11 June 2020 *This announcement contains inside information*

Resilient business model ready for the year ahead

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A virtual meeting for investors and analysts will be held on 11 June 2020 at 9.00 am.

The presentation will be webcast live at www.babcockinternational.com/investors and subsequently will be available on demand at www.babcockinternational.com/investors/results-and-presentations. A transcript of the presentation and Q&A will also be made available on our website.

Notes

The adjustments described below, collectively, are made to derive the underlying results of the Group. The underlying figures provide a consistent measure of business performance year-to-year, thereby enabling comparison and understanding of Group financial performance. A reconciliation from statutory to underlying is provided within the financial review on page 17.

1.
2. Underlying isation of acquired intangibles and exceptional items. Underlying operating profit excludes exceptional items of £502.9 million.
3. Underlying profit before tax is inclusive of pre-tax joint ventures and associates income but before amortisation of acquired intangibles and exceptional items.
4. Underlying basic earnings per share is before amortisation of acquired intangibles, and exceptional items, before the related tax effects and before the effect of corporate tax rate changes.
5. Includes pension payments in excess of income statement of £70.2 million.
6. Excludes lease obligations. This measure now excludes £40 million of lease obligations which were previously treated as finance leases.
7. Group net debt (excluding non-recourse JV debt and all lease obligations) divided by underlying Group EBITDA (pre-IFRS 16) and JV dividends received. This is comparable to our covenant measure of net debt / EBITDA which includes finance leases but also makes some adjustments to EBITDA. The calculation is on page 22.

Liquidity

Our primary financial focus is on ensuring the strength of the G negative impacts from COVID-19.

During the year we renewed our revolving credit facility of £775 million

Highlights across our **adjacent markets** this year included improvements in trading conditions in our South African business and the successful start of our CP6/7 contract in Rail. The market for oil and gas aviation deteriorated further as explained above. The impact of COVID-19 has been more significant in our adjacent markets, partly due to greater exposure to short-cycle work.

ESG strategy

This year we have introduced a new ESG strategy for the Group. Sustainability is at the heart of our business, and is a key part of our planning, our operational delivery and our approach to through-life support. We are committed to minimising the impact of our operations on the environment, focusing on the safety of our people and ensuring a positive impact in the communities in which we operate. Full details of our ESG strategy and

Board changes

We have made some changes to our Board over the last year. Ruth Cairnie took over as Chair at our AGM in July 2019 and Russ Houlden joined

Underlying financial performance

		31 March 2020 IFRS 16 basis	31 March 2019 pre-IFRS 16 basis
Underlying revenue	Group	£4,449.5m	£4,474.8m
	JV	£422.2m	£685.8m
	Total	**£4,871.7m**	**£5,160.6m**
Underlying operating profit	Group	£418.5m	£453.8m
	JV	£105.7m	£134.6m
	Total	**£524.2m**	**£588.4m**
Underlying operating margin	Group	9.4%	10.1%
	JV	25.0%	19.6%
	Total	**10.8%**	**11.4%**

Results for this full year are reported under IFRS 16 (Leases) without prior year restatement. The adoption of IFRS 16 increased operating profit by £23.6 million.

Underlying revenue of £4,871.7 million was in line with our guidance for revenue of around £4.9 billion. This reflects growth of around 3% after excluding the impacts of step downs related to the end of our QEC and Magnox contracts and exits and disposals of businesses made last year. Last year benefited from around £125 million of revenue from asset sales on our Fomedec contract in Aviation. Excluding this and the step downs, revenue for the Group this year grew by around 5%.

Our **underlying operating profit** of £524.2 million includes a £23.6 million benefit from the adoption of IFRS 16 and step downs, including exchange rates, of £60.0 million. Excluding these, the reduction in underlying operating profit was £27.8 million. The majority of this decline relates to our Aviation sector which saw tough trading in its oil and gas business and lower margins in aerial emergency services.

The weakness in our Aviation sector led to a change of our guidance for underlying operating profit in February 2020 from a range of £540 million

In Canada, work continues on the HMCS Corner Brook extended docking work period as part of the Victoria Class in Service Support Contract

Nuclear

		31 March 2020 IFRS 16 basis	31 March 2019 pre-IFRS 16 basis
Underlying revenue	Group	£898.4m	£853.2m
	JV	£212.5m	£465.7m
	Total	**£1,110.9m**	**£1,318.9m**
Underlying operating profit	Group	£114.1m	£106.5m
	JV	£12.2m	£37.0m
	Total	**£126.3m**	**£143.5m**
Underlying operating margin	Group	12.7%	12.5%
	JV	5.7%	7.9%
	Total	**11.4%**	**10.9%**

The adoption of IFRS 16 increases operating profit by £0.8 million in the year
JV revenue is after deducting an appropriate portion of JV revenue to reflect revenue already included in Group revenue

Financial review

Underlying revenue in our Nuclear sector was down 15.8% due to the £270.8 million step down in revenue from our Magnox JV which ended in August 2019. Excluding Magnox, revenue grew by 6.0% with a small decline in civil nuclear offset by good growth across the defence business.

There was a small impact from COVID-19 in the period as activity levels across our civil nuclear business were reduced.

Underlying operating profit of £126.3 million includes a small uplift from IFRS 16. Excluding this, underlying operating profit was £18.0 million lower than last year with a strong performance in Defence offsetting a £25.0 million step down in Magnox. The sector total margin increased to 11.4% reflecting a stable Group margin and a mix impact from lower joint venture revenue.

Due to the ongoing challenges across the UK civil nuclear market and to right-size our business following the end of the Magnox contract, we have implemented a restructuring programme across the Nuclear sector. This is focused on reducing overheads and simplifying our structure.

Operational review

The Defence business saw strong growth in the year .9781(g)23.01570)25.70275(s)2645139)Tn.9767( )TJ 182.5evels affctivit ln Dwtyalonne i26.993(

In line with our strategy, we continue to exit non-strategic areas of our business. In June 2019 we concluded our services for British Airways ground support and in December 2019 we exited our final aggregates and cement fleet management contract. These exits are in addition to the set of exits and disposals made in the 2019 financial year.

In Rail, work has now started on the new ten-year CP6/7 contract for track works in Scotland, a contract worth up to £1 billion over its life. We were also awarded a signals and telecoms framework contract by Network Rail worth £65 million over the next five years.

Aviation

		31 March 2020 IFRS 16 basis	31 March 2019 pre-IFRS 16 basis
Underlying revenue	Group	£852.6m	£995.9 m
	JV	£147.7m	£139.6 m
	Total	**£1,000.3m**	**£1,135.5 m**
Underlying operating profit	Group	£64.2m	£107.1 m
	JV	£56.8m	£53.4 m
	Total	**£121.0m**	**£160.5 m**
Underlying operating margin	Group	7.5%	10.8%
	JV	38.5%	38.3%

Financial review

Headline underlying results

	31 March 2020 IFRS 16 basis	31 March 2019 pre-IFRS 16 basis
Group underlying revenue	£4,449.5m	£4,474.8m
Joint venture underlying revenue	£422.2m	£685.8m
Total underlying revenue	**£4,871.7m**	**£5,160.6m**
Group underlying operating profit	£418.5m	£453.8m
Joint venture underlying operating profit	£105.7m	£134.6m
Total underlying operating profit	**£524.2m**	**£588.4m**
Net finance cost Group	£(72.9)m	£(46.7)m
Net finance cost JV	£(22.8)m	£(24.1)m
IAS 19 pension credit/(charge)	£(0.1)m	£0.3m
Total net interest	£(95.8)m	£(70.5)m
Underlying profit before tax	**£428.4m**	**£517.9m**
Tax	£(77.1)m	£(93.2)m
Underlying profit after tax	**£351.3m**	**£424.7m**
Non-controlling interests	£(2.0)m	£(0.4)m
Underlying basic EPS	**69.1p**	**84.0p**

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Underlying organic growth

	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Underlying revenue						
31 March 2019	**1,086.0**	**1,318.9**	**1,620.2**	**1,135.5**		**5,160.6**
Exchange adjustment	(0.1)		(24.0)	(12.3)		(36.4)
Disposals			(37.9)	(8.7)		(46.6)
Step downs excl. disposals	(51.4)	(270.8)	(23.2)			(345.4)
Organic growth excl. step downs	172.4	62.8	18.5	(114.2)		139.5
31 March 2020	**1,206.9**	**1,110.9**	**1,553.6**	**1,000.3**		**4,871.7**
Underlying revenue growth	11.1%	15.8%	4.1%	11.9%		– 5.6%
Organic growth at constant exchange rates	11.1%	15.8%	0.3%	10.1%		– 4.0%
Organic growth excl. step downs at constant exchange rates	15.9%	4.8%	1.1%	10.1%		2.7%

Underlying operating profit

Free cash flow was £192.2 million compared to £323.7 million last year, primarily reflecting the lower operating profit and the movement in working capital described above.

There was a cash inflow of £23.1 million in the year with the proceeds from the sale of Context partly offset by exceptional cash costs relates to 2019 and 2020 exceptional charges.

57.4 million (2019: £158.3 million). Net debt at 31 March 2020 was £1,594.9 million. Net debt excluding lease obligations was £922.1 million. This measure now excludes £40 million of lease obligations which were previously treated as finance leases.

Looking ahead at our forecasts for next year, we expect average net debt to be around £300 million higher than the year end position, reflecting the normal phasing of our business.

Net debt to EBITDA

Interest cover

Interest cover pre-IFRS 16 is another metric used in the covenants for some of our debt. This year interest cover was 11.3 times, lower than last

Going concern statement

The financial statements have been prepared on the going concern basis because the Directors have a reasonable expectation that the Group has adequate resources for a period of at least 12 months from the date of the approval of the financial statements and that there are no material uncertainties to disclose.

In assessing the appropriateness of the going concern basis of accounting, the Directors reviewed the resources available to the Group in the form of cash and committed facilities, which are the £775 million five year multi-currency revolving credit facility, the US$500 million loan notes, and

Euro Bond programme, along with a baseline plan.

The baseline plan was adjusted to reflect a range of estimated impacts of COVID-19 on the Group over varying periods (three months, six months and twelve months). This adjusted baseline plan has then been subject to a further downside stress scenario. The Directors also considered mitigating actions, including deferral of non-essential capital and revenue expenditure as well as the deferral of dividends.

Having conside bility to continue as a going concern.

Group income statement

		2020			2019
	Note	£m	Total £m	£m	Total £m
Revenue[1]	2		4,449.5		

Group statement of financial position

	Note	2020 £m	2019 £m
Assets			
Non-current assets			
Goodwill	8	2,171.3	2,584.2
Other intangible assets		379.5	448.9
Property, plant and equipment		951.1	1,014.3
Right of use assets		638.8	
Investment in joint ventures and associates	9	148.0	153.2
Loan to joint ventures and associates	9, 15	48.6	42.5
Retirement benefit surpluses	16	325.3	226.9

Group cash flow statement

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Operating profit before amortisation of acquired intangible and exceptional items		417.4	452.5
Amortisation of acquired intangible and exceptional items	3	(582.3)	(256.0)
Operating (loss)/profit before share of results of joint ventures and associates	2	(164.9)	196.5
Depreciation and impairment of property, plant and equipment		94.2	123.1
Depreciation and impairment of right of use assets		143.6	
Amortisation of intangible assets		96.5	110.0
Goodwill impairment		395.0	

1. Basis of preparation and significant accounting policies

The financial information has been extracted from the Annual Report, including the audited financial statements for the year ended 31 March 2020. They should be read in conjunction with the Annual Report for the year ended 31 March 2019, which was prepared in accordance with

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

IFRS 16, 'Leases' (continued)

As a lessor, the Group recognises assets held under a lease in the statement of financial position as an asset. The lease payment receivable is treated

3.

3. Exceptional items and acquired intangible amortisation (continued)

The total net credit related to exits and disposals was £59.2 million, consisting of a £74.7 million gain on the sale of Context partially offset by additional costs from exits in the last financial year and the costs of exiting areas of our nuclear manufacturing business.

4. Net finance costs

	2020 £m	2019 £m
Finance costs		

7. Dividends

The Directors have deferred a decision on a final dividend in respect of the financial year ended 31 March 2020 until further notice (2019: 22.9p per 60p ordinary share).

8. Goodwill

	2020 £m	2019 £m
Cost		
At 1 April	2,589.0	2,608.0
On disposal of subsidiaries (note 18)	(20.6)	(9.4)
Exchange adjustments	2.7	(9.6)
At 31 March	2,571.1	2,589.0
Accumulated impairment		
At 1 April	4.8	7.1
On disposal of subsidiaries (note 18)	–	(2.3)
Impairment	395.0	

8. Goodwill (continued)

The value in use calculations present significant headroom in respect of all the CGUs other than Aviation. There are no reasonably possible changes in assumptions for all CGUs other than Aviation which could give rise to the recoverable amount being lower than the carrying amount. In this respect it would require long term growth of nil (effectively negative growth of 2% in real terms), together with discount rates of 58%, 46% and 14% to eliminate the headroom in the Marine, Nuclear and Land CGUs respectively. The directors do not consider these to be plausible assumptions.

Recognising the current economic conditions and market expectations, particularly in oil and gas, the directors revised the estimate of risk adjusted cash flows expected from the Aviation CGU and additionally, in consideration of CGU specific risk factors, used an increased discount rate of 10.9% (2019:10%) to determine the value in use. These revisions, together with the reduced long term growth rate applied to all CGUs, resulted in an impairment of £395 million.

The recoverable amount of Aviation goodwill continues to be subject to sensitivities. An increase in the discount rate of 25bps would decrease value in use by £46 million and a reduction in the long term growth rate of 25bps would decrease value in use by £34 million. A reduction of £10 million in the operating profit of the continuing year used to extrapolate cash flows would result in a reduction in value in use by £79 million. Accordingly, reasonably possible changes exist which would give rise to a further impairment.

9. Investment in and loans to joint ventures and associates

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
At 1 April	153.2	119.3	42.5	27.8	195.7	147.1
Disposal of joint ventures and associates	–	(6.6)	–		–	(6.6)
Loans repaid by joint ventures and associates	–					

9. Investment in and loans to joint ventures and associates (continued)

Included within joint ventures and associates are:

	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Operating profit/(loss)* £m	Total comprehensive income/(loss)

10. Trade and other receivables

	2020 £m	2019 £m
Current assets		
Trade receivables	283.6	255.5
Less: provision for impairment of receivables	(7.0)	(6.0)
Trade receivables – net	276.6	249.5
Amounts due from customers for contract work	242.3	266.0
Accrued income	108.6	133.2
Capitalised contract costs	80.8	62.9
Contract assets	431.7	462.1
Retentions	8.1	9.1
Amounts due from related parties (note 19)	2.9	11.4
Other debtors	127.9	108.3
Prepayments	83.6	76.7
	930.8	917.1

Trade and other receivables are stated at .9804(t)2750i.19922 re f* 0 g q351(e)26.013(1438124.0129(0)96( )12.00212 7.19922 re92 0.5644

11. Trade and other payables

	2020 £m	2019 £m
Current liabilities		
Contract cost accruals	222.8	188.5
Amounts due to customers for contract work	207.3	192.8
Deferred income	32.8	40.0
Contract liabilities	462.9	421.3
Trade creditors	474.3	510.6
Amounts due to related parties (note 19)	0.7	1.0
Other creditors	80.8	63.9
Other taxes and social security	125.2	125.6
Accruals	222.4	259.0
	1,366.3	1,381.4
Non-current liabilities		
Other creditors	2.1	2.0

Included in creditors is £6.1 million (2019: £19.5 million) relating to capital expenditure which has therefore not been included in working capital movements within the cash flow.

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

	Contract cost accrual £m	Amounts due to customers for contract work £m	Deferred income £m	Contract liabilities £m
31 March 2019	188.5	192.8	40.0	421.3
Revenue recognised that was included in the contract liability balance at the beginning of the year	–			

12. Other financial assets and liabilities

	Fair value			
	Assets		Liabilities	
	2020 £m	2019 £m	2020 £m	2019 £m
Non-current				

16. Retirement benefits and liabilities

Analysis of movement in the Group statement of financial position.

	2020 £m	2019 £m
Fair value of plan assets (including reimbursement rights)		
At 1 April	4,582.2	4,734.9
Interest on assets	104.8	115.4
Actuarial gain on assets	(36.1)	137.2
Employer contributions	110.9	95.5
Employee contributions	0.3	0.5
Benefits paid	(270.5)	(339.4)
Settlements	(80.3)	(161.9)
At 31 March	4,411.3	4,582.2
Present value of benefit obligations		
At 1 April	4,610.2	4,739.7
Service cost	33.7	38.9
Incurred expenses	3.7	3.8
Interest cost	104.9	115.1
Employee contributions	0.3	0.5
Experience losses	29.2	38.2
Actuarial (loss)/gain demographics	14.8	(47.2)
Actuarial gain/(loss) financial	(180.0)	204.6
Benefits paid (including transfers)	(270.5)	(339.4)
Past service costs	–	25.9
Settlements	(80.2)	(169.9)
At 31 March	4,266.1	4,610.2
Net surplus/(deficit) at 31 March	145.2	(28.0)

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

	2020 £m	2019 £m
Current service cost	33.7	38.9
Incurred expenses	3.7	3.8
Past service costs	–	25.9
Settlements	–	(8.0)
Total included within operating profit	37.4	60.6
Net interest cost/(credit)	0.1	(0.3)
Total included within income statement	37.5	60.3

As at 31 March 2020 the key assumptions used in valuing pension liabilities were:

Discount rate	2.4% (31 March 2019: 2.4%)
Inflation rate (RPI)	2.6% (31 March 2019: 3.2%)

17.

r the recognition,

measurement and disclosure of leases. The Group adopted the standard from 1 April 2019.

Under the new standard, lessees recognise almost all leases on the statement of financial position as the distinction between finance leases and operating leases is removed. Both short-term lease

18. Disposals of subsidiaries, businesses and joint ventures and associates

On 5 March 2020 the Group disposed of Context Information Security Limited for £107.1 million, which resulted in a profit on disposal of £74.7 million.

During the previous year the Group disposed of its media business for £28.7 million, which resulted in a profit of £14.0 million. A further three disposals were made for a total consideration of £11.4 million, which resulted in a profit on disposal of £0.8 million.

During both the current and the previous year the Group paid certain accrued costs on previously disposed of businesses of £0.8 million (2019: £0.8 million).

			2020						2019
	Context Information Security Limited £m	Previously disposed of businesses £m	Total £m	Babcock Media Services £m	Babcock 4S Limited £m	Powerlines £m	Helidax S.A.S £m	Previously disposed of businesses £m	Total £m
Goodwill	20.6	–	20.6	7.1					7.1
Investments in j4.3 6347fr64/2348)20789 4									