babcock™

Babcock International Group PLC
Full year results for the year ended 31 March 2023

20 July 2023

Building momentum

Statutory results

	31 March 2023	31 March 2022
Revenue	£4,438.6m	£4,101.8m
Operating profit	£45.5m	£226.8m
Basic earnings per share	(6.9)p	32.5p
Cash generated from operations	£348.9m	£41.8m

Underlying results (ii)

		31 March 2023	31 March 2022
Contract backlog (i)		£9.5bn	£9.9bn
Underlying operating profit (iii)		£177.9m	£237.7m
of which Type 31 loss (iv)	*£(100.1)m*		-
Underlying operating profit excluding the Type 31 loss	*£278.0m*		*£237.7m*
Underlying operating margin excluding the Type 31 loss	*6.3%*		*5.8%*
Underlying basic earnings per share		17.7p	30.7p
Underlying basic earnings per share excluding Type 31 loss	*33.8p*		*30.7p*
Underlying free cash flow		£75.3m	£(191.3)m
Net debt		£564.4m	£968.7m
Net debt excluding operating leases		£346.2m	£556.7m
Net debt/EBITDA (covenant basis)		1.5x	1.8x

David Lockwood, Chief Executive Officer, said:

"We've made excellent progress this year, with better-than-expected cash generation, margin expansion and double-digit revenue growth. When we started our transformation, my first goal was to stabilise and strengthen the balance sheet and I'm delighted to say that work is complete. Babcock is now a higher-quality, lower-risk and more predictable business, with a clear focus on execution.

"In a world of significant instability, national security has never been more important. With defence making up two-thirds of the Group, the combination of capability, availability and affordability we offer, is increasingly relevant. I'm excited by the momentum building across the business, and that confidence is reflected in our expectation of continuing cash-backed profitable growth, and reintroducing a dividend in FY24."

Financial highlights

- **Contract backlog** £9.5 billion, up 7% organically
- **Revenue** up 8% to £4,438.6 million, up 10% organically, with growth across all sectors
- **Statutory operating profit** of £45.5 million, down due to a loss on disposal and related items and the £100.1 million Type 31 loss, announced in the April trading update
- *Excluding the Type 31 loss:*
  - **Underlying operating profit** up to £278.0 million, driven by a strong performance in Land, including a £12 million one-off credit
  - **Underlying basic earnings per share** (ii)(iii) up 10% to 33.8p
- **Underlying free cash flow** of £75.3 million, better than expected due to strong operating cash performance. 110% operating cash conversion, excluding the Type 31 loss
- **Net debt to EBITDA** (covenant basis) 1.5x, within our target range of 1.0x to 2.0x (1.1x excluding the Type 31 loss from EBITDA)

Outlook (v)

- **FY23 baseline:** Our FY24 outlook and medium-term guidance is based on FY23 results excluding the impact of disposed businesses the Type 31 loss and the £12 million one-off credit in Land. Excluding these items, FY23 revenue was c.£4 billion, underlying operating profit was c. £265 million, and underlying operating margin was 6.6%.

- **FY24:** Our expectations for FY24 profitability and cash flow are unchanged, although operating cash flow may be weighted to the second half given the FY23 overperformance. With c.£2.8 billion of revenue under contract at 1 April 2023 and around £700 million of framework orders expected to be delivered in FY24, we are confident of another year of organic revenue growth and further underlying margin expansion. We also expect to reinstate a dividend in FY24, as indicated in the April trading update.

- **Medium term guidance:** We have increased confidence in the growth, profitability and cash generation potential of the business in the medium term. Over the next three-to-five years we believe we can:

  - Deliver average underlying operating cash conversion of at least 80%
  - Achieve underlying operating margins of at least 8%
  - Deliver average annual revenue growth in the mid-single digits

- A number of factors could influence the pace of achieving these targets, for example mobilisation of large new programmes and phasing of lower capital intensity work that could accelerate revenue but slow margin expansion.

Strategic highlights

- Completed portfolio realignment programme, with over two thirds of the Group's revenue now in defence
- Further investment in improving the control environment and project risk management
- Progressed delivery of our ESG strategy and commitments. Integrated ESG into our long-term planning process and performance framework
- Published capital allocation policy with a commitment to reinstate a dividend in FY24
- Achievements to date and confidence in our future has enabled us to set medium term guidance

Operational highlights

Marine

- Growing naval warship support in the UK and Australia – new contracts, extensions, increased operational tempo
- Developing digital defence offering in the UK Skynet programme
- Progressing naval shipbuilding programmes – Type 31 in the UK/MIECZNIK frigate programme in Poland
- Strong demand for our LGE equipment and developing the aftermarket opportunity

Nuclear

- Major upgrades to UK submarine infrastructure in preparation for the next 50+ years of submarine support requirements
- Launched Submarine Availability Partnership with the UK MOD and Submarine Delivery Agency to improve availability
- Concluded the first LIFEX deep maintenance programme of a Vanguard Class submarine
- Awarded initial contract for second Vanguard Class submarine refit after the year end on a full cost recovery basis
- Developing strategic relationships for global decommissioning opportunities eg Japan

Land

- Significantly improved operational delivery of the key DSG contract with option years being discussed
- Strengthened position in secure communications market: Australian Defence High Frequency Comms
- Delivered urgent operational requirements to revalidate/modernise gifted equipment in support of operations in Ukraine
- Secured new production contract with the UK MOD for 70 protected mobility vehicles, with potential for requirement to grow
- Expanded operational role in France through award to support air transit and aircraft operation equipment across 26 military bases

Aviation

- Significantly progressed our French defence offering, delivering fixed and rotary wing aircraft for support and training programmes
- Increased Canadian Aerial Emergency Services activity with 10-year air ambulance contract for British Columbia
- Submitted bid with Leonardo for Canada's Future Air Crew Training (FAcT) programme for the Canadian Royal Air Force
- Partnering with the UK Royal Air Force to progress sustainable aviation technologies to reduce environmental impact

Notes to statutory and underlying results on page 1

(i) **Contract backlog:** The £9.5 billion contract backlog represents amounts of future revenue under contract. This measure does not include £3.4 billion of work expected to be done by Babcock as part of framework agreements (FY22: £3.2 billion). Contract backlog and framework definitions can be found in the Financial Glossary on page 28.

(ii) **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, and net debt to EBITDA 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 2022. The Group has defined and outlined the purpose of its APMs in the Financial Glossary on page 28.

(iii) **Underlying operating profit:** Underlying operating profit is a key APM (described in (ii)) for the Group. It is defined as IFRS statutory operating profit adjusted for specific adjusting items. See page 11 for a reconciliation of underlying operating profit to statutory operating profit and note 2 of the preliminary financial statements for an analysis of specific adjusting items.

(iv) **Type 31 loss:** As described in our trading update in April 2023, this is the loss in the year due to additional forecast costs that were not foreseen at contract inception. Following the commencement of a dispute resolution process (DRP) in April 2023 over responsibility for these incremental costs, we have reassessed the contract outturn on the basis that these are not recovered. This has resulted in the recording of a £100.1 million loss in the year, representing a £42.6 million reversal of revenue, £1.6 million asset impairment and the recognition of a £55.9 million onerous contract loss. The DRP is ongoing. See Note 1 of the preliminary financial statements for more details.

(v) **FY23 baseline for outlook and guidance:** Our FY24 outlook and medium-term guidance is based on FY23 results excluding the impact of disposals, the Type 31 loss and the £12 million one-off credit in Land. Excluding these items, FY23 revenue was c.£4 billion, underlying operating profit was c.£265 million, and underlying operating margin was 6.6%.

Results presentation:

A webcast presentation for investors and analysts will be held on 20 July 2023 at 09:00 am (UK time). The presentation will be webcast live and will be available on demand at www.babcockinternational.com/investors/results-and-presentations.
A transcript of the presentation and Q&A will also be made available on our website.

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CEO STATEMENT

Introduction

Our transformation is delivering results. In FY23, we successfully delivered double-digit organic revenue growth, underlying margin(1)(2) expansion and a significantly better than expected cash performance against a backdrop of economic turbulence.

Following completion of the portfolio alignment programme, over two-thirds of the Group's revenue is now concentrated on defence, with this percentage expected to increase over time. We have significantly strengthened the balance sheet and enhanced risk management systems, underpinned by our work to embed a new corporate culture focused on execution and growth, aligned with our ESG strategy. While we have further to go, Babcock is now more stable, more resilient, and better able to capture the many growth opportunities before us.

As a result, the Board expects to reinstate a dividend in FY24 after a three-and-a-half-year hiatus. Over the medium term we are targeting average annual organic revenue growth(3) in the mid-single digits, an underlying operating margin(1)(2)(3) of at least 8% and underlying operating cash conversion(1)(3) of at least 80%.

Strong underlying FY23 results

Our second full year of turnaround delivered strong underlying performance excluding the £100.1 million loss on the UK Ministry of Defence (MOD) Type 31 programme, where we have entered a Dispute Resolution Process (DRP). We have delivered organic revenue growth of 10%(1)(2), a 50 basis point increase in underlying operating margin(1)(2), underlying operating cash conversion(1) (2) of 110%, and underlying free cash flow(1) of £75.3 million, significantly ahead of expectations, despite ongoing macroeconomic headwinds.

Due to our strong cash performance, we accelerated pension deficit payments by an additional £35 million and reduced our net debt excluding operating leases by £211 million. At 1.5x, our net debt to EBITDA(1) gearing ratio remains within our target range of 1.0x to 2.0x (on a covenant basis) (FY22: 1.8x). Excluding the Type 31 loss our gearing ratio would have been 1.1x.

Our contract backlog of £9.5 billion, grew organically by 7%, reflecting the demand for our specialist capabilities in our core defence and security markets and underpinning our confidence in the future.

A better Babcock

In the last two years since we began our turnaround programme, we have made excellent progress across our three pillars of Stabilise, Execute and Grow.

Stabilise: balance sheet strengthened

The sale of the European Aerial Emergency Services business (AES) to Ancala Partners in February 2023 completed a two-year portfolio alignment programme to strengthen the balance sheet and focus on the Group's chosen markets.

The programme realised total cash proceeds of c.£640 million, well exceeding our initial target of above £400 million, and reduced lease liabilities by c.£340 million. As a result of this and a better-than-expected operating cash performance, net debt at 31 March 2023 was £564 million, representing an aggregate reduction of £789 million over two years. Over the same period, our net debt to EBITDA(1)(2) gearing ratio (on a covenant basis) reduced from 2.5x at March 2021 to 1.5x at March 2023. During the period we have also fully paid off c.£400 million of deferred creditors and supply chain financing arrangements.

A focused and differentiated portfolio

Our portfolio is now aligned with our strategy to leverage our capabilities in growth areas of defence and security. On a proforma basis(3), 68% of FY23 revenue is derived from the defence market, which we expect to steadily increase over time.

We are predominately focused on services, with most of our business providing complex programme support to UK and international customers in support of their requirements of capability, affordability and availability. The balance of our operations comprises the design, manufacturing and integration of specialist equipment and technologies for our defence and civil customers.

With Stabilisation complete, our strategy is now firmly focused on delivering value through continual operational improvement and sustainable growth.

Execute: ongoing operational improvement

We have made further progress in operational delivery across the Group, underpinned by a strengthened corporate culture which drives better outcomes for all our stakeholders. Our work to drive cultural change centres on our people. In October 2022, we concluded the first Group-wide survey of employees for more than 10 years. This achieved a response rate of 79%, demonstrating a high level of engagement. The survey results have driven the development and implementation of action plans as part of our overarching People Strategy. Examples include the launch of a Babcock Role Framework to transform the employee experience, defining and standardising role categorisation and opening professional development pathways and career opportunities.

We are fostering a consistent Group-wide risk-based control approach, aiming for predictability and optimisation of performance through investment in systems, controls and the expertise of our people. While there is still much to do, operational improvement will continue to be a key driver of margin expansion, cash generation and higher returns over the coming years.

Enhanced control environment

During the year we launched a number of Group-wide process and control initiatives and functional changes developed to improve efficiency, enhance our control environment, and fundamentally reduce risk in the business. We designed and implemented a Global Project Management Framework to standardise and professionalise project management across the Group. This framework includes our Integrated Project Controls processes which enhance our ability to make data-driven decisions, which is key to improved delivery and mitigation of risk in our major projects.

We have also introduced a new centre-led commercial function tasked with optimising commercial risk management and have implemented 15 key 'Blueprint' fundamental management review controls which mitigate significant contract management, commercial and financial reporting risks. We also launched a Group-wide Global Business Management System which will drive commonality and best practice across the business.

Enhanced delivery

We are proactively managing exposure to historically onerous long-term contracts and focusing on replacing them with higher quality orders with improved terms and/or a lower execution risk profile. At the beginning of the turnaround, we identified a small group of higher risk legacy contracts that generated zero margin. Associated revenue from these contracts continues to reduce from over £400 million in FY22 to less than £300 million expected in FY24, through a combination of contract completion and delivery, such as the Vanguard life extension (LIFEX), and efficiency improvements, such as DSG, both described below.

We recently concluded the Devonport elements of the highly complex – and first of its kind – LIFEX of a Vanguard Class submarine, with the first vessel returned to the UK Royal Navy in May 2023 after seven years. This was one of the largest and most complex submarine engineering projects undertaken in the UK, with HMS Vanguard being the first of her class to receive an extensive life-extension and upgrade package – essentially a rebuild rather than a traditional refit. We have learned many lessons in how to scope contracts, mobilise and deliver such a complex project. The novel and significant risk associated with this unique project is now behind us. Mobilisation for the next submarine in the programme, HMS Victorious, is now underway, on contract terms that allow us to manage programme risk more effectively and improve delivery.

A successful example of the turnaround improving programme delivery is the 10-year DSG contract awarded in 2015 for the maintenance, repair and overhaul (MRO) of British Army land vehicles and equipment. Following a radical overhaul of the operation to raise productivity, we have markedly improved operating performance and delivery for our UK MOD customer, who has formally notified us of their intention to exercise up to five option years with modifications that will contribute to better outcomes for the customer and for Babcock. We continue to evolve complex vehicle support and maintenance solutions that could lead to future opportunities in the UK and internationally.

Earlier this month we were awarded an initial one-year, c.£50 million contract, with options to extend, by the UK MOD to support urgent operational requirements for Ukraine's military land assets as part of the UK's support for the country.

Further advancing our ESG strategy

Over the year, we have made progress in the delivery of our ESG strategy and corporate commitments, while increasing disclosure on key sustainability interests. In April 2023, we submitted our interim and Net Zero carbon reduction targets to the Science Based Targets initiative (SBTi) and we conducted a strategic climate-related risk assessment as input to our five-year planning process. We are also continuing to integrate our five ESG priorities, which provide a comprehensive framework for integrating sustainability into the business:

1. Reduce emissions and set Net Zero 2040 targets
2. Integrate environmental sustainability into programmes
3. Ensure the safety and well-being of our people
4. Improve communities, and provide high-quality jobs
5. Be a collaborative, trusted partner across the supply chain

In addition, we have further embedded ESG into our performance framework with remuneration linked to our Net Zero emissions target and diversity and inclusion targets, measured through our KPIs.

More broadly, we have a critical role in global defence and national security in the countries in which we operate. As global instability and political turmoil increases, we support the view that democracies need to be able to defend themselves from aggressors. Without the stability provided by strong defence, it is challenging for governments to progress environmental or social improvement measures.

Nuclear power, and in some instances nuclear deterrent, form a crucial part of the resiliency framework developed by many democratically elected Governments. Babcock has been supporting the UK's commitment to its Continuous-At-Sea Deterrent for over 50 years, while also delivering critical civil nuclear engineering. We will continue to support our customers, both with their defence agenda and their commitment to generate low emission power from nuclear energy.

Financial risks being better managed

Inflation: The macro-economic environment remains volatile, although there are signs that the extreme inflationary pressures experienced over the last year are beginning to recede, albeit slowly. Approximately two-thirds of our revenue base has some measure of protection for inflation. The remainder are, "firm", fixed-price contracts which retain some inflation risk. Many are relatively short term (one to two years), giving us the opportunity to replace them with improved terms.

The Group's largest exposure to inflation is rising labour costs (approximately 50% of the cost base of the fixed-price contracts), particularly within the UK. The Group addressed labour cost in the UK for FY23 with a pay deal that targeted all but the higher paid employees to assist in the cost-of-living increases. This pay deal resulted in a c.£25 million FY23 cost increase over and above costs that could be recovered through extant contracts, which we have offset through other efficiencies. The FY24 pay cycle has commenced and we continue to expect to offset unrecoverable increases through targeted efficiencies.

Grow – building momentum

Our portfolio is now aligned with our growth strategy. This will leverage our technical capability to grow our defence and services business, both internationally and in the UK. The defence market backdrop remains supportive, driven by geopolitical instability and a heightened threat environment, although global financial pressures do also remain acute.

Whether it be through engineering support such as maintaining or extending the life of complex assets, through the design and manufacture of specialist equipment, or through the integration of new technologies into innovative and cost-effective solutions, we see significant opportunities in our defence and adjacent markets.

Growth drivers

It is becoming clear that the events in Eastern Europe and growing tension in the Asia-Pacific region are driving planned increases in global defence expenditure. Whilst some additional funding will go to new equipment, there is a realisation that increasing the availability and capability of current military assets is crucial. As we are largely platform-agnostic, we partner with delivery agencies – in some cases as a Design or Technical Authority – to support them as they make critical decisions to modernise and life-extend ageing assets and platforms.

As defence operations modernise, so too will the support required to deliver campaigns. The outsourcing of frontline support and services that require skilled, engineering-based capabilities will continue to grow, as will the need for specialist training.

The rapid pace of technology and ever-changing threat environment is driving the need to deliver military capability with agility and at pace. Our technology and systems integration expertise, including capability insertion and equipment modernisation, continue to drive growth.

Evidenced through our sectors

***Marine** – increasing naval support and technology opportunities in the UK and internationally*

As a leading provider of naval ship and submarine support and maintenance to UK, Canadian, Australian, US and New Zealand navies, we see opportunities emerging in the short term as a result of the increased operational tempo and, over the longer term, through life-extension and naval fleet modernisation strategies. In the UK, our ability to deliver complex, cost-effective support has allowed us to secure several new naval support contracts in the year, including a critical 10-year docking contract for the Queen Elizabeth Class aircraft carriers and a contract to support the UK Government's research vessel fleet.

In Australia, following our appointment as the Regional Maintenance Provider with responsibility for managing the support of Royal Australia Navy (RAN) vessels in Western Australia, further opportunities are emerging as the RAN re-organises its ship support model. Elsewhere we are seeing opportunities to support our international customers, for example, following our recent programme to regenerate ex-UK Royal Navy Sandown Class mine countermeasures vessels for Ukraine.

We are continuing to experience international interest for the proven Arrowhead 140 naval ship design used on the UK Type 31 frigate programme, both in our focus countries and other export markets, driven by demand for affordable naval power.

The investments we have made in our advanced manufacturing facility in Rosyth are not only allowing us to deliver new performance standards in UK warship build but are drawing interest from other domestic and international customers who value our flexible, scalable advanced and modular manufacturing capabilities. A key part of that capability is the delivery of missile tube assembles for the UK Dreadnought and US Columbia Class submarine programmes where Rosyth is the programme centre of excellence for tube manufacture as a result of investments in advanced robotic solutions.

Demand for our Liquid Gas Engineering (LGE) products and innovative technologies for the processing, handling and storage of liquefied gas remains strong as our customers look to satisfy the growing global demand for cleaner energy solutions to replace traditional fossil fuels such as coal. We continue to innovate in this area, seeking commercially scalable technologies for the transport and management of gas and liquid fuels that can help to reduce the industry's carbon emission burden.

We command a strong position in the defence digital market. In the year, we were awarded a six-year c.£400 million contract to manage and operate Skynet, the UK's military satellite communications system, part of the MOD's c.£6 billion Skynet 6 programme, marking a significant opportunity in the space domain.

***Nuclear** – growth across defence and civil nuclear markets*

Babcock sustains the entirety of the UK Royal Navy's nuclear-powered submarine fleet. The major programme to modernise submarine infrastructure across Devonport continues to grow as the UK progresses a multi-year phase of class transition, which will lead to concurrent support of four classes of nuclear-powered submarine – Trafalgar, Vanguard, Astute and, ultimately, Dreadnought. Our upgraded facilities will support and maintain the UK's critical subsea and nuclear deterrent capability for decades to come.

During the year, we launched the Submarine Availability Partnership with the UK MOD and Submarine Delivery Agency (SDA) to improve submarine availability over the long term. We are currently in discussions with the SDA and the Royal Navy with the intention of finalising a long-term strategic partnership to ensure the stable, safe, effective and efficient delivery of deep and base maintenance of submarines.

We welcome the announcement from the Australian, UK, and US Governments (AUKUS) regarding the decision for acquisition of nuclear-powered submarines. We play a critical role in all three countries' submarine programmes today. Our experience of nuclear infrastructure, workforce upskilling, and regulatory and safety stewardship, combined with our unique expertise in nuclear submarine design and through-life support positions us ideally to help to deliver a nuclear-powered submarine capability for the RAN.

In civil nuclear, we recently secured a contract with the Japan Atomic Energy Agency (JAEA) to provide specialist capability in support of the decommissioning of the Monju Prototype Fast Reactor (PFR) in Fukui Prefecture. In the UK, through our specialist nuclear capabilities and our advanced manufacturing experience, we are well positioned for opportunities to support the build of the new fleet of advanced or small modular reactors to be developed.

***Land** – MRO and training contract wins underpin growth*

Demand for our specialist land equipment MRO and fleet management capabilities is strong. Our work to deliver urgent operational requirements to revalidate and modernise land assets and gifted equipment in support of operations in eastern Ukraine has recently led to the award of an initial one-year contract to support Ukraine's military land equipment, including maintenance of critical military vehicles, training of Ukrainian personnel, and management of supply chains and spares.

Our global reputation for asset support is allowing us to expand our operational role in France. We are pursuing a number of emerging opportunities following the award of our first land support contract in France, a 10-year contract to support to air transit and aircraft operations equipment across 26 military bases.

Training personnel is a critical component to support new defence equipment and asset modernisation programmes. We see significant opportunities for partnership and growth. In the UK, we are collaborating with training partners for the British Army's £1.3 billion Collective Training Transformation programme.

Through our relationship with the UK's Supacat, we are delivering 70 High Mobility Transporters for the British Army, with a potential total requirement of up to 240 of these light armoured vehicles, through a new dedicated production line, providing an operationally capable and cost-effective protected mobility vehicle. There is international interest in this platform with the opportunity to develop an export sales pipeline. We are also supporting the UK MOD and British Army's shift to electric vehicles (EV) from 2030 through a new contract for EV conversion and trials of Land Rover vehicles, to help the Army to understand the applications and constraints of electric propulsion.

***Aviation** – opportunities in all our disciplines (training, MRO, aerial emergency services and aviation technologies)*

We see potential to materially grow our Canadian aviation business. Initially, through the recent award of a c.£200 million, 10-year helicopter emergency medical services contract commencing in 2025. Also, through our bid with joint venture partner Leonardo in response to Canada's Future Aircrew Training (FAcT) programme for military pilot training over 25 years. If successful, this would further strengthen our international aviation training capabilities and result in the Group delivering both new platforms and new capabilities to the Royal Canadian Air Force. The outcome is expected to be declared later in 2023.

In the UK, we are partnering with the UK Royal Air Force's Rapid Capability Office to progress a range of sustainable aviation technologies that could minimise the environmental impact of light aircraft flying training, for example sustainable aviation fuel.

Trading in the first quarter of FY24

Trading in the first quarter ended 30 June 2023 was in line with expectations.

Outlook (4)

FY24 outlook: Our expectations for FY24 profitability and cash flow are unchanged, although operating cash flow may be weighted to the second half given the FY23 overperformance. With c.£2.8 billion of revenue under contract at 1 April 2023 and around £700 million of framework orders expected to be delivered in FY24, we are confident of another year of organic revenue growth and further underlying margin expansion. We also expect to reinstate a dividend in FY24, as indicated in the April trading update.

Medium term guidance

Looking ahead, having successfully stabilised the Group and through the ongoing execution of operational improvements to enhance the risk profile of the business, over the next three-to-five years, we believe we can:

- Deliver underlying operating cash conversion of at least 80%
- Achieve underlying operating margins of at least 8%
- Deliver average annual revenue growth in the mid-single digits

Year to year, there are a number of factors that could influence the pace of achieving these targets, for example mobilisation of large new programmes and phasing of lower capital intensity work, such as Nuclear infrastructure, that could accelerate revenue but slow margin expansion. We will continue to enter into new contracts giving due consideration in each case to all relevant factors to maximise shareholder value, and in particular to growth, risk and capital intensity criteria.

Capital allocation

Our refreshed capital allocation framework is underpinned by a commitment to maintain strong balance sheet and investment-grade credit rating, with a target leverage of 1.0x to 2.0x net debt to EBITDA.

The framework is aligned with our strategy to maximise value for our shareholders while balancing near-term performance and long-term growth objectives.

Capital allocation framework

Priority	Policy	FY23
1. Organic investment	Organic investment to strengthen and grow the business	Ongoing investment in business improvement
2. Financial strength	Maintain strong balance sheet and investment grade credit rating	Leverage reduced to 1.5x S&P credit rating upgraded to BBB stable
3. Ordinary dividend	Pay an ordinary dividend	Commitment to reinstate a dividend in FY24

Any further capital could be applied to the following three areas, prioritised according to the prevailing circumstances at the time that is assessed by the Board to maximise shareholder value:

- Bolt on M&A – Opportunities that have a strong fit with the Group
- Pensions – Acceleration of our pension scheme obligations
- Returns – Further returns to shareholders of surplus capital

David Lockwood OBE
Chief Executive

OTHER INFORMATION

Dividend

No ordinary dividends have been paid or declared for the year ended 31 March 2023. We expect to reinstate a dividend in FY24.

Board changes

Two Non-Executive Directors retired in the period. In July 2022, Russ Houlden retired after two years of service and Kjersti Wiklund retired in September 2022, after four years of service. Kjersti was succeeded in her role as Remuneration Committee Chair by Carl-Peter Forster.

In December 2022, we welcomed Jane Moriarty as Non-Executive Director. In May 2023, the Board announced the appointment of Sir Kevin Smith as Non-Executive Director with effect from 1 June 2023.

Notes to CEO Statement

(1) A defined Alternative Performance Measure (APM) as set out in the Financial Glossary on pages 28 to 30
(2) Excludes Type 31 loss of £100.1 million as described on page 3 and Note 1 of the preliminary financial statement
(3) Pro forma – excluding the revenue from disposed businesses of £421.6 million: UK civil training of £35.1 million and European AES of £386.5 million, both sold in February 2023
(4) Our FY24 outlook and medium-term guidance is based on FY23 results excluding the impact of disposals, the Type 31 loss and a £11.6 million one-off credit in Land. Excluding these items, FY23 revenue was c.£4 billion, underlying operating profit was c.£265 million, and underlying operating margin was 6.6%

FINANCIAL REVIEW

As described in the Financial Glossary on page 28, the Group provides alternative performance measures (APMs), including underlying operating profit, underlying margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, and net debt to EBITDA, to enable users to better understand the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. The reconciliation from the IFRS statutory income statement to underlying income statement is shown below.

Income statement

	31 March 2023			31 March 2022		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Revenue	4,438.6	-	4,438.6	4,101.8	-	4,101.8
Operating profit/(loss)	177.9	(132.4)	45.5	237.7	(10.9)	226.8
Other income	-	-	-	6.2	-	6.2
Share of results of joint ventures and associates	9.3	-	9.3	20.1	-	20.1
Net finance costs	(58.3)	9.7	(48.6)	(61.2)	(9.6)	(70.8)
Profit/(loss) before tax	128.9	(122.7)	6.2	202.8	(20.5)	182.3
Income tax (expense)/benefit	(37.7)	(1.8)	(39.5)	(43.9)	29.5	(14.4)
Profit/(loss) after tax for the year	91.2	(124.5)	(33.3)	158.9	9.0	167.9
Basic EPS	17.7p		(6.9)p	30.7p		32.5p
Diluted EPS	17.4p		(6.9)p	30.4p		32.1p

Type 31 loss	100.1
Underlying operating profit excl. Type 31 loss	278.0
Underlying basic EPS excl. Type 31 loss	33.8p

A full statutory income statement can be found on page 35.

Type 31 loss: As described in the Notes to statutory and underlying results on page 3 and in Note 1 of the preliminary financial statement, the Marine business has incurred a £100.1 million loss in FY23, which is due to additional forecast costs that were not foreseen at contract inception. Following the commencement of a dispute resolution process (DRP) in April 2023 over responsibility for these incremental costs, we have reassessed the contract outturn on the basis that these are not recovered. This has resulted in the recording of a £100.1 million loss in the year, representing a £42.6 million reversal of revenue, £1.6 million asset impairment and the recognition of a £55.9 million onerous contract loss. The DRP is ongoing.

Revenue increased by 8% to £4,438.6 million comprising 10% organic growth and a 2% reduction due to the net impact of acquisitions and disposals. The organic increase was delivered across all four sectors (see sector performance tables on page 18).

Statutory operating profit decreased to £45.5 million (FY22: £226.8 million). The key drivers in FY23 were the £100.1 million loss on the Type 31 programme and £117.7 million loss on disposals and related items, mainly European AES, which more than offset a strong operating performance, led by Land.

FY22 statutory operating profit included £163.1 million profit on disposal, £118.8 million exceptional charges, of which £123.6 million related to impairment of tangible and intangible assets, and £33.8 million restructuring costs. There were no exceptional items recorded in FY23. See Note 2 of the preliminary financial statement for more detail.

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.

Reconciliation of statutory to underlying operating profit

	31 March 2023 £m	31 March 2022 £m
Operating profit	45.5	226.8
Amortisation of acquired intangibles	15.8	21.4
Business acquisition, merger and divestment related items	117.7	(163.1)
Restructuring costs	-	33.8
Exceptional items	-	118.8
Fair value movement on derivatives	(1.1)	-
Specific adjusting items impacting operating profit	132.4	10.9
Underlying operating profit	177.9	237.7
Type 31 loss	100.1	-
Underlying operating profit excluding Type 31 loss	278.0	237.7

Underlying operating profit: Underlying operating profit decreased by 25% to £177.9 million, due to the Type 31 loss, a 4% reduction from the net impact of acquisitions and disposals, and further costs of implementing a stronger control environment, which more than offset the strong operational performance.

Excluding the Type 31 loss, underlying operating profit increased to £278.0 million, driven by improved performance in Land, enhanced by a £12 million one-off credit, and good growth in Marine and Aviation. Underlying operating profit in Nuclear was in line with the prior year (see sector performance tables on page 18).

Underlying operating margin decreased to 4.0% (FY22: 5.8%) due to the Type 31 loss. Excluding this, underlying operating margin increased by 50 basis points to 6.3%.

Further analysis of our revenue and underlying operating profit performance is included in each sector's operational reviews on page 19 to 27.

Other income of £6.2 million in FY22 related to pre-completion guarantee fees received in relation to the disposal of the Aviation Oil and Gas business (in October 2021).

Joint ventures and associates: The Group's share of results of joint ventures and associates reduced from the prior year to a profit after tax of £9.3 million (FY22: £20.1 million) due to the disposal of our 15.4% stake in AirTanker Holdings in February 2022 and reclassification of NSM, which was fully consolidated from March 2022.

Net finance costs decreased to £58.3 million on an underlying basis (FY22: £61.2 million), driven by lower net interest costs on reduced debt and higher cash balances, and a £7.5 million pension interest credit, partly offset by a £12 million charge associated with financing of defence contract receivables (described below). Reported net finance costs of £48.6 million included a £9.7 million non-cash credit due to fair value movements in derivatives and related items.

Our Mentor military aviation contract in France is for the provision of Pilatus PC-21 aircraft to the Direction générale de l'armement (DGA), followed by maintenance support until 2027. The aircraft have been delivered to and accepted by DGA in the year, with no remaining performance risk for Babcock. As payment for the aircraft is not due from DGA until 2027 under the contract terms, we have sold the receivables for these aircraft in the year for €122 million on a non-recourse basis, incurring a one-off finance cost of €14 million (£12 million). The net overall impact on FY23 operating cash flow is broadly neutral after cash paid to purchase the aircraft in the year.

Taxation: The Group tax charge was £39.5 million. Tax on underlying profits was £37.7 million representing an effective underlying tax rate of 32%. Excluding the impact of the Type 31 loss the effective tax rate was 26% (FY22: 24%), slightly higher than expected due to the geographical mix of profits and unrelieved losses in the European AES business. The underlying effective tax rate is 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 rate of tax for this financial year will be dependent on country profit mix. The current assumption is around 26%.

Earnings per share: Basic earnings per share, on a statutory basis, declined to a 6.9 pence loss (FY22: 32.5 pence) reflecting lower profit before tax and a higher UK tax rate. Underlying earnings per share declined to 17.7 pence (FY22: 30.7 pence) primarily due to the Type 31 loss. Excluding this, underlying earnings per share increased by 10% to 33.8 pence.

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

	31 March 2023		31 March 2022	
	£m	Basic EPS	£m	Basic EPS
(Loss)/profit after tax for the year	(33.3)	(6.9)p	167.9	32.5p
Specific adjusting items, net of tax	124.5	24.6p	(9.0)	(1.8)p
Underlying profit after tax for the year	91.2	17.7p	158.9	30.7p
Type 31 loss, net of tax	81.1	16.1p	-	-
Underlying profit after tax for the year excl. Type 31 loss	172.3	33.8p	158.9	30.7p

Exchange rates

The translation impact of foreign currency movements resulted in an increase in revenue of £23.5 million and an increase in underlying operating profit of £1.6 million. The main currencies that have impacted our results are the Canadian Dollar, South African Rand, Euro and Australian Dollar. Following disposal of the European AES businesses, 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 £30 million and underlying operating profit by around £4 million per annum
- A 10% movement in the Australian Dollar against Sterling would affect revenue by around £25 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 £15 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 2023 £m	31 March 2022 £m
Operating profit	**45.5**	**226.8**
Add back: specific adjusting items	132.4	10.9
Underlying operating profit	**177.9**	**237.7**
Right of use asset depreciation	91.3	123.1
Other depreciation & amortisation	84.9	74.4
Non-cash items	6.9	0.6
Working capital movements	103.5	(173.9)
Provisions	37.2	(9.3)
Net capital expenditure	(86.2)	(135.2)
Lease principal payments	(108.5)	(113.0)
Underlying operating cash flow	**307.0**	**4.4**
Cash conversion %	173%	2%
Pension contributions in excess of income statement	(141.9)	(151.7)
Interest paid (net)	(62.2)	(45.0)
Tax paid	(25.4)	10.0
Dividends from joint ventures and associates	8.7	41.6
Cash flows related to exceptional items	(10.9)	(50.6)
Underlying free cash flow	**75.3**	**(191.3)**
Net acquisitions and disposals of subsidiaries	158.6	417.2
Acquisitions/investments in joint ventures and associates	-	(18.1)
Dividends paid (including non-controlling interests)	(2.2)	(1.1)
Lease principal payments	108.5	113.0
Net new lease arrangements	(115.1)	(71.2)
Leases disposed of/(acquired) with subsidiaries	218.1	136.6
Other non-cash debt movements	(1.8)	(2.4)
Clarification of net debt definition	(36.1)	-
Fair value movement in debt and related derivatives	56.0	(11.8)
Exchange movements	(57.0)	12.8
Movement in net debt	**404.3**	**383.7**
Opening net debt	(968.7)	(1,352.4)
Closing net debt	**(564.4)**	**(968.7)**
Add back: operating leases	218.2	412.0
Closing net debt excluding operating leases	**(346.2)**	**(556.7)**

A full statutory cash flow statement can be found on page 38 and a reconciliation to net debt on page 64.

Reconciliation of underlying operating cash flow to statutory net cash flow from operations

	31 March 2023 £m	31 March 2022 £m
Underlying operating cash flow	307.0	4.4
Add: net capex	86.2	135.2
Add: capital element of lease payments	108.5	113.0
Less: pension contributions in excess of income statement	(141.9)	(151.7)
Non-operating cash items (excluded from underlying cash flow)	(10.9)	(59.1)
Cash generated from operations (statutory)	348.9	41.8
Tax (paid)/received	(25.4)	10.0
Less: net interest paid	(62.2)	(45.0)
Net cash flow from operating activities (statutory)	**261.3**	6.8

Underlying operating cash flow

Underlying operating cash flow after capital expenditure increased to £307.0 million (FY22: £4.4 million), a conversion ratio to underlying operating profit of 173% (FY22: 2%). Excluding the Type 31 loss, underlying operating cash conversion was 110%. The higher conversion ratio reflects reduced working capital and lower than expected capital expenditure.

- Working capital: An inflow of £103.5 million compared to an outflow of £173.9 million last year. This reflects a strong focus on cash flow as a performance measure coupled with cash flow phasing on programmes, and customer receipts of c.£70 million received earlier than expected. The outflow in FY22 included payments associated with the unwind of the past practice of period-end management of working capital (withholding of creditors). We have sold receivables relating to the provision of aircraft on our Mentor contract in France for €122m in the year. This is to match receipts and payments for the aircraft in the period, such that the net impact on operating cash flow is broadly neutral. The factoring is on a non-recourse basis and there is no remaining performance risk for Babcock.

- Capital expenditure: Net capital expenditure decreased to £86.2 million (FY22: £135.2 million). This was a result of gross capex of £125.1 million (FY22: £203.2 million) being lower than expected due to project phasing, which more than offset a c.£30 million reduction in proceeds from asset disposals primarily relating to the timing of aircraft sales in our Aviation sector. We expect FY24 gross capital expenditure to be approximately £120-£150 million depending on phasing, reflecting continued investment in our submarine infrastructure in Devonport and roll-out of enterprise resource planning (ERP).

- Lease principal payments, representing the capital element of payments on lease obligations, reduced slightly to £108.5 million (FY22: £113.0 million), following divestments in our Aviation business. This is reversed out below underlying free cash flow as the payment reduces our lease liability (i.e. no net effect on net debt).

Underlying free cash flow

Underlying free cash inflow of £75.3 million compares to an outflow of £191.3 million in the prior year, primarily reflecting higher underlying operating cash flow.

- Pension cash outflow in excess of the income statement charge of £141.9 million (FY22: £151.7 million) was higher than previous guidance of c.£100 million due to acceleration of £35 million of future years scheduled payments at the year end. As a result, we expect the pension cash outflow in excess of the income statement charge to reduce to around £65 million in FY24.

- Interest: Net interest paid, excluding that paid by JVs and associates, increased to £62.2 million (FY22: £45.0 million) primarily due to the €14 million (£12 million) finance charge associated with the financing of a French defence contract receivable described above.

- Taxation: Tax paid in the year was £25.4 million. The £10.0 million cash tax receipt in FY22 was a result of the settlement of several open years' tax computations with the authorities. We expect a cash tax outflow in the current financial year of approximately £35 million.

- Dividends received from joint ventures and associates decreased to £8.7 million as expected (FY22: £41.6 million) reflecting the disposal of our stake in AirTanker Holdings, the acquisition and subsequent consolidation of NSM, and the non-repeat of close out dividends on the termination of JV's in the prior year. We expect dividends from JVs and associates to be broadly stable in FY24.

- Exceptional cash flows: The £10.9 million (FY22: £50.6 million) exceptional cash outflow in the year was the conclusion of the large prior year restructuring programme.

Acquisitions and disposals

The net cash inflow from disposals in the year, after costs, was £158.6 million. This included gross proceeds (net of cash disposed) of £176.6 million from the sale of the European AES business in February 2023, which included around £60 million net completion adjustments, and £2.9 million from the sale of Civil Training, also in February 2023, less transaction costs.

The net cash inflow from acquisitions and disposals in FY22 was £417.2 million, including gross proceeds (net of cash disposed) from the sale of Oil & Gas (£10.0 million). Frazer Nash Consultancy (£286.8 million), UK Power (£45.8 million) and our 15.4% shareholding in AirTanker Holdings Limited (£95.6 million), less £15.5 million net consideration paid for the acquisition of the remaining 50% of NSM and transaction costs.

New lease arrangements

In addition to net capital expenditure, and not included in underlying free cash flow, £117.0 million (FY22: £93.8 million) of additional leases were entered into in the period. These represent new lease obligations and so are included in our main net debt figure but do not involve any cash outflows at inception.

Net debt

Net debt at 31 March 2023 was £564.4 million, representing a reduction of £404.3 million compared to the beginning of the year. This reduction was driven by underlying free cash flow, proceeds from disposals and £218.1 million of operating leases that were transferred with the European AES disposal. The reconciliation of net cash flow to net debt is shown in the table below.

Excluding operating leases, net debt was £346.2 million, representing a reduction of £210.5 million compared to the beginning of the year.

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

	31 March 2023 £m	31 March 2022 £m
Net cash flow from operating activities (statutory)	261.3	6.8
Net cash flow from investing activities (statutory)	83.5	338.6
Net cash flow from financing activities (statutory)	(666.1)	(122.7)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts (statutory)	(321.3)	222.7
Cash flow from the (increase)/decrease in debt	629.6	55.1
Change in net funds resulting from cash flows	308.3	277.8
Additional lease obligations	(117.0)	(93.8)
New leases granted	28.5	41.9
Debt held by disposed subsidiaries	219.7	137.1
Other non-cash movements and changes in fair value	57.9	7.9
Clarification of net debt definition	(36.1)	-
Foreign currency translation differences	(57.0)	12.8
Movement in net debt in the year	404.3	383.7
Opening net debt	(968.7)	(1,352.4)
Closing net debt	(564.4)	(968.7)

Funding and liquidity

As of 31 March 2023, the Group had access to a total of £1.9 billion of borrowings and facilities of mostly long-term maturities. These comprised:

- £300 million revolving cash facility (RCF) maturing 20 May 2024
- £775 million RCF, with £45 million maturing 28 August 2025 and £730 million extended to 28 August 2026
- £300 million bond maturing 5 October 2026
- €550 million bond, hedged at £493 million, maturing 13 September 2027
- Two committed overdraft facilities totalling £100 million

At 31 March 2023, the Group's net cash balance was £430 million. This combined with the undrawn amounts under our committed RCFs and overdraft facilities, gave us liquidity headroom of around £1.6 billion.

Capital structure

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. Due to strong underlying operating cash flow, the net debt/EBITDA gearing ratio at 31 March 2023 of 1.5x is lower than at the start of the year despite the £100 million Type 31 loss recognised within EBITDA in the year. This is still within our medium-term target of between 1.0x and 2.0x. Excluding the Type 31 loss, the net debt/EBITDA gearing ratio at 31 March 2023 would have been 1.1x.

Net debt to EBITDA (covenant basis)

This measure is used in the covenant in our RCF facilities and includes several adjustments from reported net debt and EBITDA. The covenant level is 3.5 times. As set out below, our net debt to EBITDA (covenant basis) decreased to 1.5 times for FY23 despite the impact of the Type 31 loss on underlying operating profit.

	31 March 2023 £m Last twelve months	31 March 2022 £m Last twelve months
Underlying operating profit	177.9	237.7
Depreciation and amortisation	84.9	74.4
Covenant adjustments[1]	(8.4)	(12.9)
EBITDA	254.4	299.1
JV and associate dividends	8.7	41.6
EBITDA + JV and associate dividends (covenant basis)	263.1	340.8
Net debt	(346.2)	(556.7)
Covenant adjustments[2]	(49.3)	(60.0)
Net debt (covenant basis)	(395.5)	(616.7)
Net debt/EBITDA	1.5x	1.8x

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

[2]Removing loans to JVs, finance lease receivables.

Interest cover (covenant basis)

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

	31 March 2023 £m Last twelve months	31 March 2022 £m Last twelve months
EBITDA (covenant basis) + JV and associate dividends	263.1	340.8
Net finance costs	(48.6)	(70.8)
Covenant adjustments[3]	7.1	18.7
Net Group finance costs	(41.5)	(52.1)
Interest cover	6.3x	6.5x

[3]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 2023 £m Last twelve months	31 March 2022 £m Last twelve months
Underlying operating profit	177.9	237.7
Share of results of joint ventures and associates	9.3	20.1
Underlying operating profit plus share of JV PAT	187.2	257.8
Net debt excluding operating leases	346.2	556.7
Operating leases	218.2	412.0
Shareholder funds	370.9	701.5
Retirement deficit/(surplus)	61.4	(191.6)
Invested capital	996.7	1,478.7
ROIC	18.8%	17.4%

Pensions

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

IAS 19

At 31 March 2023, the IAS 19 valuation for accounting purposes was a net deficit of £61.4 million (FY22: a surplus of £191.6 million). The move to a net accounting deficit is a result of a greater reduction in the fair value of plan assets (by £1,545.1 million to £3,188.0 million, net of £241.9 million longevity swaps), compared to the reduction in present value of pension benefit obligations (by £1,292.1 million to £3,249.4 million). The reduction in fair value of plan assets was driven by negative net asset returns coupled with the impact on the assets held from the UK market volatility experienced by pension schemes in September 2022, partly offset by scheme contributions. The reduction in pension liabilities was primarily a result of higher discount rates. The fair value of the assets and liabilities of the Group pension schemes at 31 March 2023 and the key assumptions used in the IAS 19 valuation of our schemes are set out in Note 18 of the preliminary financial statements.

	31 March 2023 £m	31 March 2022 £m
Fair value of plan assets	3,188.0	4,733.1
Present value of benefit obligations	(3,249.4)	(4,541.5)
Net surplus/(deficit) at 31 March	**(61.4)**	**191.6**

As at 31 March 2023 the key assumptions used in valuing pension liabilities for the three largest schemes were:

Discount rate	31 March 2023: 4.8%	(31 March 2022: 2.7%)
Inflation rate (RPI)	31 March 2023: 3.2% (after year 1)	(31 March 2022: 3.7%)

Income statement charge

The charge included within underlying operating profit in FY23 was £32.6 million (FY22: £38.5 million), of which £25.8 million (FY22: £31.1 million) related to service costs and £6.8 million (FY22: £7.4 million) related to expenses. In addition to this, there was an interest credit of £7.5 million (FY22: charge of £3.7 million).

Actuarial valuations

An estimate of the actuarial deficits of the Group's defined benefit pension schemes, including all longevity swap funding gaps, calculated using each Scheme's respective technical provisions basis, as at FY23 was approximately £400 million (FY22: c.£350 million). Such valuations use discount rates based on UK gilts – which differs from the corporate bond approach of IAS 19. This technical provision estimate is based on the assumptions used within the latest agreed valuation prior to 31 March 2023 for each of the three main schemes.

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 Rosyth Royal Dockyard Pension Scheme at 31 March 2021 was completed in the last financial year, the valuation of the Babcock International Group Pension Scheme at 31 March 2022 has been completed since the year end, and work has commenced on the valuation of the Devonport Royal Dockyard Pension Scheme at 31 March 2023.

Cash contributions

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

	31 March 2024e £m	31 March 2023 £m	31 March 2022 £m
Future service contributions	18.0	20.0	21.1
Deficit recovery	47.8	123.5	135.2
Longevity swap	15.2	15.6	16.8
Total cash contributions — employer	**81.0**	**159.1**	**173.1**

SEGMENTAL ANALYSIS

The Group reports its performance through four reporting sectors.

31 March 2023	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
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%**
Contract backlog	2,580.7	2,453.8	2,809.8	1,633.0	**9,477.3**
Excluding Type 31 loss					
Type 31 loss	100.1				**100.1**
Underlying operating profit	112.8				**278.0**
Underlying operating margin	7.8%				**6.3%**

31 March 2022	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
Revenue	1,259.3	1,009.7	1,015.5	817.3	**4,101.8**
Operating profit	309.7	56.9	36.2	(176.0)	**226.8**
Operating profit margin	24.6%	5.6%	3.6%	(21.5)%	**5.5%**
Underlying operating profit	98.0	62.4	58.8	18.5	**237.7**
Underlying operating margin	7.8%	6.2%	5.8%	2.3%	**5.8%**
Contract backlog	2,491.8	2,788.8	2,309.0	2,293.6	**9,883.2**

OPERATIONAL REVIEWS

Marine

Operational highlights

- Secured two further contracts on the Polish Miecznik (Swordfish) frigate programme
- Awarded a six-year c.£400 million contract to manage and operate Skynet, the UK's military satellite communications system
- Awarded 10-year contract for the UK Royal Navy's Queen Elizabeth Class, aircraft carrier docking periods
- Awarded a contract to maintain the UK's fleet of scientific Royal Research Ships
- Awarded the Regional Maintenance Provider (RMP) West contract to deliver ship support to the Royal Australian Navy
- Awarded a six-year contract to deliver, install and provide in-service support for the maritime Communications Electronic Support Measures (CESM) capability on UK Type 23 frigates
- Won 55 Liquid Gas Engineering (LGE) system orders worth over £250 million for LPG, Ethane, and LNG technologies
- The Naval Ship Management (NSM) business, fully acquired last year, has now been integrated into our Australian business

Financial review

	31 March 2022 £m	FX impact £m	Acquisitions & disposals £m	Other trading £m	31 March 2023 £m
Contract backlog*	2,491.8				2,580.7
Revenue	1,259.3	12.3	72.4	95.6	1,439.6
Underlying operating profit*	98.0	1.0	(0.2)	(86.1)	12.7
Underlying margin*	7.8%				0.9%
Type 31 loss					100.1
Underlying operating profit excl. Type 31 loss*					112.8
Underlying margin excl. Type 31 loss*					7.8%

*Alternative Performance Measures are defined in the Financial Glossary on page 28

In an otherwise promising year, Marine results were significantly impacted by a £100.1 million loss on the Type 31 contract, representing a £42.6 million reversal of revenue, £1.6 million asset impairment and the recognition of a £55.9 million onerous contract loss. The programme has been impacted by additional forecast costs that were not foreseen at contract inception. In April 2023, following discussions with the customer, we entered a Dispute Resolution Process regarding the responsibility for these costs.

Revenue increased by 14% to £1,439.6 million, comprising organic growth of 8% and the net impact from the acquisition of NSM in March 2022 and disposal of Frazer Nash Consultancy in October 2021. Organic growth was broad based, driven by continued strong demand for our LGE products, higher activity in warship support and on the South Korean (SK) submarine programme, as well as ramp up of several new contracts through the second half, such as the Queen Elizabeth Class aircraft carrier support and the early enabling contracts for the Poland frigate programme.

Underlying operating profit decreased to £12.7 million as a result of the Type 31 loss, representing an underlying operating margin of 0.9% (FY22: 7.8%). Excluding this, underlying operating profit increased to £112.8 million, representing an underlying operating margin of 7.8%. The increase was driven by revenue growth in ship support and South Korea submarine work and a c.£9 million benefit from a contract settlement. The prior year margin was supported by international license fees on AH140.

Contract backlog was up 4% in the year to £2,581 million (FY22: £2,492 million). Positive order momentum through the second half, including the c.£400 million Skynet award, more than offset trading revenue on long-term contracts. At 1 April 2023, Marine had around £900 million of FY24 expected revenue under contract and an additional c.£350 million under framework agreements, a similar position to FY22.

Operational review

UK defence

Despite the ongoing dispute resolution process, we continued to deliver on the Type 31 Inspiration Class frigate programme. Keel laying took place for the first ship – HMS Venturer – in April 2022, and whole ship assembly and outfitting progressed as planned. Ship two – HMS Active – steel cutting took place in January 2023.

Warship support advanced in the year as we secured a 10-year contract to provide dry-dock maintenance for the Royal Navy's Queen Elizabeth Class aircraft carriers, including contingency dockings where routine maintenance and repairs cannot be carried out afloat. In Devonport, the Type 23 frigate life-extension (LIFEX) programme continues at pace while the LIFEX and fleet time support to the amphibious assault ships is making good progress. In readiness for the first Type 26 Frigate base-ported at Devonport later this decade, we have established the Type 26 Class Output Management system to prepare for the through-life sustainment of the platforms as they enter service.

Through our global sustainment and support arrangements, we marked four years of delivering support to Type 23 Class ship HMS Montrose during her forward deployment in the Middle East, enabling the vessel to achieve more operational days at sea than any other frigate since 2019. In the period, the mine countermeasure vessel team has delivered four simultaneous ship regenerations for onward sale from the Royal Navy to new international customers. All four vessels are former Sandown Class mine hunters which are all undergoing work packages to provide modern warships, tailored to the new clients' requirements while providing future support opportunities.

In Mission Systems, we were awarded a contract to manage and operate Skynet, the UK's military satellite communications system. The six-year contract, which commenced in March 2023, forms part of the MOD's c.£6 billion Skynet 6 programme and is sustaining more than 400 jobs in the south-west of the UK.

Additionally, a six-year contract was awarded to deliver, install and provide in-service support for Ardent Wolf, the maritime Communications Electronic Support Measures (CESM) capability for the Royal Navy's Type 23 frigates.

We signed a Memorandum of Understanding (MoU) with Rafael Advanced Defence Systems to deliver capability into the UK MOD's wider Land Ground Based Air Defence (GBAD) programme and signed a further MoU with Israel Aerospace Industries' (IAI) Group and Subsidiary ELTA Systems to offer a deep-find radar solution for the UK MODs SERPENS programme for a next generation weapons locating system.

At our Bristol Mission Systems site, the opening of a new build hall has boosted efficiency, enabling us to deliver major system modules for Boat 2 of the Dreadnought Class submarine, a significant milestone on the programme, ahead of schedule.

Deployment of advanced manufacturing technology continues to underpin our market leading role in submarine missile tube assembly, with installation of robotics and additional machining capability at our Rosyth facility. The missile tube programme continues successfully, supporting both the UK Dreadnought and US Columbia submarine programmes.

International defence

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

In Poland, building on our selection as Design & Technology Partner to PGZ (the Polish prime contractor), we secured two further contracts on the MIECZNIK (Swordfish) frigate programme, which is based on the proven Arrowhead 140 naval ship design used on the UK Type 31. The Class Design Contract and the Transfer of Knowledge & Technology framework agreement further support the development of the programme and shipbuilding capability in Poland. Working in collaboration with the PGZ-MIECZNIK Consortium, we have also agreed an extension to oversee the programme.

In Ukraine, having signed the tripartite agreement with the UK and Ukrainian Governments as lead industry partner on the Ukrainian Naval Capabilities Enhancement Programme, we continue to support our Ukrainian customer with their requirements, such as the mine counter measure vessels, which were formally handed over to the Ukrainian Navy in the year.

In Oman, we delivered several maintenance, repair and overhaul activities for the US Navy. The Duqm Naval Dockyard JV continues to bid for work with the US and Royal Navy of Oman, while we continue to deliver deployed support for the UK Royal Navy.

In Brazil, we established an in-country project team to deliver through-life support to the Marinha do Brasil's (Brazilian Navy) flagship vessel, NAM Atlantico, formerly the UK Royal Navy aircraft carrier platform HMS Ocean, and continue to explore future opportunities with the Marinha do Brasil and other international navies as part of our global support and export programmes.

In Canada, Babcock continues to deliver the Victoria Class In-Service Support (VISSC) contract which was extended to 2027.

In South Korea, our weapon handling and launch team successfully completed the final milestone on the Korean Navy's Jang-Bogo III Class submarine – with all 122 Category A milestones delivered on time or ahead of schedule over the 10-year period. We continue to deliver the equipment systems for boats four and five. In September 2022, we received a first maintenance

contract from Daewoo Shipbuilding and Marine Engineering (DSME) to support the Jang Bogo III Class – Boat 1 systems, with a second phase of this work secured in October.

In Australia, we completed the integration of the Naval Ship Management (NSM) business following acquisition of the remainder of the business in March 2022. NSM strengthens Babcock's support to the Royal Australian Navy's (RAN) future maritime support model, Plan Galileo. Babcock is now the premier warship sustainment organisation in Australasia.

In October 2022, Babcock was announced as the preferred tenderer for the Regional Maintenance Provider (RMP) West, to manage the sustainment of RAN ships in Western Australia over the next five years.

In February 2023, Babcock signed a contract with BAE Systems to provide the air weapons handling system for the first batch of Hunter Class frigates for the RAN. The scope includes the design, build, testing and installation support of air weapons handling based on a modified Type 26 design.

In New Zealand, the new Maritime Fleet Sustainment Services (MFSS) contract with New Zealand Defence Force formally began.

Energy and Marine

Our Liquid Gas Engineering business (LGE) continues to support its customers on transition to Net Zero carbon with LPG and Ethane fuel gas supply systems for ships' main engine supply, replacing fuel oil. Our ecoFGSS-FLEX® ammonia/LPG fuel gas system will enable the use of zero carbon fuels, whilst our ecoCO_2 – liquefied CO_2 cargo handling – system will enable the transportation and storage of CO_2 from current emitters.

In the period, LGE furthered the development of aftermarket services to provide enhanced through-life support for ship-owners.

During the year, our Rosyth dockyard was awarded c.£45 million to maintain the UK's fleet of scientific research vessels – RRS Sir David Attenborough, RRS Discovery and RRS James Cook. The three vessels are involved in some of the most pressing research across the globe, visiting polar regions and depths of tropical oceans. This year RRS Discovery and the RRS Sir David Attenborough will have planned maintenance periods.

Nuclear

Operational highlights

- Significant ramp up on the Major Infrastructure Programme continuing across Devonport Dockyard
- Concluded first Vanguard Class life-extension with the first vessel returned to the UK Royal Navy post year end, and an initial contract and mobilisation phase for the next submarine, HMS Victorious, is now underway
- Launched the Submarine Availability Partnership with the UK MOD and Submarine Delivery Agency to progress availability
- First Astute Class submarine arrived at Devonport Dockyard ready for a Base Maintenance Period (BMP)
- Awarded a framework agreement with the Japan Atomic Energy Agency to deliver the Monju sodium treatment project

Financial review

	31 March 2022 £m	FX impact £m	Acquisitions & disposals £m	Other trading £m	31 March 2023 £m
Contract backlog*	2,788.8				2,453.8
Revenue	1,009.7	-	-	169.5	1,179.2
Underlying operating profit*	62.4	-	-	1.1	63.5
Underlying margin*	6.2%				5.4%

*Alternative Performance Measures are defined in the Financial Glossary on page 28

Revenue grew by 17%, driven principally by the further strong ramp up of the Major Infrastructure Programme (MIP) at Devonport dockyard, as well as increased Future Maritime Support Programme (FMSP) submarine support activity at Faslane naval base and new defence contracts in our civil nuclear business. MIP revenue doubled in the year to £267 million (FY22: £134 million).

Underlying operating profit increased by 2% to £63.5 million. Profit from MIP growth and a lower programme write-off compared to FY22, more than offset the impact of future inflation assumptions on programmes and further investment in strengthening the control environment. The programme write-off in FY23, resulting from a final assessment of completion costs, was £16 million (FY22: £22 million). This contract is expected to complete soon. Operating margin declined to 5.4%, reflecting the impact of future inflation and higher MIP revenue, which is lower margin.

Contract backlog decreased 12% in the year to £2,454 million (FY22: £2,789 million) due to the trading of long-term contracts, specifically FMSP, although it was flat in the second half due to strong order intake. At 1 April 2023, Nuclear had around £1 billion of FY24 expected revenue under contract, and an additional c.£150 million under framework agreements, both above the position in the previous year.

Operational review

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. Good progress has been made in the year in meeting the current and future requirements of the MOD. We are working closely with the MOD to jointly develop long-term strategies for people, infrastructure and transformation, to meet the evolving requirements for the future of the Royal Navy.

At Devonport, the MIP has ramped up significantly over the year. The programme is designed to deliver substantial upgrades to existing infrastructure over the next ten years, to ensure the future capability requirements of the Royal Navy and the submarine enterprise are met for decades to come from state-of-the-art facilities. The programme will enable the dockyard to deliver base maintenance periods (BMP) and deep maintenance periods (DMP) for new classes of submarine, including nuclear defuel and refuel of current and future classes, and life-extension programmes (LIFEX), crucial to the UK submarine programme. During the year, key MIP delivery dates have been agreed with the customer to meet continued and future submarine docking, through-life support and fleet availability.

The concept design phase for 10 Dock is now complete and construction is underway to transform a large dry dock, traditionally used for large ship refit, into a seismically qualified dock in alignment with strict nuclear regulation, capable of enabling delivery of the first DMP of an Astute Class submarine. Currently, planning permission has been granted with customer approval for the development of the facility which is starting with demolition of ageing assets to create space for new facilities.

Work on the MIP at 9 Dock continues where we are upgrading, improving and life-extending the facility which will enable us to continue delivering the Vanguard Class submarines LIFEX programme, including defuel and refuel while planning for future class support.

Since the start of the FMSP contract, productivity during maintenance projects has continually increased and this has been further supported by the introduction of round the clock working patterns for engineering support staff and greater collaboration with the Royal Navy and Submarine Delivery Agency. The Devonport elements of the first Vanguard Class LIFEX DMP concluded during the year, and HMS Vanguard was handed back to the Royal Navy in May 2023. The mobilisation phase for the next DMP (HMS Victorious) is now underway following initial contract award on a full cost recovery basis.

Additionally, we have welcomed the first Astute Class submarine ready for the start of a BMP and we successfully completed a Revalidation Assisted Maintenance Period (RAMP) programme for a Trafalgar Class submarine.

At Clyde, we have delivered strong performance on several support programmes for our customer. This has included several Vanguard Class BMPs, which were completed ahead of schedule. Engineering support to Astute Class submarines has also been delivered at the naval base and abroad, supporting the global operational needs of the Royal Navy. At Rosyth, delivery of the submarine dismantling and disposal programme has continued in line with schedule.

Civil Nuclear

In decommissioning, we have been selected as the preferred bidder for the Magnox Hinkley Point A Vault Retrievals Phase 2 project. This project builds upon our strong relationship with Magnox and our history of delivering retrievals projects on Magnox sites. The five-year contract is to provide the design and delivery of an automated solution to safely retrieve, process and package waste from vaults within Magnox's Hinkley Point A site, ready for safe storage.

In Japan, we are continuing our growth plans for nuclear decommissioning services and in April 2023, we signed a framework agreement with the Japan Atomic Energy Agency (JAEA) to deliver the Monju sodium treatment project over five years, starting in 2024.

In nuclear support, we worked in collaboration with our EDF customer, to successfully complete the Dungeness B Power Station pre-defueling outage. We have also secured an extension to the Lifetime Enterprise Agreement.

During the year, the new Process, Plant and Equipment (PP&E) contract commenced in the UK. Our role is to lead the design, installation and commissioning of complex plant and equipment engineering, enabling the customer to safely process and deliver their production line. We expect to see the framework contract continue to ramp up in FY24 while the programme remains a key enabler for further opportunities across the wider facility as they develop.

Our Cavendish Nuclear business continues to focus on several growth opportunities in the UK and internationally. In the clean energy space, we are continuing to support X-energy as their UK deployment partner. The partnership complements our civil nuclear business' support to all three nuclear streams of the UK Government's Energy Security Strategy: Large Gigawatt Reactors, Small Modular Reactors, and Advanced Modular Reactors, such as High Temperature Gas-Cooled Reactors with the capability to focus on industrial heat and hydrogen.

In the US, Cavendish Nuclear partnered with Amentum and Fluor, has successfully secured the Portsmouth Gaseous Diffusion Plant Decontamination and Decommissioning Contract in Ohio, USA.

Fusion energy is at a transition point moving from science to engineering deployment, and through Cavendish Nuclear we are seeking to become an early member of this developing industry, including positioning for a role on the whole plant partner procurement with the UKAEA on their Spherical Tokamak for Energy Production programme.

Land

Operational highlights

- Awarded Australian Defence High Frequency Comms contract for c.£500 million over 10 years
- In discussions with UK MOD for five option years on the DSG contract to 2030
- Awarded initial UK MOD contract to build 'Jackal' vehicles with Supacat in Devonport
- Awarded initial c.£50 million one-year contract by the UK MOD to support UK Gifted platforms to Ukraine
- Awarded contract to help the British Army improve operational performance and extend the life of its Land Rover fleet
- Secured first Land win in France to deliver ground support equipment support to the French Navy, Army and Air Force
- Completed the sale of our non-core Civil Training business

Financial review

	31 March 2022 £m	FX impact £m	Acquisitions & disposals £m	One-off credit £m	Other trading £m	31 March 2023 £m
Contract backlog*	2,309.0					2,809.8
Revenue	1,015.5	1.8	(67.1)	11.6	55.3	1,017.1
Underlying operating profit*	58.8	0.0	(2.5)	11.6	18.0	85.9
Underlying margin*	5.8%					8.4%

Alternative Performance Measures are defined in the Financial Glossary on page 28

Revenue was in line with the prior year with organic growth of 5% offset by the impact of disposals (UK Power in December 2021 and Civil Training in February 2023). Growth was driven by ramp up of the Australian Defence High Frequency Communication (DHFC) system, continued strong demand for mining equipment and aftermarket sales in South Africa and higher volumes in Rail and Emergency Services training, which more than offset the end of the Eskom contract in South Africa in March 2022.

Underlying operating profit grew to £85.9 million, representing an underlying operating margin of 8.4%. The increase was driven by the ramp up of the Australian DHFC system contract, higher volumes in our South Africa business and Emergency Services training, and a £12 million one-off credit. Excluding the one-off credit, margin would have been 7.4%.

Contract backlog increased 24% organically to £2,810 million (FY22: £2,309 million) driven by the Australian DHFC system and good order momentum in the second half of the year. At 1 April 2023, Land had around £640 million of FY24 expected revenue under contract, and an additional c.£180 million under framework agreements, both above the position in the previous year.

Operational review

Defence

Performance in defence equipment activity improved in the period, including our DSG contract where we maintain, repair, overhaul and upgrade the British Army's armoured vehicles and tanks. Following a successful transformation programme, we continue to support our British Army customer as they plan for the future of their equipment and support. We are now in detailed discussions regarding execution of the five option years with modifications that will contribute to better outcomes for the customer and for the Group. In addition, we successfully extended our Phoenix II contract which delivers the UK MOD's 'white fleet' service for a further two years with strong performance.

In February, we announced that we will be working in collaboration with Devon-based Supacat, to deliver an order of 70 High Mobility Transporters (HMT 400 series) from the MOD. With this initial order, the contract award could lead to the production of as many as 240 of the light armoured vehicles, should operational requirements demand. The contract is to be delivered from our Devonport site in Plymouth, where we will create 90 new jobs.

We have been awarded a one-year contract by the MOD to help the British Army improve operational performance and extend the life of its Land Rover fleet. Partnering with Electric Vehicles experts, Electrogenic, we will convert four in-service military Land Rovers, two protected vehicles and two general service vehicles, from diesel-fueled to electric using a drop-in kit and modified battery system.

This year we established our Advanced Manufacturing business in response to growing obsolescence and commercial strains in the supply chain. We fitted our first additively manufactured metal parts onto a military vehicle having established an approval and safety case process in collaboration with the MOD and the British Army. We have signed a partnership agreement with a specialist advanced manufacturing business, Additure, and are now scaling this capability working with our British Army customer and across the Group.

Through our existing contracts, we contributed to the British Army's support to Ukraine's Armed Forces, refurbishing and regenerating equipment that has been gifted in kind by the UK Government and supporting the training of Ukrainian nationals in a range of domains. We were recently awarded an initial 12-month contract to support the equipment, including the supply of spares and technical support.

Our defence training business performed well across all contracts and continued to offer operational benefits for our customers. We have been working closely with the British Army throughout the year to support their Mobilise campaign and successfully delivered training to partnering nations. We continue to invest and develop innovative training and have recently submitted our proposal around threat identification.

We have successfully delivered Exercise Cerberus 22, the British Army's largest and most ambitious field army exercise in Europe for a decade. Following a successful campaign in 2022, we participated in the British Army's 2023 Army Warfighting Experiment where we showcased our Human Insight Performance System.

In France, we secured our first major Land contract in this focus country for the Group. We will support around 5,000 ground support equipment assets across the French Army, Navy and Air Force through a 10-year contract. The contract represents the first outsourcing for the provision of maintenance, repair and overhaul; supply chain and logistics; technical and obsolescence management; as well as asset renewal. The contract will see the Group investing in key systems, infrastructure, and people across France, supported by capability transfer from our UK businesses, which will reinforce our in-country growth strategy.

In Australia, in October 2022, we signed a contract with the Government to upgrade and sustain the Defence High Frequency Communication System to support the Australian armed forces over the next 10 years. The c.£500 million contract starting in October 2023, will see Babcock lead the operation and support of the customer's existing capability, while delivering a comprehensive technology upgrade programme. The new system will provide Australian and allied armed forces with the ability to securely communicate using voice and other data from almost any location across the globe.

We continue to deliver and pursue Land defence opportunities in Australia. The Group is one of four short-listed tenderers for the LAND-125 Phase 4 – Integrated Soldier System programme, to integrate a wide range of connected technologies including uncrewed ground and aerial systems and self-learning machines for Australian soldiers.

Emergency Services

We have seen good performance in our London Fire Brigade (LFB) contract, with recognition for our support during the summer 2022 heatwave, which saw the busiest operational period for the LFB since World War Two. Delivery of our Metropolitan Police (MPS) contract has been stable through a challenging period that included a significant surge in demand during the funeral of HM Queen Elizabeth II. The MPS fleet management contract will end in October 2023.

Our LFB and MPS training contracts also performed well in the period, with significant demand in volumes as both customers seek to meet recruitment targets. Our new MPS training programme is now well established and performing well.

South Africa

Performance for the South African business was better than expected driven by high demand in the equipment business as a result of a strong market in the mining sector. This more than offset the ending of the Eskom engineering contract. Work continues on ongoing improvements through operational excellence initiatives throughout the business.

Other civil markets

Our Rail business had strong performance during the year with further work in our Translink framework. We continue to focus on delivery in our two key regions of Scotland and Northern Ireland.

In February 2023, we completed the sale of our civil training business to Inspirit Capital.

Aviation

- First two of six H160 helicopters modified and delivered to the French Navy as part of a 10-year contract
- Completed delivery of nine PC21 aircraft and commenced operational flights on the French Mentor contract
- Secured an 11-year extension to support the UK Hawk TMk1 and TMk2 aircraft and the Red Arrows
- Secured extensions from the UK MOD to operate the Light Aircraft Flying Task (LAFT2) and RAF base support contract, Hades
- Awarded R&D funding from the UK MOD to explore technologies that minimise the environmental impact of light, fixed wing training aircraft
- Awarded Queensland Health contract in Australia for helicopter emergency medical services (HEMS) for 12 years
- Awarded a HEMS contract in Canada for c.£200 million, starting in FY25

Financial review

	31 March 2022 £m	FX impact £m	Acquisitions & disposals £m	Other trading £m	31 March 2023 £m
Contract backlog*	2,293.6				1,633.0
Revenue	817.3	9.4	(97.6)	73.6	802.7
Underlying operating profit*	18.5	0.6	(6.6)	3.3	15.8
Underlying margin*	2.3%				2.0%

*Alternative Performance Measures are defined in the Financial Glossary on page 28

Revenue decreased 2% in the year. Organic growth of 9% was driven by phasing in our French defence contracts, in particular Mentor, which included aircraft sales to the customer. This was offset by the impact of disposals (Oil and Gas in September 2021 and European Aerial Emergency Services (AES) on 28 February 2023). The divested European AES contributed revenue of £386 million during the 11 months of ownership in FY23 (FY22: £405 million).

Underlying operating profit decreased to £15.8 million, driven by the impact of disposals, primarily European AES, which contributed a loss of £1.1 million in the 11 months of ownership compared to a profit of £3.3 million in FY22, due to higher fuel costs. Underlying operating margin declined by 30 basis points to 2.0%, primarily due to weaker performance of the disposed European AES businesses.

The retained business within Aviation generated revenue of £416 million (FY22: £337 million), up by 24%, and underlying operating profit of £17 million (FY22: £14 million), representing an operating margin of 4.1% (FY22: 4.1%). Growth was driven by our French defence contracts, as described above, with associated profit offset by continued high bid costs on a large contract tender that has recently been submitted.

Contract backlog decreased to £1,633 million (FY22: £2,294 million), mainly due to the impact of the AES disposal (c.£975 million). The retained business contract backlog grew by 24%, driven by new contracts (Australia and Canada HEMS) and renewal/extension of long-term contracts (UK Hawk and LAFT2 - Light Aircraft flying Task). At 1 April 2023, Aviation had around c.£240 million of FY24 expected revenue under contract, lower than the prior year position on a like-for-like basis, due to high FY23 military aircraft deliveries in France.

Operational review

Defence

Across UK defence, activity has continued at a steady pace. Our military business secured an 11-year contract extension with BAE Systems to support the Hawk TMk1 and TMk2 aircraft at Royal Air Force (RAF) Valley and won a new contract to support the RAF Aerobatics Team (Red Arrows) with line and depth maintenance at RAF Waddington. Extensions were also secured on our RAF Hades support and Light Aircraft Flying Task contracts with performance remaining strong. Progress continues to be made on the Tutor programme with 80 aircraft available to the customer. Our UK Military Flying Training System contract saw good progress in the year.

We are continuing to develop our partnership with the Airbus H175M Task Force – a UK-based industry team created to supply and support the British-produced H175M helicopter for the UK's new medium helicopter requirement.

During the year, we were awarded two years of research and development funding from the RAF's Rapid Capability Office. Project Monet is designed to explore and progress the application of a range of sustainable aviation technologies, including the potential for synthetic fuelled internal combustion engines, hydrogen cell, and hybrid.

In France, activity continues to ramp up on the Mentor contract, with the delivery of nine PC21 aircraft and the start of operational flights. Availability continues to remain good, further enhancing the training delivery. On the FOMEDEC contract, we delivered circa 35,000 flight hours and 23,000 simulator hours to the customer.

During the year the first two Airbus H160 helicopters were delivered to and accepted by the French Navy as part of our contract with the French MOD. In partnership with Airbus and Safran, we'll provide a total of six modified H160 aircraft and through-life support for 10 years. The aircraft will be used by the French Navy on demanding search and rescue missions. The customer pays for the aircraft over 10 years after acceptance. We will discount the customer receivables for all 6 aircraft in FY24 on a non-recourse basis once the aircraft are delivered and accepted.

Through Babcock's joint venture with Leonardo Canada, Babcock Leonardo Canadian Aircrew Training has submitted a bid to deliver Canada's Future Aircrew Training (FAcT) opportunity, with an award decision expected in late 2023.

Aerial emergency services

On 28 February 2023, we completed the sale of certain of our European (Spanish, Italian, Portuguese and Scandinavian) Aerial Emergency Services (AES) businesses to Ancala Partners for a gross consideration of €136.2 million (c.£120 million), with an additional c.£60 million of completion adjustments. Babcock has retained its AES businesses in its focus countries of the UK, France, Canada and Australia, where the Group also operates defence businesses.

Our operations in the UK secured several successful extensions, with Hampshire and Isle of Wight Air Ambulance, Great Western Air Ambulance, and Northwest Air Ambulance.

In Australia, Babcock was awarded a contract with Queensland Health for the Torres Strait and Northern Cape York Peninsula Emergency Helicopter Service in December 2022. Operating from Horn Island, Babcock will provide 24/7 services across the region including aeromedical retrieval and search and rescue. The aircraft will also be available to support taskings from other government departments including Queensland Fire and Emergency Services and Queensland Police. The 12-year contract continues a 15-year relationship between Queensland Health and Babcock in the Torres Strait and will represent a significant uplift in capability to the region.

In France, we've continued to develop our service offering extending operations to 24 hours coverage. We also delivered four EC135 helicopters to our French Customs customer, including initial maintenance and inspection of the assets delivered as part of the contract to support the French Customs and Gendarmerie Nationale's helicopter fleet.

In Canada, Babcock is continuing to deliver air ambulance and wildfire suppression services in the Province of Manitoba, helping to protect citizens, communities, and natural resources. In 2022 alone, Babcock dropped over 18 million litres of water on the wildfires in Manitoba and completed over 268 aerial firefighting missions.

During the year, we were selected as the in-service support provider for British Columbia's new fleet of AW169 aircraft. The 10-year contract is worth around £200 million and will start in FY25.

Financial Glossary – Alternative Performance Measures

The Group provides Alternative Performance Measures (APMs), including underlying operating profit, underlying margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, and net debt to EBITDA 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 2022 with the addition of measures excluding the Type 31 loss. Further information on the Group's specific adjusting items, which is a critical accounting judgement, can be found in Note 2.

Measure	Closest equivalent IFRS measure	Definition and purpose	Adjustments to reconcile to IFRS measure (and reference to reconciliation)
Revenue measures			
Organic revenue growth	Revenue growth year-on-year	Growth excluding the impact of foreign exchange (FX), and contribution from acquisitions and disposals over the prior and current year - Used to measure the year-on-year movement in Group revenue - It is a good indicator of business growth - Group KPI	FX, contribution of acquisitions and disposals in the current and prior period
Contract backlog	Transaction price under IFRS 15 on customer contracts allocated to unsatisfied / partially satisfied performance obligations	Contracted revenue excluding variable revenue, expected contract renewals, expected revenue from framework agreements and impact of termination for convenience clauses - Used to measure revenue under contract as a good indicator of revenue visibility	Contract backlog is based on the full contract term whereas the IFRS measure may be based on shorter periods where the customer has the ability to exit contracts early
Framework agreements	No direct equivalent	Funded and unfunded unexecuted customer contracts. Unfunded orders include the elements of contracts for which funding has not been authorised by the customer	
Profit measures			
Underlying operating profit	Operating profit	Operating profit before the impact of specific adjusting items[1] - Underlying operating profit is the headline measure of the Group's performance	Specific adjusting items[1] - See table on page 10 - See Note 2
Underlying operating margin	No direct equivalent	Underlying operating profit as a percentage of revenue - To provide a measure of operating profitability, excluding one-off items - Operating margin is an important indicator of operating efficiency across the Group - Group KPI	Ratio – N/A
Underlying net finance costs	Net finance costs	Net finance costs excluding specific adjusting items[1] - To provide an alternative measure of finance costs excluding items such as fair value measurements which can fluctuate significantly on inputs outside of management's control	Specific adjusting items[1] - See table on page 10
Underlying profit before tax	Profit before tax	Profit before tax adjusted for - The summation of the impact of all specific adjusting items on profit before tax	Specific adjusting items[1] - See table on page 10
Underlying effective tax rate	Effective tax rate	Tax expense excluding the tax impact of specific adjusting items[1], as a percentage of underlying profit before tax (being the summation of the impact of all adjusting items on profit before tax) excluding the share of post-tax income from joint ventures and associates - To provide an indication of the ongoing tax rate across the Group, excluding one-off items	Specific adjusting items[1] - See table on page 10

Measure	Closest equivalent IFRS measure	Definition and purpose	Adjustments to reconcile to IFRS measure (and reference to reconciliation)
Profit measures continued			
Underlying basic earnings per share	Basic earnings per share	Based on the Group's underlying profit before tax and underlying effective tax rate	Specific adjusting items[1] - See table on page 10
Underlying operating profit excluding the Type 31 loss	Operating profit	Operating profit, excluding the Type 31 loss, before the impact of specific adjusting items[1] - Eliminates the Type 31 loss for a better measure of the Group's underlying operating profit performance, given the one-off nature of the loss	Specific adjusting items[1] - See table on page 10 - See Note 2
Underlying operating margin excluding the Type 31 loss	No direct equivalent	Underlying operating profit, excluding the Type 31 loss, divided by revenue - Eliminates the Type 31 loss for a better measure of the Group's underling operating margin performance, given the one-off nature of the loss	Ratio – N/A
Underlying basic earnings per share excluding the Type 31 loss	Basic earnings per share	Based on the Group's underlying profit before tax, excluding the Type 31 loss, and underlying effective tax rate. - Eliminates the Type 31 loss for a better measure of the Group's basic earnings per share performance, given the one-off nature of the loss	Specific adjusting items[1] - See table on page 12
EBITDA	Operating profit	Underlying operating profit, plus depreciation and amortisation, and various covenant adjustments linked to the Revolving Credit Facility including the treatment of leases within operating profit and pension costs - Used as the basis to derive the gearing ratio net debt/EBITDA, which is a key measure of balance sheet strength and the basis of our debt covenant calculations	Specific adjusting items[1] Depreciation and amortisation Covenant adjustments - See table on page 16
Balance sheet			
Net debt	No direct equivalent	Loans, including the interest rate and foreign exchange derivatives which hedge the loans, bank overdrafts, cash and cash equivalents, loans to joint ventures and associates, lease receivables and lease obligations - Used as a general measure of the progress in generating cash and strengthening of the Group's balance sheet position	- See table on page 15
Net debt (excluding operating leases)	No direct equivalent	Net debt (defined above) excluding operating lease liabilities as previously defined by IAS 17. - Used by management to monitor the strength of the Group's balance sheet position and to ensure the Group's capital structure is appropriate - Used by credit agencies	- See table on page 16
Net debt (covenant basis)	No direct equivalent	Net debt (excluding operating leases), excluding loans to joint ventures and associates and finance lease receivables - Used for covenants over Revolving Credit Facility - Used by credit agencies	- See table on page 16
Net debt/EBITDA (covenant basis)	No direct equivalent	Net debt (covenant basis) divided by EBITDA - A measure of the Group's ability to meet its payment obligations - Used by analysts and credit agencies - Group KPI	Ratio – N/A - See table on page 16
Net debt/EBITDA excluding Type 31	No direct equivalent	Net debt (covenant basis) divided by EBITDA, excluding the Type 31 loss - Eliminates the Type 31 EBITDA loss for a better measure of the Group's balance sheet, given the one-off nature of the loss	
Return on invested capital (pre-tax) (ROIC)	No direct equivalent	Underlying operating profit plus share of JV PAT, divided by the sum of net debt (excluding operating leases), shareholders' funds and retirement benefit deficit (surplus) - Used as a measure of profit earned by the Group generated by the debt and equity capital invested, to indicate the efficiency at which capital is allocated - Group KPI	Ratio – N/A - See table on page 16

Measure	Closest equivalent IFRS measure	Definition and purpose	Adjustments to reconcile to IFRS measure (and reference to reconciliation)
Cash flow measures			
Net capital expenditure	No direct equivalent	Property, plant and equipment and intangible assets, less proceeds on disposal of property, plant and equipment - Included in underlying operating cash flow to calculate underlying operating cash conversion	
Underlying operating cash conversion	No direct equivalent	Underlying operating cash flow after capital expenditure as a percentage of underlying operating profit - Used as a measure of the Group's efficiency in converting profits into cash	Ratio – N/A
Underlying free cash flow	No direct equivalent	Underlying free cash flow includes cash flows from exceptional items and the capital element of lease payment cash flows (rather than net new lease commitments, which are reflected as a debt movement) - Provides a measure of cash generated by the Group's operations after servicing debt and tax obligations, available for use in line with the Group's capital allocation policy	- See page 13

1. Refer to Note 2 in the financial statements

Going concern and viability statement

Overview

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

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

For assessing going concern, the Board considered the 12 month period from the date of signing the Group's financial statements for the year ended 31 March 2023. 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, in the forthcoming Annual Report. 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. In the forthcoming Annual Report, we outline our strategy, business model and markets summaries. Our prospects are supported by:

- a diverse portfolio of businesses based on well-established market positions, focussed on naval engineering, support and systems, and on critical services in our core defence and civil markets. In FY23 62% of Group sales were defence related and 38% civil;
- a geographically diverse business with a high proportion of sales to governments and other major prime defence contractors. In FY23, 61% of sales were to defence and civil customers in the UK, and 39% were international;
- long-term visibility of sales and future sale prospects through an order backlog of £9.5 billion as at 31 March 2023, 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 2023, net debt excluding operating leases was £346.2 million and the Group therefore had liquidity headroom of £1.6 billion, including net cash of £0.4 billion and undrawn facilities of £1.2 billion. These facilities are considered more than adequate to meet current and other liabilities as they fall due, and supports the Group's negative working capital position largely arising from securing customer advances ahead of contract work starting. 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 July 2023, the Group's committed facilities and bonds totalling £1.9 billion were as follows:

- £300 million three-year RCF maturing 20 May 2024
- Existing £775 million revolving credit facility (RCF), of which £45 million matures on 28 August 2025 and £730 million matures 28 August 2026
- £300 million bond maturing 5 October 2026
- €550 million bond, hedged at £493 million, maturing 13 September 2027
- Two committed overdraft facilities totalling £100 million

The RCFs are the only facilities with covenants attached. The key covenant ratios are (i) net debt to EBITDA (gearing ratio) of 3.5x (ii) 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 RCFs to the Group's liquidity

position, our assessments of going concern and viability have tested the Group's gearing ratio, interest cover and liquidity headroom throughout the period under review up to their current maturity dates.

Base case scenario

The base case budget shows significant levels of headroom against both financial covenants and liquidity headroom based on the current committed facilities outlined above. That base case largely assumes we maintain our incumbent programme positions if re-let during the five year period, with margin recovery if they are currently below the Group average. Many opportunities available to the Group, where we do not yet have high conviction of securing the work, have been excluded from the Base Case to seek to maintain a degree of caution.

It also assumes that the impact of current inflationary pressures can be managed within contract estimates assumed in our planning. The base case assumes no further reshaping of the business portfolio, so it is not dependent upon any future cash proceeds from divestments. It also maintains pension deficit contributions in excess of income statement charges of around £63 million relating to FY24 and around £63 million relating to FY25.

Reverse stress testing of the base case

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

Of the remaining measurement points within the available facility period, the lowest required reduction in forecast EBITDA to hit the gearing covenant level was £115 million and the lowest net debt increase was 67%. The lowest required reduction in forecast EBITDA to hit the interest cover covenant was £174 million. Given the mitigating actions that are available and within management's control, such movements are not considered plausible.

Severe but plausible downside scenarios

The Directors also considered a series of severe but plausible downside scenarios which are sensitivities run against the base case budget and forecasts for the duration of the assessment period. These sensitivities include – separately – a reduction in bid pipeline closure (business winning), a deterioration in large programme performance across the Group (including further inflation cost increases, or related failures in supplier resilience, as per our principal risks), a deterioration in the Group's working capital position and a regulator imposed cessation in flying two of the largest aircraft fleets in the Group. All of 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 severe but plausible (SBP) downside case, the Board considered the feed of individual risks from the sectors covering the above sensitivities. Overall there were c.90 profit and cash flow risks identified.

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

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

If such a severe downturn were to occur in the Group's performance, the Board would take mitigation measures to protect the Group in the short term. Such profit and cash mitigation measures that are deemed entirely within the control of the Group and identified as part of the sector budgeting exercise have been included in the SBP scenario (eg cancelling pay rises and bonus awards, curtailing uncommitted capital expenditure and operational spend including R&D and other investment).

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

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

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

In concluding on the financial viability of the Group, having considered the scenarios outlined above, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all its liabilities as they fall due up to March 2028.

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 2023, 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 2023 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. This reflects the complex nature of the work within the defence and emergency services sectors. Whilst we aim to ensure our contracts only accept risk that can be managed, risk remains in the contract/project delivery.

Existing & new markets: We rely on winning and retaining large contracts in both existing and new markets both of which are often characterised by a relatively small number of major customers many of whom are owned, controlled, or funded by local or national government. Risk Appetite: Medium. This reflects that, whilst the maintenance of a secure and assured pipeline is essential for continued growth, we may choose to embrace the risks that we can confidently and securely manage.

IT & 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.

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 utilise 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. Macroeconomic condition such as high inflation and Brexit. Disruption events to established supply chains such as natural disasters, wars, and strikes. Supplier specific challenges as we have seen increasing disruption from cyber-attacks on suppliers i.e., financial failure of suppliers. Part availability for aged customer assets for maintenance of customer assets that are so old that it is not possible to source key parts or components, or the cost of minimum quantities becomes cost or lead-time prohibitive. Risk Appetite: Low. Babcock recognises the adverse effects of the financial resilience risk on our balance sheet and investments, our aim being to eliminate the risk where possible.

Operational resilience: We are undertaking multiple change programmes with the introduction of a new strategy, a new operating model to restructure the shape of the Group, and a new People strategy, as well as undertaking the alignment of both the business portfolio and our property portfolio. Additionally, there are several new material opportunities that the Group may pursue – some in new geographies – that may further stretch management bandwidth. Risk Appetite: Low. Given the materially adverse nature of the risk to Operational Resilience, Babcock looks to recognise and eradicate the emergence of risks to operations where possible, hence risk appetite being set as low.

Financial resilience: The Group is exposed to a number of financial risks, some of which are of a macroeconomic nature (for example, foreign currency, interest rates) and some of which are more specific to the Group (for example, liquidity and credit risks). 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 entirely eliminated and will aways require management.

Health and safety: Our operations entail the potential risk of significant harm to people and property, wherever we operate across the world. Risk Appetite: Low. For both moral, financial and reputational reasons we would wish to keep the risk as low as possible. Through the eyes of the HSE and high hazard regulators we are legally mandated to keep the risk as low as reasonably practicable.

Climate and sustainability: Sustainability is an integral part of our corporate strategy, and our global business employs short, medium, and long terms control measures to manage climate risks. Risk Appetite: Low. Our probability and impact scorings for the risks related to Climate and Sustainability are based on a scenario-based methodology. We determined that the most significant transition risk is labour, which is expected to rise, however our risk appetite allocation remains low as this situation is likely to materialise in the medium and long term and gives us time to implement activities to mitigate.

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 look 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.

Regulatory & compliance: Our businesses are subject to the laws, regulations and restrictions of the many jurisdictions in which they operate. Risk Appetite: Low. Babcock always endeavours to act in line with best practices and regulatory requirements. Babcock has zero tolerance for regulatory risk around risks such as anti-bribery and corruption and modern slavery, the risk appetite allocation is therefore set at low

Talent management, retention and upskilling: 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 and necessitate over-resourcing resulting in potential negative workforce engagement and retention. Some risk is accepted given by sharing capability across our business and compensating for skills shortages in particular areas.

Acquisitions and disposals: We have built our core strengths organically and through acquisition. Decisions to acquire companies, as well as the process of their acquisition and integration, are complex, time-consuming, and expensive. If we believe that a business is not 'core', we may decide to sell that business. 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 its lowest level 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 more detail in the 2023 Annual Report, a copy of which will be available at www.babcockinternational.com

Group income statement

For the year ended 31 March	Note	2023 £m	2022 £m[1]
Revenue	2,3	4,438.6	4,101.8
Operating costs		(4,315.7)	(4,040.6)
Goodwill impairment	7	–	(7.2)
(Loss)/profit resulting from acquisitions and disposals	20	(77.4)	172.8
Operating profit		45.5	226.8
Other income		–	6.2
Share of results of joint ventures and associates	2,3,11	9.3	20.1
Finance income	4	21.9	9.6
Finance costs	4	(70.5)	(80.4)
Profit before tax		6.2	182.3
Income tax expense	5	(39.5)	(14.4)
(Loss)/profit for the year		(33.3)	167.9
Attributable to:			
Owners of the parent		(35.0)	164.2
Non-controlling interest		1.7	3.7
(Loss)/earnings per share			
Basic		(6.9)p	32.5p
Diluted		(6.9)p	32.1p

[1] The Group has re-presented the prior period income statement to combine Cost of revenue and Administration and distribution costs into Operating costs. Further information is included in note 1.

Group statement of comprehensive income

For the year ended 31 March	Note	2023 £m	2022 £m
(Loss)/profit for the year		(33.3)	167.9
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		(0.5)	0.2
Reclassification of cumulative currency translation reserve on disposal	20	(1.2)	(7.3)
Fair value adjustment of interest rate and foreign exchange hedges		9.4	(14.7)
Tax, including rate change impact, on fair value adjustment of interest rate and foreign exchange hedges		(3.1)	(1.0)
Hedging (losses)/gains reclassified to profit or loss		(10.8)	17.1
Reclassification of cumulative hedge reserve on disposal of joint venture		–	20.8
Share of other comprehensive income of joint ventures and associates	11	4.7	30.2
Tax, including rate change impact, on share of other comprehensive income of joint ventures and associates	11	(1.2)	(5.7)
Items that will not be reclassified to income statement			
Remeasurement of retirement benefit obligations	18	(402.4)	322.5
Tax on remeasurement of retirement benefit obligations		100.8	(64.2)
Other comprehensive (loss)/ income, net of tax		(304.3)	297.9
Total comprehensive (loss)/income		(337.6)	465.8
Total comprehensive (loss)/income attributable to:			
Owners of the parent		(337.3)	461.2
Non-controlling interest		(0.3)	4.6
Total comprehensive (loss)/ income		(337.6)	465.8

Group statement of changes in equity

	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Total equity attributable to owners of the Company £m	Non-controlling interest £m	Total equity £m
At 1 April 2021	303.4	873.0	768.8	30.6	(1,671.7)	(42.7)	(48.4)	213.0	16.0	229.0
Profit for the year	–	–	–	–	164.2	–	–	164.2	3.7	167.9
Other comprehensive income	–	–	–	–	258.3	46.7	(8.0)	297.0	0.9	297.9
Total comprehensive income	–	–	–	–	422.5	46.7	(8.0)	461.2	4.6	465.8
Dividends	–	–	–	–	–	–	–	–	(1.1)	(1.1)
Share-based payments	–	–	–	–	5.5	–	–	5.5	–	5.5
Tax on share-based payments	–	–	–	–	2.3	–	–	2.3	–	2.3
Net movement in equity	–	–	–	–	430.3	46.7	(8.0)	469.0	3.5	472.5
At 31 March 2022	303.4	873.0	768.8	30.6	(1,241.4)	4.0	(56.4)	682.0	19.5	701.5
At 1 April 2022	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)
Total comprehensive income	–	–	–	–	(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)
At 31 March 2023	303.4	873.0	768.8	30.6	(1,568.8)	3.0	(56.1)	353.9	17.0	370.9

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 2023 £m	31 March 2022[1] £m
Assets			
Non-current assets			
Goodwill	7	**781.4**	783.4
Other intangible assets	8	**140.8**	176.7
Property, plant and equipment	9	**478.5**	710.6
Right of use assets	10	**159.1**	334.3
Investment in joint ventures and associates	11	**57.4**	54.3
Loan to joint ventures and associates	11	**9.5**	12.1
Retirement benefits surpluses	18	**94.8**	300.9
Other financial assets		**7.3**	10.0
Lease receivables		**22.2**	24.1
Derivatives		**2.6**	–
Deferred tax asset		**112.2**	47.4
Trade and other receivables	13	**6.4**	9.7
		1,872.2	2,463.5
Current assets			
Inventories	12	**126.8**	142.7
Trade and other receivables	13	**506.9**	488.8
Contract assets	13	**322.5**	299.3
Income tax recoverable		**7.7**	25.4
Lease receivables		**16.4**	23.3
Other financial assets		**1.4**	–
Derivatives		**4.3**	11.4
Cash and cash equivalents		**451.7**	1,146.3
		1,437.7	2,137.2
Total assets		**3,309.9**	4,600.7
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital		**303.4**	303.4
Share premium		**873.0**	873.0
Capital redemption and other reserves		**746.3**	747.0
Retained earnings		**(1,568.8)**	(1,241.4)
		353.9	682.0
Non-controlling interest		**17.0**	19.5
Total equity		**370.9**	701.5
Non-current liabilities			
Bank and other borrowings	15	**768.4**	847.7
Lease liabilities	10	**178.9**	329.3
Trade and other payables	14	**0.9**	1.0
Deferred tax liabilities		**7.0**	9.6
Derivatives		**53.3**	59.3
Retirement benefit deficits	18	**156.2**	109.3
Provisions for other liabilities	16	**80.8**	60.3
		1,245.5	1,416.5
Current liabilities			
Bank and other borrowings	15	**19.6**	863.4
Lease liabilities	10	**49.9**	104.8
Trade and other payables	14	**911.1**	888.1
Contract liabilities	14	**616.4**	518.3
Income tax payable		**15.8**	17.7
Derivatives		**12.8**	34.8
Provisions for other liabilities	16	**67.9**	55.6
		1,693.5	2,482.7
Total liabilities		**2,939.0**	3,899.2
Total equity and liabilities		**3,309.9**	4,600.7

[1] The 2022 Group Statement of Financial Position has been revised under IFRS 3 for new information obtained about facts and circumstances that existed at the acquisition date during the permitted measurement period – see Note 17 for more detail.

Group cash flow statement

For the year ended 31 March	Note	2023 £m	2022 £m
Cash flows from operating activities			
(Loss)/profit for the year		(33.3)	167.9
Share of results of joint ventures and associates	11	(9.3)	(20.1)
Income tax expense	5	39.5	14.4
Finance income	4	(21.9)	(9.6)
Finance costs	4	70.5	80.4
Depreciation and impairment of property, plant and equipment	9	77.0	117.5
Depreciation and impairment of right of use assets	10	91.3	123.1
Amortisation and impairment of intangible assets	8	37.1	94.7
Goodwill impairment		–	7.2
Equity share-based payments		9.4	5.5
Net derivative fair value and currency movement through profit or loss		(7.5)	(0.9)
Loss/(profit) on disposal of subsidiaries, businesses and joint ventures and associates	20	77.4	(172.8)
Profit on disposal of property, plant and equipment		(2.0)	(1.5)
Loss/(profit) on disposal of right of use assets		0.8	(3.2)
Loss on disposal of intangible assets		1.7	0.7
Cash generated from operations before movement in working capital and retirement benefit payments		330.7	403.3
(Increase)/decrease in inventories		(25.7)	10.6
(Increase) in receivables		(71.6)	(85.2)
(Increase) in contract assets		(54.2)	(26.5)
Increase/(decrease) in payables		131.4	(202.0)
Increase in contract liabilities		132.3	124.2
Increase/(decrease) in provisions		47.9	(30.9)
Retirement benefit contributions in excess of current period expense		(141.9)	(151.7)
Cash generated from operations		348.9	41.8
Income tax (paid)/received		(25.4)	10.0
Interest paid		(77.0)	(54.9)
Interest received		14.8	9.9
Net cash flows from operating activities		261.3	6.8
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	20	158.6	420.7
Acquisition of subsidiaries, net of cash acquired		–	(15.5)
Dividends received from joint ventures and associates	11	8.7	41.6
Proceeds on disposal of property, plant and equipment		38.5	68.0
Proceeds on disposal of intangible assets		0.4	–
Purchases of property, plant and equipment		(104.2)	(190.8)
Purchases of intangible assets		(20.9)	(12.4)
Investment in joint ventures	11	–	(2.6)
Loans repaid by joint ventures and associates	11	2.4	31.0
Increase in loans to joint ventures and associates		–	(1.4)
Net cash flows from investing activities		83.5	338.6
Cash flows from financing activities			
Lease payments	19	(108.5)	(113.0)
Cash inflow from settlement of derivatives		0.8	–
Bank loans repaid	19	(972.8)	(31.7)
Loans raised and facilities drawn down	19	416.6	23.1
Dividends paid to non-controlling interest		(2.2)	(1.1)
Net cash flows from financing activities		(666.1)	(122.7)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(321.3)	222.7
Cash, cash equivalents and bank overdrafts at beginning of year	19	756.5	530.9
Effects of exchange rate fluctuations	19	(5.7)	2.9
Cash, cash equivalents and bank overdrafts at end of year	19	429.5	756.5

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 2023. 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 2022:

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2022 and did not have a material impact on the consolidated financial statements:

- The Group has adopted the amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets'. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract.
- The Group has adopted the amendments to IAS 16, 'Property, plant and equipment'. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use and clarifies the meaning of 'testing whether an asset is functioning properly'.
- The Group has adopted the amendments to IFRS 3, 'Business Combinations'. The amendment relates to the identification of liabilities assumed and contingent assets acquired in a business combination.
- The Group has adopted the annual improvements to IFRSs 2018 – 2020 cycle.

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:

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

(ii) Determining the Group's cash generating units

Management exercises judgement in determining the Group's cash generating units for the goodwill impairment assessment. This determination is generally straightforward and factual, however in some cases judgement is required, for example it was determined that Africa is a separate cash generating unit, whilst operations of the Group in other territories do not represent separate cash generating units. Over time management reviews the cash generating units to ensure they remain appropriate as businesses are acquired and divested and reporting structures change, including how information is reported to the Chief Operating Decision Maker. If there was a change in this judgement this could result in a material adjustment to goodwill. Further detail is included in notes 3 and 7.

(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.

- **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. In the most significant contract where there is no mechanism to recover an increase in costs due to inflation, revenue and profit in the year would be impacted by £3-4 million for each 1% change in personnel costs.

Type 31 Programme estimates

During the year significant increases in forecast costs on the Type 31 programme were identified, which were not foreseen at contract inception. A dispute resolution process has commenced with the customer over responsibility for these incremental costs. We have reassessed the contract outturn on the basis that none of these are recovered, given the uncertainty at the early stage of the process. This has resulted in the recording of a £100m loss in the year, representing a £43m reversal of revenue, £2m asset impairment and the recognition of a £55m onerous contract provision. Determining the contract outturn, and therefore revenue and onerous contract provision recognised, requires assumptions and complex judgements to be made about 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 key sources of estimates in assessing the outturn are:

1. The results of the dispute resolution process, and any reimbursements agreed with the customer;
2. The build costs over the production schedule and estimate of efficiencies arising from the 'learner' effect through performing work over multiple ships;
3. The ability to maintain or improve operational performance through process efficiencies and improvements over the five ships;
4. The impact of inflation on the build cost; and
5. The achievement of the build schedule to completion and final acceptance.

These estimates are inter-related. The range of possible future outcomes in respect of assumptions made to determine the contract outturn 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. With c£1bn of estimated costs to go over the life of the contract, if actual recoveries or costs were to differ from those assumed by 5-10%, the potential impact on the contract outturn could be £50-£100m.

To mitigate this, comparisons of actual contract performance and previous forecasts used to assess the contract outturn are performed regularly, with consideration given to whether any revisions to assumptions are required. In the next financial year, design activities will be finalised and the construction of the first ship will be substantially complete. This will reduce the uncertainty over the contract outturn but a significant element will remain due to the substantial activity which extends over a further 4 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 18.

(iii) The carrying value of goodwill

Goodwill is tested annually for impairment, in accordance with IAS 36, Impairment of Assets ('IAS 36'). The impairment assessment is based on assumptions in relation to future cash flows expected to be generated by cash generating units, together with appropriate discounting of the cash flows. The assessment of the recoverable amount of goodwill in the Aviation CGU is included as a critical accounting estimate given the significance of the remaining carrying value of goodwill and the inherent level of estimation uncertainty required to undertake impairment testing. The assessment of the recoverable value of goodwill in other CGUs is not considered a critical accounting estimate as a result of the headroom within these CGUs. The key assumptions in estimating the carrying value of goodwill are discount rate, long-term growth rate and growth rate in the short-term cash flows.

Inflation rates are incorporated into the impairment assessment through their inclusion within the growth rates in cash inflows and outflows and through the methodology by which discount rates are determined. Were inflation to impact upon all cash flows equally, an impairment assessment should be neutral to the impact of inflation. The Group has a number of protections and exposures to the impact of inflation across its portfolio of revenue arrangements and supply chain agreements resulting in an indirect impact of inflation on the impairment outturn.

(c) Accounting policy change – Presentation of operating profit

In the year ended 31 March 2023 the Group has re-presented the income statement to combine Cost of revenue and Administration and distribution costs into Operating costs. The comparative period operating costs of £4,040.6 million were presented as Cost of revenue of £3,756.5 million and Administration and distribution costs of £284.1 million in the prior period annual report and financial statements. This change to presenting the costs of the Group by nature is deemed to be more informative for the users of the annual report and financial statements as it allows greater comparability of year-on-year trends.

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 items 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

		Year ended 31 March 2023			Year ended 31 March 2022		
	Note	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Revenue	3	4,438.6	–	4,438.6	4,101.8	–	4,101.8
Operating profit/(loss)	3	177.9	(132.4)	45.5	237.7	(10.9)	226.8
Other income		–	–	–	6.2	–	6.2
Share of results of joint ventures and associates	11	9.3	–	9.3	20.1	–	20.1
Net finance costs	4	(58.3)	9.7	(48.6)	(61.2)	(9.6)	(70.8)
Profit/(loss) before tax		128.9	(122.7)	6.2	202.8	(20.5)	182.3
Income tax (expense)/benefit	5	(37.7)	(1.8)	(39.5)	(43.9)	29.5	(14.4)
Profit/(loss) after tax for the year		91.2	(124.5)	(33.3)	158.9	9.0	167.9

2. Adjustments between statutory and underlying information (continued)

Earnings per share including underlying measures

	Year ended 31 March 2023			Year ended 31 March 2022		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Profit/(loss) after tax for the year	91.2	(124.5)	(33.3)	158.9	9.0	167.9
Amount attributable to owners of the parent	89.5	(124.5)	(35.0)	155.2	9.0	164.2
Amount attributable to non-controlling interests	1.7	–	1.7	3.7	–	3.7
Weighted average number of shares (m)	505.4		505.4	505.1		505.1
Effect of dilutive securities (m)	9.5		9.5	6.1		6.1
Diluted weighted average number of shares (m)	514.9		514.9	511.2		511.2
Basic EPS	17.7p		(6.9)p	30.7p		32.5p
Diluted EPS	17.4p		(6.9)p	30.4p		32.1p

Details of specific adjusting items

The impact of specific adjusting items is set out below:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Amortisation of acquired intangibles	(15.8)	(21.4)
Business acquisition, merger and divestment related items	(117.7)	163.1
Fair value movement on derivatives and related items	1.1	–
Exceptional items	–	(118.8)
Restructuring	–	(33.8)
Adjusting items impacting operating profit/(loss)	(132.4)	(10.9)
Fair value movement on derivatives and related items	9.7	(9.6)
Adjusting items impacting loss before tax	(122.7)	(20.5)
Income tax benefit		
Amortisation of acquired intangibles	4.1	5.5
Business acquisition, merger and divestment related items	(2.1)	–
Restructuring	–	6.5
Fair value movement on derivatives and related items	(2.6)	2.5
Exceptional tax items and tax on exceptional items, including rate change impact	(1.2)	15.0
Income tax (expense)/benefit	(1.8)	29.5

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 loss relating to business acquisition, merger and divestment related items for the year ended 31 March 2023 was £117.7 million, consisting 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 items relating to the disposal of the Oil & Gas business in Aviation of £3.1 million.

The prior year included a total net gain of £163.1 million, consisting of a £172.8 million profit from acquisitions and disposals completed in the year offset by £9.7 million of costs incurred in relation to the Group's divestment programme for disposals that had not completed at 31 March 2022.

2. Adjustments between statutory and underlying information (continued)

Restructuring

Major restructuring programmes are not anticipated to recur year-on-year and therefore are not considered to be indicative of underlying performance and hence removed from underlying operating profit.

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

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

Tax comprises a charge of £1.2 million arising from the impact of the increase in the rate of corporation tax to 25% with effect from 1 April 2023.

In the prior year, tax included a £12.1 million credit in relation to exceptional items, and a credit of £2.9 million arising from the impact of the increase in the rate of corporation tax to 25%.

Exceptional items

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

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Operating costs		
Impairment of goodwill	–	(7.2)
Impairment of acquired intangibles	–	(57.6)
Impairment of property, plant and equipment and aircraft fleet rationalisation	–	(58.8)
Release of onerous contract provisions	–	1.8
Release of provisions relating to the Italy fine and related costs	–	3.6
Other	–	(0.6)
Exceptional items – Group	–	(118.8)
Exceptional tax items and tax on exceptional items	–	15.0
Exceptional items – net of tax	–	(103.8)

Explanation of exceptional items

Impairment of goodwill

The prior year impairment test resulted in a goodwill impairment of £7.2 million in the Aviation operating segment, due to changes in the forecast future business performance informed by the Group's disposal programme.

Impairment of acquired intangibles

In the prior year, an impairment of £57.6 million was recognised in the Aviation operating segment, due to changes in the forecast future business performance informed by the Group's disposal programme.

Impairment of property, plant and equipment

In the prior year, an impairment charge of £58.8 million was recognised on property, plant and equipment in the Aviation operating segment, due to changes in the forecast future business performance informed by the Group's disposal programme.

Onerous contracts

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

Italy fine

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

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 2023	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £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
Specific Adjusting Items (note 2)						
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 loss on forward rate contracts to be settled in future periods	2.8	0.1	0.1	(1.9)	–	1.1
Operating profit/(loss)	5.8	63.6	80.9	(104.8)	–	45.5
Share of results of 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)
Profit/(loss) before tax	4.6	64.7	82.0	(95.8)	(49.3)	6.2

Year ended 31 March 2022	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	1,259.3	1,009.7	1,015.5	817.3	–	4,101.8
Underlying operating profit	98.0	62.4	58.8	18.5	–	237.7
Specific Adjusting Items (note 2)						
Amortisation of acquired intangibles	(0.6)	–	(1.3)	(19.5)	–	(21.4)
Business acquisition, merger and divestment related items	221.3	–	(6.1)	(52.1)	–	163.1
Restructuring costs	(8.6)	(5.5)	(16.9)	(2.8)	–	(33.8)
Exceptional items	(0.4)	–	1.7	(120.1)		(118.8)
Operating profit/(loss)	309.7	56.9	36.2	(176.0)	–	226.8
Other income	–	–	–	6.2	–	6.2
Share of results of joint ventures and associates	3.5	0.4	2.5	13.7	–	20.1
IFRIC 12 investment income	–	–	0.8	–	–	0.8
Other net finance costs*	–	–	–	–	(71.6)	(71.6)
Profit/(loss) before tax	313.2	57.3	39.5	(156.1)	(71.6)	182.3

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

Revenues of £2.2 billion (2022: £2.0 billion) are derived from a single external customer. These revenues are attributable across all reportable segments.

4. Net finance costs

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	29.6	57.3
Lease interest and foreign exchange movements on lease liabilities	21.7	17.4
Amortisation of issue costs of bank loan	3.3	2.0
Retirement benefit interest cost	–	3.7
Other	15.9	–
Total finance costs	70.5	80.4
Finance income		
Bank deposits, loans and leases	13.7	8.8
IFRIC 12 Investment income	0.7	0.8
Retirement benefit interest income	7.5	–
Total finance income	21.9	9.6
Net finance costs	48.6	70.8

Net finance costs decreased to £48.6 million (2022: £70.8 million). The current year includes a one-off gain of £18 million relating to the valuation of interest rate swaps (within loans, overdrafts and associated interest rate hedges) and a £12 million cost relating to the factoring of receivables for the Mentor contract in France (within other finance costs).

5. Taxation

Income tax expense

	Total	
	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Analysis of tax expense in the year		
Current tax		
• UK current year expense	0.6	1.9
• UK prior year (benefit)	–	(10.8)
• Overseas current year expense	24.5	19.3
• Overseas prior year expense	2.9	2.5
	28.0	12.9
Deferred tax		
• UK current year expense	11.1	17.5
• UK prior year (benefit)/expense	(3.3)	11.5
• Overseas current year expense/(benefit)	3.6	(25.3)
• Overseas prior year (benefit)/expense	(1.1)	0.7
• Impact of changes in tax rates	1.2	(2.9)
	11.5	1.5
Total income tax expense	39.5	14.4

5. Taxation (continued)

The tax for the year is higher (2022: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Profit before tax	6.2	182.3
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2022: 19%)	1.2	34.6
Effects of:		
Expenses not deductible for tax purposes	8.6	2.4
Non-deductible write-off of goodwill	–	1.4
Re-measurement of deferred tax in respect of statutory rate changes	1.2	(2.9)
Difference in respect of share of results of joint ventures and associates' results	(1.8)	(2.1)
Prior year adjustments	(1.5)	3.9
Differences in respect of foreign rates	5.8	(0.4)
Unrecognised deferred tax movements	9.0	25.0
Deferred tax not previously recognised / derecognised	–	(8.1)
Non-taxable profits on disposals and non-deductible losses on disposals	22.4	(37.8)
Other	(5.4)	(1.6)
Total income tax expense/(benefit)	39.5	14.4

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

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

The Group is subject to taxation in several jurisdictions. The complexity of applicable rules may result in legitimate differences of interpretation between the Group and taxing authorities, especially where an economic judgement or valuation is involved. The principal elements of the Group's uncertain tax positions relate to the pricing of intra-group transactions and the allocation of profits in overseas territories. The outcome of tax authority disputes in such areas is not predictable, and to reflect the effect of these uncertain tax positions a provision is recorded which represents management's assessment of the most likely outcome of each issue. At 31 March 2023 the Group held uncertain tax provisions of £20.3 million (2022: £16.5 million).

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

The increase in the UK rate of corporation tax to 25% with effect from 1 April 2023 was substantively enacted during the year ended 31 March 2022. The effect has been to increase the Group's net deferred tax asset by £23.1 million (2022: £1.4 million), comprising a charge to Income Statement of £1.1 million (2022: £2.9 million credit) and a credit to Other Comprehensive Income of £24.2 million (2022: £2.0 million charge). In the year ended 31 March 2022 there was also a credit to Equity of £0.5 million.

6. (Loss)/earnings per share

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

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

Number of shares

	2023 Number	2022 Number
Weighted average number of ordinary shares for the purpose of basic EPS	505,391,563	505,091,970
Effect of dilutive potential ordinary shares: share options	9,528,985	6,083,765
Weighted average number of ordinary shares for the purpose of diluted EPS	514,920,548	511,175,735

Earnings per share

	Year ended 31 March 2023			Year ended 31 March 2022		
	Loss attributable to shareholders £m	Basic per share Pence	Diluted per share Pence	Earnings attributable to shareholders £m	Basic per share Pence	Diluted per share Pence
(Loss) / earnings for the year	(35.0)	(6.9)	(6.9)	164.2	32.5	32.1

7. Goodwill

	31 March 2023 £m	31 March 2022 (restated) £m
Cost		
At 1 April	2,312.7	2,487.3
On disposal of subsidiaries (note 20)	(488.0)	(197.9)
Additions (note 20) (revised – note 17)	–	22.3
Exchange adjustments	(1.4)	1.0
At 31 March (restated – note 17)	1,823.3	2,312.7
Accumulated impairment		
At 1 April	1,529.3	1,531.0
On disposal of subsidiaries (note 20)	(487.4)	(8.9)
Impairment	–	7.2
Exchange adjustments	–	–
At 31 March	1,041.9	1,529.3
Net book value at 31 March (revised – note 17)	781.4	783.4

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

	31 March 2023 £m	31 March 2022 (restated) £m
Marine	296.6	297.7
Nuclear	233.1	233.1
Land	218.0	218.6
Aviation	32.0	32.0
Africa	1.7	2.0
	781.4	783.4

During the year, goodwill was tested for impairment at 31 March 2023 in accordance with IAS 36. This impairment analysis is performed on an annual basis at operating segment level, as outlined in the Group's accounting policies. The Group monitors goodwill at operating segment level. The goodwill allocated to the Africa operating segment is immaterial and the Directors do not consider there to be any reasonably possible changes in estimates that would result in impairment of this goodwill. No further disclosures are provided in relation to the Africa operating segment. During the year the Group disposed of goodwill of £0.6 million through the disposal of part of the Aerial Emergency Services business in Aviation (£nil million) and the Civil Training business in Land (£0.6 million).

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 1.9 – 4.6% (2022: 1.8 – 2.5%). 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.

Sensitivity

The value-in-use for Marine and Nuclear results in these operating segments having significant headroom. Assuming no change in the cash flows over the initial five-year period, it would require a long-term growth of nil combined with a discount rate in excess of 40% to reduce the headroom in these sectors to £nil. The Directors do not consider these to be plausible assumptions. In the Aviation and Land sectors the decrease in headroom that would result from a change in the discount rate and long-term growth rate are set out in the table below:

	31 March 2023 Aviation	31 March 2022 Aviation
Pre-tax discount rate		
Increase of 200bps (2022: 100 bps)	63.1	30.2
Long-term growth rate		
Decrease of 50bps	12.7	12.5

Management have also identified the growth rate in the short-term cash flows in the Aviation operating segment as a key assumption. Annual growth in the underlying cash flows has been determined on a contract-by-contract basis based on our knowledge of the existing contract base and management judgement regarding future wins and losses. If the five-year compound growth rate for the Aviation operating segment decreased by 14% this would cause an impairment of the goodwill allocated to this sector.

8. Other intangible assets

	Acquired intangibles – relationships £m	Internally generated software development costs and licences £m	Internally generated development costs and other £m	Total £m
Cost				
At 1 April 2022 (restated)	1,095.3	222.6	27.6	1,345.5
Additions	–	18.1	3.4	21.5
Reclassification to property, plant and equipment	–	3.0	0.3	3.3
Disposal of subsidiary undertakings (note 20)	(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
Accumulated amortisation and impairment				
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 (note 20)	(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
Cost				
At 1 April 2021 (previously stated)	1,031.5	189.3	26.1	1,246.9
Restatement	–	30.4	–	30.4
At 1 April 2021	1,031.5	219.7	26.1	1,277.3
On acquisition of subsidiaries (note 20) (restated – note 17)	63.0	–	–	63.0
Additions	–	7.0	4.4	11.4
Reclassification from property, plant and equipment	–	0.1	(1.6)	(1.5)
Reclassification	–	0.9	(0.9)	–
Disposal of subsidiary undertakings (note 20)	–	(3.9)	–	(3.9)
Disposals at cost	–	(1.4)	(0.3)	(1.7)
Exchange adjustments	0.8	0.2	(0.1)	0.9
At 31 March 2022 (restated – note 17)	1,095.3	222.6	27.6	1,345.5
Accumulated amortisation and impairment				
At 1 April 2021 (previously stated)	927.5	115.0	4.5	1,047.0
Restatement	–	30.4	–	30.4
At 1 April 2021	927.5	145.4	4.5	1,077.4
Amortisation charge	21.4	13.9	1.8	37.1
Impairment (note 2)	57.6	–	–	57.6
Reclassification	–	0.1	(0.1)	–
Disposal of subsidiary undertakings (note 20)	–	(1.8)	–	(1.8)
Disposals	–	(1.0)	–	(1.0)
Exchange adjustments	(0.7)	0.2	–	(0.5)
At 31 March 2022	1,005.8	156.8	6.2	1,168.8
Net book value at 31 March 2022 (restated)	89.5	65.8	21.4	176.7

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

During the year ended 31 March 2023, an error has been identified whereby fully amortised intangible assets were incorrectly presented net. These restatements have no impact on the total intangible assets balance nor on any other financial statement area. In addition, the carrying value of acquired intangibles – relationships as at 31 March 2022 has been revised by £1.0 million as described in Note 17 as a result of new information coming to light during the assessment period on the acquisition of a business.

Included in Internally generated software development costs and licences is £38.6 million (2022: £40.7 million) relating to the Group's ERP system, which is amortised over a 10 year period. Included in the acquired intangible balance is £52.3 million (2022: £63.6 million) relating to the acquisition of the NSM joint venture (refer to note 20 for further details). This will be fully amortised in 20 years.

8. Other intangible assets (continued)

In the prior year, the Aviation operating segment recorded an impairment to acquired intangibles of £57.6 million on an acquired intangible that was initially recognised in relation to the acquisition of the Avincis business. The Group's disposal programme impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base, resulting in reassessment of the value-in-use for the operating segment in line with an assessment under IAS 36. This asset was fully impaired.

9. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2022	151.8	24.7	524.9	303.1	213.9	1,218.4
On disposal of subsidiaries (note 20)	(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	–	–	–	–	(3.3)	(3.3)
Reclassification	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
Accumulated depreciation						
At 1 April 2022	70.7	11.1	373.2	52.3	0.5	507.8
On disposal of subsidiaries (note 20)	(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
Cost						
At 1 April 2021 (previously stated)	159.8	15.8	506.5	365.3	187.6	1,235.0
Restatement *	(1.7)	1.6	17.7	(17.5)	(32.6)	(32.5)
At 1 April 2021	158.1	17.4	524.2	347.8	155.0	1,202.5
On acquisition of subsidiaries (note 20)	–	–	0.4	–	–	0.4
On disposal of subsidiaries (note 20)	(7.6)	(0.6)	(21.6)	(17.4)	(0.9)	(48.1)
Additions	1.8	3.8	32.3	28.9	112.6	179.4
Disposals	(2.5)	(0.8)	(14.2)	(56.0)	(46.5)	(120.0)
Reclassification	1.5	4.9	(1.5)	0.9	(5.8)	–
Reclassification from intangible assets	0.4	–	1.1	–	–	1.5
Exchange adjustments	0.1	–	4.2	(1.1)	(0.5)	2.7
At 31 March 2022	151.8	24.7	524.9	303.1	213.9	1,218.4
Accumulated depreciation						
At 1 April 2021 (previously stated)	69.5	10.9	373.1	45.4	1.7	500.6
Restatement *	(0.8)	0.6	(15.3)	(17.5)	0.5	(32.5)
At 1 April 2021	68.7	11.5	357.8	27.9	2.2	468.1
On disposal of subsidiaries (note 20)	(4.7)	(0.2)	(13.7)	(7.7)	–	(26.3)
Depreciation charge for the year	8.1	0.5	38.1	12.0	–	58.7
Impairment	–	–	–	58.8	–	58.8
Disposals	(1.5)	(0.7)	(10.8)	(38.9)	(1.6)	(53.5)
Exchange adjustments	0.1	–	1.8	0.2	(0.1)	2.0
At 31 March 2022	70.7	11.1	373.2	52.3	0.5	507.8
Net book value at 31 March 2022	81.1	13.6	151.7	250.8	213.4	710.6

9. Property, plant and equipment (continued)

In the year ended 31 March 2023 management identified that the prior period property, plant and equipment disclosure included a historic error which overstated historic cost and accumulated depreciation by £17.5 million (1 April 2021: £16.8 million). Additionally, an error has been identified in the classification of cost between asset categories in the prior period totalling £36.3 million and this has also been restated. These restatements have no impact on the total property, plant and equipment balance nor on any other financial statement area.

In the prior year, the Group recognised an impairment charge of £58.8 million in relation to the aircraft fleet in the Aviation operating segment due to changes in the future business performance, as informed by the Group's disposal programme. This change impacted on the ability of the Aviation operating segment to share assets, capability and management across the entire contract and asset base. The asset valuations have been calculated based on estimated discounted cash flows over the remaining useful expected lives of the assets. The impairment charge of £58.8 million is based on a recoverable amount for the relevant assets of £220.0 million.

10. Leases

Group as a lessee

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

Right of use assets

	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Total £m
Cost				
At 1 April 2022	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 (note 20)	(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
Accumulated depreciation				
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 (note 20)	(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)

Right of use assets (continued)

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

Lease liabilities

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

	Total £m
At 1 April 2022	434.1
Additions	117.0
Disposals	(5.3)
Disposal of subsidiaries (note 20)	(218.1)
Exchange adjustments	9.6
Lease interest	15.9
Lease repayments	(124.4)
At 31 March 2023	228.8
Non-current lease liabilities	178.9
Current lease liabilities	49.9
At 31 March 2023	228.8

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

11. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
At 1 April	54.3	73.5	12.1	42.1	66.4	115.6
Acquisition and disposal of joint ventures and associates (note 20)	(1.0)	(24.5)	–	–	(1.0)	(24.5)
Loans repaid by joint ventures and associates	–	–	(2.4)	(31.0)	(2.4)	(31.0)
Increase in loans to joint ventures and associates	–	–	–	1.4	–	1.4
Investment in joint ventures and associates	–	2.6	–	–	–	2.6
Share of profits	9.3	20.1	–	–	9.3	20.1
Interest accrued and capitalised	–	–	1.0	3.2	1.0	3.2
Interest received	–	–	(1.2)	(3.6)	(1.2)	(3.6)
Dividends received	(8.7)	(41.6)	–	–	(8.7)	(41.6)
Fair value adjustment of derivatives	4.7	30.2	–	–	4.7	30.2
Tax on fair value adjustment of derivatives	(1.2)	(5.7)	–	–	(1.2)	(5.7)
Foreign exchange	–	(0.3)	–	–	–	(0.3)
At 31 March	57.4	54.3	9.5	12.1	66.9	66.4

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

	2023 £m	2022 £m
Marine	3.7	4.8
Nuclear	1.4	0.3
Land	0.2	1.5
Aviation	61.6	59.8
Net book value	66.9	66.4

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 as the Group has the right to net assets of the joint arrangement rather than separate rights and obligations to the assets and liabilities of the joint arrangement, respectively.

There has been no impairment to loans to joint ventures and associates during the year (2022: £nil). Total cumulative expected credit losses in respect of loans to joint ventures and associates are also £nil (2022: £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 2023 £m	31 March 2022 £m
Raw materials and spares	58.6	77.3
Work-in-progress	7.2	4.1
Finished goods and goods for resale	61.0	61.3
Total	126.8	142.7

Write-downs of inventories amounted to £5.4 million (2022: £15.8 million). These were recognised as an expense during the year ended 31 March 2023 and included in operating costs in the income statement.

13. Trade and other receivables and contract assets

	31 March 2023 £m	31 March 2022 £m
Non-current assets		
Costs to obtain a contract	2.8	8.9
Costs to fulfil a contract	1.4	0.8
Other debtors	2.2	–
Non-current trade and other receivables	6.4	9.7
Current assets		
Trade receivables	307.3	311.5
Less: provision for impairment of receivables	(7.3)	(14.6)
Trade receivables – net	300.0	296.9
Retentions	6.0	4.4
Amounts due from related parties	2.1	2.0
Other debtors	129.4	106.2
Prepayments	63.7	71.1
Costs to obtain a contract	0.6	7.6
Costs to fulfil a contract	5.1	0.6
Current trade and other receivables	506.9	488.8
Contract assets	322.5	299.3
Current trade and other receivables and contract assets	829.4	788.1

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

	2023 £m	2022 £m
Current liabilities		
Contract liabilities	616.4	518.3
Trade creditors	239.1	164.7
Amounts due to related parties	0.8	1.5
Other creditors	41.6	26.9
Other taxes and social security	75.5	76.6
Accruals	554.1	618.4
Trade and other payables	911.1	888.1
Trade and other payables and contract liabilities	1,527.5	1,406.4
Non-current liabilities		
Other creditors	0.9	1.0

Included in creditors is £12.9 million (2022: £6.7 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 2023 £m	31 March 2022 £m
Current liabilities		
Bank loans and overdrafts due within one year or on demand		
Secured	0.3	0.4
Unsecured	19.3	863.0
	19.6	863.4
Lease obligations*	49.9	104.8
	69.5	968.2
Non-current liabilities		
Bank and other borrowings		
Secured	21.0	24.0
Unsecured	747.4	823.7
	768.4	847.7
Lease obligations*	178.9	329.3
	947.3	1,177.0

* 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 2023		31 March 2022	
	Loans and overdrafts £m	Lease obligations £m	Loans and overdrafts £m	Lease obligations £m
Within one year	19.6	49.9	863.4	104.8
Between one and two years	0.3	40.6	22.6	90.5
Between two and three years	0.6	34.5	0.6	67.9
Between three and four years	300.6	23.4	0.7	46.4
Between four and five years	466.2	19.9	356.4	38.7
Greater than five years	0.7	60.5	467.4	85.8
	788.0	228.8	1,711.1	434.1

Borrowing facilities

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

	31 March 2023 £m	31 March 2022 £m
Expiring in less than one year	–	–
Expiring in more than one year but not more than five years	1,199.6	1,012.2
	1,199.6	1,012.2

16. Provisions for other liabilities

	Contract/ warranty (a) £m	Employee benefits and business reorganisation costs (b) £m	Italian anti-trust fine (c) £m	Property (d) £m	Other (e) £m	Total provisions £m
At 1 April 2021	67.1	35.8	20.0	21.5	1.1	145.5
On disposal of subsidiaries (note 20)	–	(1.3)	–	(1.2)	–	(2.5)
On acquisition of subsidiaries (note 20) (restated – note 17)	1.3	–	–	–	–	1.3
Net charge/(release) to income statement	(8.6)	40.1	(3.6)	1.8	0.3	30.0
Utilised in year	(8.5)	(35.4)	(16.1)	(0.8)	–	(60.8)
Unwinding of discount	–	0.2	–	–	–	0.2
Foreign exchange	(0.2)	0.3	–	(0.3)	–	(0.2)
At 31 March 2022	51.1	39.7	0.3	21.0	1.4	113.5
Prior period adjustment (note 17)	2.4	–	–	–	–	2.4
At 31 March 2022 as restated	53.5	39.7	0.3	21.0	1.4	115.9
On disposal of subsidiaries (note 20)	(8.5)	(1.2)	–	(5.8)	(0.1)	(15.6)
Reclassification	(1.0)	1.4	–	(4.3)	3.9	–
Net charge/(release) to income statement	76.0	10.4	–	8.4	(0.6)	94.2
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
At 31 March 2023	100.4	30.5	–	15.1	2.7	148.7

a) The contract/warranty provisions relate to onerous contracts and warranty obligations on completed contracts and disposals. Warranty provisions are provided in the normal course of business and are recognised when the underlying products and services are sold. The provision is based on an assessment of future claims with reference to historical warranty data and a weighting of possible outcomes against their associated probabilities. Onerous contracts relate to expected future losses on contracts with customers – notably T31 as outlined in note 1.

b) Employee benefits and business reorganisation costs relate to business restructuring activities including announced redundancies in addition to employee benefits including long-term sickness. The net charge to the employee benefits and reorganisation provision comprises a charge in the year of £12.8 million and a release of £2.4 million.

c) Italian anti-trust fines pertain to historic court rulings in respect of the Babcock Mission Critical Services Italia SpA subsidiary. The majority of this provision was paid in the prior year with remaining amounts paid in FY23.

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

d) 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 2023 £m	31 March 2022 £m
Current	67.9	55.6
Non-current	80.8	60.3
	148.7	115.9

Included within provisions is £6.9 million (2022: £7.4 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. Revisions to historic acquisitions within the IFRS 3 measurement period

Under IFRS 3, when new information obtained about facts and circumstances that existed at the acquisition date arises within the measurement period, the Group is required to adjust amounts recognised through the acquisition accounting. Post-acquisition, we have determined that assumptions used to calculate a pain/gain share provision in respect of the Naval Ship Management (Australia) Pty Limited ('NSM') acquisition did not reflect the facts and circumstances at the acquisition date. This has resulted in an increase to provisions of £2.4 million at 31 March 2022. The reduction in net assets acquired has increased the goodwill by £1.0 million, increased acquired intangibles by £1.0 million, increased deferred tax assets by £0.4 million at 31 March 2022.

31 March 2022 – Group statement of financial position (extract)

	31 March 2022 (previously published)	(iii) Acquisition accounting adjustment	31 March 2022 (restated)
Assets			
Non-current assets			
Goodwill	782.4	1.0	783.4
Other intangible assets	175.7	1.0	176.7
Deferred tax asset	47.0	0.4	47.4
Total non-current assets *	2,461.1	2.4	2,463.5
Liabilities			
Current liabilities			
Provisions	(53.2)	(2.4)	(55.6)
Current liabilities *	(2,480.3)	(2.4)	(2,482.7)
Equity			
Retained earnings	(1,241.4)	–	(1,241.4)
Total equity *	701.5	–	701.5

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

18. 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.

The Group's balance sheet includes the assets and liabilities of the pension schemes calculated on an IAS 19 basis. At 31 March 2023, the net position was a deficit of £61.4 million compared to a net surplus of £191.6 million at 31 March 2022. 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:

	2023				2022			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets								
Growth assets								
Equities	(3.1)	10.6	26.6	34.1	31.6	14.3	30.6	76.5
Property funds	301.7	0.2	5.9	307.8	364.0	0.1	5.1	369.2
High yield bonds/emerging market debt	–	–	0.4	0.4	44.1	–	0.4	44.5
Absolute return and multi-strategy funds	6.0	148.0	17.5	171.5	46.0	182.9	31.8	260.7
Low-risk assets								
Bonds	1,227.7	95.5	45.1	1,368.3	1,924.1	77.2	77.5	2,078.8
Matching assets*	1,524.7	1.4	21.7	1,547.8	2,094.0	1.3	101.8	2,197.1
Longevity swaps and annuities	(231.8)	–	(10.1)	(241.9)	(283.5)	–	(10.2)	(293.7)
Fair value of assets	2,825.2	255.7	107.1	3,188.0	4,220.3	275.8	237.0	4,733.1
Percentage of assets quoted	79%	100%	70%	80%	84%	100%	46%	82%
Percentage of assets unquoted	21%	–	30%	20%	16%	–	54%	18%
Present value of defined benefit obligations								
Active members	450.7	45.7	21.7	518.1	756.0	65.7	35.8	857.5
Deferred pensioners	686.6	65.3	34.7	786.6	1,066.2	93.5	132.7	1,292.4
Pensioners	1,773.6	130.5	40.6	1,944.7	2,170.4	167.9	53.3	2,391.6
Total defined benefit obligations	2,910.9	241.5	97.0	3,249.4	3,992.6	327.1	221.8	4,541.5
Net (liabilities)/assets recognised in the statement of financial position	(85.7)	14.2	10.1	(61.4)	227.7	(51.3)	15.2	191.6

18. Retirement benefits and liabilities (continued)

Analysis of movement in the Group statement of financial position

	Year ended 31 March 2023				Year ended 31 March 2022			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets (including reimbursement rights)								
At 1 April	4,220.3	275.8	237.0	4,733.1	4,123.7	265.6	234.3	4,623.6
Interest on assets	113.4	7.3	5.4	126.1	82.3	5.2	4.7	92.2
Actuarial (loss)/gain on assets	(1,437.0)	(17.1)	(79.0)	(1,533.1)	77.0	13.1	(1.7)	88.4
Employer contributions	167.4	2.5	4.6	174.5	182.5	2.6	5.1	190.2
Employee contributions	0.1	–	–	0.1	0.2	–	–	0.2
Benefits paid	(239.0)	(12.8)	(4.8)	(256.6)	(245.4)	(10.7)	(5.4)	(261.5)
Settlements	–	–	(56.1)	(56.1)	–	–	–	–
At 31 March	2,825.2	255.7	107.1	3,188.0	4,220.3	275.8	237.0	4,733.1
Present value of benefit obligations								
At 1 April	3,992.6	327.1	221.8	4,541.5	4,290.0	369.6	242.9	4,902.5
Service cost	21.7	1.3	2.8	25.8	25.6	2.0	3.5	31.1
Incurred expenses	6.2	0.5	0.1	6.8	6.6	0.5	0.3	7.4
Interest cost	105.0	8.7	4.9	118.6	83.8	7.3	4.8	95.9
Employee contributions	0.1	–	–	0.1	0.2	–	–	0.2
Experience loss/(gain)	135.6	18.0	9.3	162.9	70.6	(14.2)	(2.4)	54.0
Actuarial (gain)/loss – demographics	(38.2)	(3.6)	(1.7)	(43.5)	(11.5)	(3.5)	–	(15.0)
Actuarial (gain)/loss – financial	(1,073.1)	(97.7)	(79.3)	(1,250.1)	(227.3)	(23.9)	(21.9)	(273.1)
Benefits paid	(239.0)	(12.8)	(4.8)	(256.6)	(245.4)	(10.7)	(5.4)	(261.5)
Settlements	–	–	(56.1)	(56.1)	–	–	–	–
At 31 March	2,910.9	241.5	97.0	3,249.4	3,992.6	327.1	221.8	4,541.5
Net (deficit)/surplus at 31 March	(85.7)	14.2	10.1	(61.4)	227.7	(51.3)	15.2	191.6

The latest full actuarial valuations of the Group's defined benefit pension schemes have been updated to 31 March 2023 by independent qualified actuaries for IAS 19 purposes, on a best estimate basis, using the following assumptions:

March 2023	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
Rate of increase in pensionable salaries	3.0%	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
March 2022				
Rate of increase in pensionable salaries	3.4%	3.4%	–	0.5%
Rate of increase in pensions (past service)	3.2%	3.5%	3.7%	3.2%
Discount rate	2.7%	2.7%	2.7%	2.7%
Inflation rate (RPI)	3.7%	3.7%	3.7%	3.6%
Inflation rate (CPI)	3.2%	3.2%	3.2%	3.2%
Weighted average duration of cash flows (years)	16	14	16	17
Total life expectancy for current pensioners aged 65 (years)	85.9	86.8	85.0	85.3
Total life expectancy for future pensioners currently aged 45 (years)	86.6	87.4	85.9	86.4

18. Retirement benefits and liabilities (continued)

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:

	2023				2022			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Current service cost	21.7	1.3	2.8	25.8	25.7	2.0	3.4	31.1
Incurred expenses	6.2	0.5	0.1	6.8	6.6	0.5	0.3	7.4
Total included within operating profit	27.9	1.8	2.9	32.6	32.3	2.5	3.7	38.5
Net interest (credit)/cost	(8.5)	1.4	(0.4)	(7.5)	1.5	2.1	0.1	3.7
Total included within income statement	19.4	3.2	2.5	25.1	33.8	4.6	3.8	42.2

Amounts recorded in the Group statement of comprehensive income

	Year ended 31 March 2023				Year ended 31 March 2022			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Actual return less interest on pension scheme assets	(1,437.0)	(17.1)	(79.0)	(1,533.1)	77.0	13.1	(1.7)	88.4
Experience (losses)/gains arising on scheme liabilities	(135.6)	(18.0)	(9.3)	(162.9)	(70.6)	14.2	2.4	(54.0)
Changes in assumptions on scheme liabilities	1,111.2	101.2	81.2	1,293.6	238.8	27.4	21.9	288.1
At 31 March	(461.4)	66.1	(7.1)	(402.4)	245.2	54.7	22.6	322.5

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 2023 and the changes to the Group income statement for the year to March 2024, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2023 £m	Income statement 2024 £m
Initial assumptions	3,249.4	25.0
Discount rate assumptions increased by 0.5%	(192.1)	(11.5)
Discount rate assumptions decreased by 0.5%	211.1	10.5
Inflation rate assumptions increased by 0.5%	145.7	7.8
Inflation rate assumptions decreased by 0.5%	(137.2)	(7.4)
Total life expectancy increased by half a year	60.2	3.0
Total life expectancy decreased by half a year	(60.2)	(3.0)
Salary increase assumptions increased by 0.5%	13.3	0.9
Salary increase assumptions decreased by 0.5%	(12.8)	(0.9)

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.

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

	31 March 2022 £m	Cash flow £m	Additional leases £m	Other non-cash movement [1] £m	Clarification of net debt definition [2] £m	Changes in fair value £m	Exchange movement £m	31 March 2023 £m
Cash and bank balances	1,146.3	(687.9)	–	–	–	–	(6.7)	451.7
Bank overdrafts	(389.8)	366.6	–	–	–	–	1.0	(22.2)
Cash, cash equivalents and bank overdrafts	756.5	(321.3)	–	–	–	–	(5.7)	429.5
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)
Changes in liabilities from financing arrangements	(1,784.7)	663.9	(117.0)	221.8	–	59.0	(45.9)	(1,002.9)
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)
Net debt	(968.7)	308.3	(88.5)	221.6	(36.1)	56.0	(57.0)	(564.4)

[1] Other non-cash movements predominantly relate to the disposal of lease liabilities and associated lease receivables as part of the disposal transactions described in note 20.

[2] 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.

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

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

Acquisitions

There have been no acquisitions in the year ended 31 March 2023.

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

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

	Year ended 31 March 2022 (restated)
	Naval Ship Management £m
Fair value gain on previously held interest:	
Carrying value of previously held interest	0.7
Fair value gain on previously held interest	32.4
Fair value of previously held interest at acquisition date	33.1
Purchase consideration:	
Cash consideration	33.1
Fair value of previously held interest	33.1
Total consideration	66.2
Assets acquired:	
Property, plant and equipment	0.4
Right of use assets	0.5
Deferred tax assets	0.7
Contract assets	16.3
Trade and other receivables	11.6
Cash and cash equivalents	17.6
Deferred tax liability	(18.9)
Income tax payable	(0.4)
Lease liabilities	(0.5)
Contract liabilities	(8.2)
Trade and other payables	(34.5)
Provisions	(3.7)
Net identifiable assets acquired	(19.1)
Goodwill	22.3
Intangible assets	63.0
Net assets acquired	66.2

Post-acquisition, Naval Ship Management (Australia) Pty Limited contributed £0.7 million to the profit before tax of the Group for the year ended 31 March 2022. If this entity had been owned for the full financial year the contribution to profit before tax would have been £10.5 million.

The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by intangible assets of £63.0 million, relating to customer relationships, and goodwill of £22.3 million, representing potential for future synergies arising from combining the acquired businesses with the Group's existing business. Goodwill is not deductible for tax purposes. Post-acquisition, we determined that assumptions used to calculate a pain/gain share provision did not reflect the facts and circumstances at the acquisition date. This resulted in an increase to provisions of £2.4 million at 31 March 2022. The reduction in net assets acquired has increased the goodwill by £1.0 million, increased acquired intangibles by £1.0 million, increased deferred tax assets by £0.4 million at 31 March 2022. Further detail is included in note 17.

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

Disposals

Year ended 31 March 2023

On 19 July 2022, the Group announced it had entered into a sale and purchase agreement to dispose of part of its aerial emergency services business in Europe. The disposal group was part of the Aviation sector and provided Aerial Emergency Services, including medical, firefighting and search & rescue to customers and communities, in Italy, Spain, Portugal, Norway, Sweden and Finland. The disposal completed on 28 February 2023. The Group received consideration of £187.1 million.

On 1 September 2022, the Group entered into a sale and purchase agreement to dispose of its Civil Training business. The disposal group was part of the Land sector and the disposal completed on 1 February 2023. The Group received consideration of £5.5 million.

	Year ended 31 March 2023			
	Aerial Emergency Services £m	Civil Training £m	Other £m	Total £m
Goodwill	–	0.6	–	0.6
Investment in joint ventures and associates	1.0	–	–	1.0
Other intangible assets	18.9	–	–	18.9
Property, plant and equipment	236.8	0.1	–	236.9
Right of use assets	182.0	–	–	182.0
Deferred tax assets	20.6	–	–	20.6
Other non-current assets	4.4	–	–	4.4
Inventory	35.4	–	–	35.4
Trade and other receivables	99.5	9.4	–	108.9
Derivatives	4.2	–	–	4.2
Income tax receivable	1.5	–	–	1.5
Cash, cash equivalents and bank overdrafts	10.5	2.6	–	13.1
Other non-current liabilities	(0.2)	–	–	(0.2)
Bank and other borrowings	(1.6)	–	–	(1.6)
Lease liabilities	(218.1)	–	–	(218.1)
Deferred tax liability	(6.3)	–	–	(6.3)
Income tax payable	(0.6)	–	–	(0.6)
Trade and other payables	(128.7)	(4.6)	–	(133.3)
Other current liabilities	–	–	–	–
Provisions	(15.6)	–	–	(15.6)
Net assets disposed	243.7	8.1	–	251.8
Cumulative currency translation loss	(1.2)	–	–	(1.2)
Total	242.5	8.1	–	250.6
Consideration	187.1	5.5	–	192.6
Disposal costs	(18.1)	(1.3)	–	(19.4)
Net consideration after disposal costs	169.0	4.2	–	173.2
Loss on disposal	(73.5)	(3.9)	–	(77.4)
Disposal related items	(43.4)	–	3.1	(40.3)
Business acquisition, merger and divestment related items	(116.9)	(3.9)	3.1	(117.7)
Sale proceeds	187.1	5.5	–	192.6
Sale proceeds less cash disposed of	176.6	2.9	–	179.5
Less non-cash proceeds	–	(1.5)	–	(1.5)
Less transaction costs	(18.1)	(1.3)	–	(19.4)
Net cash inflow	158.5	0.1	–	158.6

Disposal related items in relation to the Aerial Emergency Services disposal include asset impairments for assets not disposed but relating to the Aerial Emergency Services businesses whose carrying value exceeded recoverable amount following the disposal transaction along with provisions for certain warranty related items.

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

Disposals

Year ended 31 March 2022

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

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

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

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

	Year ended 31 March 2022				
	Oil and Gas business £m	Frazer-Nash Consultancy £m	Power £m	AirTanker £m	Total £m
Goodwill	0.4	64.5	44.1	80.0	189.0
Investment in joint ventures and associates	–	–	–	23.8	23.8
Other intangible assets	–	2.1	–	–	2.1
Property, plant and equipment	15.1	2.2	4.5	–	21.8
Right of use assets	125.8	3.9	1.9	–	131.6
Deferred tax assets	18.8	0.5	0.3	–	19.6
Other non-current assets	–	–	–	–	–
Inventory	3.6	–	0.1	–	3.7
Trade and other receivables	46.5	31.0	9.3	–	86.8
Derivatives	–	–	–	–	–
Income tax receivable	1.5	2.9	–	–	4.4
Cash, cash equivalents and bank overdrafts	–	4.9	4.2	–	9.1
Other non-current liabilities	–	–	–	–	–
Bank and other borrowings	–	–	–	–	–
Lease liabilities	(129.7)	(5.4)	(2.0)	–	(137.1)
Deferred tax liability	(12.0)	–	–	–	(12.0)
Income tax payable	(1.0)	–	–	–	(1.0)
Trade and other payables	(39.6)	(13.9)	(9.9)	–	(63.4)
Other current liabilities	–	–	–	–	–
Provisions	(1.3)	–	(1.2)	–	(2.5)
Net assets disposed	28.1	92.7	51.3	103.8	275.9
Disposal costs	2.0	10.1	2.7	2.7	17.5
Cumulative currency translation loss	(7.3)	–	–	–	(7.3)
Recycle of hedge reserve	–	–	–	20.8	20.8
(Loss)/profit on disposal	(12.8)	188.9	(4.0)	(31.7)	140.4
Sale proceeds	10.0	291.7	50.0	95.6	447.3
Sale proceeds less cash disposed of	10.0	286.8	45.8	95.6	438.2
Less non-cash proceeds					
Less transaction costs	(2.0)	(10.1)	(2.7)	(2.7)	(17.5)
Net cash inflow	8.0	276.7	43.1	92.9	420.7

21. Contingent liabilities

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

a) The 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.

b) 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.

c) 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.

d) 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.

e) 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.

22. Capital and other financial commitments

Capital commitments

	31 March 2023 £m	31 March 2022 £m
Contracts placed for future capital expenditure not provided for in the financial statements	7.8	21.3

23. 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.

Annual General Meeting 2023

This year's Annual General Meeting will be held on 28 September 2023. 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 2023.

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. 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 20 July 2023 and are signed on its behalf by:

D Lockwood
Director

D Mellors
Director