babcock™

Babcock International Group PLC
Half year results for the six months ended 30 September 2024

13 November 2024

Successfully delivering performance and growth

Statutory results	30 September 2024	30 September 2023
Revenue	£2,408.9m	£2,177.0m
Operating profit	£183.8m	£144.2m
Basic earnings per share	25.7p	20.4p
Cash generated from operations	£181.3m	£163.2m

Underlying results [1]	30 September 2024	30 September 2023
Contract backlog	£9.5bn	£9.6bn
Underlying operating profit	£168.8m	£154.4m
Underlying operating margin	*7.0%*	7.1%
Underlying basic earnings per share	23.5p	20.6p
Interim dividend per share	2.0p	1.7p
Underlying free cash flow	£94.7m	£67.2m
Net debt	£(385.6)m	£(492.5)m
Net debt excluding leases	£(145.8)m	£(287.8)m
Net debt/EBITDA (covenant basis)	0.6x	1.1x

David Lockwood, Chief Executive Officer, said:

"This is another strong set of results, with continued positive momentum across the Group. Our operational and financial performance in the first half of the year underpins my confidence that we will deliver our expectations for the full year, as we progress towards our medium-term guidance.

We continue to focus on driving performance and sustainable growth. Working closely with our customers, we are consistently delivering key programmes and contracts, with enhanced standards of execution. Meanwhile, a backdrop of geopolitical instability means demand for what we do continues to increase, resulting in an expanding and attractive long-term opportunity set. We are selecting the right opportunities and are being disciplined in how we deploy capital to deliver growth which maximises shareholder value."

Financial highlights

- **Contract backlog** £9.5 billion flat vs HY24, or down 8% vs FY24 driven by execution on long-term contracts. Key contracts expected in H2
- **Revenue** of £2,409 million increased 11% on an organic basis, driven by strong growth in Nuclear and Land
- **Underlying operating profit** up 10% (at constant FX) to £169 million, driven by growth and margin improvement in Nuclear and Land
- **Underlying operating margin** was 7.0% (HY24: 7.1%). The prior period included high margin AH140 frigate license sales
- **Underlying EPS** up 14% to 23.5 pence
- **Underlying operating cash conversion** was 80% (HY24: 82%)
- **Underlying free cash flow** increased 41% to £95 million reflecting the profit performance and working capital timing
- **Net debt to EBITDA** reduced to 0.6x on a covenant basis. Net debt excluding leases reduced to £146 million
- **Interim dividend** of 2.0 pence per share (HY24: 1.7 pence)

Outlook

- Our expectations for FY25 remain unchanged, noting that full year underlying free cash flow will be significantly H1 weighted.
- With around 90% of FY25 expected revenue under contract at 1 October 2024, we commence the second half with good momentum and are confident of making further progress against our medium-term guidance: to deliver mid-single digit average annual revenue growth and achieve underlying operating margins of at least 8% and underlying operating cash conversion of at least 80%.

Strategic highlights

- Launched H&B Defence, a JV with HII to support AUKUS focusing on building Australia's sovereign nuclear capabilities
- Opened a new Engineering and Nuclear Skills building at City College Plymouth to enhance our workforce's nuclear capabilities
- Partnered with ST Engineering to launch a 120mm Ground Deployed Advanced Mortar System
- Launched the General Logistics Vehicle (GLV) medium wheelbase variant targeted at UK and international opportunities
- DSG contract extension under negotiation following notification of UK MOD of its intention to exercise up to five option years

Operational highlights

Marine

- Awarded contract extension in Poland to support Miecznik frigate programme for three ships to 2031
- Type 31 – good progress with ship 1 superstructure largely complete, ship 2 progressing, ship 3 steel cut
- First six months of in-service delivery of the Skynet contract to manage the UK's military satellite and space operations
- LGE record intake of more than £300 million
- Completed successful docking period for the HMS Queen Elizabeth aircraft carrier

Nuclear

- Reopened our Devonport 9-Dock, following a significant regeneration project, critical for the future support of the UK's CASD
- Significant ramp up at Hinkley Point C as we begin to install mechanical and electrical services

Land

- Strong operational performance on DSG contract
- Awarded an additional contract to build 53 High Mobility Transporter Jackal 3 six-wheeled 'Extendas' for the British Army
- Awarded several UK military training contract extensions during the period
- Launched the new Babcock Immersive Training Experience (BITE) to support individual and collective training
- Successfully delivered the transition phases of two new French military land contracts

Aviation

- Preferred bidder on MENTOR2, a c.€800 million 15-year contract to provide initial pilot training to the French Air Force, Navy and Army
- Commenced the 12-year contract to deliver the in-service support of 48 Sécurité Civile and police EC145C2 helicopters
- RAF Hades contract extended by two years to provide technical airbase support services across the Armed Forces
- Partnered with the RAF to deliver Elementary Flying Training to the Ukrainian Pilot Force as it prepares to fly F-16 jets
- Awarded a 10-year renewal with UK Midlands Air Ambulance Charity

1. Alternative Performance Measures (APMs) - notes to statutory and underlying results on page 1:
The Group provides APMs, including underlying operating profit, underlying margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, net debt, net debt excluding leases and contract backlog to enable users to have a more consistent view of the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. They are used by management to assess operating performance and as a basis for forecasting and decision-making, as well as the planning and allocation of capital resources. They are also understood to be used by investors in analysing business performance.

The Group's APMs are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies, and they are not intended to be a substitute for, or superior to, measures defined under IFRS. The Group's APMs are consistent with the year ended 31 March 2024. The Group has defined and outlined the purpose of its APMs in the Financial Glossary on page 25.

Results presentation:

A presentation for investors and analysts will be held on 13 November 2024 at 09:00 am (GMT). The presentation will be webcast live and available on demand on our website babcockinternational.com/investors/results-and-presentations.

For further information:

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CEO REVIEW

Continued positive momentum

Positive momentum has continued across the Group over the period. Financial and operational performance has been strong, which underpins our expectations for the year, and we have made strategic progress, supporting medium-term ambitions of delivering mid-single digit organic growth, at least 8% operating margin and average operating cash conversion of at least 80%.

The complex geopolitical backdrop means that demand for our specialist capabilities remains high, driving increased, higher quality growth opportunities. Our strategy is focused on delivering sustained, profitable and cash generative growth which we enhance through selectively deploying capital on those opportunities with the right commercial and technical risk profiles to maximise long-term shareholder value.

Strong underlying HY25 results

We have delivered another encouraging set of financial results with year-on-year increase in revenue, underlying operating profit, underlying earnings and underlying free cash flow.

Group revenue increased 11% on an organic basis to £2,409 million with good growth in our three largest sectors, which represent over 90% of our operational business. Nuclear, our largest sector by revenue, representing 36% of the Group, continued its strong trajectory, up 22% in the first half, with Land and Marine up by 9% and 6% respectively. Aviation revenue declined slightly, as expected, due to the completion of aircraft delivery phases within a French defence contract.

The 10% organic increase in underlying operating profit to £169 million reflects the strong revenue performance, more than offsetting the prior year receipt of high margin AH140 frigate licence fees associated with the Polish Miecznik programme. As a result, underlying operating margin was flat at 7.0% (HY24: 7.1%).

Strong operating cash conversion of 80% and lower pension deficit payments following the long-term funding agreements reached earlier this year drove a 41% increase in underlying free cash flow to £95 million, further strengthening our balance sheet. Net debt excluding leases reduced to £146 million and our gearing ratio at the end of the period had reduced to 0.6x, below our target leverage range of 1.0x – 2.0x.

Well positioned in a supportive market

Geopolitical instability is driving growth in defence budgets. However, the pace and extent of budget growth is insufficient to match the growth in demand for military spend, making Babcock's ability to affordably add value, essential. Additionally, there is a timing mismatch between the present threats that governments face and the new product development programmes which typically take years to deliver. Therefore, Babcock's ability to deliver increased availability and capability from existing assets has become critically important, further reinforcing our value to customers.

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

The new UK Government is committed to spending on defence. In the 2024 Autumn budget, it reiterated its commitment to a defence budget of 2.5% of GDP and a £2.9 billion increase to defence spending for 2026. It also confirmed the additional £3 billion annually to support Ukraine. The Government is currently undertaking a Strategic Defence Review (SDR) which is expected to conclude in the first half of 2025. The SDR is intended to determine how UK defence will meet the challenges, threats and opportunities of the twenty-first century, whilst taking account of the commitment to increase defence spend.

As the sole-source provider of complex, through-life support and sustainment, Babcock is critical to the delivery of the UK's nuclear deterrent, which has been confirmed as a national security priority. The Government' is committed to building four new Dreadnought Class submarines to replace the Vanguard Class and ensuring the Continuous At Sea Deterrent (CASD), with one submarine always at sea. Alongside the Government as our customer, we continue to invest in the nuclear submarine infrastructure required for the transition to the Dreadnought Class and next generation AUKUS attack submarines and the delivery of through-life support and availability of the UK's entire nuclear submarine fleet over future decades.

Sustainable growth

We have a clear strategy to deliver sustainable growth across the Group by leveraging our technical capability, developing our people and building strategic partnerships, whilst remaining a responsible corporate citizen. Current market dynamics, in particular the growth in defence budgets driven by the need to recapitalise, re-equip and modernise militaries, have resulted in a broadening opportunity set as outlined at our Capital Markets Day and FY24 full year results. Our five strategic growth priorities are as follows:

- **Optimise our UK position** - grow our current UK positions and grow market share in our areas of expertise
- **Selective new programmes in the UK** - target quality opportunities with the right commercial and technical risk profiles
- **Expansion in focus countries** - new work and scope in Canada, France, Australia, New Zealand and South Africa
- **Direct exports** – of new and existing products and services from our focus countries into new territories and markets
- **Strategic partnerships** - work with leading global industry players with particular local market strengths to deliver high-value, low-risk and faster routes to effective market entry

We are focused on aligning our growing opportunity set, both in the UK and internationally, with our core capabilities, through leveraging our strong balance sheet and the disciplined deployment of capital. During the period, we have made good progress on a number of strategic growth initiatives.

Optimise our UK position

The ongoing recapitalisation of our Devonport facility, the Major Infrastructure Programme (MIP), continues at pace and will enable delivery of the UK's future nuclear submarine support capability over the next 50+ years. During the period, we completed an extensive regeneration of 9-Dock, the dry dock facility to support the ongoing life extension programme for the Vanguard Class submarines which is critical for the future support of the Continuous At Sea Deterrent (CASD). We also marked a significant milestone to fully dismantle a nuclear-powered submarine at Rosyth, with our award of a recycling contract to KDC Veolia Decommissioning Services.

The Type 31 Inspiration Class frigate programme continues to make good progress, with three ships now in simultaneous construction following first steel cut of HMS Formidable in October 2024. We have increased the industrial workforce to over 900 people, with further recruitment planned. Through the Type 31 programme and other AH140 programmes, we are building a world class shipbuilding capability that will position us for future global naval opportunities. We are already seeing such opportunities emerge, through strategic partnerships such as with Saab, which in May 2024 led to the first contract to support the development of the Swedish Navy's new Lulea Class Surface Combatant, and with PGZ, the Polish Armaments Group, in support of the Polish Miecznik Class frigate programme, where we were awarded an extension to support delivery of three ships.

Strong operational delivery of the DSG defence vehicle support contract in Land has further de-risked the final phase of the ten-year contract, which completes March 2025, contributing to the improved profit performance in the sector. We continue to progress commercial discussions with the UK MOD as we transition to a new contract extension for up to five years. This asset support model forms the basis of our approach to other emerging asset support opportunities both in the UK and internationally.

Selective new programmes in the UK

The Skynet contract, won in 2023 with an initial value of more than £400 million, to upgrade and operate the UK Government's military satellite and space operations has significantly broadened our secure communications capability and strengthened our leading position in digital defence. In the period, we successfully completed the first six months of in-service delivery. We believe that the successful implementation of the critical service will create opportunities for further growth.

In partnership with Supacat, we have been awarded a contract to build 53 modular four to six-wheeled 'Extendas' variants of the High Mobility Transporter Jackal 3 for the British Army. This is in addition to the 70 Jackal 3 (HMT 400 series) vehicles which we began producing at our new facility within the freeport of Devonport earlier this year. Production is ramping up and we see opportunity to provide further vehicles to the British Army, whilst also pursuing international opportunities with Supacat.

Following a comprehensive evaluation of the tender and its commercial terms, Babcock and its partners in Team Crucible made the decision to exit the bid to become the Strategic Training Partner for the Army Collective Training System (ACTS), demonstrating our disciplined approach to only target opportunities that have the right commercial and technical risk profile. Our growth strategy is predicated on selecting the right opportunities and only bidding for contracts where the risk-reward profile is appropriate and manageable.

Expansion in focus countries

As a provider of first-generation military outsourcing, we are targeting emerging opportunities in France based on our proven track record of delivery in the country. Following the success of the military fighter pilot training programme, the French Air Force is outsourcing further training support opportunities. This week, we were selected as preferred bidder by the French Direction générale de l'armement (DGA) to deliver MENTOR2, a c.€800 million 15-year contract to provide initial pilot training to the French Air Force, Navy and Army. The new contract, due to be awarded before the end of FY25, will involve the deployment of over 100 employees at the Salon de Provence air force base. We are also in the final bidding stages of an opportunity to support fighter pilot training for the Belgian Air Force from France.

Direct exports

During the period we signed a contract extension with PGZ to continue our support to Poland's Miecznik three-ship frigate programme until 2031, providing engineering services, supply chain support, transfer of knowledge and project management. We see further

opportunities to add value to our partner's programme and, through our developing relationship, we are exploring potential opportunities in land asset support, again using our expertise and strong track record as a reference.

Babcock is fully committed to providing critical support to Ukraine's military operations. In May 2024, we established a facility in Ukraine to deliver engineering support, including the repair and overhaul of military vehicles, to be delivered in partnership with UDI, Ukraine's state-owned defence industry. In July 2024, we were awarded an extension, with further options to extend, to our initial one-year contract to support urgent operational requirements for Ukraine's UK-gifted military land assets.

Strategic partnerships

Our ability to form partnerships with leading global industry players with particular local market strengths is a key part of our growth strategy. Working with a strong local partner often presents the highest-value, lowest-risk and fastest route to market entry. In the period we launched H&B Defence, a JV with Huntington Ingalls Industries (HII) to support and accelerate the AUKUS endeavour, focusing on building Australia's sovereign capabilities in nuclear infrastructure, workforce and skills development, submarine sustainment and decommissioning.

In September 2024, we unveiled our 120mm Ground Deployed Advanced Mortar System, based on world-leading technology from our partner, ST Engineering. The vehicle-mounted, digitised mortar system is designed to meet the urgent requirements of the British Army and NATO nations. We are also working with Denmark's OMT to develop a new product concept, SMARTHatch, which allows the at-sea launch and recovery of manned and unmanned systems, amongst other defence applications.

Developing our people to support long term growth

Our c.27,000 people are fundamental to the successful delivery of sustained growth. With their deep engineering expertise, operational asset knowledge and strong customer relationships, we are focused on building this valuable resource for the future.

We are a key industrial partner on the UK's Nuclear Skills Taskforce, taking a leading role in helping to secure the critical nuclear skills needed across the defence and civil nuclear enterprise. In September the UK Minister for Defence Procurement Maria Eagle opened the Babcock Engineering & Nuclear Skills building at City College Plymouth where we will grow our workforce's capabilities, focusing initially on building a pipeline of talent and upskilling the existing workforce on the complex skills required to perform deep submarine maintenance. This marks the next phase of our own Babcock Skills Academy, which is initially focused on addressing the current and future nuclear skills demand for our defence programmes. We also delivered the second skills-based Work Academy Programme at our Devonport facility.

In the period we welcomed our largest ever early careers intake in the UK, launched a pre-apprenticeship programme at Devonport and participated in an international apprentice exchange programme with our Polish partner PGZ. We were pleased to be named one of the UK's top 10 employers in 2024 by industry publication *The Engineer.*

Capital allocation – to support long term growth

We have built a strong platform from which to drive long-term growth in our core defence and civil markets, which we address through leveraging the strength of our balance sheet and disciplined allocation of capital under our capital allocation policy to maximise shareholder value. Our principal priorities remain organic investment, maintaining financial strength and ordinary dividend returns. We will also consider options for inorganic growth in areas aligned with our core capabilities, and further accelerating the reduction in our pension scheme liabilities, where we believe we can create shareholder value. We continually assess our capital requirements and will consider additional shareholder returns should we determine that we have surplus capital.

Outlook

Our expectations for FY25 remain unchanged, noting that full year underlying free cash flow will be significantly H1 weighted. With c.90% of FY25 expected revenue under contract at 1 October 2024, we enter the second half of the year strongly positioned with good momentum and are confident of making further progress against our medium-term guidance: to deliver mid-single digit average annual revenue growth and achieve underlying operating margins of at least 8% and underlying operating cash conversion of at least 80%.

David Lockwood OBE
Chief Executive

OTHER INFORMATION

Dividend

An interim dividend of 2.0 pence per ordinary share (HY24: 1.7 pence per share) is payable on Friday 17 January 2025 to shareholders whose names appear on the register at the close of business on Thursday 05 December. Shareholders may participate in the dividend re-investment plan and elections must be made by Tuesday 24 December. Details of the dividend re-investment plan can be found, and shareholders can make elections, at www.babcock-shares.com.

FINANCIAL REVIEW

The Group provides APMs, including underlying operating profit, underlying margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, net debt and net debt excluding leases to enable users to have a more consistent view of the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. They are used by management to assess operating performance and as a basis for forecasting and decision-making, as well as the planning and allocation of capital resources. They are also understood to be used by investors in analysing business performance.

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

Income statement

	Six months to 30 September 2024			Six months to 30 September 2023		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Revenue	2,408.9	-	2,408.9	2,177.0	-	2,177.0
Operating profit	168.8	15.0	183.8	154.4	(10.2)	144.2
Operating margin	*7.0%*		*7.6%*	*7.1%*		*6.6%*
Share of results of joint ventures and associates	5.1	-	5.1	6.0	-	6.0
Net finance costs	(16.8)	0.1	(16.9)	(20.0)	5.9	(14.1)
Profit before tax	**157.1**	**14.9**	**172.0**	**140.4**	**(4.3)**	**136.1**
Income tax (expense)/benefit	(38.4)	(3.6)	(42.0)	(35.3)	3.3	(32.0)
Profit after tax	**118.7**	**11.3**	**130.0**	**105.1**	**(1.0)**	**104.1**
Non-controlling interest	0.7	-	0.7	1.6	-	1.6
Profit attributable to the owners of the parent	**118.0**	**11.3**	**129.3**	**103.5**	**(1.0)**	**102.5**
Basic EPS	23.5p	2.2p	25.7p	20.6p	(0.2)p	20.4p
Diluted EPS	23.0p	2.2p	25.2p	20.1p	(0.2)p	19.9p

A full statutory income statement can be found on page 32.

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

Revenue of £2,409 million grew 11% organically offset by a (0.4)% currency translation effect. The increase was driven by strong growth in Nuclear followed by Land and Marine, while Aviation was slightly down year on year as expected. By sector:

- **Marine** revenue increased 5% to £789.8 million (HY24: £750.1 million), or 6% on an organic basis. Growth was led by the first year of Skynet, increased LGE volumes and Canadian submarine support, offset by phasing of the Type 31 contract and license sales in the prior period.
- **Nuclear** revenue increased 22% to £865.7 million (HY24: £710.8 million) driven by around 30% growth across our civil nuclear decommissioning and new build businesses, ramp up of HMS Victorious LIFEX programme, higher submarine support activity through our Future Maritime Support Programme (FMSP) and the Major Infrastructure Programme (MIP), where revenue increased to £273 million (HY24: £218 million).
- **Land** revenue increased 8% to £591.3 million (HY24: £545.6 million), or 9% on an organic basis. Growth was from a number of areas including DSG, Jackal production ramp up, Ukraine support, and further growth in South Africa vehicle volumes, offsetting Rail performance and contracts that completed in the prior year.
- **Aviation** revenue declined 5% to £162.1 million (HY24: £170.5 million), or 4% organically primarily due to the completion of aircraft delivery phases in the H160 French defence contract in the prior year.

Underlying operating profit increased by 9% to £168.8 million driven by strong performance across Nuclear and Land. By sector:

- **Marine** underlying operating profit declined to £40.0 million (HY24: £63.0 million) driven primarily by the very strong comparator period which included AH140 frigate licenses.
- **Nuclear** underlying operating profit increased to £75.7 million (HY24: £45.2 million) driven by very strong revenue growth, as well as better inflation recovery in some contracts and risk retirement on project milestones.
- **Land** underlying operating profit increased to £45.4 million (HY24: £37.5 million) driven by DSG performance improvement in the final contract year, improved inflation recovery in some contracts and a small property dilapidation provision release.
- **Aviation** underlying operating profit declined to £7.7 million (HY24: £8.7 million), reflecting a one-off inflation adjustment in the prior period and the revenue profile of the H160 French defence contract.

See segmental analysis tables on page 14.

Statutory operating profit of £183.8 million increased from £144.2 million in HY24, driven by improved underlying performance outlined above and specific adjusting items listed in the table below, including a c.£19.1 million non-cash fair value movement on derivatives.

Reconciliation of statutory to underlying operating profit

	30 September 2024 £m	30 September 2023 £m
Operating profit	**183.8**	**144.2**
Amortisation of acquired intangibles	4.4	5.6
Business acquisition, merger and divestment related items	-	0.2
Amendment, curtailment, settlement or equalisation of Group pension schemes	(0.3)	-
Fair value movement on derivatives	(19.1)	4.4
Specific adjusting items impacting operating profit	**(15.0)**	**10.2**
Underlying operating profit	**168.8**	**154.4**

Operating margin

- **Underlying operating margin** of 7.0% (HY24: 7.1%), reflects the performance across Nuclear and Land which more than offset the non-repeat of AH140 frigate licenses received in the prior period.
- **Statutory operating margin** of 7.6% (HY24: 6.6%) reflects the same drivers as underlying operating profit and specific adjusting items listed above, most notably the £19.1 million credit (HY24: £4.4 million debit) for the non-cash fair value movement on derivatives. The prior period statutory operating margin of 6.6% was also positively impacted by the AH140 frigate licenses.

Further analysis of financial performance is included in each sector's operational review on page 15 to 24.

Net finance costs

- **Underlying net finance costs** decreased to £16.8 million (HY24: £20.0 million) mainly due to higher interest earned on surplus cash balances.
- **Statutory net finance costs** increased to £16.9 million (HY24: £14.1 million). In addition to the factors impacting underlying net finance costs, statutory net finance costs included a £0.1 million charge (HY24: £5.9 million credit) related to the fair value movement on derivative and related items.

Income tax expense

- **Underlying income tax expense** increased to £38.4 million (HY24: £35.3 million) reflecting higher underlying pre-tax profit. This represents an effective underlying tax rate of 25% (HY24: 26%), calculated on underlying profit before tax excluding the share of income from joint ventures and associates (which is a post-tax number). The Group's effective underlying tax rate is expected to remain broadly stable at around 26% over the medium term depending on country profit mix.
- **Statutory income tax expense** was £42.0 million (HY24: £32.0 million), higher than underlying income tax expense due to the tax impact of the specific adjusting items outlined above.

Basic earnings per share

- **Underlying basic earnings per share** of 23.5 pence (HY24: 20.6 pence) represents an increase of 14%, driven by higher underlying operating profit for the year and lower net finance costs and effective underlying tax rate.
- **Basic earnings per share**, on a statutory basis, increased to 25.7 pence (HY24: 20.4 pence loss) reflecting the improvement in underlying earnings per share and the post tax impact of the specific adjusting items outlined above.

Reconciliation of statutory profit and basic EPS to underlying profit and basic EPS

	30 September 2024		30 September 2023	
	£m	Basic EPS	£m	Basic EPS
Profit after tax for the period	**130.0**	25.7p	104.1	20.4p
Specific adjusting items, net of tax	(11.3)	(2.2)p	1.0	0.2p
Underlying profit after tax for the period	**118.7**	23.5p	105.1	20.6p

Exchange rates

The translation impact of foreign currency movements resulted in a decrease in revenue of £8 million and a decrease in underlying operating profit of £1 million. The main currencies that have impacted our results are the Canadian Dollar, South African Rand, Euro and Australian Dollar. The currencies with the greatest potential to impact results are the South African Rand and the Australian and Canadian Dollar:

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

Cash flow and net debt

Underlying cash flow and net debt

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

	30 September 2024 £m	30 September 2023 £m
Statutory operating profit	**183.8**	**144.2**
Add back: specific adjusting items (see table on page 7)	(15.0)	10.2
Underlying operating profit	**168.8**	**154.4**
Right of use asset depreciation	19.3	18.9
Other depreciation & amortisation	34.8	30.1
Non-cash items	10.0	7.2
Working capital movements	(13.4)	(5.6)
Provisions	(14.3)	(2.0)
Net capital expenditure	(47.5)	(51.9)
Lease principal payments	(22.8)	(24.5)
Underlying operating cash flow	**134.9**	**126.6**
Underlying operating cash conversion (%)	*80%*	*82%*
Pension contributions in excess of income statement	(23.9)	(39.6)
Interest paid (net)	(11.9)	(13.5)
Tax paid	(16.2)	(12.9)
Dividends from joint ventures and associates	11.8	6.8
Cash flows related to specific adjusting items	-	(0.2)
Underlying free cash flow	**94.7**	**67.2**
Dividends paid (including non-controlling interests)	(16.6)	-
Purchase of own shares	(13.3)	(7.5)
Lease principal payments	22.8	24.5
Net new lease arrangements	(38.2)	(16.4)
Other non-cash debt movements	(1.2)	(1.8)
Fair value movement in debt and related derivatives	(5.9)	1.7
Exchange movements	7.5	4.2
Movement in net debt	**49.8**	**71.9**
Opening net debt	(435.4)	(564.4)
Closing net debt	**(385.6)**	**(492.5)**
Add back: leases	239.8	204.7
Closing net debt excluding leases	**(145.8)**	**(287.8)**

A full statutory cash flow statement can be found on page 36 and a reconciliation to net debt on page 11.

Underlying operating cash flow increased to £134.9million (HY24: £126.6 million). The conversion ratio to underlying operating profit of 80% (HY24: 82%) primarily reflects working capital and provision outflows.

- **Working capital**: An outflow of £13.4 million (HY24: £5.6 million outflow), was smaller than expected in H1 as levels of negative working capital on programmes and early customer receipts remained similar to the year-end overall. There is some risk that favourable timing factors on cash receipts could reverse in the short term depending on the flow of new orders and contract phasing.
- **Net capital expenditure** of £47.5 million (HY24: £51.9 million) reflects continued investment across the Group to support programme delivery and drive operational performance and lower proceeds from asset disposals.
  - **Gross capex** of £50.6 million (HY24: £61.7 million) is driven by further investment in Devonport to support future growth and ongoing upgrades to systems across the Group, including the roll-out of SAP. We expect FY25 gross capital expenditure to be in the range of £120 million to £150 million.
  - **Proceeds** from asset disposals reduced to £3.1 million (HY24: £9.8 million)

- **Lease principal payments,** representing the capital element of payments on lease obligations, was £22.8 million (HY24: £24.5 million). This is reversed out below underlying free cash flow as the payment reduces our lease liability (i.e. no effect on net debt).

Underlying free cash flow increased to an inflow £94.7 million (HY24: £67.2 million inflow), reflecting higher underlying operating cash flow, lower pension contributions and higher dividends received from joint ventures.

- **Pension:** The cash outflow in excess of the income statement charge of £23.9 million (HY24: £39.6 million) was lower due to the commencement of the two long-term funding agreements announced at the FY24 results.
- **Interest:** Net interest paid, excluding that paid by JVs and associates, decreased to £11.9 million (HY24: £13.5 million) due to lower net debt, higher interest earned on surplus cash and a reduced finance charge associated with the financing of long-term French defence contract receivables. We expect net interest paid in FY25 to be approximately £35 million.
- **Taxation:** Tax paid in the period was £16.2 million (HY24: £12.9 million). We expect cash tax paid in FY25 to be approximately £35 million.
- **Dividends** received from joint ventures and associates increased to £11.8 million (HY24: £6.8 million) due to a one-off catch-up dividend received in the period.
- **Cash flows related to specific adjusting items:** There were no cash flows related to specific adjusting items. The prior period cash flows related primarily to the payment of costs relating to disposals which were classified as a specific adjusting item.

New lease arrangements

In addition to net capital expenditure, and not included in underlying free cash flow, £38.2 million (HY24: £16.4 million) of additional lease liabilities were entered into in the period, higher than HY24 as a result of the addition of leased aircraft due to new contracts in Australia. These represent new lease obligations and so are included in net debt but do not involve any cash outflows at inception.

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

	30 September 2024 £m	30 September 2023 £m
Underlying operating cash flow	**134.9**	**126.6**
Add: net capital expenditure	47.5	51.9
Add: lease principal payments	22.8	24.5
Less: pension contributions in excess of income statement	(23.9)	(39.6)
Cash flows related to specific adjusting items	-	(0.2)
Cash generated from operations	**181.3**	**163.2**
Tax paid	(16.2)	(12.9)
Net interest paid	(11.9)	(13.5)
Net cash flows from operating activities	**153.2**	**136.8**

Statutory cash flow summary

	30 September 2024 £m	30 September 2023 £m
Net cash flow from operating activities	153.2	**136.8**
Net cash flow from investing activities	(35.6)	(38.0)
Net cash flow from financing activities	(53.0)	(45.0)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	**64.6**	**53.8**

Net cash flow from operating activities was £153.2 million, an increase of £16.4 million. The main drivers were higher Group operating profit and lower pension deficit payments.

Net cash flow from investing activities was an outflow of £35.6 million (HY24: outflow of £38.0 million), reflecting continued capital investment across the Group and lower proceeds from asset disposals. On a gross basis, capital expenditure decreased to £50.6 million (HY24: £61.7 million).

Net cash flow from financing activities was an outflow of £53.0 million (HY24: outflow of £45.0 million), including £22.8 million lease payments (HY24: £24.5 million), £13.3 million purchase of own shares (HY24: £7.5) and £16.6 million dividends paid (HY24: £nil).

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

	30 September 2024 £m	30 September 2023 £m
Net increase in cash, cash equivalents and bank overdrafts	64.6	53.8
Cash flow from the decrease in debt	15.4	8.4
Change in net funds resulting from cash flows	80.0	62.2
Additional lease obligations	(39.5)	(10.4)
New lease receivables granted	8.9	16.0
Other non-cash movements and changes in fair value	(7.1)	(0.1)
Foreign currency translation differences	7.5	4.2
Movement in net debt in the year	49.8	71.9
Opening net debt	(435.4)	(564.4)
Closing net debt	(385.6)	(492.5)

Net debt

Net debt at 30 September 2024 was £385.6 million, a reduction of £49.8 million compared to the beginning of the financial year. This was driven primarily by underlying free cash flow, less payment of the final FY24 dividend, purchase of own shares, new lease arrangements in the period and revaluation of derivatives and exchanges impacts on debt. Net debt excluding leases was £145.8 million, representing a reduction of £65.1 million compared to the beginning of the financial year.

Components of net debt

	30 September 2024 £m	31 March 2024 £m
Cash and cash equivalents	613.9	552.6
Loans - non-current	(742.7)	(747.1)
Loans - current	(2.6)	(2.4)
Debt related derivative instruments	(52.4)	(47.4)
Lease receivables	38.1	35.5
Loans due from joint ventures	3.7	3.9
'Finance leases'	(3.8)	(6.0)
Net debt excluding leases	(145.8)	(210.9)
Leases	(239.8)	(224.5)
Net debt	(385.6)	(435.4)

Balance sheet

	30 September 2024 £m	31 March 2024 £m
Intangible assets	928.4	928.9
Property, plant and equipment and right of use assets	724.9	692.7
Investment in joint ventures and associates	52.0	59.7
Working capital	(683.0)	(691.4)
Provisions	(145.3)	(158.2)
Net retirement benefit deficits	(52.6)	(109.7)
Net tax assets	84.1	119.9
Net other financial assets and liabilities	17.1	(0.4)
Leases	(239.8)	(224.5)
Net debt excluding leases	(145.8)	(210.9)
Net assets	540.0	406.1

Property, plant and equipment (PP&E) and right of use assets was £724.9 million, an increase of £32.2 million, reflecting continued investment in capital expenditure and a net increase of £19.1 million in right of use assets to £194.7 million associated with new aircraft leases.

Working capital was £(683.0) million, an increase of £8.4 million, with small increases in receivables being largely offset with a decrease in inventories.

Net retirement benefit deficit was £52.6 million, a decrease of £57.1 million. The fair value of plan assets of £3,027.6 million decreased by £56.7 million, driven by an actuarial loss on scheme assets less contributions. The present value of pension benefit obligations of £3,080.2 million decreased by £113.8 million driven by an increase in the discount rate.

Funding and liquidity

As of 30 September 2024, the Group had access to a total of £1.6 billion of borrowings and facilities. These comprised:

- £775 million RCF, with £45 million maturing on 28 August 2025 and £730 million extended to 28 August 2026
- £300 million bond maturing on 5 October 2026
- €550 million bond, hedged at £493 million, maturing on 13 September 2027
- Two committed overdraft facilities totalling £51 million

At 30 September 2024, our net cash (cash and cash equivalents less overdrafts) balance was £614 million. This, combined with the undrawn amounts under our committed RCFs and overdraft facilities, gave us liquidity headroom of around £1.4 billion.

Net debt to EBITDA (covenant basis)

There are several facets to balance sheet strength, a primary measurement relevant to Babcock is the net debt/EBITDA gearing ratio within our debt covenant of 3.5x. This measure is used in the covenant in our RCF facility and includes several adjustments from reported net debt and EBITDA. The net debt/EBITDA gearing ratio (covenant basis) at 30 September 2024 reduced to 0.6x (FY24: 0.8x) due to positive net cash flow and higher underlying operating profit.

	12 months to 30 September 2024 £m	12 months to 30 September 2023 £m
Underlying operating profit	252.2	210.8
Depreciation and amortisation	71.9	69.3
Covenant adjustments[1]	(1.3)	(5.9)
EBITDA	322.8	274.2
JV and associate dividends	12.1	10.4
EBITDA + JV and associate dividends (covenant basis)	**334.9**	**284.6**
Net debt excluding lease liabilities	(145.8)	(287.8)
Covenant adjustments[2]	(44.7)	(33.9)
Net debt (covenant basis)	**(190.5)**	**(321.7)**
Net debt/EBITDA	**0.6x**	**1.1x**

[1]Various adjustments made to EBITDA to reflect accounting standards at the time of inception of the original RCF agreement. The main adjustments are to the treatment of leases within operating profit and pension costs.
[2]Removing loans to JVs, finance lease receivables and non-recourse debt.

Interest cover (covenant basis)

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

	12 months to 30 September 2024 £m	12 months to 30 September 2023 £m
EBITDA + JV and associate dividends (covenant basis)	**334.9**	**284.6**
Net finance costs	(37.0)	(34.5)
Covenant adjustments[1]	12.8	8.9
Net finance costs (covenant basis)	**(24.2)**	**(25.6)**
Interest cover	**13.8x**	**11.1x**

[1]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.

	12 months to 30 September 2024 £m	12 months to 30 September 2023 £m
Underlying operating profit	252.2	210.8
Share of results of joint ventures and associates	9.3	8.8
Underlying operating profit plus results of JVs and associates	**261.5**	**219.5**
Net debt excluding leases	145.8	287.8
Leases	239.8	204.7
Shareholder funds – see balance sheet on page 42	540.0	370.8
Retirement deficit – note 13	52.6	154.9
Invested capital	**978.2**	**1,018.2**
ROIC	**26.7%**	**21.6%**

Pensions

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

IAS 19

At 30 September 2024, the IAS 19 valuation for accounting purposes was a net deficit of £53 million (FY24: a net deficit of £110 million). The decrease is a result of a greater reduction in present value of pension benefit obligations (by £114 million to £3,080 million) than the reduction in fair value of plan assets (by £57 million to £3,028 million, net of £248 million longevity swaps). The reduction in pension benefit obligations was mainly a result of modest changes in discount rate. The reduction in fair value of plan assets was driven by an actuarial loss on scheme assets , partly offset by scheme contributions. The fair value of the assets and liabilities of the Group pension schemes at 30 September 2024 and the key assumptions used in the IAS 19 valuation of our schemes are set out in note 13.

	30 September 2024 £m	31 March 2024 £m
Fair value of plan assets (note 13)	3,027.6	3,084.3
Present value of pension benefit obligations (note 13)	(3,080.2)	(3,194.0)
Net (deficit) at period end	**(52.6)**	**(109.7)**

Income statement charge

The charge included within underlying operating profit in HY25 was £10.2 million (HY24: £11.6 million), of which £7.1 million related to service costs (HY24: £7.4 million) and £3.4 million related to expenses (HY24: £4.2 million). In addition to this, there was an interest charge of £2.0 million (HY24: charge of £0.4 million) and a past service credit of £0.3 million (HY24: £nil).

Technical provision

An estimate of the aggregate actuarial deficits of the Group’s defined benefit pension schemes, including all longevity swap funding gaps, calculated using each scheme’s technical provision basis, as at HY25 was approximately £160 million (FY24: c.£200 million, HY24: c.£300 million). Such valuations use discount rates based on UK gilts, which differs from the corporate bond approach of IAS 19. This technical provision estimate reflects proposed assumptions for the actuarial valuation of Rosyth Royal Dockyard Pension Scheme as at 31 March 2024, and for the other schemes uses assumptions within the latest agreed valuation prior to 30 September 2024.

Actuarial valuations are carried out every three years to determine the Group’s cash contributions to the schemes. The valuation dates of the three largest schemes are set so that only one scheme is undertaking its valuation in any one year, to spread the financial impact of market conditions. The valuation of the BIGPS as at 31 March 2022 was completed in the last financial year, the valuation of the DRDPS as at 31 March 2023 has been completed in this financial year and work has commenced on the valuation of the RRDPS as at 31 March 2024.

We continue to expect the total annual pension deficit repair payments of around £40 million in FY25.

Cash contributions

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

	30 September 2024 £m	30 September 2023 £m
Future service contributions	8.7	9.7
Deficit recovery	13.2	26.9
Longevity swap	5.8	7.6
Total cash contributions – employer	**27.7**	**44.2**

Segmental analysis

The Group reports its performance through four reporting sectors.

30 September 2024	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
Contract backlog	2,991	2,461	2,410	1,655	**9,517**
Revenue	789.8	865.7	591.3	162.1	**2,408.9**
Operating profit	56.5	75.8	45.5	6.0	**183.8**
Operating margin	7.2%	8.8%	7.7%	3.7%	**7.6%**
Underlying operating profit	40.0	75.7	45.4	7.7	**168.8**
Underlying operating margin	5.1%	8.7%	7.7%	4.8%	**7.0%**

30 September 2023	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
Contract backlog	2,929	2,400	2,734	1,573	**9,636**
Revenue	750.1	710.8	545.6	170.5	**2,177.0**
Operating profit	55.1	45.2	37.3	6.6	**144.2**
Operating profit margin	7.3%	6.4%	6.8%	3.9%	**6.6%**
Underlying operating profit	63.0	45.2	37.5	8.7	**154.4**
Underlying operating margin	8.4%	6.4%	6.9%	5.1%	**7.1%**

OPERATIONAL REVIEWS

Marine

We design, develop, manufacture and integrate specialist systems, and deliver technical through-life support for complex platforms in the marine sector. Around 85% of Marine's revenue is derived from defence, with the remainder primarily comprising our Liquid Gas Engineering (LGE) business.

Operational highlights

- Secured contract extension in Poland to support Miecznik frigate programme until delivery of three ships in 2031
- Type 31 – good progress with ship 1 superstructure largely complete, ship 2 progressing, ship 3 steel cut
- First six months of in-service delivery of the Skynet contract to manage the UK's military satellite and space operations
- Record order intake in LGE of more than £300 million
- Completed successful docking period for the aircraft carrier HMS Queen Elizabeth Class
- Delivered the survey phase on the Canadian HMCS Victoria Extended Docking Work Period contract

Financial review

	30 September 2024 £m	30 September 2023 £m
Contract backlog*	2,991	2,929
Revenue	789.8	750.1
Underlying operating profit*	40.0	63.0
Underlying operating margin*	5.1%	8.4%

*Alternative Performance Measures are defined in the Financial Glossary on page 25

Revenue increased 5% to £789.8 million, up 6% on an organic basis, with a 1% impact from FX translation. Growth was led by the first six months of Skynet in-service delivery and increased LGE volumes, offsetting reduced throughput of Type 31 due to contract phasing, and the impact of Arrowhead 140 licence fee revenues in the prior period. Canada submarine support revenue also grew in the period.

Underlying operating profit of £40 million was £23 million lower than the prior period which included a strong contribution from Arrowhead 140 licenses. This represents an underlying operating margin of 5.1% (HY24: 8.4%) partly reflecting the lower initial margin recognition on the Skynet programme. The prior period margin was disproportionately impacted by the positive contribution from the licence fees.

Contract backlog of £2,991 million was unchanged year on year and also in the period (FY24: 2,993 million) reflecting strong LGE intake and additional missile tube assemblies, offsetting trading of revenue on long-term contracts.

Operational review

Defence

UK defence

We made further operational progress across the Type 31 inspiration class frigate programme in the first half of this year. With three ships now in construction the industrial workforce on site now comprises over 900 people, with further recruitment planned over the coming months.

The superstructure of ship 1, HMS Venturer, is largely complete including the majority of welded outfitting. Ship 2, HMS Active, has moved through structural consolidation and the pace of outfitting is benefitting from the experience gained from work on the first ship. In October 2024 we celebrated cutting steel on ship 3, HMS Formidable.

We continue to deliver further missile compartment tube assemblies for both the UK Dreadnought and US Columbia submarine classes, in support of the common programme. As a result of our market leading position in submarine missile tube assembly, and our deployment of advanced manufacturing technology, in April 2024, we were awarded a contract to deliver an additional 58 integrated tube and hull assemblies, a significant component of the overall assembly.

Also, at our site in Rosyth we successfully completed docking support periods for the aircraft carrier HMS Queen Elizabeth. In our support business, we achieved a major milestone for the UK Royal Navy with HMS Sutherland's crew now able to live and work on board as we regenerate the ship ready for sea. The period also saw the successful docking of HMS Kent and the start of maintenance and through-life support that will deliver significant capability updates and sustainment support.

Our contract to manage and operate Skynet, the UK MOD's military communication system, is progressing well. Since formally taking over the management and operation of the system in March 2024, we have fully mobilised the team and conducted a full review of the Skynet estate and assets.

In October 2024, we were awarded a contract to provide technical support to the in-service TLAM Tomahawk missile system installed on both operational platforms and a number of shore sites.

Our contract to deliver the UK Royal Navy's next-generation Maritime Electronic Warfare Systems Integrated Capability (MEWSIC) continues to be on track, with first hardware expected in the coming months.

We delivered the first two Maritime Interdiction Craft to the UK Royal Marines in September 2024 under our Hurracan contract. We expect 24 vessels to be delivered over the next two years.

In the Autumn, we were chosen by the UK MOD to take part in a major industry technology event involving all three Armed Forces, Project Acheron, demonstrating how a multi-domain integrated network can be used in a real-world conflict environment. We successfully demonstrated our system integration capabilities by delivering medium to long range remote allocation systems and an unmanned aerial vehicle enabled network alongside other defence and technology partners. Taking part in events like this helps position Babcock for future tactical communications opportunities.

Our contract to support the UK Royal Navy Gun System Automation (GSA) was extended for six months to enable continued support to the Type 45 destroyers including electro-optical controls, sensor platforms and other onboard systems.

International defence

In Australasia, we continue to work with ASC on Collins Class submarine sustainment activities. ASC has been named as the sovereign sustainment partner to support the nation's inaugural nuclear-powered AUKUS submarines.

During the period, we completed the first major maintenance period on ANZAC Class frigate, HMAS Stuart, through our new Regional Maintenance Provider West contract. This included replacement of the propulsion diesel engine which required removal of the vertical launch system. HMAS Stuart departed Darwin for Australia's fifth Indo-Pacific deployment in October 2024.

Our new contract with KBR to support the Amphibious Combat and Sealift Capability Life Cycle Management successfully began operations in July 2024, providing support to maintenance activities in Sydney's Garden Island facility as a part of the new Maritime Sustainment Model.

In New Zealand, we are now in our third year of the New Zealand Maritime Fleet Sustainment Services (MFSS) contract which supports the country's entire naval fleet. We are focusing on strategic partnerships to deliver enhanced availability and value. We continue to work closely with the NZ Ministry of Defence on the Fixed High Frequency Radio Refresh program. Factory acceptance testing of the system was delivered in October 2024, in advance of the system arriving in country in 2025.

In Canada, our Victoria In-Service Support Contract (VISSC) engineering support work was rescheduled and re-baselined following the 2024 defence budget. We have improved performance on VISSC and continue to position for the next generation contract to support the Victoria Class submarine fleet (VISSC II).

Canada has progressed its process to acquire the next generation of conventionally powered submarines. A contract to build 8 to 12 submarines is expected to be awarded by 2028, with the first platform delivered in 2035. Our focus is on provision of equipment solutions and long-term submarine sustainment, and we continue to establish partnerships with multiple submarine OEMs.

In Poland, we signed a contract extension with PGZ, the Polish Armaments Groups, to continue our support to Poland's Miecznik frigate programme until the completion of three ships, providing engineering services, supply chain support, transfer of knowledge and project management through the Programme Management Office. Babcock and the Polish Naval Academy in Gdynia, Poland, also signed of a Memorandum of Understanding (MoU) and Cooperation Agreement for a new programme of professional internships.

In Sweden, we continue to work with Saab, successfully supporting design deliverables on the Swedish Navy's next generation Luleå Class surface combatant programme. Babcock is providing front-end engineering, design and project management support during the initial design phase.

In Ukraine, having completed the regeneration of UK Sandown Class Mine Counter Measure Vessels (MCMVs) before their sale to the Ukrainian Navy, we were awarded a three-year contract to maintain and support the vessels. The first support period has been delivered successfully.

In South Korea, our work on the Jangbogo submarines continues to meet all milestones, with delivery of Boat 3 in the period and all the deliverables for Boat 4 completed on schedule.

Civil

Our LGE business saw record order intake of more than £300 million in the first half, with 63 contracts from international shipyard customers driven by major LNG projects in the Middle East and growing demand in China, supporting strong revenues over the coming years. This is supported by ongoing technology development which has seen applications for two technology patents and three trademarks granted.

Sales have also had a strong period across the portfolio including the ecoSMRT® for LNG reliquefaction, ecoETHN® for Ethane Cargo Handling Systems and 18 Ammonia Cargo Handling Systems. Current order backlog is strong with 150 projects in planning (16 projects delivered in period). The success of our LGE business was recognised by the formal award of King's Award for Enterprise in the Innovation category.

Also, at Rosyth we welcomed two of the UK's fleet of National Environmental Research Council (NERC) scientific research vessels for planned maintenance. Royal Research Ship (RRS) Discovery and RSS Sir David Attenborough spent a total of six weeks at Rosyth undergoing through-life support. RSS Sir David Attenborough will return to Rosyth later in 2024 with all three vessels in the NERC fleet returning in 2025. In parallel, we have also delivered an engineering programme to support the future decarbonisation of NERCs fleet.

Nuclear

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

Operational highlights

- Reopened our Devonport 9-Dock, following a significant regeneration project, critical for the future support of the UK's CASD
- Opened a new Engineering and Nuclear Skills building at City College Plymouth to enhance our workforce's nuclear capabilities
- Significant ramp up at Hinkley Point C as we begin to install mechanical and electrical services
- Launched H&B Defence, a JV with HII to support AUKUS focusing on building Australia's sovereign nuclear capabilities

Financial review

	30 September 2024 £m	30 September 2023 £m
Contract backlog*	2,461	2,400
Revenue	865.7	710.8
Underlying operating profit*	75.7	45.2
Underlying operating margin*	8.7%	6.4%

*Alternative Performance Measures are defined in the Financial Glossary on page 25

Revenue increased £155 million or 22% to £866 million. There was good growth across key programmes where the main drivers were around 30% growth across our civil nuclear decommissioning and new build businesses, ramp up of HMS Victorious LIFEX programme, higher submarine support activity through our Future Maritime Support Programme (FMSP) and the Major Infrastructure Programme (MIP), where revenue increased to £273 million (HY24: £218 million).

Underlying operating profit grew to £76 million, a 67% organic increase, driven by the revenue growth outlined above, better inflation recovery in some contracts and achieving some risk retirement on contract milestones (c.£5 million). As a result, underlying operating margin improved 230 basis points to 8.7%.

Contract backlog was up 3% year on year but decreased 21% in the period to £2,461 million (FY24: £3,105 million), reflecting revenue traded on long term contracts, including large MIP orders placed in FY24 and FMSP.

Operational review

Defence

UK defence

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

We are delivering substantial upgrades to existing critical infrastructure at Devonport to support the UK's future capability through a Major Infrastructure Programme (MIP). In September 2024, we reopened 9 Dock following completion of the most significant package of infrastructure work since the early 2000's. The maintenance, life extension and facility improvements will support the UK's Vanguard Class submarines, which are critical in supporting the UK's Continuous at Sea Deterrent and securing the long-term defence of the nation. The upgraded facility will support the delivery of the current £560 million programme to extend the operational life of HMS Victorious.

Following the award of the manufacturing phase contract in FY24, the programme to upgrade 10 Dock with a new dock, berth, and logistics and production support facilities is progressing well. Further infrastructure upgrades are underway at 15 Dock, in preparation to deliver the Base Maintenance Period (BMP) of the first Astute Class submarine to Devonport. These projects will enable our Devonport teams to support the Astute fleet for deep maintenance cycles over the coming years.

We are entering our fourth year of the Future Maritime Support Programme, through which we sustain the entirety of the UK's submarine fleet, and where we work with the customer to enable continuous improved delivery into the future. At HMNB Clyde, we continue to deliver a strong performance on submarine maintenance periods against a backdrop of increasing operational demands.

We are supporting the UK's Submarine Delivery Agency (SDA) on the Submarine Dismantling Project, working towards the full dismantling of the ex-HMS Swiftsure at Rosyth which will be a UK first. During the period we completed the final hazard and operability study, enabling the preparation of detailed programme design. We are engaging to shape the future Submarine Disposal Capability programme with the SDA.

Work continues on the design, installation and commissioning of complex plant and engineering equipment for AWE Aldermaston. We have successfully achieved Concept Design Approval on the Material Recovery Project, the first design approval to pass through the client's gated approval process.

We are a key industrial partner on the UK's Nuclear Skills Taskforce, taking a leading role in helping to secure the critical nuclear skills needed across the defence and civil nuclear enterprise. As part of our ongoing commitment to securing skills, we established the Babcock Engineering & Nuclear Skills building at City College Plymouth. The modern facility will enhance our growing workforce's capabilities by continuing to build a new pipeline of talent, while upskilling the existing workforce on the complex skills required to perform deep submarine maintenance. Officially opened in September 2024 by the UK Minister for Defence Procurement, Maria Eagle, it marks the next phase of the Babcock Skills Academy, which is focused on addressing the current and future nuclear skills demand for our defence programmes and supporting the national nuclear endeavour across the defence and civil nuclear enterprise.

International defence

Babcock and HII have combined forces in Australia to create joint venture H&B Defence which will support the development of the critical capabilities required to deliver Australia's conventionally armed, nuclear powered submarine programme, a tripartite programme with Australia, the UK and the US (AUKUS). We will collaborate to develop the optimal models for a nuclear-powered submarine capability, including infrastructure, sustainment, and the necessary skills development of the workforce.

Civil

UK civil nuclear

We support Sellafield with their decommissioning programme and have submitted proposals for two key lots of the 15-year Decommissioning and Nuclear Waste Partners programme. We have also signed contracts for the provision of radiometric support which secures our position as a critical service supplier to Sellafield over the next four years.

We have diversified our customer portfolio in the UK, securing opportunities with both Westinghouse and Urenco, supporting the Government's focus on security of front-end fuel cycle. We have implemented a baseline programme for Westinghouse for the design and build of a facility to process uranium to enable its future enrichment and use as a nuclear fuel and have completed a multi-discipline design review of the tails management facility for Urenco which will convert depleted uranium hexafluoride to the lower hazard uranium oxide material for long term storage.

Following last year's £2.4 million funding award from the UK Government's Future Nuclear Enabling Fund, we have now mobilised a team of around 50 people to further develop our partner X-Energy's Advanced Modular Reactor (AMR). The funding award, which was matched by X-energy, is being used to develop UK-specific deployment plans, including an assessment of domestic manufacturing and supply chain opportunities, constructability, modularisation studies, and spent fuel management. We are also developing opportunities with other AMR technology providers and continue to support Rolls Royce and GE-Hitachi, two of the four Small Modular Reactor (SMR) vendors whose designs have advanced to the next phase of the UK SMR competition.

We continue to support EDF with Large Gigawatt Reactor delivery at Hinkley Point C (HPC) and Sizewell C through the MEH Alliance, an unincorporated JV. At HPC our team has increased rapidly over the last three months to over 400, working on the installation of mechanical and electrical services.

International civil nuclear

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

In the US, we have negotiated and executed a subcontractor teaming agreement for dismantling the first nuclear-powered aircraft carrier for the US Navy Enterprise Class, USS Enterprise. We are positioning for other Tier 1 clean-up opportunities.

Land

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

Operational highlights

- Strong operational performance on DSG contract. Negotiating extension following UK MOD notifying of its intention to exercise up to five option years
- Launched the General Logistics Vehicle (GLV) medium wheelbase variant targeted at UK and international opportunities
- Awarded additional contract to build 53 High Mobility Transporter Jackal 3 six-wheeled 'Extendas' for the British Army
- Partnered with ST Technology to launch a 120mm Ground Deployed Advanced Mortar System
- Awarded several UK military training contract extensions during the period
- Launched the new Babcock Immersive Training Experience (BITE) to support individual and collective training
- Successfully delivered the transition phases on our two French military Land contracts
- Completed the first of six units on the new Lethabo power station contract valued at £50 million over four years

Financial review

	30 September 2024 £m	30 September 2023 £m
Contract backlog*	2,410	2,734
Revenue	591.3	545.6
Underlying operating profit*	45.4	37.5
Underlying operating margin*	7.7%	6.9%

*Alternative Performance Measures are defined in the Financial Glossary on page 25

Revenue increased 8% to £591 million, up 9% on an organic basis. Growth was driven by a number of contracts and regions, primarily activity through the DSG UK land support contract, the Jackal production ramp up, Ukraine support, and higher activity in Australia and South Africa, offsetting reduced volumes in Rail and contracts that completed in FY24.

Underlying operating profit of £45 million was up 22% on a constant currency basis, driven by revenue growth outlined above, strong performance on DSG in the final year of the contract, and improved inflation recovery on certain contracts. Underlying margin improved 80 basis points to 7.7% (HY24: 6.9%).

Contract backlog decreased 12% year on year to £2,410 million, and by 7% compared to the beginning of the year (FY24: £2,594 million) due to revenue traded on long-term contracts with the DSG follow on contract expected to be signed in H2 FY25.

Operational review

Defence

UK defence

We delivered strong operational performance on the DSG contract for the maintenance, repair and asset management of British Army vehicles and equipment. Following notification of its intention to extend the contract by up to five years, we are now in advanced negotiations with our UK MOD customer as we move towards contract signature, expected this financial year. The transition will result in better outcomes for all stakeholders through the rest of the decade.

We continue to support the UK in the provision of critical support to Ukraine's Armed Forces, delivering the training of personnel and refurbishment and renewal of equipment through our Project HECTOR contract. In June 2023, we were awarded a contract to support the UK's gifted platforms to Ukraine, we achieved full operational capability and contract expansion in the period.

In May 2024, we announced work was underway on the establishment of an in-country facility to deliver engineering support, including the repair and overhaul of military vehicles, to be delivered in partnership with UDI, Ukraine's state-owned defence industry. In July 2024, we were awarded an extension, with further options to extend, to our initial one-year contract to support

urgent operational requirements for Ukraine's UK-gifted military land assets. In addition to maintaining military vehicles and equipment, Babcock is managing the supply chain and spares. We also support Operation Interflex, the British-led multinational military operation to train and support the Armed Forces of Ukraine.

Babcock, in partnership with Supacat, has been awarded a contract to build 53 modular four to six-wheeled 'Extendas' variants of the High Mobility Transporter Jackal 3 for the British Army. This is in addition to the 70 Jackal 3 (HMT 400 series) vehicles which we began producing at our new facility within the freeport of Devonport earlier this year.

In June 2024, we launched the second variant of our General Logistics Vehicle, a medium wheelbase variant, and expect to add a six-wheel drive version next year. The first GLV variant was unveiled in 2023, with an initial focus on the upcoming tender to replace the British Army's legacy Land Rover fleet. We are also actively pursuing international opportunities.

Our dedicated armoured vehicle conversion facility celebrated the successful conversation of the 100th civilian armoured Land Cruiser in July 2024. We have facilitated the continuous production of armoured Land Cruisers for the past 15 years and remain the principal supplier of Toyota LC300 civilian armoured vehicles to the UK Government.

In September 2024, we unveiled our 120mm Ground Deployed Advanced Mortar System. Based on the world-leading technology of our partner ST Engineering, the vehicle-mounted, digitised mortar system is designed to meet the urgent requirements of the British Army and NATO partner nations.

Our Defence Training business has had a successful first half with the award of several key contract extensions. These include the Marine Engineering Training Group contract for UK Navy Command, the continuation of the delivery of training for Falcon, the battlefield communications system used by the British Army and Royal Air Force, and a one-year extension to the Electro-Mechanical Training contract for the British Army at MOD Lyneham.

The Babcock Immersive Training Experience (BITE) was launched in the UK and Europe and is expected to be unveiled in the US later this year. BITE is an immersive training environment which replicates the physical, sensory and cognitive challenges of operating in a high stress environment. It produces layered soundscapes, seismic simulation, visual stimuli, generated aromas and environmental controls which enable real-time operationally accurate scenarios.

Following the Enterprise Agreement with Palantir Technologies, we continue to strengthen our data capabilities in defence. Investing in our people's data skills and working closely with Palantir, we are on a journey of better coherence and understanding thousands of data-points underpinning key decisions regarding the design, build and support of critical, complex assets and their value chains across their lifecycles.

Following a comprehensive evaluation of the tender and its commercial terms, Babcock and its partners in Team Crucible made the decision to the exit the bid to become the Strategic Training Partner for the Army Collective Training System (ACTS).

International defence

In France, we continue to strengthen our relationship with the French MOD as we delivered the transition phases on our two Land contracts. Our Land military team in France continues to grow, we have recently opened a new central office in Bordeaux monitoring our Land activities and opportunities to ensure a continuous and excellent service delivery.

In Australasia, Babcock celebrated the first anniversary of its Australian Defence High Frequency Communications contract (JP9101). We achieved the preliminary design review milestone in September 2024 with the first capability milestone, commissioning of the transportable node, the following month.

We continue to provide asset management services to the Australian Defence Force (ADF) for leading-edge counter-chemical, biological, radiological, nuclear and explosive (C-CBNRE) technologies. The scope of the programme has increased by over 40% since contract award in 2019 and includes working closely with the ADF and industry to identify capability gaps caused by technology obsolescence, as well as sourcing and acquiring new C-CBRNE tools to sharpen ADF's response to existing and emerging threats.

We have embedded the first cohort of maintenance technicians at Royal Australian Air Force base Amberley to conduct maintenance of ground support equipment for the ADF. We continue to add technicians to the workforce to grow maintenance support in Queensland, New South Wales and South Australia. This additional resourcing has secured positive outcomes across several programmes where we are providing base and remote support to fast jet fleets, including emergency aircraft arrestor cables and deployable mission shelters.

Civil

UK civil

In our training business in July, the first Recruit Police Officers graduated from the Police Constable Degree Apprenticeship, a tailored programme which Babcock delivers for the Metropolitan Police Service (MPS). We also developed content for the first year of the Police Constable Entry Programme, becoming an integral part of delivering the course, alongside our MPS colleagues, through a new co-delivery model.

Babcock is working with the London Fire Brigade (LFB) on reviewing its future, strategic ambitions for modern firefighting. The first stage of this process was to design, develop and implement a new tactical ventilation course, providing firefighters with a more comprehensive understanding of the theoretical principles and significance of tactical ventilation in firefighting operations. We have also initiated a data enablement project with LFB, optimising our current processes and improving overall efficiency.

Rail Systems Alliance Scotland (Babcock, in partnership with Network Rail and Arcadis) volumes were lower in the period as we started Control Period 7 (2024 – 2029). In Northern Ireland we have successfully commissioned the railway systems upgrades supporting Translink's major investment in the new Belfast Grand Central Station after a major summer blockade. Ireland continues to be a focus with the all-island rail strategy published this summer, and positive engagement with industry stakeholders around a range of renewals and major engineering programmes continues.

International civil

South Africa performance in HY25 was in line with expectations, mainly driven by exceptional performance in the mining equipment business. This reflected high commodity prices in the mining sector driving vehicle demand, new customer orders and successful supplier negotiations. The business also saw a strong period supported by improvements on the Sasol Low NOx burner contract and delivery of spares and products. Work continues on operational excellence initiatives and on enhancing our people's performance, experience, development and capability throughout Africa.

Aviation

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

Operational highlights

- Preferred bidder on MENTOR2, a c.€800 million 15-year contract to provide initial pilot training to the French Air Force, Navy and Army
- Commenced the 12-year contract to deliver the in-service support of 48 Sécurité Civile and police EC145C2 helicopters
- RAF Hades contract extended by two years to provide technical airbase support services across the Armed Forces
- Partnered with the RAF to deliver Elementary Flying Training to the Ukrainian Pilot Force as they prepare to fly F-16 jets
- Awarded a 10-year renewal with UK Midlands Air Ambulance Charity
- Agreement with Uplift360 to explore solutions for managing and recycling defence equipment composite materials
- Preferred bidder on a new MRO contract supporting the French Army's Gazelle fleet

Financial review

	30 September 2024 £m	30 September 2023 £m
Contract backlog*	1,655	1,573
Revenue	162.1	170.5
Underlying operating profit*	7.7	8.7
Underlying operating margin*	4.8%	5.1%

*Alternative Performance Measures are defined in the Financial Glossary on page 25.

Revenue declined 4% organically to £162 million primarily due to the completion of aircraft delivery phase in the prior period within the H160 French defence contract, and flat trading across the UK. There was also an adverse FX translation impact of (1)% on revenue.

Underlying operating profit declined 11% to £8 million, or 13% on a constant currency basis, reflecting a one-off inflation adjustment in the prior period and the revenue profile of the H160 French defence contract. As a result, underlying operating margin decreased 30 basis points to 4.8% (HY24: 5.1%).

Contract backlog increased 5% year on year and was up slightly in the period to £1,655 million (FY24: £1,641 million), reflecting and extension of the RAF ground support contract and revenue traded on long term contracts.

Operational review

Defence

UK defence

Performance on our Royal Air Force (RAF) HADES contract remains strong against a background of customer site laydown and base closures. As a result, we were awarded a two-year contract extension to provide technical airbase support services across the Armed Forces.

Despite some fleet challenges at the start of 2024, operations on the RAF Light Aircraft Flying Task contract (LAFT2) are continuing with high levels of availability. We delivered the final two (of three) phases of Elementary Flying Training for the Ukrainian Pilot Force, ensuring trainers and pilots had full aircraft availability as they prepare to fly F-16 jets.

Project MONET, a two-year research and development project to explore the application of emerging technologies to minimise the environmental impact of the Light Aircraft Flying Task, concluded its first year with a successful environmental impact assessment of the Grob Tutor. Preparation is underway to test the technologies in the air.

As part of Ascent Flight Training joint venture, we have submitted a bid to continue to deliver Information and Communications Technology together with the infrastructure element of the Future ISTAR and Rear Crew Training Service programme for the UK Military Flying Training System (UKMFTS).

In the period we signed a partnership agreement with Uplift360, which develops chemical technologies, to recycle advanced materials. Together we will explore solutions for managing and recycling composite materials from defence equipment.

We are exploring the use of uncrewed air system technologies to support UK defence, security and government aviation. We are working on methods of integrating autonomous and collaborative platforms, a set of multiple platforms communicating and operating together autonomously towards a set of objectives into the RAF.

International defence

In France, we are delivering the MENTOR1 and FOMEDEC contracts in line with expectations, with the Fighter Jet Pilot Academy Forecast reaching over 7,000 flying hours and 2,200 synthetic hours in the period. We are now extremely proud to have reached the key milestone of 50,000 flight hours on our PC-21 aircraft. We also contributed to air surveillance during the 80th World War II anniversary in Normandy and the Paris Olympic Games.

In November 2024, we were selected as the preferred bidder by the French Direction générale de l'armement to deliver MENTOR2, a c.€800 million 15-year contract to provide initial pilot training to the French Air Force, Navy and Army. The contract covers initial training before pilots specialise in either fighter pilot training (which Babcock already delivers in Cognac, France), transport pilot or helicopter pilot training. The new contract, due to be awarded before the end of FY25, will involve the deployment of over 100 employees at the Salon de Provence air force base.

Also working with the French ministry of defence, the militarised H160 helicopter fleet has now carried out more than 100 rescue missions on both coasts with around 2,700 flight hours.

During the period, we started the ramp up phase of our 12-year contract to support the fleet of 48 EC145s aircraft for the Direction Générale de la Sécurité Civile and the French Gendarmerie Nationale, delivering major maintenance inspections in our facilities.

Our partnership with Airbus Helicopters remains strong, with an additional contract awarded in the period for the in-service support for nine upcoming Sécurité Civile H145D3 aircraft. We are also currently preferred bidder to deliver in-service support services to the French Army Gazelle Fleet. This places us in a leading position to support the French Armed Forces' flying assets and training.

Civil

UK civil

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

International civil

In France, we successfully delivered HEMS services during a busy summer period which included the Olympic Games.

In Australasia, we provided the Queensland Government with two AW139 helicopters, custom fitted with specialist medical equipment, in support of our 12-year contract to provide aeromedical retrieval and search and rescue.

In July 2024, we delivered a new Airbus H145 helicopter to increase capability for law enforcement as part of our South Australia State Helicopter Rescue Service contract.

In Canada, are performing well on our firefighting contract for the Province of Manitoba, delivering over 450 missions whilst providing 98% aircraft availability.

In the period we ramped up support for British Columbia's new aerial emergency services contract with a new fleet of AW169 aircraft. Facility construction is underway, and aircraft are being accepted and transported to Canada for the installation of their technical medical capabilities. The programme is expected to achieve initial operating capability in 2025.

Financial glossary – Alternative Performance Measures (APMs)

The Group provides APMs, including underlying operating profit, underlying margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, net debt and net debt excluding leases to enable users to have a more consistent view of the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. They are used by management to assess operating performance and as a basis for forecasting and decision-making, as well as the planning and allocation of capital resources. They are also understood to be used by investors in analysing business performance.

The Group's APMs are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies, and they are not intended to be a substitute for, or superior to, measures defined under IFRS. The Group's APMs are consistent with the prior year. Measures, definitions and reconciliations to relevant IFRS measures are included below, where appropriate.

Organic revenue growth – Group KPI

Closest equivalent IFRS measure: Revenue growth year on year

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

Purpose: A good indicator of business growth.

	30 September 2024 £m	30 September 2023 £m
Prior year revenue	2,177.0	2,144.0
FX	(8.4)	(44.0)
(Disposals) / acquisitions	-	(247.6)
Prior year revenue adjusted for FX and disposals *(b)*	2,168.6	1,852.4
Revenue growth *(a)*	240.3	324.6
Current year revenue	2,408.9	2,177.0
Organic revenue growth (a)/(b)	*11.1%*	*17.5%*

Contract backlog

Closest equivalent IFRS measure: No direct equivalent

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

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

	30 September 2024 £m	30 September 2023 £m
Contract backlog	9,517	9,636

Underlying operating profit

Closest equivalent IFRS measure: Operating profit

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

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

	30 September 2024 £m	30 September 2023 £m
Underlying operating profit	168.8	154.4
Specific adjusting items	15.0	(10.2)
Operating profit (note 2)	183.8	144.2

Specific adjusting items (note 2)

	30 September 2024 £m	30 September 2023 £m
Amortisation of acquired intangibles	(4.4)	(5.6)
Business acquisition, merger and divestment related items (note 2)	-	(0.2)
Amendment, curtailment, settlement or equalization of Group pension schemes	0.3	-
Fair value movement on derivatives (note 2)	19.1	(4.4)
Specific adjusting items impacting operating profit/(loss)	**15.0**	**(10.2)**
Fair value movement on derivatives and related items	(0.1)	5.9
Specific adjusting items impacting profit/(loss) before tax	**14.9**	**(4.3)**
Income tax benefit/(expense)		
Amortisation of acquired intangibles	1.3	1.6
Amendment, curtailment, settlement or equalization of Group pension schemes	(0.1)	-
Fair value movement on derivatives and related items	(4.8)	(0.4)
Tax on Group reorganisation activities	-	2.1
Specific adjusting items impacting income tax benefit/(expense)	**(3.6)**	**3.3**

Underlying operating margin – Group KPI

Closest equivalent IFRS measure: Operating margin

Definition: Underlying operating profit as a percentage of revenue.

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

	30 September 2024 £m	30 September 2023 £m
Revenue	2,408.9	2,177.0
Underlying operating profit	168.8	154.4
Underlying operating margin	7.0%	7.1%

Underlying net finance costs

Closest equivalent IFRS measure: Net finance costs

Definition: Net finance costs excluding specific adjusting items.

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

	30 September 2024 £m	30 September 2023 £m
Underlying net finance costs	(16.8)	(20.0)
Add: specific adjusting items impacting finance costs (note 2)	(0.1)	5.9
Net finance costs (note 4)	(16.9)	(14.1)

Underlying profit before tax

Closest equivalent IFRS measure: Profit before tax

Definition: Profit before tax excluding all specific adjusting items.

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

	30 September 2024 £m	30 September 2023 £m
Underlying profit before tax	157.1	140.4
Specific adjusting items impacting profit before tax (note 2)	14.9	(4.3)
Profit before tax (note 2)	172.0	136.1

Underlying effective tax rate

Closest equivalent IFRS measure: Effective tax rate

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

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

	Year ended 30 September 2024			Year ended 30 September 2023		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Profit/(loss) before tax (note 2)	157.1	14.9	172.0	140.4	(4.3)	136.1
Share of profit from joint ventures and associates (note 2)	(5.1)	-	(5.1)	(6.0)	-	(6.0)
Profit/(loss) before tax excluding profit from joint ventures and associates (a)	152.0	14.9	166.9	134.4	(4.3)	130.1
Income tax expense (b)	(38.4)	(3.6)	(42.0)	(35.3)	3.3	(32.0)
Effective tax rate (b)/(a)	25.3%		25.2%	26.3%		24.6%

Underlying basic and diluted earnings per share

Closest equivalent IFRS measure: Basic earnings per share

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

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

	Year ended 30 September 2024			Year ended 30 September 2023		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Profit/(loss) before tax (note 2)	157.1	14.9	172.0	140.4	(4.3)	136.1
Income tax (expense)/benefit (note 2)	(38.4)	(3.6)	(42.0)	(35.3)	3.3	(32.0)
Profit/(loss) after tax for the year	118.7	11.3	130.0	105.1	(1.0)	104.1
Amount attributable to owners of the parent	118.0	11.3	129.3	103.5	(1.0)	102.5
Amount attributable to non-controlling interests	0.7	-	0.7	1.6	-	1.6
Weighted average number of shares (m)	502.4		502.4	503.5		503.5
Effect of dilutive securities (m)	10.9		10.9	12.7		12.7
Diluted weighted average number of shares (m)	513.3		513.3	516.2		516.2
Basic EPS (note 2)	23.5p	2.2p	25.7p	20.6p	(0.2)p	20.4p
Diluted EPS (note 2)	23.0p	2.2p	25.2p	20.1p	(0.2)p	19.9p

Net debt

Closest equivalent IFRS measure: No direct equivalent

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

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

	30 September 2024 £m	30 September 2023 £m
Cash and bank balances	618.3	480.5
Bank overdrafts	(4.4)	(0.1)
Cash, cash equivalents and bank overdrafts	**613.9**	480.4
Debt	(745.3)	(746.7)
Derivatives hedging debt	(15.4)	(7.1)
Lease liabilities	(243.6)	(213.0)
Liabilities from financing arrangements	**(1,004.3)**	(966.8)
Lease receivables	38.1	30.1
Loans to joint ventures and associates	3.7	2.0
Derivatives hedging interest on debt	(37.0)	(38.2)
Net debt	**(385.6)**	(492.5)

Net debt (excluding leases)

Closest equivalent IFRS measure: No direct equivalent

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

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

	30 September 2024 £m	30 September 2023 £m
Net debt	(385.6)	**(492.5)**
Leases	239.8	**204.7**
Net debt (excluding leases)	(145.8)	**(287.8)**

Net debt / EBITDA (covenant basis) – Group KPI

Closest equivalent IFRS measure: No direct equivalents

Definition: Net debt (excluding leases), before loans to joint ventures and associates and finance lease receivables, divided by EBITDA (as defined in our banking covenants – being underlying operating profit, defined on page 25, excluding depreciation and amortisation and including certain covenant adjustments) plus JV and associate dividends. See page 12.

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

Interest cover (covenant basis)

Closest equivalent IFRS measure: No direct equivalent

Definition: EBITDA (on a covenant basis), divided by net finance costs and various covenant adjustments made to reflect accounting standards at the time of inception of the RCF agreement, including lease and retirement benefit interest. See page 12.

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

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

Closest equivalent IFRS measure: No direct equivalent

Definition: Underlying operating profit plus share of JV profit after tax, divided by the sum of net debt (excluding leases), shareholders' funds and retirement benefit deficit/(surplus). See page 12.

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

Underlying operating cash flow

Closest equivalent IFRS measure: Net cash flow from operating activities

Definition: Cash flow from operating activities excluding net income tax, net interest paid, pension contributions in excess of the income statement charge and cash flows related to specific adjusting items and including net capital expenditure and lease principal payments. See page 9.

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

	30 September 2024 £m	30 September 2023 £m
Underlying operating cash flow	134.9	126.6
Add: net capex	47.5	51.9
Add: capital element of lease payments	22.8	24.5
Less: pension contributions in excess of income statement	(23.9)	(39.6)
Non-operating cash items (excluded from underlying cash flow)	-	(0.2)
Cash generated from operations	181.3	163.2
Tax (paid)	(16.2)	(12.9)
Less: net interest paid	(11.9)	(13.5)
Net cash flow from operating activities	153.2	136.8

Underlying operating cash conversion – Group KPI

Closest equivalent IFRS measure: No direct equivalent

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

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

	30 September 2024 £m	30 September 2023 £m
Underlying operating profit	168.8	154.4
Underlying operating cash flow	134.9	126.6
Operating cash conversion	80%	82%

Underlying free cash flow

Closest equivalent IFRS measure: No direct equivalent

Definition: Underlying free cash flow includes cash flows from pension deficit payments, interest, tax, JV dividends, specific adjusting items, in addition to underlying operating cash flow. See page 9.

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

Risks and uncertainties

The principal risks and uncertainties affecting the Group are listed below and are set out in more detail in the Company's Annual Report and Financial Statements 2024, which should be read in conjunction with this announcement when published. This list is not a substitute for reading the Company's Annual Report and Financial Statements 2024 in full. The Group’s principal risks and uncertainties are:

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

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

IT & cyber security: A key factor for our customers is our ability to deliver secure IT and other information assurance systems to maintain the confidentiality of sensitive information. Risk appetite: Low. IT and Cyber Security are fundamental components to Babcock’s operations; we continually review the emergence of cyber threats, in an effort to eradicate and mitigate the risk as far as possible.

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

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

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

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

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

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

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

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

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

Acquisitions and divestments: We have built our core strengths organically and through acquisition. Decisions to acquire companies, as well as the process of their acquisition and integration, are complex, time-consuming, and expensive. If we believe that a business is not 'core', we may decide to sell that business. Risk appetite: Medium. Babcock will continue to review potential opportunities within the market in a considered and measured way, M&A activity continues to be inherently high risk. Future M&A activity will be undertaken only where it is possible to reduce inherent risk to an acceptable level when balanced against potential rewards and opportunity.

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

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 12 November 2024 and are signed on its behalf by:

D Lockwood
Director

D Mellors
Director

Group income statement

	Note	Six months ended 30 September 2024 £m	Six months ended 30 September 2023 £m
Revenue	2,3	2,408.9	2,177.0
Operating costs		(2,225.1)	(2,032.8)
Operating profit	2,3	183.8	144.2
Share of results of joint ventures and associates	2,3	5.1	6.0
Finance income	4	14.9	10.2
Finance costs	4	(31.8)	(24.3)
Profit before tax	2,3	172.0	136.1
Income tax expense	2,5	(42.0)	(32.0)
Profit for the period	2	130.0	104.1
Attributable to:			
Owners of the parent	2	129.3	102.5
Non-controlling interest	2	0.7	1.6
		130.0	104.1
Earnings per share			
Basic	2	25.7p	20.4p
Diluted	2	25.2p	19.9p

Condensed consolidated statement of comprehensive income

	Six months ended 30 September 2024 £m	Six months ended 30 September 2023 £m
Profit for the period	130.0	104.1
Other comprehensive income/(loss)		
Items that may be subsequently reclassified to income statement		
Currency translation differences	1.1	(5.4)
Fair value adjustment of interest rate and foreign exchange hedges	(3.9)	3.1
Hedging gains/(losses) reclassified to profit and loss	6.1	(1.1)
Share of other comprehensive income of joint ventures and associates	(1.1)	0.4
Tax on items that may be subsequently reclassified to income statement	(0.6)	(1.5)
Items that will not be subsequently reclassified to income statement		
Remeasurement of retirement benefit obligations (note 13)	34.9	(132.7)
Tax, including rate change impact, on remeasurement of retirement benefit obligations	(8.8)	33.2
Other comprehensive income/(loss), net of tax	27.7	(104.0)
Total comprehensive income	157.7	0.1
Total comprehensive income/(loss) attributable to:		
Owners of the parent	156.5	(0.8)
Non-controlling interest	1.2	0.9
Total comprehensive income	157.7	0.1

Condensed consolidated statement of comprehensive income (unaudited)

	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Owners of the parent £m	Non-controlling interest £m	Total equity £m
At 1 April 2023	303.4	873.0	768.8	30.6	(1,568.8)	3.0	(56.1)	353.9	17.0	370.9
Profit for the period	–	–	–	–	102.5	–	–	102.5	1.6	104.1
Other comprehensive (loss)/income	–	–	–	–	(99.5)	2.0	(5.8)	(103.3)	(0.7)	(104.0)
Total comprehensive loss	–	–	–	–	3.0	2.0	(5.8)	(0.8)	0.9	0.1
Purchase of own shares	–	–	–	–	(7.5)	–	–	(7.5)	–	(7.5)
Share-based payments	–	–	–	–	5.2	–	–	5.2	–	5.2
Tax on shared-based payments	–	–	–	–	2.1	–	–	2.1	–	2.1
Net movement in equity	–	–	–	–	2.8	2.0	(5.8)	(1.0)	0.9	(0.1)
At 30 September 2023	303.4	873.0	768.8	30.6	(1,566.0)	5.0	(61.9)	352.9	17.9	370.8
At 1 April 2024	303.4	873.0	768.8	30.6	(1,523.9)	5.3	(68.3)	388.9	17.2	406.1
Profit for the period	–	–	–	–	129.3	–	–	129.3	0.7	130.0
Other comprehensive income	–	–	–	–	26.1	0.5	0.6	27.2	0.5	27.7
Total comprehensive income	–	–	–	–	155.4	0.5	0.6	156.5	1.2	157.7
Dividends paid	–	–	–	–	(16.6)	–	–	(16.6)	–	(16.6)
Purchase of own shares	–	–	–	–	(13.3)	–	–	(13.3)	–	(13.3)
Share-based payments	–	–	–	–	7.5	–	–	7.5	–	7.5
Tax on shared-based payments	–	–	–	–	(1.4)	–	–	(1.4)	–	(1.4)
Net movement in equity	–	–	–	–	131.6	0.5	0.6	132.7	1.2	133.9
At 30 September 2024	303.4	873.0	768.8	30.6	(1,392.3)	5.8	(67.7)	521.6	18.4	540.0

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.

Condensed consolidated statement of financial position (unaudited)

	Note	As at 30 September 2024 £m	As at 31 March 2024 £m
Assets			
Non-current assets			
Goodwill	6	780.1	780.1
Other intangible assets		148.3	148.8
Property, plant and equipment		530.2	517.1
Right of use assets		194.7	175.6
Investment in joint ventures and associates		52.0	59.7
Loans to joint ventures and associates		3.7	3.9
Retirement benefit surpluses	13	113.1	107.3
Other financial assets		4.8	5.3
Lease receivables		22.2	22.5
Derivatives		11.6	2.8
Deferred tax asset		107.6	132.3
Trade and other receivables	8	13.1	13.0
		1,981.4	1,968.4
Current assets			
Inventories		161.2	187.4
Trade and other receivables	8	519.7	487.2
Contract assets	8	342.7	337.4
Income tax receivable		3.3	10.6
Lease receivables		15.9	13.0
Other financial assets		1.1	1.1
Derivatives		15.2	4.4
Cash and cash equivalents	12	618.3	570.6
		1,677.4	1,611.7
Total assets		3,658.8	3,580.1
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		737.5	736.4
Retained losses		(1,392.3)	(1,523.9)
Total equity attributable to owners of the parent		521.6	388.9
Non-controlling interest		18.4	17.2
Total equity		540.0	406.1
Non-current liabilities			
Bank and other borrowings		742.7	747.1
Lease liabilities		192.1	185.9
Trade and other payables	9	5.9	5.4
Deferred tax liabilities		6.5	6.4
Derivatives		57.0	51.9
Retirement benefit deficits	13	165.7	217.0
Provisions for other liabilities	11	70.5	79.1
		1,240.4	1,292.8
Current liabilities			
Bank and other borrowings		7.0	20.4
Lease liabilities		51.5	44.6
Trade and other payables	9	926.9	949.2
Contract liabilities	9	786.9	761.8
Income tax payable		20.3	16.6
Derivatives		11.0	9.5
Provisions for other liabilities	11	74.8	79.1
		1,878.4	1,881.2
Total liabilities		3,118.8	3,174.0
Total equity and liabilities		3,658.8	3,580.1

Condensed consolidated cash flow statement (unaudited)

	Note	Six months ended 30 September 2024 £m	Six months ended 30 September 2023 £m
Cash flows from operating activities			
Profit for the period	2	130.0	104.1
Share of results of joint ventures and associates	2,3	(5.1)	(6.0)
Income tax expense	5	42.0	32.0
Finance income	4	(14.9)	(10.2)
Finance costs	4	31.8	24.3
Depreciation and impairment of property, plant and equipment		29.9	25.2
Depreciation and impairment of right of use assets		19.3	18.9
Amortisation and impairment of intangible assets		9.3	10.5
Equity share-based payments		7.5	5.2
Net derivative fair value and currency movement through profit or loss		(17.3)	6.7
Profit on disposal of property, plant and equipment		0.4	(0.1)
Profit on disposal of right of use assets		0.3	(0.2)
Cash generated from operations before movement in working capital and retirement benefit payments		233.2	210.4
Decrease/(increase) in inventories		28.9	(4.6)
Increase in receivables		(35.0)	(31.9)
Increase in contract assets		(6.8)	(19.4)
(Decrease)/increase in payables		(26.0)	55.3
Increase/(decrease) in contract liabilities		25.5	(5.0)
Decrease in provisions		(14.3)	(2.0)
Retirement benefit payments in excess of income statement charge		(24.2)	(39.6)
Cash generated from operations		181.3	163.2
Income tax paid		(16.2)	(12.9)
Interest paid		(26.5)	(24.6)
Interest received		14.6	11.1
Net cash flows from operating activities		153.2	136.8
Cash flows from investing activities			
Dividends received from joint ventures and associates		11.8	6.8
Proceeds on disposal of property, plant and equipment		3.1	9.8
Purchases of property, plant and equipment		(41.8)	(47.4)
Purchases of intangible assets		(8.8)	(14.3)
Loans repaid by joint ventures and associates		0.1	7.1
Net cash flows from investing activities		(35.6)	(38.0)
Cash flows from financing activities			
Lease principal payments	12	(22.8)	(24.5)
Bank loans repaid	12	(8.3)	(13.0)
Loans raised and facilities drawn down	12	8.0	–
Purchase of own shares		(13.3)	(7.5)
Dividends paid		(16.6)	–
Net cash flows from financing activities		(53.0)	(45.0)
Net increase in cash, cash equivalents and bank overdrafts	12	64.6	53.8
Cash, cash equivalents and bank overdrafts at beginning of period	12	552.6	429.5
Effects of exchange rate fluctuations	12	(3.3)	(2.9)
Cash, cash equivalents and bank overdrafts at end of period	12	613.9	480.4

Notes to the consolidated financial statements

1. Basis of preparation and significant accounting policies

These condensed consolidated half year financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting and the Disclosures and Transparency Rules of the Financial Services Authority, the Listing Rules and UK adopted International Financial Reporting Standards (IFRS). They should be read in conjunction with the annual report and financial statements for the year ended 31 March 2024, which were prepared in accordance with IFRS and the applicable legal requirements of the Companies Act 2006. These condensed consolidated half year financial statements do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006. The annual report and financial statements for the year ended 31 March 2024 were reported upon by the Group's auditor and delivered to the registrar of companies. The report of the auditor on the annual report and financial statements for the year ended 31 March 2024 was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis of matter without qualifying their report and did not contain statements under Section 498 (2) or (3) of the Companies Act 2006. The accounting policies used and presentation of these condensed consolidated half year financial statements are consistent with the accounting policies applied by the Group in its consolidated annual report and financial statements as at, and for the year ended, 31 March 2024, and comply with amendments to IFRS effective since that date.

The half year report for the six months ended 30 September 2024 was approved by the Directors on 12 November 2024.

Significant accounting policies

New and amended standards adopted by the Group

There are no new standards, amendments or interpretations that are not yet effective that are expected to have a material impact on the Group's operations.

Basis of preparation

The Directors consider it appropriate to adopt the going concern basis of accounting in preparing the condensed consolidated half year financial statements.

In assessing the appropriateness of the going concern basis of accounting, the Directors have considered whether the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of these consolidated half year financial statements. The Directors reviewed the resources available to the Group in the form of cash and committed facilities. As of 30 September 2024, the Group's committed facilities and bonds totalling £1.6 billion were the £775 million five-year multi-currency RCF, two tranches of bonds (£300 million 1.875% notes and €550 million 1.375% notes) and two overdraft facilities totalling £100 million.

The £775 million RCF is the only facility containing financial covenants. The key covenant ratios are (i) net debt to EBITDA (gearing ratio) and (ii) EBITDA to net interest (interest cover) with tests set to less than 3.5x and greater than 4.0x respectively. These are measured twice per year, on 30 September and 31 March. To assess the level of headroom within the available facilities, a reverse stress test was performed to assess the level of performance deterioration against the base case budget (in both EBITDA and net debt) required to challenge covenant levels. Of the remaining measurement points within the five-year period approved by the Board, the smallest required reduction in forecast EBITDA to hit the covenant level was 87% and the smallest net debt increase was 647%. Given the mitigating actions that are available and within management's control, such adverse movements are not considered plausible. There have been no breaches of debt covenants during the reporting period.

The Directors have also considered the Group's forecasts when assessing going concern, having considered the 18-month period from the date of signing the Group's condensed consolidated financial statements for the six months ended 30 September 2024.

On an annual basis, budgets are prepared using a bottom-up approach, aggregating the budgets for the individual business units into Sector budgets. The Sector budgets and the consolidated Group budget is then reviewed by the Board and used to monitor business performance. This annual process comprises the budget for the coming financial year and a 5-year plan.

Between annual budget cycles, the Group prepares rolling forecasts on a monthly basis covering an updated assessment of the remainder of the current financial year.

The impacts of current economic conditions, including inflation, are incorporated into the annual budget process and the rolling forecasts. Where changes in economic conditions are significant, these would also be incorporated into the 5-year plan for purposes of the going concern assessment.

The Directors have performed sensitivity analyses on the latest Group rolling forecast for the duration of the assessment period. These involve a range of downside events both individually and in combination under a range of severe, but plausible downside scenarios. Such sensitivities include 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 regulatory risk relating to a reduction in access to R&D tax incentive credits.

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

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 as described in the going concern assessment on page 108 of the annual report and financial statements for the year ended 31 March 2024. Despite the severity of the combined severe, but plausible scenarios, these sensitivities did not give rise to any material uncertainties in relation to the Group's ability to continue as a going concern.

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 condensed consolidated half year 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.

Key sources of estimation uncertainty

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

Revenue and profit recognition: The Group's revenue recognition policies are set out in note 1 of the annual report for the year ended 31 March 2024. 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 an estimate of the cost to complete long-term contracts. Outturn costs are estimated on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel. Estimates of cost to complete include the 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 differ from previous estimates. The Group's contracts are exposed to inflation due to rising employment costs, as well as increased costs of raw materials. The Group endeavours to include cost recovery mechanisms or index-linked pricing within its contracts with customers in order to mitigate any inflation risk arising from increasing employment and raw material costs.

Type 31 contract estimates

The contract to produce 5 Type 31 frigates was won under competitive tender in 2019, based on Babcock's Arrowhead 140 design. The contract is important in providing access to an expected pipeline of Type 31 work and developing our Arrowhead 140 design for opportunities overseas. Although the contract contained certain escalation clauses, it provided limited protection from the macroeconomic changes of recent years relating to Brexit, Covid, raw material prices and UK labour shortages, which have significantly increased our costs. Following the outcome of discussions with the customer over these matters, a £100 million charge was recorded in FY23.

In FY24 we launched an operational improvement programme to address all areas of the Type 31 programme. This included a significant focus on cost drivers and financial modelling, supported by external consultants, and led to a number of management changes. This enabled a more detailed reassessment, robustly supported by actual cost data, other empirical evidence and a further year of experience of the programme. We recorded a £90 million charge at the end of FY24. Estimated costs over the life of the contract increased due to the maturing of the design and an increase in the forecast cost of labour.

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

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

a) **The number of production hours** – which requires estimation of a standard level of hours for manufacturing, structural and outfitting activities, determined with reference to previous experience of comparable programmes and industry data where available. The estimation of the time taken to improve to this standard level is also relevant, based on a detailed enablement plan which is a key output of the operational improvement programme. The volume of activities is based on a detailed assessment of the Bill of Materials, supported by dedicated engineering software

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

b) **The cost of labour** – which is dependent on our ability to recruit, the mix of the workforce between permanent and contingent workers from the UK and overseas, the utilisation of semi-skilled and apprentice workers and shift patterns and premiums. A detailed resourcing plan is used to support this estimate with actions required to achieve an efficient labour mix

c) **The cost of bought-in parts and services through suppliers and sub-contractors** – which includes the outcome of procurement tenders, finalisation of other areas of unagreed pricing and the agreement of discounts and incentive arrangements

d) **The ability to improve operational performance through process efficiencies, quality and engineering improvements over the five ships** – which requires actions to reduce re-work, optimise the location in which outfitting is performed, deliver specific productivity initiatives and make engineering changes to reduce the cost of manufacture, structural assembly and outfitting

e) **The number of hours required by support functions** – including engineering which is impacted by effective management of production support and change requests. A detailed engineering scope review has been performed to support this estimate. The maturity of the design and estimation process has allowed us to target improvements in ongoing support and overhead costs

Key sources of estimation uncertainty (continued)

f) **The determination of non-incremental costs which relate directly to fulfilling the contract and are therefore partially allocated to the contract to determine the loss provision** – including facility and overhead costs

g) **The impact of inflation on the contract price and costs to fulfil the contract** – particularly in relation to labour which may be impacted by changes in the local, UK and overseas labour markets, competitor activity and government policy

h) **The achievement of the build schedule to completion and final acceptance** – including the satisfaction of all contractual performance criteria. The schedule analysis is based on detailed modelling and the performance of multiple scenario analysis

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

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

The range of possible future outcomes in respect of assumptions made to determine the contract 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. The estimates described above are by their nature inter-related for this programme and are unlikely to change with everything else constant.

However, for illustrative purposes, we have provided sensitivities to certain isolated changes in key estimates on the basis that all other factors remain constant:

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

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

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, many of the 'first time' tasks and work to integrate the various elements of the first ship will be substantially complete. This will reduce the uncertainty over the contract outturn but a significant element will remain due to the substantial activity which extends over the remaining years. In a major ship build programme of this nature, it is inherently possible that there may be changes in circumstances which cannot reasonably be foreseen at the present time.

Defined benefit pension schemes obligation: The Group's defined benefit pension schemes are assessed annually in accordance with IAS 19. The valuation of the defined benefit pension obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit pension obligation. In addition to the inflation and discount rate estimates, a key judgment relates to the expected availability of future accounting surpluses under IFRIC 14. In the annual report and financial statements for the year ended 31 March 2024, note 25 provided a sensitivity analysis of the impact of assumptions used in the Group's defined benefit pension schemes.

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

Critical accounting judgements

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

Acting as a principal or agent: A number of the Group's contracts include promises in relation to procurement activity undertaken on behalf of customers at low or nil margin, sub-contractor arrangements, and other pass-through costs. Management is required to exercise judgement on these revenue streams in considering whether the Group is acting as principal or agent. This is based on an assessment as to whether the Group controls the relevant goods or services under the performance obligations prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Group has under the contract for the provision of the goods or services, the extent to which the Group is incentivised to fulfil orders on time and within budget, either through gain share arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Group exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the Group then comes to a judgement as to whether it acts as principal or agent on a performance obligation-by-performance obligation basis. Any changes in this judgement would not have a material impact on profit, although there may be a material impact to revenue and operating costs.

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

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

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

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

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

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

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

2. Adjustments between statutory and underlying information

Definition of underlying measures and exceptional 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 period to period. 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 those used in the year ended 31 March 2024.

Underlying operating profit

In any given period 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 ("Specific Adjusting Items"). Underlying operating profit therefore adjusts statutory operating profit to provide readers with a measure of business performance which the Group considers more consistently analyses the underlying performance of the Group by removing these one-off and other items 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 period. 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 acquisitions and gains or losses on disposal of assets or businesses);
- Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography, including closure costs, severance costs, the disposal of assets and termination of leases;
- The costs of large restructuring programmes that significantly exceed the minor restructuring which occurs in most years as part of normal operations. Restructuring costs incurred as a result of normal operations are included in operating costs and are not excluded from underlying operating profit;
- Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes;
- Fair value gain/(loss) on open forward rate contracts that will be settled in future periods; and
- Exceptional items that are significant, non-recurring and outside of the normal operating practice. These items are described as exceptional in order to appropriately represent the Group's underlying business performance. Exceptional items are set out in the Exceptional items section below.

2. Adjustments between statutory and underlying information (continued)

Income statement including underlying results

	Six months ended 30 September 2024			Six months ended 30 September 2023		
	Underlying £m	Specific Adjusting Items £m	Statutory £m	Underlying £m	Specific Adjusting Items £m	Statutory £m
Revenue	2,408.9	–	2,408.9	2,177.0	–	2,177.0
Operating profit	168.8	15.0	183.8	154.4	(10.2)	144.2
Share of results of joint ventures and associates	5.1	–	5.1	6.0	–	6.0
Net finance costs	(16.8)	(0.1)	(16.9)	(20.0)	5.9	(14.1)
Profit before tax	157.1	14.9	172.0	140.4	(4.3)	136.1
Income tax expense	(38.4)	(3.6)	(42.0)	(35.3)	3.3	(32.0)
Profit after tax for the period	118.7	11.3	130.0	105.1	(1.0)	104.1

Earnings per share including underlying measures

	Six months ended 30 September 2024			Six months ended 30 September 2023		
	Underlying £m	Specific Adjusting items £m	Statutory £m	Underlying £m	Specific Adjusting Items £m	Statutory £m
Profit after tax for the period	118.7	11.3	130.0	105.1	(1.0)	104.1
Amount attributable to owners of the parent	118.0	11.3	129.3	103.5	(1.0)	102.5
Amount attributable to non-controlling interests	0.7	–	0.7	1.6	–	1.6
Weighted average number of shares (m)	502.4		502.4	503.5		503.5
Effect of dilutive securities (m)	10.9		10.9	12.7		12.7
Diluted weighted average number of shares (m)	513.3		513.3	516.2		516.2
Basic EPS	23.5p	2.2p	25.7p	20.6p	(0.2)p	20.4p
Diluted EPS	23.0p	2.2p	25.2p	20.1p	(0.2)p	19.9p

Details of Specific Adjusting Items

The impact of Specific Adjusting Items is set out below:

	Six months ended 30 September 2024 £m	Six months ended 30 September 2023 £m
Amortisation of acquired intangibles	(4.4)	(5.6)
Business acquisition, merger and divestment related items	–	(0.2)
Amendment, curtailment, settlement or equalisation of Group pension schemes	0.3	–
Fair value movement on derivatives and related items	19.1	(4.4)
Specific Adjusting items impacting operating profit	15.0	(10.2)
Fair value movement on derivatives and related items	(0.1)	5.9
Specific Adjusting items impacting loss before tax	14.9	(4.3)
Specific Adjusting items impacting income tax expense		
Amortisation of acquired intangibles	1.3	1.6
Amendment, curtailment, settlement or equalisation of Group pension schemes	(0.1)	–
Fair value movement on derivatives and related items	(4.8)	(0.4)
Income tax effect of adjusting items impacting profit before tax	(3.6)	1.2
Income tax specific adjusting items	–	2.1
Total adjusting items impacting income tax	(3.6)	3.3
Specific Adjusting items impacting profit after tax	11.3	(1.0)

2. Adjustments between statutory and underlying information (continued)

Explanation of Specific Adjusting Items

Amortisation of acquired intangibles

Underlying operating profit excludes the amortisation of acquired intangibles. This item is excluded from underlying results as it arises as a result of purchase price allocations on business combinations, and is a non-cash item which does not change each year dependent on the performance of the business. It is therefore not considered to represent the underlying activity of the Group. 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.

Fair value movement on derivatives and related items

Movements within operating profit arise from 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. These arrangements are considered to provide an economic hedge, but hedge accounting under IFRS is not applied. 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 remove the risk to profitability).

Hedge ineffectiveness on debt and debt-related derivatives that are designated in a hedge relationship under IFRS are also presented as a specific adjusting item in finance costs. This is presented as a specific adjusting item as the ineffectiveness is caused by the off-market designation at inception, although overall the transactions are considered 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. These arrangements are considered to provide an economic hedge, but hedge accounting under IFRS is not applied.

Business acquisition, merger and divestment related items

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

The total net profit relating to business acquisition, merger and divestment related items for the period ended 30 September 2024 was £nil (2023: loss of £0.2 million). The prior year balance comprised of legal and warranty related costs additional to those initially recorded in prior periods in respect of divestments.

Amendment, curtailment, settlement or equalisation of Group pension schemes

Relates to amendments made to the Babcock International Group Pension Scheme ('BIGPS') following finalisation of the planned closure of the scheme to future accrual from 30 September 2024 as described on page 233 of the 31 March 2024 Annual Report.

Income tax specific adjusting items

During the prior period the Group revised its estimates for certain tax-related provisions, relating to matters arising from previous divestments and business reorganisations. No such items have arisen in the 6 months to 30 September 2024.

3. Segmental information

The Group has four operating and 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 operational 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 operating and reportable segments and makes decisions about the allocation of resources.

Six months ended 30 September 2024	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	789.8	865.7	591.3	162.1	–	2,408.9
Underlying operating profit	40.0	75.7	45.4	7.7	–	168.8
Specific Adjusting Items						
Amortisation of acquired intangibles	(3.1)	–	–	(1.3)	–	(4.4)
Amendment of Group pension schemes	0.1	0.1	0.1	–	–	0.3
Fair value loss on forward rate contracts	19.5	–	–	(0.4)	–	19.1
Operating profit	56.5	75.8	45.5	6.0	–	183.8
Share of results of joint ventures and associates	(0.2)	0.2	–	5.1	–	5.1
Net finance costs	–	–	0.2	–	(17.1)	(16.9)
Profit/(loss) before tax	56.3	76.0	45.7	11.1	(17.1)	172.0

Six months ended 30 September 2023	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	750.1	710.8	545.6	170.5	–	2,177.0
Underlying operating profit	63.0	45.2	37.5	8.7	–	154.4
Specific Adjusting Items						
Amortisation of acquired intangibles	(3.8)	–	–	(1.8)	–	(5.6)
Business acquisition, merger and divestment related items	–	–	(0.2)	–	–	(0.2)
Fair value loss on forward rate contracts	(4.1)	–	–	(0.3)	–	(4.4)
Operating profit	55.1	45.2	37.3	6.6	–	144.2
Share of results of joint ventures and associates	0.3	–	–	5.7	–	6.0
Net finance costs	–	–	0.3	–	(14.4)	(14.1)
Profit/(loss) before tax	55.4	45.2	37.6	12.3	(14.4)	136.1

Geographic analysis of revenue

The geographic analysis of revenue by origin of customer for the periods ended 30 September 2024 and 30 September 2023 is as follows:

	Revenue	
Geographic analysis	Six months ended 30 September 2024 £m	Six months ended 30 September 2023 £m
United Kingdom	1,704.9	1,507.2
Rest of Europe	81.3	120.0
Africa	188.1	179.7
North America	101.5	93.9
Australasia	203.8	170.5
Rest of World	129.3	105.7
Group total	2,408.9	2,177.0

3. Segmental information (continued)

The analysis of revenue for the periods ended 30 September 2024 and 30 September 2023 is as follows:

	Six months ended 30 September 2024 £m	Six months ended 30 September 2023 £m
Sale of goods – transferred at a point in time	157.8	181.4
Sale of goods – transferred over time	210.0	117.1
Sale of goods	367.8	298.5
Provision of services – transferred over time	2,036.4	1,872.5
Rental income	4.7	6.0
Revenue	2,408.9	2,177.0

4. Net finance costs

	Six months ended 30 September 2024 £m	Six months ended 30 September 2023 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	20.5	15.0
Lease interest and associated hedges	5.8	5.3
Amortisation of issue costs of bank loan	1.1	1.5
Retirement benefit interest	2.0	0.4
Other	2.4	2.1
Total finance costs	31.8	24.3
Finance income		
Bank deposits, loans and leases	14.7	9.9
IFRIC 12 investment income	0.2	0.3
Retirement benefit interest	–	–
Total finance income	14.9	10.2
Net finance costs	16.9	14.1

5. Income tax expense

	Six months ended 30 September 2024 £m	Six months ended 30 September 2023 £m
Income tax expense	(42.0)	(32.0)
Calculation of underlying effective tax rate		
Profit before tax	172.0	136.1
Deduct: Share of results of joint ventures and associates (note 2)	(5.1)	(6.0)
Add back specific adjusting items (note 2)	(14.9)	4.3
Adjusted profit before tax	152.0	134.4
Tax charge	42.0	32.0
Exclude specific adjusting items impacting income tax (note 2)	(3.6)	3.3
Adjusted tax charge	38.4	35.3
Underlying effective tax rate	25.3%	26.3%

The tax charge has been calculated by applying the effective rate of tax which the Group expects to incur for the year to 31 March 2025 to the half-year pre-tax profit in each jurisdiction in which it operates.

6. Goodwill

	30 September 2024 £m	31 March 2024 £m
Cost		
At 1 April	1,822.0	1,823.3
Exchange adjustments	–	(1.3)
At 30 September/ 31 March	1,822.0	1,822.0
Accumulated impairment		
At opening and closing dates	1,041.9	1,041.9
Net book value at 30 September / 31 March	780.1	780.1

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

	30 September 2024 £m	31 March 2024 £m
Marine	295.4	295.5
Nuclear	233.1	233.1
Land	217.9	218.0
Aviation	32.0	32.0
Africa	1.7	1.5
	780.1	780.1

Goodwill is stated at cost less any provision for impairment. The recoverable value of each cash generating unit was assessed at 31 March 2024 by reference to value-in-use calculations. The value-in-use calculations were derived from risk-adjusted cash flows from the Group's five-year plan and an estimated long-term, country-specific growth rate between 2.0% and 4.6%. There have been no changes to the Group's key assumptions in the six months ended 30 September 2024 since the published annual report and financial statements for the year ending 31 March 2024. The key assumptions can be found in note 10 of that report. 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 climate change and inflation.

Goodwill is required to be tested for impairment at least once every financial year, irrespective of whether there is any indication of impairment. The Group's annual impairment review typically occurs at year end. However, if indicators of impairment are present, an earlier review is also required. The Group has assessed the goodwill balance for both internal and external impairment indicators and no impairment indicators were identified. Management will prepare a full goodwill impairment assessment at the year end.

7. Non-current assets

In the six months ended 30 September 2024 the Group made the following significant additions to non-current assets:

- £45.2 million of additions to property plant and equipment including £27.8 million of site improvements at Devonport Royal Dockyard;
- £8.4 million of additions to intangible assets; and
- £41.3 million of additions to right of use assets new aircraft of £25.9 million and property lease arrangements of £9.3 million.

8. Trade and other receivables and contract assets

	30 September 2024 £m	31 March 2024 £m
Non-current assets		
Costs to obtain a contract	0.2	0.3
Costs to fulfil a contract	9.7	10.2
Other debtors	3.2	2.5
Non-current trade and other receivables	13.1	13.0
Current assets		
Trade receivables	287.7	266.4
Less: provision for impairment of receivables	(7.8)	(8.5)
Trade receivables – net	279.9	257.9
Retentions	7.9	6.1
Amounts due from related parties (note 14)	1.5	2.3
Other debtors	28.8	25.0
Other taxes and social security receivables	91.5	98.1
Prepayments	103.0	88.2
Costs to fulfil a contract	7.1	9.6
Trade and other receivables	519.7	487.2
Contract assets	342.7	337.4
Current trade and other receivables and contract assets	862.4	824.6

Trade and other receivables are stated at amortised cost less expected credit loss.

9. Trade and other payables and contract liabilities

	30 September 2024 £m	31 March 2024 £m
Current liabilities		
Trade creditors	297.4	314.3
Amounts due to related parties (note 14)	0.1	1.5
Other creditors	26.6	13.5
Defined contribution pension creditor	8.8	8.3
Other taxes and social security	84.1	71.1
Accruals	509.9	540.5
Trade and other payables	926.9	949.2
Contract liabilities	786.9	761.8
Trade and other payables and contract liabilities	1,713.8	1,711.0
Non-current liabilities		
Non-current accruals	5.3	4.8
Other creditors	0.6	0.6
	5.9	5.4

Included in creditors is £14.4 million (31 March 2024: £11.4 million) relating to capital expenditure which has therefore not been included in working capital movements within the cash flow statement.

10. Financial instruments

The following table presents the Group's assets and liabilities:

30 September 2024 (£m)	Financial assets at fair value	Financial assets at amortised cost	Financial liabilities at fair value	Financial liabilities at amortised cost	Total carrying amount	Fair value
Non-current financial assets						
Loans to joint ventures and associates	–	3.7	–	–	3.7	3.7
Trade and other receivables *	0.9	0.8	–	–	1.7	1.7
Other financial assets	–	4.8	–	–	4.8	4.8
Derivatives	11.6	–	–	–	11.6	11.6
Lease receivables	–	22.2	–	–	22.2	22.2
Current financial assets						
Trade and other receivables *	–	306.7	–	–	306.7	306.7
Other financial assets	–	1.1	–	–	1.1	1.1
Derivatives	15.2	–	–	–	15.2	15.2
Lease receivables	–	15.9	–	–	15.9	15.9
Cash and cash equivalents	–	618.3	–	–	618.3	618.3
Non-current financial liabilities						
Bank and other borrowings	–	–	–	(742.7)	(742.7)	(701.9)
Trade and other payables *	–	–	–	(0.6)	(0.6)	(0.6)
Derivatives	–	–	(57.0)	–	(57.0)	(57.0)
Current financial liabilities						
Bank and other borrowings	–	–	–	(7.0)	(7.0)	(7.0)
Trade and other payables *	–	–	–	(798.8)	(798.8)	(798.8)
Derivatives	–	–	(11.0)	–	(11.0)	(11.0)
Net financial assets / (financial liabilities)	27.7	973.5	(68.0)	(1,549.1)	(615.9)	(575.1)

31 March 2024 (£m)	Financial assets at fair value	Financial assets at amortised cost	Financial liabilities at fair value	Financial liabilities at amortised cost	Total carrying amount	Fair value
Non-current financial assets						
Loans to joint ventures and associates	–	3.9	–	–	3.9	3.9
Trade and other receivables *	0.9	0.8	–	–	1.7	1.7
Other financial assets	–	5.3	–	–	5.3	5.3
Derivatives	2.8	–	–	–	2.8	2.8
Lease receivables	–	22.5	–	–	22.5	22.5
Current financial assets						
Trade and other receivables *	–	283.0	–	–	283.0	283.0
Other financial assets	–	1.1	–	–	1.1	1.1
Derivatives	4.4	–	–	–	4.4	4.4
Lease receivables	–	13.0	–	–	13.0	13.0
Cash and cash equivalents	–	570.6	–	–	570.6	570.6
Non-current financial liabilities						
Bank and other borrowings	–	–	–	(747.1)	(747.1)	(686.4)
Derivatives	–	–	(51.9)	–	(51.9)	(51.9)
Current financial liabilities						
Bank and other borrowings	–	–	–	(20.4)	(20.4)	(20.4)
Trade and other payables *	–	–	–	(848.3)	(848.3)	(848.3)
Derivatives	–	–	(9.5)	–	(9.5)	(9.5)
Net financial assets / (financial liabilities)	8.1	900.2	(61.4)	(1,615.8)	(768.9)	(708.2)

* Trade and other receivables and trade and other payables only include balances which meet the definition of a financial instrument.

The fair values of financial instruments held at fair value have been determined based on available market information at the period end date, and the valuation methodologies listed below:

- The fair values of forward foreign exchange contracts are calculated by discounting the contracted forward values and translating at the appropriate period end rates; and
- The fair values of cross-currency interest rate swaps are calculated by discounting expected future principal and interest cash flows and translating at the appropriate period end rates.

11. Provisions for other liabilities

	Contract/ warranty (a) £m	Employee benefits and business reorganisation (b) £m	Property (c) £m	Other (d) £m	Total £m
At 31 March 2024	117.8	12.4	23.5	4.5	158.2
Charge to income statement	12.4	2.2	0.7	0.1	15.4
Release to the income statement	(5.1)	(1.1)	(2.9)	(0.7)	(9.8)
Utilised in the period	(17.3)	(1.8)	(0.5)	(0.3)	(19.9)
Unwinding of discount	1.4	–	–	–	1.4
At 30 September 2024	109.2	11.7	20.8	3.6	145.3

Provisions are analysed between current and non-current as follows:

	30 September 2024 £m	31 March 2024 £m
Current	74.8	79.1
Non-current	70.5	79.1
	145.3	158.2

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

(b) Employee benefits and business reorganisation costs relate to long term employee benefits such as long-term sickness and long-term leave, and business restructuring activities including announced redundancies.

(c) Property and other provisions primarily relate to dilapidation costs in respect of leased buildings 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. Provisions relate to specific claims assessed in accordance with the advice of independent actuaries.

Included within provisions is £7.1 million expected to be utilised over approximately ten years (March 2024: £6.7 million). Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

12. Changes in net debt

	31 March 2024 £m	Cash flow £m	Additional leases £m	Other non-cash movement £m	Changes in fair value £m	Exchange movement £m	30 September 2024 £m
Cash and bank balances	570.6	50.8	–	–	–	(3.1)	618.3
Bank overdrafts	(18.0)	13.8	–	–	–	(0.2)	(4.4)
Cash, cash equivalents and bank overdrafts	552.6	64.6	–	–	–	(3.3)	613.9
Debt	(749.5)	0.3	–	(1.1)	(0.9)	5.9	(745.3)
Derivatives hedging Group debt	(11.1)	–	–	–	(4.3)	–	(15.4)
Lease liabilities	(230.5)	22.8	(39.5)	–	–	3.6	(243.6)
Changes in liabilities from financing arrangements	(991.1)	23.1	(39.5)	(1.1)	(5.2)	9.5	(1,004.3)
Lease receivables	35.5	(7.6)	8.9	–	–	1.3	38.1
Loans to joint ventures and associates	3.9	(0.1)	–	(0.1)	–	–	3.7
Derivatives hedging interest on Group debt	(36.3)	–	–	–	(0.7)	–	(37.0)
Net debt	(435.4)	80.0	(30.6)	(1.2)	(5.9)	7.5	(385.6)

13. Retirement benefits and liabilities

The fair value of the assets and the present value of the liabilities of the Group's pension schemes at 30 September were as follows:

	30 September 2024 £m	31 March 2024 £m
Fair value of plan assets		
Growth assets		
Equities	98.7	109.1
Property funds	157.6	256.7
High yield bonds/emerging market debt	0.4	0.4
Absolute return and multi-strategy funds	152.5	159.5
Low-risk assets		
Bonds	1,398.9	1,369.5
Matching assets*	1,467.3	1,439.9
Longevity swaps	(247.8)	(250.8)
Fair value of assets	3,027.6	3,084.3
Percentage of assets quoted	76%	75%
Percentage of assets unquoted	24%	25%
Present value of defined benefit obligations		
Active members	463.9	493.7
Deferred pensioners	682.9	736.5
Pensioners	1,933.4	1,963.8
Total defined benefit obligations	3,080.2	3,194.0
Net liabilities recognised in the statement of financial position	(52.6)	(109.7)

* Matching assets primarily comprise a "Liability Driven Investment" portfolio, which invests in gilts, Network Rail bonds, gilt repurchase agreements, interest rate and inflation swaps, asset swaps and cash, on a segregated basis. For certain schemes, there are also investments in investment grade credit, via both segregated portfolios and pooled investment vehicles. The various segregated portfolios and pooled investment vehicle each utilise derivative contracts. The Trustee has authorised the use of derivatives by the investment managers for efficient portfolio management purposes including to reduce certain investment risks such as interest rate risk and inflation risk. The principal investment in derivatives is gilt repurchase agreements, interest rate and inflation swaps in the matching portfolios and total return swaps in the return seeking portfolios. These derivatives are included within the matching assets and equities classifications. Repurchase agreements are entered into with counterparties to better offset the scheme's exposures to interest and inflation rates, whilst remaining invested in assets of a similar risk profile.

An analysis of the movement in the Group statement of financial position is set out below.

	30 September 2024 £m	31 March 2024 £m
Fair value of plan assets (including reimbursement rights)		
At 1 April	3,084.3	3,188.0
Interest on assets	71.7	151.3
Actuarial loss on assets	(55.1)	(200.6)
Employer contributions	34.4	131.5
Employee contributions	0.1	0.1
Benefits paid	(107.8)	(186.0)
As at period end	3,027.6	3,084.3
Present value of benefit obligations		
At 1 April	3,194.0	3,249.4
Service cost	7.1	15.4
Past service cost – plan amendments	(0.3)	–
Incurred expenses	3.4	8.5
Interest cost	73.7	152.1
Employee contributions	0.1	0.1
Experience losses	7.9	30.8
Actuarial gain – demographics	–	(39.7)
Actuarial gain – financial	(97.9)	(36.6)
Benefits paid (including transfers)	(107.8)	(186.0)
As at period end	3,080.2	3,194.0
Net liability at period end	(52.6)	(109.7)

13. Retirement benefits and liabilities (continued)

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

	30 September 2024 £m	30 September 2023 £m
Current service cost	7.1	7.4
Past service cost – plan amendments	(0.3)	–
Incurred expenses	3.4	4.2
Total included within operating profit	10.2	11.6
Net interest cost/(credit) – note 4	2.0	0.4
Total included within income statement	12.2	12.0

As at 30 September 2024 the key assumptions used in valuing pension liabilities were:

Discount rate	5.0% - 5.2% (31 March 2024: 4.8%)
Inflation rate (RPI)	3.0% - 3.1% (31 March 2024: 2.6% for one year and long-term rates of 3.2%)
Inflation rate (CPI)	2.3% - 2.7% (31 March 2024: 1.8% for one year and long-term rates of 2.7%)

14. Related party transactions

Related party transactions for the six months ended 30 September 2024 represent sales to joint ventures and associates of £25.6 million (six months ended 30 September 2023: £31.1 million) and purchases from joint ventures and associates of £1.6 million (six months ended 30 September 2023: £nil).

Key management compensation for the year ended 31 March 2024 is set out in the Remuneration Report and note 6 in the annual report and financial statements for the year ended 31 March 2024.

For transactions with Group defined benefit pension schemes, please refer to note 13 above and note 25 in the annual report and financial statements for the year ended 31 March 2024.

30 September 2024	Revenue to (£m)	Purchases from (£m)	Period end receivables balance (£m)	Period end payables balance (£m)
Alert Communications Limited	3.1	–	1.1	–
AirTanker Services Limited	6.4	–	0.1	–
Advanced Jet Training Limited	1.4	–	0.2	–
Rear Crew Training Limited	0.6	–	–	–
Ascent Flight Training (Management) Limited	0.7	–	–	–
Fixed Wing Training Limited	3.2	–	–	–
Rotary Wing Training Limited	4.4	–	–	–
Alkali Metal Processing Limited	0.7	1.6	0.1	–
First Swietelsky Operation and Maintenance	5.1	–	–	(0.1)
	25.6	1.6	1.5	(0.1)

30 September 2023	Revenue to (£m)	Purchases from (£m)	Period end receivables balance (£m)	Period end payables balance (£m)
Alert Communications Limited	3.5	–	0.9	–
AirTanker Services Limited	13.7	–	0.1	–
Advanced Jet Training Limited	1.3	–	0.2	–
Rear Crew Training Limited	0.7	–	–	–
Ascent Flight Training (Management) Limited	0.5	–	0.3	–
Ascent Flight Training (Holdings) Limited	–	–	0.2	–
Fixed Wing Training Limited	3.1	–	–	–
Rotary Wing Training Limited	4.1	–	–	–
First Swietelsky Operation and Maintenance	4.1	–	0.8	(0.3)
DUQM Naval Dockyard SAOC	0.1	–	0.1	–
	31.1	–	2.6	(0.3)

15. 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, as described below.

The nature of the Group's long-term contracts is such 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 for the Group. The Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position.

As a large contracting organisation, the Group has a significant number of contracts with customers to deliver services and products, as well as with its supply chain, where the Group does not deliver all those services and products itself. The Group is involved in disputes and litigation, which have arisen in the course of its normal trading in connection with these contracts. Whilst the Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position, it is possible that, if any of these disputes come to court, the court may take a different view to the Group.

The Group 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, for which a provision has not been recorded, is unlikely to have a material effect on the Group's financial position.

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 position and performance.

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.

Statement of Directors' responsibilities

This half year report is the responsibility of the Directors who each confirms that, to the best of their knowledge:

- this condensed set of financial statements has been prepared in accordance with United Kingdom adopted IAS 34 (Interim Financial Reporting); and
- the interim management report herein includes a fair review of the information required by:
  - Rule 4.2.7 of the Disclosure & Transparency Rules (indication of the important events during the first six months, and their impact on the condensed set of financial statements, and a description of principal risks and uncertainties for the remaining six months of the year); and
  - Rule 4.2.8. of the Disclosure & Transparency Rules (disclosure of related parties' transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the entity during that period;and any changes in the related parties transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year).

Approved by the Board and signed on behalf of the Directors by:

David Lockwood
Chief Executive

David Mellors
Chief Financial Officer

12 November 2024