



20 April 2023

This announcement contains inside information

FY23 post close update and Type 31 contract update

Babcock International Group PLC ("Babcock" or "the Group") provides an update on FY23 and the Type 31 contract.

FY23 post close update

Based on draft management accounts, before detailed management review and subject to audit, the Group can disclose its early view of its results for FY23.

Group cash flow for FY23 was significantly ahead of expectations. This reflects strong operational performance and the conclusion of the disposal programme, including receipt of c.€100 million of completion adjustments on the disposal of the European Aerial Emergency Services businesses.

Net debt as at 31 March 2023 was c.£350 million before operating leases.

Group underlying profitability for FY23 is in line with expectations, excluding the potential one-off impact of the Type 31 contract as outlined below.

Given the stronger than expected cash performance and further de-gearing of the balance sheet, the Board expects to reinstate a dividend in FY24.

Type 31 contract update

In November 2019, Babcock was awarded the Type 31 contract by the UK Ministry of Defence to deliver five Inspiration Class frigates for the Royal Navy, based on Babcock's Arrowhead 140 hull design, at an average production cost of £250 million per ship.

To date, we have recognised over £600 million of revenue but no profit on the programme. Expected to conclude in 2028, the programme remains on schedule against a demanding production plan, despite the restrictions imposed by COVID-19. HMS Venturer, the First in Class ship is due to be structurally complete in December 2023 and construction commenced on the second ship, HMS Active, in January 2023.

Throughout FY23, we have been in dialogue with the customer about the contractual position regarding additional forecast costs resulting from certain material macroeconomic changes that were not foreseen at contract inception. These have led to an increase in the actual and projected programme costs to deliver the programme as planned.

We have been unable to reach agreement with our customer as to who is responsible for the additional costs under the contract. As a result, a dispute resolution process (DRP) under the contract has commenced. The DRP may lead to an arbitration.

If the contractual position remains unresolved, the lack of recovery of these additional costs would need to be reflected in the Group's FY23 year end results. Without recovery of the additional costs, the contract would be loss-making and our preliminary assessment, subject to finalisation and audit, is that a one-off provision of between £50 million and £100 million would be required to cover the duration of the contract. The related cash impact would be of a similar amount, realised over the remainder of the programme. Any settlement or arbitral award would reverse the provision in part or in full.

The position in relation to the Type 31 contract does not affect progress or profitability of the Group's existing Arrowhead 140 export contracts and we continue to be in active discussions with a number of prospective customers.

The person responsible for arranging the release of this announcement on behalf of the company is Jack Borrett as Company Secretary.

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