)                    | (4.7)                     | (2.2)                | (0.2)                                  | (7.4)       |
| At 31 March 2024                                 | 220.6                   | 15.4                     | 612.3                     | 79.9                 | 124.1                                  | 1,052.3     |
| <b>Accumulated depreciation</b>                  |                         |                          |                           |                      |  |             |
| At 1 April 2023                                  | 74.4                    | 12.1                     | 390.6                     | 24.9                 | 6.2                                    | 508.2       |
| Depreciation charge for the year                 | 7.4                     | 1.0                      | 39.1                      | 4.5                  | –                                      | 52.0        |
| Impairment                                       | –                       | –                        | –                         | 2.1                  | –                                      | 2.1         |
| Disposals  | (2.2)                   | –                        | (8.7)                     | (12.7)               | –                                      | (23.6)      |
| Exchange adjustments                             | (0.1)                   | (0.1)                    | (2.5)                     | (0.9)                | 0.1                                    | (3.5)       |
| At 31 March 2024                                 | 79.5                    | 13.0                     | 418.5                     | 17.9                 | 6.3                                    | 535.2       |
| Net book value at 31 March 2024                  | 141.1                   | 2.4                      | 193.8                     | 62.0                 | 117.8                                  | 517.1       |
| <b>Cost</b>                                      |                         |                          |                           |                      |  |             |
| At 1 April 2022                                  | 151.8                   | 24.7                     | 524.9                     | 303.1                | 213.9                                  | 1,218.4     |
| On disposal of subsidiaries                      | (9.4)                   | (9.0)                    | (32.1)                    | (224.1)              | (13.9)                                 | (288.5)     |
| Additions  | 0.4                     | 0.2                      | 33.2                      | 27.8                 | 48.3                                   | 109.9       |
| Transfer to intangible assets (note 8)           | –                       | –                        | –                         | –                    | (3.3)                                  | (3.3)       |
| Reclassification from AUC to in-use assets       | 70.0                    | –                        | 66.0                      | 3.0                  | (139.0)                                | –           |
| Transfer from Right-of-use-assets                | –                       | –                        | –                         | 19.5                 | –                                      | 19.5        |
| Disposals  | (0.8)                   | –                        | (13.1)                    | (40.2)               | (18.8)                                 | (72.9)      |
| Capitalised borrowing costs                      | –                       | –                        | –                         | –                    | 0.6                                    | 0.6         |
| Exchange adjustments                             | 0.2                     | (0.7)                    | (7.9)                     | 8.4                  | 3.0                                    | 3.0         |
| At 31 March 2023                                 | 212.2                   | 15.2                     | 571.0                     | 97.5                 | 90.8                                   | 986.7       |
| <b>Accumulated depreciation</b>                  |                         |                          |                           |                      |  |             |
| At 1 April 2022                                  | 70.7                    | 11.1                     | 373.2                     | 52.3                 | 0.5                                    | 507.8       |
| On disposal of subsidiaries                      | (2.9)                   | (0.5)                    | (14.3)                    | (33.9)               | –                                      | (51.6)      |
| Depreciation charge for the year                 | 7.1                     | 1.5                      | 45.4                      | 18.1                 | –                                      | 72.1        |
| Impairment                                       | –                       | –                        | –                         | (0.8)                | 5.7                                    | 4.9         |
| Transfer from Right-of-use-assets                | –                       | –                        | –                         | 11.5                 | –                                      | 11.5        |
| Disposals  | (0.7)                   | –                        | (11.2)                    | (24.0)               | (0.5)                                  | (36.4)      |
| Exchange adjustments                             | 0.2                     | –                        | (2.5)                     | 1.7                  | 0.5                                    | (0.1)       |
| At 31 March 2023                                 | 74.4                    | 12.1                     | 390.6                     | 24.9                 | 6.2                                    | 508.2       |
| Net book value at 31 March 2023                  | 137.8                   | 3.1                      | 180.4                     | 72.6                 | 84.6                                   | 478.5       |

## 10. Leases

### Group as a lessee

Leases 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<br>£m | Plant and equipment<br>£m | Aircraft fleet<br>£m | Total<br>£m |
|---|--------------------------|---------------------------|----------------------|-------------|
| <b>Cost</b>                               |                          |                           |                      |             |
| At 1 April 2023                           | 141.6                    | 67.7                      | 138.0                | 347.3       |
| Additions                                 | 21.6                     | 12.9                      | 34.6                 | 69.1        |
| Disposals                                 | (21.2)                   | (6.3)                     | (14.8)               | (42.3)      |
| Exchange adjustments                      | (1.9)                    | (0.2)                     | (4.7)                | (6.8)       |
| At 31 March 2024                          | 140.1                    | 74.1                      | 153.1                | 367.3       |
| <b>Accumulated depreciation</b>           |                          |                           |                      |             |
| At 1 April 2023                           | 49.5                     | 45.7                      | 93.0                 | 188.2       |
| Depreciation charge for the year          | 18.0                     | 8.9                       | 12.9                 | 39.8        |
| Disposals                                 | (12.6)                   | (5.2)                     | (14.0)               | (31.8)      |
| Exchange adjustments                      | (1.0)                    | (0.1)                     | (3.4)                | (4.5)       |
| At 31 March 2024                          | 53.9                     | 49.3                      | 88.5                 | 191.7       |
| Net book value at 31 March 2024           | 86.2                     | 24.8                      | 64.6                 | 175.6       |
| <b>At 1 April 2022</b>                    | 127.3                    | 64.7                      | 383.0                | 575.0       |
| Additions                                 | 37.1                     | 9.8                       | 67.7                 | 114.6       |
| Transfer to Property, plant and equipment | –                        | –                         | (19.5)               | (19.5)      |
| Disposals                                 | (10.0)                   | (3.7)                     | (24.5)               | (38.2)      |
| Disposal of subsidiaries                  | (11.5)                   | (3.5)                     | (269.8)              | (284.8)     |
| Exchange adjustments                      | (1.3)                    | 0.4                       | 1.1                  | 0.2         |
| At 31 March 2023                          | 141.6                    | 67.7                      | 138.0                | 347.3       |
| <b>Accumulated depreciation</b>           |                          |                           |                      |             |
| At 1 April 2022                           | 42.5                     | 40.9                      | 157.3                | 240.7       |
| Depreciation charge for the year          | 20.5                     | 9.1                       | 52.1                 | 81.7        |
| Impairment                                | 0.9                      | –                         | 8.7                  | 9.6         |
| Disposals                                 | (7.0)                    | (3.3)                     | (21.7)               | (32.0)      |
| Disposal of subsidiaries                  | (6.9)                    | (1.3)                     | (94.6)               | (102.8)     |
| Transfer to Property, plant and equipment | –                        | –                         | (11.5)               | (11.5)      |
| Exchange adjustments                      | (0.5)                    | 0.3                       | 2.7                  | 2.5         |
| At 31 March 2023                          | 49.5                     | 45.7                      | 93.0                 | 188.2       |
| Net book value at 31 March 2023           | 92.1                     | 22.0                      | 45.0                 | 159.1       |



## 10. Leases (continued)

### Lease liabilities

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

|                               | Total<br>£m  |
|-------------------------------|--------------|
| <b>At 1 April 2023</b>        | <b>228.8</b> |
| Additions                     | 68.0         |
| Disposals                     | (12.8)       |
| Exchange adjustments          | (3.9)        |
| Lease interest                | 9.8          |
| Lease repayments              | (59.4)       |
| <b>At 31 March 2024</b>       | <b>230.5</b> |
| Non-current lease liabilities | 185.9        |
| Current lease liabilities     | 44.6         |
| <b>At 31 March 2024</b>       | <b>230.5</b> |
| <b>At 1 April 2022</b>        | <b>434.1</b> |
| Additions                     | 117.0        |
| Disposals                     | (5.3)        |
| Disposal of subsidiaries      | (218.1)      |
| Exchange adjustments          | 9.6          |
| Lease interest                | 15.9         |
| Lease repayments              | (124.4)      |
| <b>At 31 March 2023</b>       | <b>228.8</b> |
| Non-current lease liabilities | 178.9        |
| Current lease liabilities     | 49.9         |
| <b>At 31 March 2023</b>       | <b>228.8</b> |

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

|   | Investment in joint ventures and associates |             | Loans to joint ventures and associates |             | Total       |             |
|---|---|-------------|--|-------------|-------------|-------------|
|   | 2024<br>£m                                  | 2023<br>£m  | 2024<br>£m                             | 2023<br>£m  | 2024<br>£m  | 2023<br>£m  |
| <b>At 1 April</b>   | <b>57.4</b>                                 | <b>54.3</b> | <b>9.5</b>                             | <b>12.1</b> | <b>66.9</b> | <b>66.4</b> |
| Share of profits of joint ventures and associates         | 10.3  | 9.3         | –                                      | –           | 10.3        | 9.3         |
| Impairment of joint ventures and associates               | (1.1)                                       | –           | –                                      | –           | (1.1)       | –           |
| <b>Results from joint ventures and associates</b>         | <b>9.2</b>                                  | <b>9.3</b>  | <b>–</b>                               | <b>–</b>    | <b>9.2</b>  | <b>9.3</b>  |
| Acquisition and disposal of joint ventures and associates | –   | (1.0)       | –                                      | –           | –           | (1.0)       |
| Loans repaid by joint ventures and associates             | –   | –           | (7.5)                                  | (2.4)       | (7.5)       | (2.4)       |
| Increase in loans to joint ventures and associates        | –   | –           | 2.1                                    | –           | 2.1         | –           |
| Interest accrued and capitalised                          | –   | –           | 0.3                                    | 1.0         | 0.3         | 1.0         |
| Interest received   | –   | –           | (0.5)                                  | (1.2)       | (0.5)       | (1.2)       |
| Dividends received  | (7.1)                                       | (8.7)       | –                                      | –           | (7.1)       | (8.7)       |
| Fair value adjustment of derivatives                      | 0.3   | 4.7         | –                                      | –           | 0.3         | 4.7         |
| Tax on fair value adjustment of derivatives               | (0.1)                                       | (1.2)       | –                                      | –           | (0.1)       | (1.2)       |
| <b>At 31 March</b>  | <b>59.7</b>                                 | <b>57.4</b> | <b>3.9</b>                             | <b>9.5</b>  | <b>63.6</b> | <b>66.9</b> |

The total investments in joint ventures and associates is attributable to the following reportable segments:

|                | 31 March 2024<br>£m | 31 March 2023<br>£m |
|----------------|---------------------|---------------------|
| Marine         | 3.3                 | 3.7                 |
| Nuclear        | 1.6                 | 1.4                 |
| Land           | 0.2                 | 0.2                 |
| Aviation       | 58.5                | 61.6                |
| Net book value | 63.6                | 66.9                |

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed. The Group does not have any commitments that have been made to the joint ventures or associates and not recognised at the reporting date.

Joint arrangements are classified as joint ventures where the Group has the right to net assets of the joint arrangement rather than separate rights and obligations to the assets and liabilities of the joint arrangement, respectively. There has been no impairment to loans to joint ventures and associates during the year (2023: £nil). Total cumulative expected credit losses in respect of loans to joint ventures and associates are also £nil (2023: £nil) as the joint ventures and associates are considered to have low credit risk and as such impairment risk is considered minimal.

There are no significant restrictions on the ability of joint ventures and associates to transfer funds to the owners, other than those imposed by the Companies Act 2006 or equivalent local regulations.

## 12. Inventories

|                                     | 31 March 2024<br>£m | 31 March 2023<br>£m |
|-------------------------------------|---------------------|---------------------|
| Raw materials and spares            | 58.1                | 58.6                |
| Work-in-progress                    | 4.6                 | 7.2                 |
| Finished goods and goods for resale | 124.7               | 61.0                |
| <b>Total</b>                        | <b>187.4</b>        | <b>126.8</b>        |

Write-downs of inventories amounted to £13.8 million (2023: £5.4 million). These were recognised as an expense during the year ended 31 March 2024 and included in operating costs in the income statement. Inventory recognised as an expense in the year amounted to £357.2 million (2023: £320.5 million).

## 13. Trade and other receivables and contract assets

|  | 31 March 2024<br>£m | 31 March 2023<br>£m |
|--|---------------------|---------------------|
| <b>Non-current assets</b>                                      |                     |                     |
| Costs to obtain a contract                                     | 0.3                 | 2.8                 |
| Costs to fulfil a contract                                     | 10.2                | 1.4                 |
| Other debtors  | 2.5                 | 2.2                 |
| <b>Non-current trade and other receivables</b>                 | <b>13.0</b>         | <b>6.4</b>          |
| <b>Current assets</b>  |                     |                     |
| Trade receivables  | 266.4               | 307.3               |
| Less: provision for impairment of receivables                  | (8.5)               | (7.3)               |
| <b>Trade receivables – net</b>                                 | <b>257.9</b>        | <b>300.0</b>        |
| Retentions   | 6.1                 | 6.0                 |
| Amounts due from related parties                               | 2.3                 | 2.1                 |
| Other debtors <sup>1</sup>                                     | 25.0                | 49.6                |
| Other taxes and social security receivables                    | 98.1                | 79.8                |
| Prepayments  | 88.2                | 63.7                |
| Costs to obtain a contract                                     | –                   | 0.6                 |
| Costs to fulfil a contract                                     | 9.6                 | 5.1                 |
| <b>Current trade and other receivables</b>                     | <b>487.2</b>        | <b>506.9</b>        |
| <b>Contract assets</b>   | <b>337.4</b>        | <b>322.5</b>        |
| <b>Current trade and other receivables and contract assets</b> | <b>824.6</b>        | <b>829.4</b>        |

<sup>1</sup> Included in other debtors are rebates receivable and other sundry receivables. No individual balance within other debtors is material.

Trade and other receivables are stated at amortised cost.

The Group recognises that there is an inherent element of estimation uncertainty and judgement involved in assessing contract profitability, as disclosed in note 1. Management have taken a best estimate view of contract outcomes based on the information currently available, after allowing for contingencies, and have applied a constraint to the variable consideration within revenue resulting in a revenue estimate that is suitably cautious under IFRS 15.

## 14. Trade and other payables and contract liabilities

|  | 31 March 2024<br>£m | 31 March 2023<br>£m |
|--|---------------------|---------------------|
| <b>Current liabilities</b>                               |                     |                     |
| Contract liabilities                                     | 761.8               | 616.4               |
| Trade creditors  | 314.3               | 239.1               |
| Amounts due to related parties                           | 1.5                 | 0.8                 |
| Other creditors  | 13.5                | 34.0                |
| Defined contribution pension creditor                    | 8.3                 | 7.6                 |
| Other taxes and social security                          | 71.1                | 75.5                |
| Accruals   | 540.5               | 554.1               |
| <b>Trade and other payables</b>                          | <b>949.2</b>        | <b>911.1</b>        |
| <b>Trade and other payables and contract liabilities</b> | <b>1,711.0</b>      | <b>1,527.5</b>      |
| <b>Non-current liabilities</b>                           |                     |                     |
| Non-current accruals                                     | 4.8                 | –                   |
| Other creditors  | 0.6                 | 0.9                 |
|  | 5.4                 | 0.9                 |

Included in creditors is £11.4 million (2023: £12.9 million) relating to capital expenditure which has therefore not been included in working capital movements within the cash flow statement.

## 15. Bank and other borrowings

|   | 31 March 2024<br>£m | 31 March 2023<br>£m |
|---|---------------------|---------------------|
| <b>Current liabilities</b>  |                     |                     |
| <b>Bank loans and overdrafts due within one year or on demand</b> |                     |                     |
| Secured   | 4.5                 | 0.3                 |
| Unsecured   | 15.9                | 19.3                |
|   | 20.4                | 19.6                |
| Lease obligations*  | 44.6                | 49.9                |
|   | 65.0                | 69.5                |
| <b>Non-current liabilities</b>                                    |                     |                     |
| <b>Bank and other borrowings</b>                                  |                     |                     |
| Secured   | 2.5                 | 21.0                |
| Unsecured   | 744.6               | 747.4               |
|   | 747.1               | 768.4               |
| Lease obligations*  | 185.9               | 178.9               |
|   | 933.0               | 947.3               |

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

### Repayment details

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

|                              | 31 March 2024              |                         | 31 March 2023              |                         |
|------------------------------|----------------------------|-------------------------|----------------------------|-------------------------|
|                              | Loans and overdrafts<br>£m | Lease obligations<br>£m | Loans and overdrafts<br>£m | Lease obligations<br>£m |
| Within one year              | 20.4                       | 44.6                    | 19.6                       | 49.9                    |
| Between one and two years    | 0.6                        | 38.2                    | 0.3                        | 40.6                    |
| Between two and three years  | 296.0                      | 33.2                    | 0.6                        | 34.5                    |
| Between three and four years | 449.8                      | 24.8                    | 300.6                      | 23.4                    |
| Between four and five years  | 0.7                        | 19.5                    | 466.2                      | 19.9                    |
| Greater than five years      | –                          | 70.2                    | 0.7                        | 60.5                    |
|                              | 767.5                      | 230.5                   | 788.0                      | 228.8                   |

### Borrowing facilities

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

|   | 31 March 2024<br>£m | 31 March 2023<br>£m |
|---|---------------------|---------------------|
| Expiring in more than one year but not more than five years | 775.0               | 1,152.8             |
|   | 775.0               | 1,152.8             |

## 16. Provisions for other liabilities

|                                       | Contract/<br>warranty<br>(a)<br>£m | Employee<br>related and<br>business<br>reorganisation<br>costs<br>(b)<br>£m | Italian<br>anti-trust fine<br>(c)<br>£m | Property<br>(d)<br>£m | Other<br>(e)<br>£m | Total<br>provisions<br>£m |
|---------------------------------------|------------------------------------|---|---|-----------------------|--------------------|---------------------------|
| <b>At 1 April 2022</b>                | 53.5                               | 39.7  | 0.3                                     | 21.0                  | 1.4                | 115.9                     |
| On disposal of subsidiaries           | (8.5)                              | (1.2)   | –                                       | (5.8)                 | (0.1)              | (15.6)                    |
| Reclassification                      | (1.0)                              | 1.4   | –                                       | (4.3)                 | 3.9                | –                         |
| Charge to income statement            | 85.3                               | 12.8  | –                                       | 8.6                   | 1.2                | 107.9                     |
| Release to the income statement       | (9.3)                              | (2.4)   | –                                       | (0.2)                 | (1.8)              | (13.7)                    |
| Utilised in year                      | (20.2)                             | (19.2)  | (0.3)                                   | (4.8)                 | (1.8)              | (46.3)                    |
| Unwinding of discount                 | –                                  | 0.2   | –                                       | –                     | –                  | 0.2                       |
| Foreign exchange                      | 0.6                                | (0.8)   | –                                       | 0.6                   | (0.1)              | 0.3                       |
| <b>At 31 March 2023</b>               | 100.4                              | 30.5  | –                                       | 15.1                  | 2.7                | 148.7                     |
| Charge to income statement            | 66.4                               | 10.3  | –                                       | 10.3                  | 2.7                | 89.7                      |
| Release to the income statement       | (19.4)                             | (3.6)   | –                                       | (0.5)                 | (0.1)              | (23.6)                    |
| Utilised in year                      | (31.3)                             | (6.2)   | –                                       | (1.4)                 | (0.7)              | (39.6)                    |
| Reclassified to accruals <sup>1</sup> | –                                  | (18.0)  | –                                       | –                     | –                  | (18.0)                    |
| Unwinding of discount                 | 2.4                                | 0.3   | –                                       | –                     | –                  | 2.7                       |
| Foreign exchange                      | (0.7)                              | (0.9)   | –                                       | –                     | (0.1)              | (1.7)                     |
| <b>At 31 March 2024</b>               | 117.8                              | 12.4  | –                                       | 23.5                  | 4.5                | 158.2                     |

<sup>1</sup> Immaterial amounts related to employee benefits have been reclassified to current and non-current accruals during the period.

- 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. Onerous contracts relate to expected future losses on contracts with customers – notably T31 as outlined in note 1.
- Employee related and business reorganisation costs relate to business restructuring activities including announced redundancies in addition to employee related provisions other than employee benefits.
- Italian anti-trust fines pertain to historic court rulings in respect of the Babcock Mission Critical Services Italia SpA subsidiary. The remaining amount of this provision was paid in the prior year.
- Property and other provisions primarily relate to dilapidation costs and contractual obligations in respect of infrastructure.
- Other provisions include provisions for insurance claims arising within the Group's captive insurance company, Chepstow Insurance Limited. They relate to specific claims assessed in accordance with the advice of independent actuaries.

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

|             | 31 March 2024<br>£m | 31 March 2023<br>£m |
|-------------|---------------------|---------------------|
| Current     | 79.1                | 67.9                |
| Non-current | 79.1                | 80.8                |
|             | 158.2               | 148.7               |

Included within provisions is £6.7 million (2023: £6.9 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.

## 17. Retirement benefits and liabilities

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). Each of these schemes is predominantly a final salary plan in which future pension levels are defined relative to number of years' service and final salary. Retirement age varies by scheme. The nature of these schemes is that the employees only contribute whilst they active employees of a scheme, with the employer paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the Group with the trustees of each scheme who are advised by independent, qualified actuaries.

In January 2024, the Group commenced a consultation with affected employees and their representatives with regard to a proposal that would close the DRDPS to future accrual with effect from 30 September 2024 and to provide benefits for service from 1 October 2024 onwards through a defined contribution scheme. The consultation process for this proposal ended on 25 March 2024. Following the conclusion of the consultation process, a decision has been taken by Devonport Royal Dockyard Limited to proceed with closure of the DRDPS to future accrual and the Trustee has given in-principle agreement to this decision. There is no impact to the accounting as at 31 March 2024 for this item however there will be a future impact in the subsequent year's consolidated income statement as a result of the curtailment / settlement of the scheme. Due to the options available to the affected employees, we are yet to calculate the impact however through initial assessments we do not expect this to be material.

In March 2024, all employers of employees who are provided benefits in the BIGPS commenced a consultation with the employees and their representatives with regard to a proposal that would close the BIGPS to future accrual with effect from 30 September 2024 and to provide like-for-like benefits for service from 1 October 2024 onwards through alternative schemes. Consultation ended on 7 June 2024 and no decisions have been taken.

The Group's balance sheet includes the assets and liabilities of the pension schemes calculated on an IAS 19 basis. At 31 March 2024, the net position was a deficit of £109.7 million (2023: deficit of £61.4 million). 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:

|   | 2024                    |                       |                     |                | 2023                    |                       |                     |                |
|---|-------------------------|-----------------------|---------------------|----------------|-------------------------|-----------------------|---------------------|----------------|
|   | Principal schemes<br>£m | Railways scheme<br>£m | Other schemes<br>£m | Total<br>£m    | Principal schemes<br>£m | Railways scheme<br>£m | Other schemes<br>£m | Total<br>£m    |
| <b>Fair value of plan assets</b>  |                         |                       |                     |                |                         |                       |                     |                |
| Growth assets   |                         |                       |                     |                |                         |                       |                     |                |
| Equities  | 68.7                    | 9.8                   | 30.6                | 109.1          | (3.1)                   | 10.6                  | 26.6                | 34.1           |
| Property funds  | 251.7                   | 0.2                   | 4.8                 | 256.7          | 301.7                   | 0.2                   | 5.9                 | 307.8          |
| High yield bonds/emerging market debt   | –                       | –                     | 0.4                 | 0.4            | –                       | –                     | 0.4                 | 0.4            |
| Absolute return and multi-strategy funds  | 1.7                     | 140.8                 | 17.0                | 159.5          | 6.0                     | 148.0                 | 17.5                | 171.5          |
| Low-risk assets   |                         |                       |                     |                |                         |                       |                     |                |
| Bonds   | 1,234.4                 | 82.8                  | 52.3                | 1,369.5        | 1,227.7                 | 95.5                  | 45.1                | 1,368.3        |
| Matching assets*  | 1,423.4                 | 1.5                   | 15.0                | 1,439.9        | 1,524.7                 | 1.4                   | 21.7                | 1,547.8        |
| Longevity swaps and annuities   | (240.9)                 | –                     | (9.9)               | (250.8)        | (231.8)                 | –                     | (10.1)              | (241.9)        |
| <b>Fair value of assets</b>   | <b>2,739.0</b>          | <b>235.1</b>          | <b>110.2</b>        | <b>3,084.3</b> | <b>2,825.2</b>          | <b>255.7</b>          | <b>107.1</b>        | <b>3,188.0</b> |
| Percentage of assets quoted   | 73%                     | 100%                  | 71%                 | 75%            | 79%                     | 100%                  | 70%                 | 80%            |
| Percentage of assets unquoted   | 27%                     | –                     | 29%                 | 25%            | 21%                     | –                     | 30%                 | 20%            |
| <b>Present value of defined benefit obligations</b>                               |                         |                       |                     |                |                         |                       |                     |                |
| Active members  | 436.9                   | 30.6                  | 26.2                | 493.7          | 450.7                   | 45.7                  | 21.7                | 518.1          |
| Deferred pensioners   | 640.5                   | 64.7                  | 31.3                | 736.5          | 686.6                   | 65.3                  | 34.7                | 786.6          |
| Pensioners  | 1,778.8                 | 142.1                 | 42.9                | 1,963.8        | 1,773.6                 | 130.5                 | 40.6                | 1,944.7        |
| <b>Total defined benefit obligations</b>  | <b>2,856.2</b>          | <b>237.4</b>          | <b>100.4</b>        | <b>3,194.0</b> | <b>2,910.9</b>          | <b>241.5</b>          | <b>97.0</b>         | <b>3,249.4</b> |
| <b>Net (liabilities)/assets recognised in the statement of financial position</b> | <b>(117.2)</b>          | <b>(2.3)</b>          | <b>9.8</b>          | <b>(109.7)</b> | <b>(85.7)</b>           | <b>14.2</b>           | <b>10.1</b>         | <b>(61.4)</b>  |

## 17. Retirement benefits and liabilities (continued)

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

|   | Year ended 31 March 2024 |                       |                     |             | Year ended 31 March 2023 |                       |                     |             |
|---|--------------------------|-----------------------|---------------------|-------------|--------------------------|-----------------------|---------------------|-------------|
|   | Principal schemes<br>£m  | Railways scheme<br>£m | Other schemes<br>£m | Total<br>£m | Principal schemes<br>£m  | Railways scheme<br>£m | Other schemes<br>£m | Total<br>£m |
| <b>Fair value of plan assets</b>            |                          |                       |                     |             |                          |                       |                     |             |
| At 1 April                                  | 2,825.2                  | 255.7                 | 107.1               | 3,188.0     | 4,220.3                  | 275.8                 | 237.0               | 4,733.1     |
| Interest on assets                          | 134.1                    | 12.0                  | 5.2                 | 151.3       | 113.4                    | 7.3                   | 5.4                 | 126.1       |
| Actuarial loss on assets                    | (175.7)                  | (21.6)                | (3.3)               | (200.6)     | (1,437.0)                | (17.1)                | (79.0)              | (1,533.1)   |
| Employer contributions                      | 123.9                    | 2.3                   | 5.3                 | 131.5       | 167.4                    | 2.5                   | 4.6                 | 174.5       |
| Employee contributions                      | 0.1                      | –                     | –                   | 0.1         | 0.1                      | –                     | –                   | 0.1         |
| Benefits paid                               | (168.6)                  | (13.3)                | (4.1)               | (186.0)     | (239.0)                  | (12.8)                | (4.8)               | (256.6)     |
| Settlements                                 | –                        | –                     | –                   | –           | –                        | –                     | (56.1)              | (56.1)      |
| At 31 March                                 | 2,739.0                  | 235.1                 | 110.2               | 3,084.3     | 2,825.2                  | 255.7                 | 107.1               | 3,188.0     |
| <b>Present value of benefit obligations</b> |                          |                       |                     |             |                          |                       |                     |             |
| At 1 April                                  | 2,910.9                  | 241.5                 | 97.0                | 3,249.4     | 3,992.6                  | 327.1                 | 221.8               | 4,541.5     |
| Service cost                                | 12.7                     | 0.8                   | 1.9                 | 15.4        | 21.7                     | 1.3                   | 2.8                 | 25.8        |
| Incurred expenses                           | 7.8                      | 0.4                   | 0.3                 | 8.5         | 6.2                      | 0.5                   | 0.1                 | 6.8         |
| Interest cost                               | 136.2                    | 11.3                  | 4.6                 | 152.1       | 105.0                    | 8.7                   | 4.9                 | 118.6       |
| Employee contributions                      | 0.1                      | –                     | –                   | 0.1         | 0.1                      | –                     | –                   | 0.1         |
| Experience loss/(gain)                      | 26.8                     | (0.3)                 | 4.3                 | 30.8        | 135.6                    | 18.0                  | 9.3                 | 162.9       |
| Actuarial gain – demographics               | (38.6)                   | (0.2)                 | (0.9)               | (39.7)      | (38.2)                   | (3.6)                 | (1.7)               | (43.5)      |
| Actuarial gain – financial                  | (31.1)                   | (2.8)                 | (2.7)               | (36.6)      | (1,073.1)                | (97.7)                | (79.3)              | (1,250.1)   |
| Benefits paid                               | (168.6)                  | (13.3)                | (4.1)               | (186.0)     | (239.0)                  | (12.8)                | (4.8)               | (256.6)     |
| Settlements                                 | –                        | –                     | –                   | –           | –                        | –                     | (56.1)              | (56.1)      |
| At 31 March                                 | 2,856.2                  | 237.4                 | 100.4               | 3,194.0     | 2,910.9                  | 241.5                 | 97.0                | 3,249.4     |
| Net (deficit)/surplus at 31 March           | (117.2)                  | (2.3)                 | 9.8                 | (109.7)     | (85.7)                   | 14.2                  | 10.1                | (61.4)      |

## 17. Retirement benefits and liabilities (continued)

The latest full actuarial valuations of the Group's defined benefit pension schemes have been updated to 31 March 2024 by independent qualified actuaries for IAS 19 purposes, on a best estimate basis, using the following assumptions:

|  | Devonport<br>Royal<br>Dockyard<br>Scheme | Babcock<br>International<br>Group Scheme | Rosyth Royal<br>Dockyard<br>Scheme | Babcock Rail<br>Ltd section of<br>the Railways<br>Pension<br>Scheme |
|--|--|--|------------------------------------|---|
| <b>March 2024</b>  |  |  |                                    |   |
| Rate of increase in pensionable salaries                                       | 2.9%                                     | 2.9%                                     | –                                  | 0.5%  |
| Rate of increase in pensions (past service)                                    | 2.7%                                     | 3.1%                                     | 3.2%                               | 2.8%  |
| Discount rate  | 4.8%                                     | 4.8%                                     | 4.8%                               | 4.8%  |
| Inflation rate (RPI) – year 1  | 2.5%                                     | 2.6%                                     | 2.6%                               | 2.6%  |
| Inflation rate (RPI) – thereafter  | 3.1%                                     | 3.2%                                     | 3.2%                               | 3.2%  |
| Inflation rate (CPI) – year 1  | 1.8%                                     | 1.8%                                     | 1.8%                               | 1.9%  |
| Inflation rate (CPI) – thereafter  | 2.7%                                     | 2.7%                                     | 2.7%                               | 2.8%  |
| Weighted average duration of cash flows (years)                                | 13                                       | 11                                       | 13                                 | 13  |
| Total life expectancy for current pensioners aged 65 (years) – male            | 85.3                                     | 86.1                                     | 84.3                               | 84.9  |
| Total life expectancy for current pensioners aged 65 (years) – female          | 87.2                                     | 88.7                                     | 86.7                               | 87.2  |
| Total life expectancy for future pensioners currently aged 45 (years) – male   | 86.2                                     | 87.1                                     | 85.3                               | 85.9  |
| Total life expectancy for future pensioners currently aged 45 (years) – female | 88.4                                     | 89.9                                     | 87.9                               | 88.4  |
| <b>March 2023</b>  |  |  |                                    |   |
| Rate of increase in pensionable salaries                                       | 3.0%                                     | 3.0%                                     | –                                  | 0.5%  |
| Rate of increase in pensions (past service)                                    | 2.8%                                     | 3.2%                                     | 3.3%                               | 2.9%  |
| Discount rate  | 4.8%                                     | 4.8%                                     | 4.8%                               | 4.8%  |
| Inflation rate (RPI) – year 1  | 6.9%                                     | 6.9%                                     | 6.9%                               | 6.9%  |
| Inflation rate (RPI) – thereafter  | 3.3%                                     | 3.3%                                     | 3.3%                               | 3.3%  |
| Inflation rate (CPI) – year 1  | 4.7%                                     | 4.7%                                     | 4.7%                               | 4.7%  |
| Inflation rate (CPI) – thereafter  | 2.8%                                     | 2.8%                                     | 2.8%                               | 2.8%  |
| Weighted average duration of cash flows (years)                                | 13                                       | 12                                       | 13                                 | 13  |
| Total life expectancy for current pensioners aged 65 (years) – male            | 85.5                                     | 86.3                                     | 84.4                               | 85.0  |
| Total life expectancy for current pensioners aged 65 (years) – female          | 87.5                                     | 88.9                                     | 86.8                               | 87.3  |
| Total life expectancy for future pensioners currently aged 45 (years) – male   | 86.2                                     | 86.8                                     | 85.6                               | 86.0  |
| Total life expectancy for future pensioners currently aged 45 (years) – female | 88.5                                     | 89.4                                     | 88.1                               | 88.5  |

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

The longevity swaps have been valued in line with assumptions that are consistent with the requirements of IFRS 13 using Level 3 inputs. The key inputs to the valuation are the discount rate and mortality assumptions.

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

|   | 2024                       |                          |                        |             | 2023                       |                          |                        |             |
|---|----------------------------|--------------------------|------------------------|-------------|----------------------------|--------------------------|------------------------|-------------|
|   | Principal<br>schemes<br>£m | Railways<br>scheme<br>£m | Other<br>schemes<br>£m | Total<br>£m | Principal<br>schemes<br>£m | Railways<br>scheme<br>£m | Other<br>schemes<br>£m | Total<br>£m |
| Current service cost                          | 12.7                       | 0.8                      | 1.9                    | 15.4        | 21.7                       | 1.3                      | 2.8                    | 25.8        |
| Incurred expenses                             | 7.8                        | 0.4                      | 0.3                    | 8.5         | 6.2                        | 0.5                      | 0.1                    | 6.8         |
| <b>Total included within operating profit</b> | <b>20.5</b>                | <b>1.2</b>               | <b>2.2</b>             | <b>23.9</b> | <b>27.9</b>                | <b>1.8</b>               | <b>2.9</b>             | <b>32.6</b> |
| Net interest cost/(credit)                    | 2.1                        | (0.7)                    | (0.6)                  | 0.8         | (8.5)                      | 1.4                      | (0.4)                  | (7.5)       |
| <b>Total included within income statement</b> | <b>22.6</b>                | <b>0.5</b>               | <b>1.6</b>             | <b>24.7</b> | <b>19.4</b>                | <b>3.2</b>               | <b>2.5</b>             | <b>25.1</b> |



## Amounts recorded in the Group statement of comprehensive income

|   | Year ended 31 March 2024 |                       |                     |                | Year ended 31 March 2023 |                       |                     |                |
|---|--------------------------|-----------------------|---------------------|----------------|--------------------------|-----------------------|---------------------|----------------|
|   | Principal schemes<br>£m  | Railways scheme<br>£m | Other schemes<br>£m | Total<br>£m    | Principal schemes<br>£m  | Railways scheme<br>£m | Other schemes<br>£m | Total<br>£m    |
| Actual return less interest on pension scheme assets    | (175.7)                  | (21.6)                | (3.3)               | (200.6)        | (1,437.0)                | (17.1)                | (79.0)              | (1,533.1)      |
| Experience (losses)/gains arising on scheme liabilities | (26.8)                   | 0.3                   | (4.3)               | (30.8)         | (135.6)                  | (18.0)                | (9.3)               | (162.9)        |
| Changes in assumptions on scheme liabilities            | 69.7                     | 3.0                   | 3.6                 | 76.3           | 1,111.2                  | 101.2                 | 81.2                | 1,293.6        |
| <b>At 31 March</b>                                      | <b>(132.8)</b>           | <b>(18.3)</b>         | <b>(4.0)</b>        | <b>(155.1)</b> | <b>(461.4)</b>           | <b>66.1</b>           | <b>(7.1)</b>        | <b>(402.4)</b> |

The movement in net deficits for the year ended 31 March 2023 is as a result of the movement in assets and liabilities shown above.

The disclosures below relate to post-retirement benefit schemes which are accounted for as defined benefit schemes in accordance with IAS 19. The changes to the Group statement of financial position at 31 March 2024 and the changes to the Group income statement for the year to March 2025, if the assumptions were sensitised by the amounts below, would be:

|  | Defined benefit obligations<br>2024<br>£m | Income statement<br>2025<br>£m |
|--|---|--------------------------------|
| Initial assumptions                            | 3,194.0                                   | 24.5                           |
| Discount rate assumptions increased by 0.5%    | (182.7)                                   | (10.6)                         |
| Discount rate assumptions decreased by 0.5%    | 200.3                                     | 9.7                            |
| Inflation rate assumptions increased by 0.5%   | 139.9                                     | 7.4                            |
| Inflation rate assumptions decreased by 0.5%   | (130.9)                                   | (7.0)                          |
| Total life expectancy increased by half a year | 60.6                                      | 3.0                            |
| Total life expectancy decreased by half a year | (59.2)                                    | (3.0)                          |
| Salary increase assumptions increased by 0.5%  | 11.9                                      | 0.8                            |
| Salary increase assumptions decreased by 0.5%  | (11.5)                                    | (0.8)                          |

The figures in the table above have been calculated on an approximate basis, using information about the expected future benefit payments out of the schemes. The analysis above may not be representative of actual changes to the position since changes in assumptions are unlikely to happen in isolation. The change in inflation rates is assumed to affect the assumed rate of RPI inflation, CPI inflation and future pension increases by an equal amount. The fair value of the schemes' assets (including reimbursement rights) are assumed not to be affected by any sensitivity changes shown and so the statement of financial position values would increase or decrease by the same amount as the change in the defined benefit obligations. There have been no changes in the methodology for the calculation of the sensitivities since the prior year.

## 18. Changes in net debt

|   | 31 March<br>2023<br>£m | Cash flow<br>£m | Additional<br>leases<br>£m | Other<br>non-cash<br>movement<br>£m | Changes in<br>fair value<br>£m | Exchange<br>movement<br>£m | 31 March<br>2024<br>£m |
|---|------------------------|-----------------|----------------------------|-------------------------------------|--------------------------------|----------------------------|------------------------|
| Cash and bank balances                                    | 451.7                  | 124.6           | –                          | –                                   | –                              | (5.7)                      | 570.6                  |
| Bank overdrafts   | (22.2)                 | 4.0             | –                          | –                                   | –                              | 0.2                        | (18.0)                 |
| <b>Cash, cash equivalents and bank overdrafts</b>         | <b>429.5</b>           | <b>128.6</b>    | <b>–</b>                   | <b>–</b>                            | <b>–</b>                       | <b>(5.5)</b>               | <b>552.6</b>           |
| Debt  | (765.8)                | 13.1            | –                          | (3.0)                               | 0.5                            | 5.7                        | (749.5)                |
| Derivatives hedging Group debt                            | (8.3)                  | –               | –                          | –                                   | (2.8)                          | –                          | (11.1)                 |
| Lease liabilities   | (228.8)                | 49.6            | (55.2)                     | –                                   | –                              | 3.9                        | (230.5)                |
| <b>Changes in liabilities from financing arrangements</b> | <b>(1,002.9)</b>       | <b>62.7</b>     | <b>(55.2)</b>              | <b>(3.0)</b>                        | <b>(2.3)</b>                   | <b>9.6</b>                 | <b>(991.1)</b>         |
| Lease receivables   | 38.6                   | (32.0)          | 32.4                       | –                                   | –                              | (3.5)                      | 35.5                   |
| Loans to joint ventures and associates                    | 9.5                    | (5.4)           | –                          | (0.2)                               | –                              | –                          | 3.9                    |
| Derivatives hedging interest on Group debt                | (39.1)                 | –               | –                          | –                                   | 2.8                            | –                          | (36.3)                 |
| <b>Net debt</b>   | <b>(564.4)</b>         | <b>153.9</b>    | <b>(22.8)</b>              | <b>(3.2)</b>                        | <b>0.5</b>                     | <b>0.6</b>                 | <b>(435.4)</b>         |

|   | 31 March<br>2022<br>£m | Cash flow<br>£m | Additional<br>leases<br>£m | Other<br>non-cash<br>movement <sup>1</sup><br>£m | Clarification<br>of net debt<br>definition <sup>2</sup><br>£m | Changes in<br>fair value<br>£m | Exchange<br>movement<br>£m | 31 March<br>2023<br>£m |
|---|------------------------|-----------------|----------------------------|--|---|--------------------------------|----------------------------|------------------------|
| Cash and bank balances                                    | 1,146.3                | (687.9)         | –                          | –  | –   | –                              | (6.7)                      | 451.7                  |
| Bank overdrafts   | (389.8)                | 366.6           | –                          | –  | –   | –                              | 1.0                        | (22.2)                 |
| <b>Cash, cash equivalents and bank overdrafts</b>         | <b>756.5</b>           | <b>(321.3)</b>  | <b>–</b>                   | <b>–</b>   | <b>–</b>  | <b>–</b>                       | <b>(5.7)</b>               | <b>429.5</b>           |
| Debt  | (1,321.3)              | 556.2           | –                          | (1.6)  | –   | 37.2                           | (36.3)                     | (765.8)                |
| Derivatives hedging Group debt                            | (29.3)                 | (0.8)           | –                          | –  | –   | 21.8                           | –                          | (8.3)                  |
| Lease liabilities   | (434.1)                | 108.5           | (117.0)                    | 223.4  | –   | –                              | (9.6)                      | (228.8)                |
| <b>Changes in liabilities from financing arrangements</b> | <b>(1,784.7)</b>       | <b>663.9</b>    | <b>(117.0)</b>             | <b>221.8</b>                                     | <b>–</b>  | <b>59.0</b>                    | <b>(45.9)</b>              | <b>(1,002.9)</b>       |
| Lease receivables   | 47.4                   | (31.9)          | 28.5                       | –  | –   | –                              | (5.4)                      | 38.6                   |
| Loans to joint ventures and associates                    | 12.1                   | (2.4)           | –                          | (0.2)  | –   | –                              | –                          | 9.5                    |
| Derivatives hedging interest on Group debt                | –                      | –               | –                          | –  | (36.1)  | (3.0)                          | –                          | (39.1)                 |
| <b>Net debt</b>   | <b>(968.7)</b>         | <b>308.3</b>    | <b>(88.5)</b>              | <b>221.6</b>                                     | <b>(36.1)</b>   | <b>56.0</b>                    | <b>(57.0)</b>              | <b>(564.4)</b>         |

<sup>1</sup> Other non-cash movements predominantly relate to the disposal of lease liabilities and associated lease receivables as part of disposal of businesses.

<sup>2</sup> During the year the definition of net debt has been clarified, resulting in the inclusion of the interest rate swap hedging Group debt, which was excluded in the prior year.

## 19. Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. The Group does not recognise contingent liabilities. There are a number of contingent liabilities that arise in the normal course of business, including:

- The nature of the Group's long-term contracts means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, including liabilities that arise on completion of contracts and on conclusion of relationships with joint ventures and associates. The Group takes account of the advice of experts, both internal and external, in making judgements on contractual issues and whether the outcome of negotiations will result in an obligation to the Group. The Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position.
- As a large contracting organisation, the Group has a significant number of contracts with customers to deliver services and products, as well as with its supply chain, where the Group cannot deliver all those services and products itself. The Group is involved in disputes and litigation, which have arisen in the course of its normal trading in connection with these contracts. Whilst the Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position, it is possible that, if any of these disputes come to court, the court may take a different view to the Group.
- The Group is subject to corporate and other tax rules in the jurisdictions in which it operates. Changes in tax rates, tax reliefs and tax laws, or interpretation of the law, by the relevant tax authorities may result in financial and reputational damage to the Group. This may affect the Group's financial condition and performance.
- The Group has given certain indemnities and warranties in the course of disposing of businesses and companies and in completing contracts. The Group believes that any liability in respect of these is unlikely to have a material effect on the Group's financial position.
- Corporate rules in those jurisdictions may also extend to compensatory trade agreements, or economic offset rules, where we may have to commit to use local content in delivering programmes of work. Delivery of offset is also subject to interpretations of law and agreement with local authorities, which we monitor closely but may give rise to financial and reputational damage to the Group if not undertaken appropriately.

## 20. Capital and other financial commitments

### Capital commitments

|  | 31 March 2024<br>£m | 31 March 2023<br>£m |
|--|---------------------|---------------------|
| Contracts placed for future capital expenditure not provided for in the financial statements | 6.7                 | 7.8                 |

## 21. Events after the reporting period

There were no events after the reporting period which would materially impact the balances reported in the preliminary financial statement.

## AGM information

This year's Annual General Meeting will be held on 19 September 2024. Details of the resolutions to be proposed at that meeting will be included in the Notice of Annual General Meeting that will be published mid-August 2024.

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 and Notice of Annual General Meeting are available on the Company website [www.babcockinternational.com](http://www.babcockinternational.com). Hard copies of the Annual Report and Accounts and Notice of Annual General Meeting 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 25 July 2024 and are signed on its behalf by:

**D Lockwood**  
Director

**D Mellors**  
Director