Chair's introduction

Ruth Cairnie
Chair

Dear fellow Shareholder

We have made substantial progress in the stabilisation and execution phases of our turnaround strategy and have now reached the point where we can look to increase our focus on growth opportunities; as we make this transition we are mindful of the importance of maintaining our focus on the transformation of operational delivery and controls, which is not yet complete, and also on the potential need to adjust our approaches as the Group develops over time.

Risk and controls

We believe that Babcock's long-term success is underpinned by robust governance. During the year we have progressed our improvement plan for risk and controls. In respect of risk, as covered in the Audit Committee report, this has been supported by the development of a dedicated Group Risk function, enhanced internal capability and a risk framework that considers management of risk at all levels throughout the Group. The Board recognises the importance of a focused and pro-active approach to risk and this will support us as we work through the challenges of delivering our legacy Type 31 contract, our last remaining legacy onerous contract that the Group is managing. As we develop our growth strategy and its opportunities, we recognise the potential need to address new risks or changing manifestations of them and will ensure that we do so robustly.

Also covered at length in the Audit Committee report is our control enhancement programme. The Audit Committee leads on the review and oversight of this programme and I would like to thank John Ramsay as Chair of the Committee and his fellow members for all their additional work to give us assurance over the progress of the programme.

Our enhancement programme is a multi-year process. While much progress has now been made, the Board is committed to the work continuing, with the ambition for Babcock to manage its control environment in line with the best-in-class in the FTSE.

We have a roadmap setting out the actions needed to meet our ambition and we receive regular updates on progress.

During the year, the Financial Reporting Council issued its new Corporate Governance Code for the UK, which will require listed companies to include a declaration on the effectiveness of their material controls at the balance sheet date. For us this declaration will first appear in our FY27 Annual Report. We have tested that our controls enhancement roadmap is consistent with the new Code, reviewing two key reports: a material control maturity assessment and a material control assurance map. The maturity assessment enables us to identify gaps in our compliance and course correct as required. We plan to update this assessment at least annually. The material control assurance map provides an initial view of how the Company intends to provide assurance over its material controls and to report on their effectiveness to the Board. We will continue to monitor progress against the roadmap and the new Code requirements as we prepare for our FY27 Annual Report.

Our growth strategy

Our strategy lays out in a clear way how Babcock aims to deliver value for its stakeholders. After 2021, the Board was focused on Babcock's turnaround through the completion of our portfolio alignment and the drive to improve operational performance. Having built momentum and established a much more strongly controlled business with a strengthened balance sheet, we have now reached the point where we can look to increase our focus on growth opportunities. This has required the development of a strategic framework against which growth opportunities can be judged. The strategic framework has been developed and enhanced through regular Board reviews, providing time to focus on particular aspects of the framework or for specific deep dives into particular strategic areas. Examples are the focused Board discussions on 'building strategic partnerships', a key theme of the growth strategy, which established how we should appraise different partnering opportunities and assess our capabilities to benefit from them, and discussions on leveraging our technical capability to grow our business in both the UK and internationally. In our annual strategy meeting we brought together the various reviews and deep dives we had undertaken, to test and challenge the emerging growth strategy to assure its alignment with our Purpose and principles as well as the interests and priorities of our stakeholders. The outcome of these discussions is Babcock's growth strategy, as set out on page 15.

Engagement, people and culture

An understanding of the views of our stakeholders is an important input for many of the Board's decisions, including the development of our strategy as discussed above. We engage with our stakeholders in a variety of ways, as covered on page 116. In respect of shareholders, the Board's engagement is led by the Executive Directors who have had regular meetings throughout the year, for example following the announcement of the FY23 results in July 2023 and the FY24 half year results in November 2023. The Board receive reports from the Executive Directors and brokers after these meetings so that we can hear shareholders' views and feed them into our discussions. I also meet regularly with shareholders, providing an additional channel for the Board to hear the opinions of shareholders. The importance of engagement with shareholders was demonstrated this year in our decision to refresh the capital allocation framework and to reinstate the dividend.

In addition to our normal meetings, this year we held a Capital Markets Day for our existing and potential institutional shareholders. We hosted the event at Devonport to give us an opportunity to explain and showcase our capabilities. Shareholders heard from a number of our senior team including our Executive Directors, our sector CEOs and some of our functional leads and had the opportunity to observe the calibre of our senior talent. The presentations were followed by a tour of our unique Devonport facility. The event provided multiple opportunities for us to converse with shareholders and hear their views, a very rewarding exercise for us, and for which we received positive feedback from investors. I would like to thank all those who attended.

Engagement with our other stakeholders, in particular our employees and customers, is also essential. The ways in which we engage with and hear the views of employees are covered in more detail in the Nominations Committee report on page 126. The Board uses the various inputs from both direct and indirect engagement to assess the culture of the organisation as we seek to embed a more open, inclusive and people-focused approach. The Board also recognises how its own culture is critical to the success of the organisation, where an open style and having all participants feeling free to speak up and share their views is a great contributor to better decision-making. Both last year's and this year's Board evaluations confirmed that all Board members feel that the Board's style is open and encouraging.

Board membership and effectiveness

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

As required by the UK Corporate Governance Code, every year we conduct our Board evaluation which we view as an excellent opportunity to consider whether there are ways we can improve our effectiveness. I would like to thank Jane Moriarty for leading our evaluation in FY24.

The main themes to be suggested for future focus were the continued development of our approach to strategy, as covered earlier in this introduction, and continued support for focus on inclusion and diversity and on talent development and succession.

In terms of diversity at the Board level, this year all three externally set targets have been met, namely the FTSE Women Leaders Review target on female representation and the Parker Review target on ethnic representation, as well as the diversity targets set by the Financial Conduct Authority.

ESG

We consider ESG to be integral to our strategy and our ability to deliver our Purpose. As well as ensuring ESG is embodied in our strategy as it develops, the Board builds reviews of ESG topics into its agenda through the year. These include an annual review of ESG in its entirety, so that the Board can understand the activities the Company has undertaken over the year and the progress made. On Environment, this included a review of the progress the Company has made with its Carbon Reduction Plans. On Social initiatives, the Board again commissioned Oxford Economics to report on the positive contribution the Company makes to the UK economy. Working through the Nominations Committee, we held three sessions reviewing aspects of our People Strategy, including talent development, senior-level succession, D&I and recruitment initiatives to enable a broader cross-section of people in our communities to find employment with us. In addition, every Board meeting includes an update on safety and wellbeing as part of the Executive Directors' report. This is in addition to the annual Health & Safety review. On Governance, the Board considered the changes that the Company wanted to introduce to extend the membership of the Corporate ESG Committee, so that it included all parts of the business.

The year ahead

The continued delivery of our control enhancement plan and tracking progress will be our focus in FY25, alongside continuing to develop and fine-tune our growth strategy as our capabilities and opportunities progress.

Finally, I would like to take this opportunity on behalf of the Board to thank all our colleagues in the business for their continued hard work and dedication, and their focus on ensuring we live up to our purpose and principles. I would also like to thank my fellow Directors for their valued commitment and contribution.

I hope my summary above has given you a sense of the Board's activities during FY24 and our ambitions for the future. I look forward to meeting you at our AGM on Thursday, 19 September 2024.

Ruth Cairnie
Chair

Statement of compliance

The Board confirms that for the year ended 31 March 2024, the principles of good corporate governance contained in the 2018 UK Corporate Governance Code (the Code) have been consistently applied and all provisions complied with.

Further information on the Code can be found on the Financial Reporting Council's website at: www.frc.org.uk.

We have structured this Governance report to describe how the Company has applied the Code principles in line with its five categories:

Board of Directors

Ruth Cairnie
Chair

Appointed: April 2019

Skills and experience: Ruth brings extensive experience of the engineering sector gained from a 37-year international career spanning senior functional and line roles at Royal Dutch Shell plc. She has experience advising government departments on strategic development and capability building. She has been a Non-Executive Director of Rolls-Royce Holdings plc, ContourGlobal plc and Keller Group PLC and a member of the finance committee of the University of Cambridge. She is a fellow of the Energy Institute and previously Chair of POWERful Women. Ruth is a Master of Advanced Studies in Mathematics from the University of Cambridge and holds a BSc Joint Honours in Mathematics and Physics from the University of Bristol.

Current external appointments: Ruth is currently a Non-Executive Director of BT Group plc. She is Patron of the Women in Defence Charter, a trustee of Windsor Leadership and a trustee of the White Ensign Association.

Carl-Peter Forster
Senior Independent Director

Appointed: June 2020

Skills and experience: Carl-Peter, a dual German and British national, brings extensive manufacturing and international experience. Carl-Peter has held senior leadership positions in some of the world's largest automotive manufacturers, including BMW, General Motors and Tata Motors (including Jaguar Land Rover). He was also previously a Non-Executive Director of Rexam PLC and Rolls-Royce plc, as well as being the Senior Independent Director of IMI plc. Carl-Peter holds a diploma in Economics from Bonn University and a diploma in Aeronautical Engineering from the Technical University in Munich.

Current external appointments: Carl-Peter is currently the Chair of Chemring Group PLC and the Chair of Vesuvius plc.

David Lockwood OBE
Chief Executive Officer

Appointed: September 2020

Skills and experience: David brings wide-ranging knowledge of the defence and aviation markets, as well as a wealth of experience in both technology and innovation. David was CEO of Cobham plc (from 2016 to March 2020) and prior to that he was CEO of Laird PLC (from 2012 to September 2016). His career includes senior management roles at BT Global Services, BAE Systems and Thales Corporation. He received an OBE for services to industry in Scotland in 2011. David has a degree in Mathematics from the University of York and is a Chartered Accountant. He is a Fellow of the Royal Aeronautical Society and the Royal Society of Arts and Commerce.

Current external appointments: David is a Non-Executive Director of John Wood Group PLC.

John Ramsay
Independent Non-Executive Director

Appointed: January 2022

Skills and experience: John, a Chartered Accountant, brings with him over 30 years of international business and finance experience. He served as Chief Financial Officer of Syngenta AG from 2007 to 2016, and interim Chief Executive Officer of Syngenta from October 2015 to June 2016. Prior to joining Syngenta, he held senior international finance roles with Zeneca Agrochemicals and ICI.

Current external appointments: John is a member of the Supervisory Board at DSM Firmenich AG as well as being a Non-Executive Director and Audit Committee Chair of Croda International PLC and RHI Magnesita N.V.

David Mellors
Chief Financial Officer

Appointed: November 2020

Skills and experience: David brings extensive CFO experience in the defence, aerospace and commercial markets. David was previously CFO of Cobham plc and prior to that he was CFO of QinetiQ Group plc from 2008 to 2016 and also served as interim Chief Executive for a period. His career includes senior roles at Logica PLC, CMG plc and Rio Tinto PLC. David has a degree in Physics from Oxford University and is a member of the Institute of Chartered Accountants in England and Wales.

Current external appointments: None

Lucy Dimes
Independent Non-Executive Director

Appointed: April 2018

Skills and experience: Lucy brings extensive experience in technology and engineering services, strategy and transformational change, with over 30 years' experience in senior executive and regional CEO roles at BT plc, Alcatel-Lucent SA, Fujitsu and UBM plc. She was COO and a board member at Equiniti plc and served as Chief Strategy and Transformation Officer at Virgin Money plc. She also served as a Non-Executive Director of Berendsen plc from 2012 to 2017. Lucy holds an MBA from London Business School and a BA Hons degree in Business from Manchester Metropolitan University.

Current external appointments: Lucy is the CEO of iomart plc.

The Right Honourable The Lord Parker of Minsmere, GCVO, KCB

Independent Non-Executive Director

Appointed: November 2020

Skills and experience: Lord Parker brings extensive experience of working at the highest level of public service including a focus on new technology-centred change and championing inclusion. Lord Parker has had a long career in a wide range of national security and intelligence roles in the UK, which culminated in him becoming the Director General of MI5, the UK Government's national security agency, in 2013. He retired from this role in 2020. Lord Parker is a graduate of Natural Sciences from Cambridge University.

Current external appointments: Lord Chamberlain (head of the Royal Household), member of the House of Lords, Board Advisor to Telicent Ltd, Distinguished Fellow at the Royal United Services Institute and Visiting Professor at Northumbria University.

Sir Kevin Smith

Independent Non-Executive Director

Appointed: June 2023

Skills and experience: Sir Kevin spent almost 20 years at BAE Systems plc predominantly in its Military Aircraft Division and BAe Defence before becoming Group Managing Director with responsibilities for new business and international strategy. Following this Sir Kevin joined the Board of GKN PLC, the FTSE listed global engineering and manufacturing company, initially leading the Aerospace and Defence businesses, and then serving nine years as Group Chief Executive. He went on to spend four years in Hong Kong as a Partner at Unitas Capital and his non-executive career includes eight years at Rolls-Royce where he served as Senior Independent Director.

Current external appointments: None

Jane Moriarty

Independent Non-Executive Director

Appointed: December 2022

Skills and experience: Jane, an Irish national and a Chartered Accountant, brings with her over 30 years of international business and finance experience. After a long executive career with KPMG, where she was a senior advisory partner, Jane has held a number of non-executive roles.

Current external appointments: Jane is a Non-Executive Director of Mitchells & Butlers plc, where she chairs the audit committee and is also Senior Independent Director, and The Quarto Group Inc, where she chairs the audit and remuneration committees as well as being the Vice-Chair. She is also a Non-Executive Director at NG Bailey.

Dr Claudia Natanson MBE

Independent Non-Executive Director

Appointed: March 2024

Skills and Experience: Claudia, a dual British and Jamaican national, works internationally as an information and cyber security professional and brings over 20 years of experience in this field across globally diverse industries in the public and private sectors. She has previously held senior roles in cyber security, as security strategic advisor and chief security officer with Aramark Corporation in the USA, the Department for Work and Pensions, Smiths Group plc and Diageo global. Claudia holds a PhD in computing and education from the University of Birmingham. In 2022 she was awarded an MBE for services to the cyber security profession.

Current external appointments: Claudia is Chair of the Board of Trustees of the UK Cyber Security Council, Board member of the UK National Cyber Advisory Board and a registered European Commission Security and Cyber expert.

Appointment key

- E Executive Committee
- A Audit Committee
- R Remuneration Committee
- N Nominations Committee
- D Director designated for workforce engagement
- Board Committee Chair

Board leadership and company purpose

Board leadership

Maintaining the highest standards of governance is integral to the successful delivery of our strategy. Our governance framework ensures that the Board provides effective leadership in both making decisions and maintaining oversight, mapping where accountability resides and playing a key role in our internal controls.

The Board

The Board's role is to lead the Group for the long-term sustainable success of Babcock by setting our strategy and supervising the conduct of the Group's activities within a framework of prudent and effective internal controls.

The Board has adopted a schedule of matters reserved for its, or its Committees', specific approval (see page 118). For other matters, authority is delegated to management according to a delegation matrix.

Principal Board Committees

Audit Committee

Responsible for overseeing the Company's systems for internal financial control, risk management and financial reporting.

See pages 128 to 135

Remuneration Committee

Determines and applies the Remuneration policy for the Executive Directors, as well as the Group Executive Committee, and is responsible for oversight of the remuneration policies and practices relating to the wider workforce.

See pages 136 to 156

Nominations Committee

Reviews the composition of the Board and leads on Board appointments, as well as considering succession planning at both Board and senior management level and leading on the Company's Diversity and Inclusion policy.

See pages 126 to 127

Group Executive Committee

Reviews and discusses all matters of material significance to the Group's management, operational and financial performance, as well as strategic development. The Committee consists of the CEO, the CFO, the Chief Corporate Affairs Officer, the Chief Executive Marine, the Chief Executive Nuclear, the Chief Executive Land, the Chief Executive Aviation and France, the Chief Executive Mission Systems, the Chief Executive Canada, the Chief Executive Africa, the Chief Executive Australasia, the Chief People Officer, the Chief Engineering & Technology Officer, the Chief Project Management Officer, the Chief of Staff and the Group Company Secretary and General Counsel.

For more information see www.babcockinternational.com/who we are/leadership-and-governance

Principal Management Committees

Corporate ESG Committee

Responsible for Group-wide ESG initiatives, the management of climate-related issues and driving the wider sustainability agenda. The Committee is chaired by the Chief Executive Land and members include the Chief People Officer and the Group General Counsel.

See page 72

Corporate Safety Leadership Team

Leads the development and implementation of policies, standards and expectations for health, safety and environmental issues with a mission that everyone goes 'Home Safe Every Day'. The Group HSE Director chairs the Team.

See page 80

Group Information Security Committee

Chaired by the Group Chief Information Officer and provides governance, direction and assurance that the Babcock security posture is appropriate for the protection of Babcock's employees, customers and other stakeholders. Members include the Group SIRO, CTO, CIO and CISO.

See page 87

Group Risk Committee

Provides leadership and oversight of the Group's Risk Management Framework acting as an interface between the Audit Committee and the business, keeping the principal risks and uncertainties and their mitigations and control under continual challenge and review. The Committee is chaired by the Chief Corporate Affairs Officer and the membership comprises the Group Director of Internal Audit, Risk Assurance & Insurance as well as other members of the Group Executive Committee.

See page 89

Company purpose

The Board sets the Company's Purpose and reviews how the Company aligns to it, including assessing how the Company's strategy is set to fulfil the Purpose. Our principles of be curious, think: outcomes, be kind, collaborate, be courageous, and own and deliver underpin our Purpose and the culture the Board is seeking to embed in the Company.

Effective decision-making and oversight

The Board has an annual plan of business around which the Chair, CEO and Company Secretary structure agendas and consider the current status of projects, strategic work streams and the overarching operating context. Standing agenda items and papers are presented at each Board meeting; other matters are considered on a less frequent but regular basis. Appropriate amounts of time are allocated to items of business to allow for open and frank debate and encourage informed decision-making.

All scheduled meetings consider:

- Health and safety reports
- Operational update
- Financial update
- Investor relations update
- Legal/governance reports
- Conflicts of interest review
- Reports from Chairs of Remuneration, Audit and Nominations Committees.

Regularly the Board considers:

- Strategy update, including ESG
- Review of major risks and emerging risks
- Review of financial and non-financial controls
- Delegated authorities
- Committee terms of reference
- Annual ethics review
- Whistleblowing reports (with an additional annual review in the context of the ethics review)
- Tax policy
- Treasury arrangements
- Modern Slavery Transparency Statement
- Deep-dive presentations from sectors, direct reporting countries, and Group functions, for example IT and cyber security, procurement and pensions
- Results announcements, Annual Report and Notice of Annual General Meeting.

Setting and overseeing strategy

The Board held its dedicated strategy review meeting in September 2023, offsite. At the meeting, the Board reviewed the three key areas of the Company's growth strategy and tested their alignment to the interests of the Company's stakeholders. In addition to its dedicated review, the Board has regular updates throughout the year, as the Board believes that strategy should be a dynamic process benefiting from regular Board engagement supported by dedicated deep-dive review sessions.

How the Board monitors culture

The Board believes that a company's culture must align with and support its strategy, The Board monitors the Company's culture throughout the Group in the following ways:

Leading by example

Our Directors and senior managers act with integrity and lead by example, promoting our culture to our employees through living our principles and demonstrating them in action.

Listening to our people

Our Non-Executive Directors regularly visit our sites. At least once a year, the Board holds one of its meetings at a site to give the Non-Executive Directors the opportunity to engage with employees together. In addition, our designated Non-Executive Director for employee engagement has his own programme of site visits. His programme includes extensive engagement with employees and he feeds back the key themes to the Board. Questions and feedback are received from employees to the CEO's dedicated email 'Ask David' as well as from employee forums and surveys. This year the Company conducted its second Group-wide employee engagement survey. The Board reviewed the results of the survey along with an action plan for responding to the key themes. See pages 62 and 127

Ethics and whistleblowing

Whistleblowing lines are available throughout our business for reporting any departure from our principles. The Board reviews all whistleblowing reports, together with their outcomes, on a regular basis as well as via an annual review.

Other cultural indicators

The Board regularly receives health and safety metrics and thematic reviews through its regular 'People' sessions. These sessions also cover Diversity and Inclusion.

More information on the implementation of the strategy overseen by the Board can be seen on pages 6 and 7 and throughout the Strategic report.

Board leadership and company purpose continued

Factoring our stakeholders into our decision-making

To deliver the best outcome for the Company we seek to understand our stakeholders' priorities and factor these into our decision-making. Accordingly, the Board works to establish and maintain strong stakeholder relationships. An understanding of stakeholder views at Board level is gathered via a combination of direct and indirect engagement.

Details of how the Directors receive information on our key stakeholders and how they engage with them directly to support effective decision-making and oversight are set out below.

This section, through to page 119, forms part of the s172(1) statement which can be found in the Strategic report on page 61.

Further information on how the Company engages with its stakeholders can be found on pages 60 and 61.

How the Board engages

	Information flow to the Board	Direct Board engagement	Measures reviewed by the Board to assess effectiveness of engagement[1]
Customers	• Monthly written reports from Executive Directors include material customer matters • Sector CEOs and the Executive Directors give briefings at Board meetings	During the year the Executive Directors had regular meetings with the Group's key customers. These meetings happen throughout the year and across all levels of our key customers.	• **Order intake by sector** • **Safety balanced scorecard** • **Major operational programmes' RAG status**
Investors	• Reports from Investor Relations • Treasury reports • Investor meetings/roadshow • AGM	The Board engaged directly with its investors, principally through meetings with the Executive Directors and the Chair. In addition, the Board receives regular feedback from the Group Head of Investor Relations. The Board asked for a specific report following the Company's Capital Markets Day in February 2024. The Committee Chairs are available to meet shareholders when required. Our AGM gives the Board an annual opportunity to meet with private investors and for them to ask questions directly to the Board.	• **Underlying operating profit** • **Operating cash flow** • **Analysis of share register movements** • Investor feedback from results presentations, investor meetings and Capital Markets Day • AGM feedback and voting from shareholders and proxy agencies
Employees	• Bottom-up reports from Lord Parker, the Director designated for workforce engagement • Global People Survey, our Group-wide uniform employee survey • Top-down reports from the Chief People Officer • Principal trade union meeting with the CEO and the Chief People Officer • Whistleblowing reports	Lord Parker visited five sites during the year and met with over 350 employees. He specifically chose more remote sites to test the extent that the Company had embedded its culture across the Group. After his visits, Lord Parker gave an overview of his findings to the Board. Other members of the Board meet with employees during their visits to our sites. Additionally, the CEO engages with employees Group-wide via vlogs and employees can contact him directly via a dedicated email address. Members of the senior leadership team regularly present to the Board.	• Participation rate and engagement score in Global People Survey • **Safety balanced scorecard together with monthly overview of significant safety events and Total Recordable Injury Rate** • Ethics training compliance rate • Gender pay gap • Subject matter of whistleblowing reports

	Information flow to the Board	Direct Board engagement	Measures reviewed by the Board to assess effectiveness of engagement
Regulators	• Information on the relationships with regulators is included in reports to the Board where appropriate	The Board relies on dedicated functions at a Group, sector or business unit level and does not have direct contact with regulators unless appropriate. Any material issues are brought to the Board's attention through the monthly operational reports, as appropriate.	• Specific reports in Executive Directors' report (if any)
Suppliers	• Briefings from Group Head of Procurement on an annual basis • Supply chain risk considered in reports on major tenders • Approval of the Modern Slavery Transparency Statement	Principal engagement is undertaken by operational management, which reports annually to the Board to give it oversight of the function and its operation.	• Subject matter of whistleblowing reports • Modern slavery review
Communities	• Health, safety and environment updates • Material issues are included in the monthly reports from Executive Directors or in sector CEO briefings • Annual Report review	In the main, the sectors hold these relationships at a local level where the most relevant knowledge is concentrated, with no direct engagement by the Board of Directors. The Board continues to believe that this level of engagement is appropriate as any material issues are brought to the Board's attention through the monthly operational reports or the functional reports to the Board. However, the Board does take the opportunity to engage when appropriate. For example, on site visits, the Board seeks to engage the community leaders as well as employees.	• **Safety balanced scorecard including Total Recordable Injury Rate and updates on any environmental issues** • Diversity performance against target • Performance against carbon emissions target

1. Measures in bold are reviewed at every Board meeting, others at least once a year.

Board leadership and company purpose continued

How the Board took stakeholders' interests into account when it considered its key areas of focus

When the Board considers its key areas of focus, it seeks to consider the Company's stakeholders and their interests. Sometimes these interests are aligned, but on other occasions the Board has to balance different stakeholder interests and take the decision that it believes is most likely to promote the long-term success of the Company in accordance with its duties under s172 of the Companies Act 2006. In all its decisions, the Board keeps in mind the Company's Purpose and principles to ensure that all decisions are aligned with them. Set out below is a description of how the Board addressed stakeholder interests in its discussions and decision-making in relation to the Board's key areas of focus.

Matters considered	Discussion and outcome	Stakeholders most affected and relevant s172 (1) a-f factors[1]	More information
1 **New capital allocation policy**	The Company announced in its FY23 Annual Report that its transformation was delivering results, as evidenced by double-digit organic revenue growth, underlying margin expansion and a significantly better than expected cash performance. With a strengthened balance sheet following the completion of the portfolio alignment programme, the Board decided the time was right to agree a new capital allocation framework. As part of its discussions, the Board considered the interests of its stakeholders. Most shareholders wanted the Company to reinstate the dividend to give shareholders a return on their investment. Employees, customers and suppliers wanted the Company to maintain its stability and financial strength so that the Company remained a good employer and business partner, although employees might also prioritise higher pay in the cost of living crisis. The Board factored these interests into its discussions on its new capital allocation policy and balanced them by setting a policy with three priorities – organic investment to strengthen and grow the business, financial strength to maintain a strong balance sheet and investment-grade credit rating, and reinstatement of the ordinary dividend.	• Shareholders • Employees • Customers • Suppliers • a, b and f	Page 106
2 **Reinstatement of the ordinary dividend**	Along with the new capital allocation policy, the Board had signalled in its FY23 Annual Report that it intended to reinstate the ordinary dividend in FY24. In November 2023, as part of the announcement of the HY24 results, the Board duly decided to do so. Balancing stakeholder interests was a key part of the Board's decision-making process. The Board was keen to give its equity investors a return on their investment after a four-year hiatus, although the Board noted that shareholders supported the Company's commitment to maintaining a strong balance sheet. The Company's debt investors would focus on the Company's financial strength, but the Board balanced that against a further reduction in net debt to EBITDA to 1.1 times on a covenant basis in November 2023. Customers and suppliers would want the Company to remain stable and resilient so that it could deliver its programmes, and for employees, continue to provide secure continued employment. The Board felt that the Company had had a good start to the year and was building momentum to achieve its medium-term guidance, as set out in its FY23 Annual Report. The Board agreed that the reinstatement of the ordinary dividend was an important milestone for all its stakeholders in the Company's turnaround, demonstrating the Board's confidence in the Company's future prospects. Having decided that the reinstatement of the dividend was in the Company's best interests, the Board considered very carefully the level of dividend that it would announce. Whilst the Board always wants to maximise value for shareholders, the Board had set the balance of the stakeholder interests when deciding its capital allocation policy by underpinning the policy with a commitment to maintain a strong balance sheet and investment-grade credit rating, as other stakeholders would favour. Therefore, the Board decided that the Company should adopt a progressive dividend and declared an interim dividend of 1.7p per share.	• Shareholders • a, b and f	Page 27

1. s172(1) a-f factors are detailed in the s172(1) statement on page 61.

Matters considered	Discussion and outcome	Stakeholders most affected and relevant s172 (1) a-f factors[1]	More information
3 **Our growth strategy**	The Company's growth strategy is made up of three building blocks: leveraging our technical capability; developing our people and capabilities; and building strategic partnerships. The Board has considered how each block benefits our stakeholders in different ways and has built those considerations into its decision-making. In leveraging our technical capability, the Board wants the Company to optimise its UK presence to drive growth. Enhanced execution of our programmes will improve our delivery to our customers and will create incremental and adjacent opportunities which benefit our shareholders through additional growth, as well as our employees and suppliers through new career prospects and business opportunities. The Board supports the Company's aim to develop its people for future growth as the Board believes it will benefit our employees by creating better career pathways with greater equality of opportunity. By enhancing the mobility of our employees, the Company will be able to deploy their skills across the Company's diverse engineering projects for the benefit of our customers, whilst developing the skills of our employees. The Company is building its strategic partnerships. These relationships will drive the Company's international growth although the Board has to be sure that they are compatible with stakeholder interests. The Company's principal customers will want to be sure that the relationships align with their geopolitical and strategic priorities. Our strategic partners will want to avoid conflicts of interest and for us to maintain our platform-agnostic approach.	• Employees • Shareholders • Customers • a, b, c, d, e	Pages 14 to 17
4 **Being a responsible corporate citizen**	All our stakeholders want the Company to be a responsible corporate citizen. The Company has shown its commitment to championing and driving sustainability in the defence sector as a signatory of the ADS UK Defence ESG Charter in January 2024. The Board reviews and monitors the Company's own Net Zero 2040 plan, which plans for the Company to achieve net zero across its own operations by 2040 and full value chain by 2050. The Board approves the support of local communities in the UK through charitable donations and sponsorships such as the Company's partnership with the Army Benevolent Fund. Internationally, the Board oversees the Company's support for employment and education opportunities for indigenous communities in Canada, Africa and New Zealand through STEM outreach programmes, as well as developing supply chain partnerships with indigenous-owned businesses. The Board shows its commitment to gender balance and driving inclusion as a signatory to the Women in Defence Charter. The Board monitors the Company's health and safety programmes, including the Company's second global Safety Summit in November 2023. The Board was pleased to note that the 2023 Global People Survey indicated that 83% of our employees believed that the Company was truly committed to the health and safety of its employees.	• Customers • Shareholders • Employees • Communities • Suppliers • a, b, c, d	Pages 62 to 88

1. s172(1) a-f factors are detailed in the s172(1) statement on page 61.

How the Board keeps s172 on its agenda

The Board makes sure that in its decisions it considers the long-term success of the Company and considers the interests of its stakeholders as follows:

- The Board sets the Company's Purpose and strategy. Every year it carries out an annual strategy review to assess the long-term sustainable future of the Group and its impact on key stakeholders. As part of those discussions, it considers the matters the Directors must have regard to as part of their Section 172 duties
- The Board's risk management procedures identify the principal risks facing the Group and the mitigations in place to manage the impact of these risks. Many of these risks relate to our stakeholder groups
- The Board's standing agenda covers areas of stakeholder interest, such as sector operational reports, functional reports, financial reports, health and safety reports and litigation reports, to ensure that the Board receives relevant updates on matters of interest to our stakeholders
- There are regular reports from the Audit Committee Chair and the Remuneration Committee Chair on items within their remit
- When making decisions which require judgement to balance the interests of different stakeholder interests, the Board is careful to consider the interests of each different stakeholder in the context of the long-term consequences: for examples please see above. Members of the Board regularly engage with our investors and employees and the Board uses the stakeholder engagement summarised on pages 60 and 61 and on pages 118 and 119 to ensure that it understands the priorities of each stakeholder group and then uses that understanding to inform its decision-making process

Division of responsibilities

Defining Board responsibilities

The role specifications below set out the clear division of responsibility between the Executive and Non-Executive members of the Board, which supports the integrity of the Board's operations.

A more detailed description of these roles is available online at www.babcockinternational.com.

Non-Executive

Chair
- Independent on appointment;
- Leads the Board and sets the tone and agenda, promoting a culture of openness and debate;
- Ensures the effectiveness of the Board and that Directors receive accurate, timely and clear information;
- Ensures effective communication with shareholders;
- Acts on the results of the Board performance evaluation and leads on the implementation of any required changes; and
- Holds periodic meetings with Non-Executive Directors without the Executive Directors present.

Senior Independent Director
- Acts as a sounding board for the Chair;
- Available to shareholders if they have any concerns which require resolution;
- Leads the annual evaluation of the Chair's performance; and
- Serves as an intermediary to other Directors when necessary.

Independent Non-Executive Directors
- Support and constructively challenge the Executive team;
- Contribute to the development of the Company's strategy;
- Provide an external perspective and bring a diverse range of skills and experience to the Board's decision-making;
- Contribute to Board discussions on the nature and extent of the risks the Company is willing to take to achieve its strategic objectives;
- Satisfy themselves as to the integrity of financial information;
- Ensure financial controls and systems of risk management are robust and defensible; and
- Play a primary role in appointing and, where necessary, removing Executive Directors, setting their remuneration and succession planning.

Designated Non-Executive Director for employee engagement
- Gauges the views and feedback of the workforce and identifies any areas of concern;
- Communicates the views of the workforce to the Board;
- Ensures the views of the workforce are considered in Board decision-making; and
- Ensures the Board takes appropriate steps to evaluate the impact of any proposals that influence the experiences of the workforce and considers what steps the Board should take to mitigate any adverse impact.

Executive

Chief Executive Officer
- Oversees the day-to-day operation and management of the Group's businesses and affairs;
- Responsible for the implementation of Group strategy as approved by the Board, including driving performance and optimising the Group's resources;
- Accountable to the Board for the Group's operational performance; and
- Takes primary responsibility for managing the Group's risk profile, identifying and executing new business opportunities, and management development and remuneration.

Chief Financial Officer
- Accountable to the Board for the Group's financial performance;
- Responsible for raising the finance required to fund the Group's strategy, servicing the Group's financing whilst maintaining compliance with its covenants; and
- Maintains a financial control environment capable of delivering robust financial reporting information to indicate the Group's financial position.

Articles of Association

The powers of the Directors are set out in the Company's Articles of Association (the Articles), which may be amended by way of a Special Resolution of the members of the Company. The Board may exercise all powers conferred on it by the Articles, in accordance with the Companies Act 2006 and other applicable legislation. The Articles are available for inspection online at www.babcockinternational.com.

The Board has established a formal schedule of matters specifically reserved for its approval. It has delegated other specific responsibilities to its Committees. These are clearly defined in their terms of reference (available online at www.babcockinternational.com). Other responsibilities are delegated to management under a delegated authorities matrix.

Summary of key matters reserved for the Board

- Group strategy
- Interim and final results announcements and the Annual Report
- Dividend policy
- Acquisitions, disposals and other transactions outside delegation limits
- Significant contracts not in the ordinary course of business
- Major changes to the Group's management or control structure
- Changes relating to the Company's capital structure or status as a listed PLC
- Annual budgets
- Major capital expenditure
- Major changes in governance, accounting, tax or treasury policies
- Internal controls and risk management (advised by the Audit Committee)
- Major press releases and shareholder circulars

Meetings and attendance

Each financial year the Board has eight scheduled full Board meetings held in person, which includes a meeting dedicated to strategy, and two operational updates held by video conference. The Chair also meets separately with Non-Executive Directors without Executive Directors or other managers present. See the table below for further information about the meetings held during the year.

Conflicts of interest and independence

Babcock has a procedure for the disclosure, review, authorisation and management of Directors' actual and potential conflicts of interest or related party transactions in accordance with the Companies Act 2006. The procedure requires Directors formally to notify the Board (via the Company Secretary) as soon as they become aware of any new actual or potential conflict of interest, or when there is a material change in any of the conflicts of interest they have already disclosed.

A register is maintained of all the disclosures made and the terms of any authorisations granted. Authorisations can be revoked, or the terms on which they were given varied, at any time if judged appropriate.

In the event of any actual conflict arising in respect of a particular matter, mitigating action would be taken (for example, non-attendance of the Director concerned at all or part of Board meetings and non-circulation to him/her of relevant papers).

Possible conflicts of interest authorised by the Board are reviewed annually on behalf of the Board by the Nominations Committee.

The Committee also considers the circumstances set out in the Code which could compromise an individual's position of independence. The Board is satisfied that throughout the year all Non-Executive Directors remained independent and accordingly the Company is compliant with Provision 10 of the Code.

Time commitment

The expected time commitment of the Chair and Non-Executive Directors is agreed and set out in writing in their respective letters of appointment, at which point the existing external demands on an individual's time are assessed to confirm their capacity to take on the role. Further appointments can only be accepted with approval of the Board following consideration of whether there would be an impact on the independence and objectivity required to discharge the agreed responsibilities of each role and whether the resultant position is believed to be consistent with recognised proxy advisor guidelines.

The Board is satisfied that each Director has the necessary time to effectively discharge their responsibilities and that, between them, the Directors have a blend of skills, experience, knowledge and independence suited to the Company's needs and its continuing development.

Board and Committee membership, meetings and attendance

	Board	Nominations Committee	Audit Committee	Remuneration Committee
Number of scheduled meetings held	8	4	14	7
Current Directors				
Ruth Cairnie	8/8	4/4	–	–
Carl-Peter Forster	8/8	4/4	–	7/7
John Ramsay	8/8	4/4	14/14	7/7
Lucy Dimes[1]	8/8	4/4	14/14	6/7
Lord Parker	8/8	4/4	–	–
Jane Moriarty	8/8	4/4	14/14	7/7
David Lockwood	8/8	–	–	–
David Mellors	8/8	–	–	–
Kevin Smith[2]	7/7	4/4	9/10	–
Claudia Natanson[3]	1/1	1/1	–	–

1. Lucy Dimes was unable to attend one Remuneration Committee meeting due to a prior commitment.
2. Kevin Smith was appointed to the Board in June 2023 and was unable to attend one Audit Committee due to a prior commitment.
3. Claudia Natanson was appointed to the Board in March 2024.

Composition, succession and evaluation

Composition

The composition of the Board is kept under constant review by the Nominations Committee to ensure a balance of skills, experience and knowledge to lead the Group. At the date of this report the Board comprises the Chair, who was independent on appointment, seven Independent Non-Executive Directors and two Executive Directors. All continuing Directors are required to offer themselves for re-election by shareholders each year at the Annual General Meeting. Biographical details can be found on pages 112 and 113 and there is more information on appointments to the Board in the Nominations Committee report on pages 126 and 127.

Diversity policy

It is the Board's policy that it is in the best interests of the Group and all its stakeholders for the Group to be led and peopled by individuals from a range of skills, experiences, backgrounds and perspectives, as the Group wants the best talents to deliver its strategy. We believe that this is embodied in our Purpose, 'To create a safe and secure world, together'. To help achieve our policy, we have adopted ambitious targets of 30% women within senior leadership teams by 2025, 30% female representation at all levels by 2030, and 80% disclosure of diversity data by 2025. These are stretching targets as we operate in the defence sector, which is male dominated. We have made some progress, for example, by reducing the gender pay gap (please see page 81 for more information). However, we need to accelerate our progress if we are going to meet our ambitious targets. Over the year, we have reviewed our strategic approach and are taking action, including rolling out new policies, refreshing the recruitment processes and improving leadership development.

Board diversity

The Board is in line with the Financial Conduct Authority's diversity and inclusion Listing Rules of having at least 40% female representation on the Board, at least one senior Board position held by a female and at least one member of the Board being from an ethnic minority background, as well as those for the FTSE Women Leaders Review (at least 40% female representation on the Board) and the Parker Review (at least one Board member being from an ethnic minority background). For more information on the Group's diversity policy and its objectives, please see pages 65 and 82.

Board and executive management ethnicity

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Committee	Percentage of Executive Committee
White British or other White (including minority-white groups)	9	90%	4	17	100%
Mixed/Multiple Ethnic Groups	–	–	–	–	–
Asian/Asian British	–	–	–	–	–
Black/African/Caribbean/Black British	1	10%	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

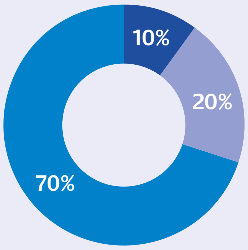
Board and executive management gender

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Committee	Percentage of Executive Committee
Men	6	60%	3	13	76%
Women	4	40%	1	4	24%
Non-binary	–	–	–	–	–
Use another term	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

The tables and charts in this section show the position at 31 March 2024. The Company has collected the data on which the tables above are based by the individuals concerned self-reporting their data on being asked about their ethnicity and gender in the categories listed.

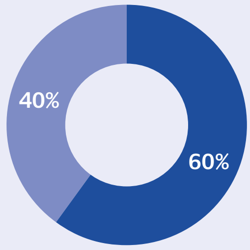
Board information

Independence



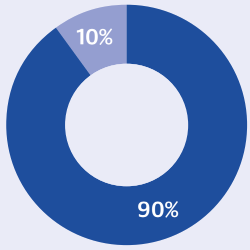
- Chair (independent on appointment)
- Executive Directors
- Independent Non-Executive Directors

Gender



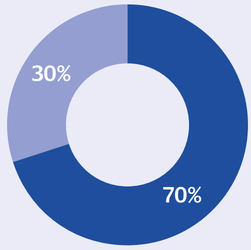
- Men
- Women

Ethnicity



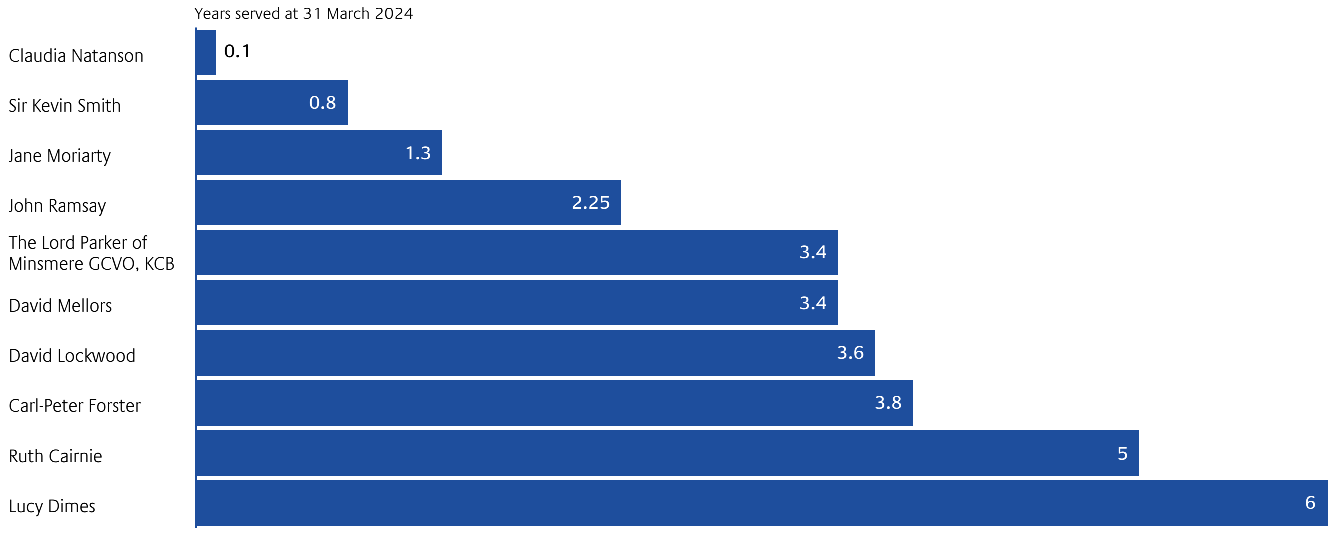
- White British or other White (including minority-white groups)
- Black/African/Caribbean/Black British

Nationality



- UK
- Non-UK/dual national

Board tenure



The average Board tenure at 31 March 2024 was three years.

Composition, succession and evaluation continued

Succession

The Chair, Senior Independent Director and independent Non-Executive Directors are appointed for a three-year term, subject to annual re-election by the shareholders. At the end of the first three-year term, the Nominations Committee reviews each Non-Executive Director's tenure to make sure that renewing the appointment is the right decision. The Nominations Committee will usually renew the appointment for a further three years. After the second three-year term, the Nominations Committee reviews the appointment annually up to a maximum total tenure of nine years.

The ongoing replenishment of the Board is a key focus for the Nominations Committee and more information about succession planning can be found in its report on page 127.

Director training

With the ever-changing environment in which Babcock operates, it is important for our Executive and Non-Executive Directors to remain aware of recent, and upcoming, developments and keep their knowledge and skills up to date.

The Company arranges for new Non-Executive Directors to receive detailed business briefings on the Group's operations and to make induction visits to the Group's principal sites. Training for new Directors, when appropriate, is arranged with external providers and each Non-Executive Director is expected to participate in their own continuous professional development.

Non-Executive Directors may at any time make visits to Group businesses or operational sites and are encouraged to do so at least once per year. Visits are coordinated by the Group Company Secretary's office. Presentations on the Group's businesses and specialist functions are made regularly to the Board.

Our Company Secretary also provides updates to the Board and its Committees on regulatory and corporate governance matters.

Our new Directors receive comprehensive and tailored induction programmes. The programmes for Non-Executive Directors typically involve:

- Meetings with the Executive Directors, the sector CEOs and functional leads
- An overview of the Group's governance policies, corporate structure and business functions
- Details of risks and operating issues facing the Group
- Visits to key operational sites
- Briefings on key contracts and customers

Since joining the Board last year, Jane Moriarty and Sir Kevin Smith have visited Rosyth, Bovington, Bristol and Devonport. Claudia Natanson, who joined this year, has visited Rosyth and Devonport.

Evaluation

2023/24 Board performance review

Each year we conduct an evaluation to assess the Board's ways of working as well as its skills, experience, independence and knowledge to confirm it is able to discharge its duties and responsibilities effectively. The composition and diversity of the Board and its Committees and how well the Directors are working together is considered, as well as the individual performance of the Directors and the Chair. This year the review was conducted by Jane Moriarty. The key finding of the review was that each Director believed that the Board was effective in its role of promoting the long-term sustainable success of the Company. In accordance with provision 21 of the Corporate Governance Code the FY25 Board evaluation will be externally facilitated.

Progress made on actions identified in the FY23 review

Recommendations for FY24	Update	Further information
Continue to develop the Company's approach to strategy and to build out its strategy framework.	The Board has continued to refine its approach to the development of its strategy so that it aligns to the key phases of stabilise, execute and grow. As the Board considers the growth opportunities the Company can pursue, the Board takes care to consider their alignment to the Company's Purpose and its capabilities. The centrepiece for the Board's strategy review is a dedicated all-day meeting, usually held off-site. However, in addition, the Board has regular reviews to consider specific areas of the Company's strategic framework. The result of the Board's deliberations is the Company's strategic framework, which is set out on pages 14 and 15.	See page 14
Through the Audit Committee, continue its oversight role of the control enhancement programme, to ensure progress and to ensure that progress is embedded in the Group's processes.	The control enhancement programme has been a key initiative for the Audit Committee since 2022. The Committee has adopted an ambitious target to improve its operational and financial controls in line with best-in-class peer FTSE companies. The Audit Committee receives regular reports from the dedicated executive, who leads the initiative, to allow the Committee to measure progress. For more information, please see the report of the Audit Committee.	See page 131
The Group should continue to develop its agenda to ensure the right division of time between governance, operations, risk, culture and strategy.	The Board has reviewed its agenda to get the balance between governance, operations, risk, culture and strategy. That balance has now been built into the Board's yearly planner.	

Areas of assessment and findings for the FY24 Board evaluation

Recommendations for FY25	Commentary and actions
Strategy	As the Company moves through its turnaround, the Board should consider moving the focus of its strategy from the turnaround to the growth opportunities available to the Company and their alignment to the Company's capabilities.
Nominations Committee	The Nominations Committee should consider refreshing its agenda to build visibility of talent management and succession for the senior leadership.
Diversity	In light of the ambitious diversity targets that the Nominations Committee has set for the Company, the Committee should consider carefully reviewing the Company's progress and the plans it has in place to meet its targets.

Composition, succession and evaluation continued
Nominations Committee report

Ruth Cairnie
Chair of the Nominations Committee

Key facts

The Committee
Ruth Cairnie chairs the Committee.

The other members throughout the year were all the Non-Executive Directors.

For biographies of the members, please see pages 112 and 113.

For attendance, please see page 121.

Highlights
- Appointment of new Non-Executive Directors
- Review of new leadership framework

Key responsibilities
- Board and Committee composition
- Succession and talent
- Culture
- Inclusion

Dear fellow Shareholder
The Nominations Committee manages the composition of the Board and its Committees to ensure that they have the skills, experience, diversity and knowledge required to support delivery of the Company's operations and its strategy. It also reviews talent and succession across the Group to ensure the development of adequate bench strength for future needs, as well as overseeing progress on inclusion, diversity and culture.

Progress on Board composition
The Committee maps the skills and experience it believes the Board needs to fulfil its role, both now and in the future, against the skills and experience of the Board members. The Committee reviews its skills matrix at least once a year to make sure that the identified skills and experience remain relevant for the opportunities and challenges that the Company faces, and to identify any new needs. The Committee then evaluates the skills and experience of the Board against those set out in the matrix. This picture of the Board's collective strengths and any gaps inform the Committee's views on future development of the Board and any potential recruitment needs.

In FY24, the Committee was pleased to make two new appointments to the Board which have added to the Board's strength in two areas in particular, namely – operational and strategic experience in the Defence sector; and security, digital and cyber.

As disclosed in last year's report, supported by the recruitment consultants, MWM, the Board appointed Sir Kevin Smith in June 2023. Sir Kevin has in-depth knowledge of the aerospace and defence sector, including significant multi-year contracts, having spent most of his career working first at BAE Systems for over 20 years and then at GKN, where he was the CEO for eight years.

The Committee was also pleased to announce the appointment of Claudia Natanson, who joined the Board in March 2024. Claudia has over 20 years of experience in both the public and the private sectors as a security and cyber executive with companies such as Diageo, Smiths Group and AccuWeather. Cyber resilience is increasingly important in the aerospace and defence sector and Claudia will bring valuable insights to the Board as we plan for the future. As well as bringing her technical skill and experience, she also brings an additional strong international lens given her time working outside the UK. The recruitment consultant Audeliss supported Claudia's appointment.

Neither MWM or Audeliss has any other connection with the Company or its Directors.

Succession and talent

The Committee oversees the Company's progress in building out its refreshed and Group-wide approach to people. Within this, a particular focus is to review progress in developing the talent and leadership required for the future. This year the Committee reviewed the new leadership framework created to underpin the development of Babcock's leadership capability. The framework is based on three themes – capabilities, challenges and mindset. The Committee welcomed the progress made, with the ability now to raise the profile of leadership across the Group.

The Committee also reviewed progress on developing succession planning for key senior roles and encouraged the translation of this work into active development plans for senior leaders, as well as the broadening of the scope to additional critical roles across the organisation. This work will result in a clearer understanding of the capabilities within Babcock and, over time, a stronger pipeline for succession. The Board is committed to regular review of development progress and involvement with the development plans where appropriate.

Culture

The Company has set out its clear Purpose and principles and needs to develop and embed a culture that embodies these, throughout the organisation. Every decision made by the Company, from the Board down, should be informed and guided by our Purpose and principles. To assure itself that this is the case, the Committee oversees and reviews the policies and strategies deployed to embed the culture, using a variety of approaches. First, it encourages all Non-Executive Directors to visit Company sites so that they can build their own view of the Company's culture and bring their experiences back to the Board. The Committee maintains a register of all these visits, included in the monthly Board pack, so that visit plans can be arranged and coordinated as effectively as possible. This year, Non-Executive Directors visited the Company's operations in Devonport, Australia, RAF Northolt, Ruislip, Leicester, Hinkley Point, London, Bovington, Rosyth and Bristol. During these visits, the Non-Executive Directors have the opportunity to speak to employees collectively and individually to get their feedback and to hear about their experience of the Company's Purpose and principles.

As well as site visits, the Committee reviews the output from the Company's Global People Survey. In the FY24 survey, the Committee noted that two thirds of the Company's employees scored the Company's commitment to its Purpose favourably. However, the Committee agreed that there was an ongoing need for the upskilling of management teams, including frontline management, to improve employee engagement. This initiative encourages the Company's leaders at all levels to model the principles, to be visible to all employees and to enhance the effectiveness of their communication.

The third approach the Committee uses is to receive feedback from Lord Parker as the Director designated for employee engagement. During FY24, Lord Parker visited five sites and met with over 350 employees from those sites. He specifically chose more remote sites, to test the extent to which the Company had managed to embed its culture. His report to the Committee indicated considerable progress was being made, through more effective communication including the CEO vlogs, local townhall sessions and stand downs. He received positive feedback that the Company was taking action to follow up on the previous Global People Survey, although the Committee encouraged management to keep reinforcing the link between the tangible actions taken by the Company and the recommendations arising out of the survey. Lord Parker did continue to find that internal complexity was frustrating for employees. The Committee used this feedback to support the Executive Directors in their initiatives to streamline the Company and to make it more efficient, and this has been communicated to employees through Group channels.

Inclusion and Diversity

The Board recognises the importance of the Company being able to access the talents of all people regardless of their backgrounds. The Committee has a key role to play in making sure that this becomes a reality rather than an aspiration. At Board level, the Committee sets the tone from the top and has committed to meeting all of the relevant externally set targets: the FTSE Women Leaders Review target for 40% women by 2025, the Parker Review target of at least one minority ethnic director by 2024 and the Financial Conduct Authority target of at least one of the senior Board positions (Chair, CEO, CFO or SID) being a woman. The Committee is pleased that the Board now meets all these targets. It will continue to review the Board's composition from the perspective of these targets, thereby demonstrating to the Company the importance placed on inclusion and diversity; however, as a relatively small Board its diversity statistics will remain susceptible to movement on the basis of any individual appointment or retirement.

Although the Board has met its diversity targets, there is still a lot to do before the Company meets the targets it has set itself of 30% women within the senior leadership team by 2025, 30% female representation at all levels by 2030, and 80% disclosure of diversity data by 2025. As a defence company, our sector is traditionally male dominated, so these are stretching targets. We have made some progress, for example, by reducing the gender pay gap (please see page 81 for more information). However, we need to accelerate our progress if we are going to meet our ambitious targets. Over the year, we have reviewed our strategic approach and are taking action, including rolling out new policies, refreshing the recruitment processes and improved leadership development. The Committee notes the request by the Parker Review that companies voluntarily disclose targets for ethnic diversity in senior leadership. The Committee will keep the request under review.

I hope this report gives you an understanding of the work of the Committee over FY24. If you do have any questions, I would welcome hearing them at this year's AGM.

Ruth Cairnie
Chair

Audit, risk and internal control
Audit Committee report

John Ramsay
Chair of the Audit Committee

Key facts

The Committee

John Ramsay chairs the Committee.

John is a Chartered Accountant, formerly the Chief Financial Officer of Syngenta AG and an experienced Audit Committee chair (see page 112 for John's full biography). The Board has designated him as the financial expert on the Committee for the purposes of the UK Corporate Governance Code.

In FY24, the other members of the Committee were Lucy Dimes, Jane Moriarty, and Sir Kevin Smith. All members of the Committee are independent Non-Executive Directors. Please see pages 112 and 113 for their biographies and page 121 for attendance and number of meetings.

During the year, the Committee invited the Chair of the Board, other Non-Executive Directors, the CEO, the CFO, the Group Financial Controller, the Deloitte external audit team, the Internal Audit team and key senior management to attend its meetings, as appropriate.

Typically, after Committee meetings, the Committee meets separately with the external audit lead partner from Deloitte and also frequently meets with Internal Audit to give them the opportunity to discuss matters without management being present.

In addition, the Committee Chair maintains regular contact with the external audit lead partner and Internal Audit between meetings, often without the presence of management.

Highlights

- Oversight of the implementation of ongoing improvements to the control environment throughout the year
- Review of the key management judgements and estimates for the FY24 financial statements, particularly for Type 31
- Supporting the establishment of an Internal Audit function as it transitioned from an external to an internal function
- Oversight of enhancement to management's approach to fraud risk identification, analysis and mitigation
- Leading a tender process to appoint an external auditor from FY25

Key responsibilities

- Reviewing the half-year and annual financial statements and any announcements relating to financial performance, to determine whether each is fair, balanced and understandable, and challenging the appropriateness of accounting policies, judgements and estimates, as well as disclosures, and reporting to the Board thereon
- Ensuring the quality and effectiveness of the audit conducted by the external auditor and recommending to the Board the appointment of the external auditor
- Reporting to the Board on the effectiveness of the audit process and how the Company safeguards the independence and objectivity of the auditor
- Reviewing the scope, remit, objectivity and effectiveness of the Internal Audit function
- Reviewing the effectiveness of the Group's internal control and risk management systems
- Reviewing and recommending to the Board the disclosures included in the Annual Report in relation to internal control, risk management and the viability statement
- Reporting to the Board on how the Audit Committee has performed its role, and its findings

Dear fellow Shareholder

I am pleased to present the Committee's report on pages 131 to 135. Much has been achieved during the year and I would like to thank my fellow Committee members for their work and commitment, which this year again involved additional meetings and their support as part of our tender of the external audit for FY25 and beyond, which led to the proposal to appoint Forvis Mazars. Like last year, a key focus for the Committee was the review and challenge of the estimates and judgements adopted by management in their cost estimate for our Type 31 programme. The Committee dedicated more than four meetings to consider the correct accounting for the Type 31 cost estimate, with our discussions covering the technical basis under IFRS as well as the evidence required to recognise expected future benefits of the programme.

In addition to Type 31, the Committee continued its oversight of the Company's control improvement programme. I am pleased to report further substantial progress in the programme. However, much remains to be done in embedding the new control standards to ensure that the controls are sustainable and are part of the normal practice across the Group. This programme will prepare the Company for the new governance provisions, introduced by the 2024 UK Corporate Governance Code. We are planning a dry run of the internal control provisions of the Code prior to full implementation in FY27.

Update following FY23 audit

The Committee continued to be pleased with the effectiveness of the FY23 audit process, in particular the rigour and challenge applied by Deloitte. The Financial Reporting Council (FRC) reviewed our FY23 Annual Report. The scope of their review was limited as it was based solely on our FY23 Annual Report without the benefit of detailed knowledge of the Company's business or an understanding of the underlying transactions. So, the review does not provide any assurance that the FY23 Annual Report is correct in all material respects. However, the review was conducted by staff of the FRC who understand the relevant legal and accounting framework. The Committee was pleased that at the end of their review the FRC confirmed that they did not wish to raise any questions or queries with the Company, although they did make certain observations that they asked the Committee to consider as it prepared its FY24 accounts.

Deloitte provided valuable feedback in highlighting control weaknesses to management. These related primarily to the need to improve the standardisation of formal contract review controls and documentation supporting judgements on long term contracts, a lack of maturity of new internal controls in the business sectors, IT access controls in legacy systems and detailed controls around balance sheet classifications. As a result, management incorporated improvements in these areas into its FY24 programme of control improvements.

Internal control roadmap

Since the Contract Profitability and Balance Sheet review in FY21, Babcock has embarked on a major programme to improve its operational and financial controls with the objective of being in line with best-in-class peer FTSE companies including responding proactively to UK Corporate Governance Reform, including the 2024 UK Corporate Governance Code and the Economic Crime and Corporate Transparency Act 2023. This is a multi-year endeavour which will continue into FY25, during which time the Company will progressively implement assurance over material internal controls. The Committee expects this assurance to provide it with greater confidence and visibility to better state the effectiveness of those controls, in line with the 2024 UK Corporate Governance Code.

During the year, the Company's internal control programme focused on the following major areas of improvement:

- Further embedding the Blueprint Fundamental controls throughout the year into standard processes and monitoring evidence retention. The Blueprint Fundamentals are 15 key controls in relation to significant financial reporting risk areas including business winning, contract review, consolidation, pensions, taxation and derivative reporting controls
- Embedding and maturing of sector-level contract review controls, including the enhancement of control documentation and roll-out of a single Contract Status Report to facilitate improved challenge and risk review in sector and Group contract review meetings
- Enhancing IT general controls including actioning all user access findings for the Group's Neptune system (our primary ERP and supporting systems) and mitigating risks relating to findings raised with legacy systems, where findings are unable to be fully closed.
- Undertaking root cause analysis and action in relation to March 2023 financial reporting errors below Group external audit materiality to deliver improved financial reporting accuracy at March 2024
- Elevating the Group's response to fraud risk by incorporating it in sector Risk Registers supported by appropriate training for risk owners. Further enhanced fraud controls will follow in FY25

The Company has also targeted improved evidence of judgements in relation to goodwill impairment assessment (particularly for the Aviation CGU) and Type 31 contract costs to complete. For Type 31 the Company has devoted significant time and resources in an operational improvement programme. The programme included a major upgrade in the finance and management capability as well as the engagement of external support to review and challenge the methodology for estimating the costs to complete and the associated evidence. The Committee noted the improvements on the programme. However, having carefully considered the available evidence against the evidential bar required to recognise future benefits, the Committee agreed that the Company should not fully recognise these plans in its FY24 financial statements, even though the Company expects them to be delivered over the course of the programme.

In addition, the organisational structure continues to be enhanced to better support and sustain robust internal controls, with the:

- completion of the insourcing of the Internal Audit function;
- first full year of support by the Finance Business Services and People Centre teams, now supporting all UK businesses, and driving a programme of standardisation and simplification projects; and
- continued investment in technical accounting roles at sector level to deliver improved documentation and evidential support for financial reporting judgements.

The Company continues to enhance the Babcock Document of Controls attestation process, setting and enhancing the minimum standard across all parts of the business for material reporting, financial, compliance and specific operational controls, which requires reporting against that standard on a bi-annual basis. The Company provided visibility of the results of this attestation process to the Committee mapped against risks, for the first time in FY24, highlighting any material gaps and therefore providing additional confidence in the progression of the roadmap.

In FY24, the Company has accelerated enhancements to the approach to identify, analyse and mitigate fraud. This has meant fraud risk identification being embedded in the standard risk framework, allowing for more granular identification and

Audit, risk and internal control continued

mitigation action. The Group Risk function has led training for senior leadership teams and risk assessors across the business to ensure they understand common fraud risks and the fraud risk triangle (incentive, opportunity and rationalisation). As a result of this, management has updated the Group-wide fraud risk assessment and sought independent review of the appropriateness of the fraud risk assessment approach, including appropriateness in response to the Economic Crime and Corporate Transparency Act 2023. The Committee has seen both the FY24 assessment and the independent review. From FY25, fraud risk will be a mandated item on the Annual Internal Audit Plan.

Targeted control enhancement actions are tracked in response to both the Document of Controls attestation process, where gaps are identified, but also through the result of internal audits, and an Insights Report provided by Deloitte in September 2023. Management has proactively reviewed the control enhancement recommendations raised by Deloitte in its Insights Report, agreed recommendations with Deloitte, and has either delivered or documented agreed actions.

The Committee received regular updates and reports from management on its progress against the internal control roadmap and designed the Internal Audit plan to test and challenge the implementation and effectiveness of these control enhancements. The Audit Committee has received regular updates on UK Corporate Reform, including regular review of the appropriateness of the internal control roadmap in relation to the expected direction of UK Corporate Reform. The Board was also provided with external analysis of the expected impact of UK Corporate Reform and the applicability to Babcock.

I would like to thank all those involved for their efforts in achieving the control enhancements that they have delivered over FY24. There is a lot more to do before Babcock reaches the stated aims of the internal control enhancement roadmap, but the Committee believes that the improvements made in FY24 are substantial. Work in FY25 will be focused particularly on the embedding, practice and repetition of operating established controls to provide confidence in their reliable and sustainable operation, including the monitoring and retention of evidence to support the operation of these controls to address findings from the FY24 audit. The improvement programme should provide confidence to stakeholders that Babcock is progressively and appropriately delivering enhanced and robust internal controls, and that management and employees will be motivated to meet those standards.

FY25 audit

Deloitte has been the Company's auditor since 2021 and has now completed three annual audits. During that time, the Company has upgraded its financial and operational processes and controls, its financial and commercial capability, its project and contract management controls and its risk management processes, coupled with widespread improvements in employee culture. These substantial upgrades supported the Company's 'stabilise' stage of its turnaround. The Committee decided that as the Company completes its 'stabilise' phase and moves to the next stage, it would be an opportune time to take stock and consider the terms of the Company's engagement with its auditor.

The Committee believed that the best way to do that was to hold a tender for the FY25 appointment and beyond. Following discussions with a number of FRC-designated Tier 1 audit firms, and after consideration of conflicts and capacity, the Committee decided to invite Forvis Mazars and Deloitte to participate in the tender.

Having received the invitation, Deloitte declined to participate in the process. The Committee continued with its selection process as it continued to keep Deloitte under active consideration as the Committee knew Deloitte's qualifications well from the work it had done on the FY22 and FY23 audits and there was no need for Deloitte to actively participate in order for the Committee to make an informed choice. However, for the other participant, the Committee did not have the same level of knowledge and therefore needed assurance that it could deliver a high-quality audit in a timely fashion for an acceptable level of fee. At the end of a challenging and diligent tender process, the Committee established a high level of confidence that Forvis Mazars with the engagement team already proposed, its internal focus on high standards of audit quality and its defence sector experience, could deliver a high-quality audit.

Therefore the Committee was pleased to recommend to the Board that, subject to shareholder approval at the 2024 AGM, Forvis Mazars should be appointed the Company's auditor for FY25. For more detail, please see page 135.

During the year, the FRC published its 'Minimum Standards for Audit Committees'. The Committee compared its charter, scope and agendas and was able to confirm that it was operating in accordance with those standards.

Priorities for FY25

A key priority for FY25 will be to oversee the transition in external auditor to ensure a high-quality and effective audit. In addition, the Committee will also focus on the continued implementation of the internal control roadmap, including assuring itself that controls are being embedded on a sustainable basis across the Group. Specifically, the Committee will seek to ensure:

- the newly insourced Internal Audit provides effective independent assurance on key controls
- robust contract management and accounting controls in the business sectors supported by appropriate documentation and evidence
- completion of the planning for the work required to enable Board assessment of internal controls as prescribed under the 2024 UK Corporate Governance Code enabling a dry run in FY26 for implementation in FY27
- an upgrade in process and detail in the Company's assessment of fraud risk

As ever I am available to all shareholders to discuss any significant matter related to the Committee's work. All the Committee will be at the FY24 AGM and hope to meet as many of you as possible. We will be available to answer any questions you may have on this report or the Committee's activities.

John Ramsay
Committee Chair

Committee report

Below is the Committee's report on its activities over FY24. The report, along with the letter of the Committee Chair, describe the activities that the Committee has undertaken to meet the requirements of the Financial Reporting Council's Audit Committees and External Audit: Minimum Standard.

Risk management and internal control systems

The Board has ultimate responsibility for risk management and internal control processes and has delegated to the Committee the review of the effectiveness of these systems to assist it in discharging this responsibility.

Internal control systems

The Committee reviews reporting and financial internal control processes: that is, the processes established to identify, assess, manage and monitor financial reporting and financial risks. In FY24, the Committee regularly reviewed an aspect of such controls processes at its meetings throughout the year. The Group Executive Committee, chaired by the CEO, retains accountability for the management of operational and compliance risks, including related controls and mitigating actions. Sector CEOs and function directors are required to ensure that appropriate processes, including the maintenance of risk registers for both the sector itself and individual constituent lines of business, exist to identify and manage risks; and to regularly carry out formal risk assessments. Please see pages 89 to 106 for further information on the Group's principal risks, risk management process and internal control environment.

The centrepiece of the Group's system of controls is the Babcock Document of Controls, which was introduced in FY21 and subsequently supplemented by the internal control roadmap described below. The Document of Controls is a comprehensive description of Babcock's material reporting, financial, compliance and specific operational controls matched against business process risks, that the Group expects to be in operation across the Group. The Document of Controls splits the controls between mandatory (those the Group must have in operation or introduce without delay if not already in operation) and expected (those the Group must have a plan to implement). In FY24 there was no significant non-adherence that would undermine the reported financial statements.

The Document of Controls acts as a risk and control matrix. Each business currently reports adherence to the Document on a bi-annual basis. Internal Audit has a role in independently reviewing these reports, and the Document of Controls has been independently verified for completeness in relation to key financial reporting controls. It is expected that the Document of Controls will form the basis of the Company's response to the 2024 UK Corporate Governance Code.

As described in the Committee Chair's letter above, the Group has in the past two years been driving a major programme to improve its control environment. An internal control enhancement roadmap was formed from the combined experience of the Contract Profitability and Balance Sheet review, the ambition to meet UK Corporate Reform requirements, and the result of findings from the Document of Controls process, as well as Internal Audit reports and insights from Deloitte as part of the external audit. This internal control roadmap covers reporting, financial, fraud and key related operational controls such as contract review and bid review controls. The combination into one roadmap has enabled prioritisation and better tracking of the implementation of control enhancements along the roadmap.

The Group reviews progress against the roadmap, tests to ensure the effectiveness of implementation, and reports back to the Committee. Both Internal Audit and Deloitte have undertaken design and implementation testing of the Blueprint Fundamental controls, 15 key control enhancements delivered as part of the roadmap, and the Company has addressed or put in place plans to address the resulting findings.

Risk management

The Company set up a Group Risk dedicated function in FY23, which has conducted a comprehensive review of the Company's Enterprise Risk Management Framework, to upgrade the Group's risk management capability and to implement and drive improvements. Specifically, this has resulted in:

- Alignment to the ISO 31000 International Standard for Risk Management
- Expanded risk management roles and responsibilities and addition of Global Risk Leads
- Linked risks to corporate objectives and corporate risks
- Updated risk impact categories and, working with the Engineering Risk Working Group, strengthened our technical risk management
- Introduction of velocity ratings
- New risk appetite levels which have been assigned to each risk impact category for the maximum level of risk permitted
- Key risk indicators and red flag warning mechanism
- Links to other internal processes such as Project Risk, Engineering Risk and the Document of Controls
- Embedded climate and fraud risk

The risk framework considers the management of risk at all levels throughout the Group, top-down and bottom-up, correlated through a series of risk conversations with members of the Group Executive Committee and critical risk influencers. The Group Executive Risk Committee provides leadership and oversight of the Risk Management Framework as well as challenge to the principal risks and uncertainties, their continued relevance, mitigation effectiveness and proposed actions to reduce the risk to its target state, highlighting any additional resource requirements and opportunities.

Audit, risk and internal control continued

Group Risk provides challenge and support to the first line of defence teams and facilitates and coordinates the establishment and ongoing review of the Corporate Risk Register. A key focus has been to improve the quality of risk data and assurance evidence for both controls and overall risk performance, trends and interconnectivity for holistic oversight of the Group's risk profile to enhance decision-making.

Group Risk works with Global Risk Leads to deliver a risk training programme to senior leadership teams to improve risk maturity to develop a risk-aware culture, where knowledge is shared and risks are actively managed, which is fundamental to deliver successful outcomes. Bi-monthly meetings continue to be held with Risk Leads to review the effectiveness of the Risk Management Framework and process, sharing of good practice and risk reports, feedback from governance meetings and the viability of risk visualisation reporting tools.

The Committee, on behalf of the Board, reviews the effectiveness of the Group's risk management and internal control systems on an annual basis. The Committee conducts this review through the receipt of a report from the Group's finance team, including the Director of Internal Audit, Risk Assurance & Insurance. The report describes the Group's risk management and internal control and demonstrates that the Group is providing the Board with the relevant information in a timely manner to fulfil its monitoring role. This year, after its review, the Committee was satisfied with the progress made by the Group on its roadmap to improve its risk management and internal control systems. In particular, the Committee was satisfied that the Group had delivered control enhancements against those matters raised by Deloitte in the FY23 external audit report, as referenced in the 2023 Annual Report, as being factors in Key Audit Matter relating to control deficiencies.

FY24 external audit

Deloitte has now completed its third annual audit.

Following the close of the FY23 audit, the Committee conducted a review of the quality and effectiveness of the FY23 audit process. This review identified the key areas of improvement for both the Company and Deloitte, such as the quality of documented controls in respect of key accounting judgements, project management of the financial close process, duration of the audit process and adherence to schedule. Having identified the key areas of improvements, the Committee discussed the underlying causes and agreed a set of actions for both parties to address them.

These actions included a planning day attended by representatives from all those engaged in the audit, both in the Company and Deloitte, and the preparation of a 'right to left' timeline. This timeline applied to all aspects of the FY24 audit other than the audit of the Type 31 estimated costs to complete. The complicated nature of those costs, involving inter-related component parts, as well as the extensive nature of the operational improvement programme, combined with the appointment of a new management team part way through the year necessitated a longer audit process.

The Committee is committed to challenging management and the auditors to target advances in the reporting timetable in future years and believes that now with improved control and insight over the Type 31 programme this should be possible.

Deloitte and management reported on progress of the FY24 audit against the plan to the Committee. So as not to distract management and Deloitte from planning the full-year audit, the Committee did not commission Deloitte to provide a review opinion on the interim financial information. However, the Committee remains committed to having half-year reviews in the future when further progress has been made on a sustainable advanced full-year audit timetable and improvements in the internal control process.

Deloitte presented its audit plan to the Committee which set out the scope and objectives of the audit, together with an overview of its planned approach and proposed areas of audit focus together with proposed Audit Quality Indicators (AQIs). This was reviewed and approved by the Committee and included agreeing the scope and the level of materiality of £20.0 million (up from £15.6 million in FY23).

The total fees paid to Deloitte in the year ended 31 March 2024 in respect of the FY24 audit equalled £13.3 million. The principal reason for the increase from the previous year is largely due to work on the Type 31 contract costs to complete. In addition, Deloitte undertook certain non-audit work. The total fee for this work was £5,300. The work related to the audit or was required for regulatory reasons. The work was assessed in line with the new ethical standard. An analysis of the fees paid to the external auditor during the year can be found in note 4 to the Group Financial Statements on page 202.

The Committee recognises that there may be some element of non-audit services for which the Group might wish to use the external auditors. The provision of non-audit services is controlled by a policy which states that the external auditors will not be engaged to provide any element of non-audit services without approval in advance – from the CFO for fees up to £10,000, from the Committee Chair for fees between £10,000 and £100,000, and by the Committee for fees over £100,000.

The Independent auditor's report to the members of the Company can be found on pages 163 to 176.

The Company complies with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Independence

The Committee is responsible for the development, implementation and monitoring of the Group's policies on services from external auditors, which are designed to ensure a high-quality and effective audit and to maintain the objectivity and independence of the external auditors. As part of its FY24 audit planning, Deloitte provided assurance of its independence, which supported the Committee's policy as described above. In addition, external auditors follow regulatory requirements to maintain the objectivity of the audit process. For the FY24 audit, Makhan Chahal was Deloitte's lead audit partner and is in his third year, having started in FY22. The Committee was satisfied that Deloitte was independent and objective.

Audit quality

The FRC's Audit Quality Review (AQR) team monitors the quality of audit work of certain UK audit firms through inspections of a sample of audits and related procedures at individual audit firms. As part of its planning for the FY24 audit, the Committee agreed a series of Audit Quality Indicators (AQIs) with Deloitte. These AQIs were broadly in line with those used in FY23 to allow for consistency. They established measures for the engagement team and audit execution. The Committee uses the AQIs to measure and monitor audit quality as they are key metrics relating to the audit. With the assistance of the AQIs the Committee can assess and challenge the execution and quality of the audit.

In addition to the AQIs, the Committee Chair and the CFO met with Deloitte during the year, to ensure the audit was identifying priorities and both Deloitte and the Company were resourcing them appropriately to execute the year-end audit timetable.

In respect of our FY23 annual report, the Financial Reporting Council (FRC) reviewed our report. The scope of their review was limited as it was based solely on our FY23 annual report without the benefit of detailed knowledge of the Company's business or an understanding of the underlying transactions. So, the review does not provide any assurance that the FY23 Annual Report is correct in all material respects. However, the review is conducted by staff of the FRC who understand the relevant legal and accounting framework. The Committee was pleased that at the end of their review the FRC confirmed that they did not wish to raise any questions or queries with the Company, although they did make certain observations that they asked the Committee to consider as it prepared its FY24 accounts.

Internal Audit and assurance

In FY24, the Group concluded the full insourcing of its Internal Audit activity from BDO through the recruitment of four Internal Audit specialists. The Director of Internal Audit, Risk Assurance & Insurance, after discussions with management, agreed an Internal Audit plan with the Committee. The plan covered lines of business and countries, with proposed effort directed towards financial and other risk themes. Over FY24, the Internal Audit team, supported by specialists for technical internal audits, has implemented the agreed plan and has reported back to the Committee. The Director of Internal Audit, Risk Assurance & Insurance summarises the findings of the internal audit reviews so that the Committee can focus its discussions on unsatisfactory findings and on the action plans in place to address them.

Particular areas of focus for Internal Audit during FY24 included continuation of financial control audits in line with the increased focus on control improvements, audits of key programmes such as Future Maritime Support Programme, JP9101 and a number of risk-based reviews such as Finance Business Services (FBS) implementation. In addition, Internal Audit has continued to maintain a programme of follow-up audits to assess the timely implementation of internal audit recommendations by the businesses and key matters from the internal audit reviews.

By the end of FY24, Group Internal Audit had made 30 key findings and associated recommendations across the eight internal audits completed by the internal team in FY24. In addition, BDO issued 10 internal audit reports with 52 recommendations made.

Through its review of the Internal Audit plan, and its review of the reports of the Internal Audit team, the Committee was satisfied with the effectiveness of Internal Audit. As planned, the internal audit activities have now fully transitioned from BDO to the internal team and as expected, some co-sourcing where specialised expertise is required to conduct a particular audit has occurred though this has been limited to two audits. The Committee has monitored the transition to the new in-house Internal Audit team and received regular updates from the Director of Internal Audit, Risk Assurance & Insurance on progress.

For FY25, the Committee will continue to monitor the new internal audit structure. It has approved an Internal Audit plan for FY25. The plan includes the proposed audit approach, coverage and allocation of resources. In approving the FY25 plan, the Committee considered a range of factors, including the principal risks of the Group and the resources available to the Group.

Financial statements

One of the main roles of the Committee is to review the financial statements of the Company on behalf of the Board so that the Board can give its responsibility confirmation (please see page 162) that the Company's financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, as well as confirming that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable.

The Committee reviews all significant judgements and estimates made by management in preparing the financial statements and challenges management on its key assumptions, particularly as they relate to impairment reviews and estimates of cost and revenues from long-term contracts as well as estimates of future performance inherent in the Going Concern and Viability statements (see the Going Concern and Viability statement on pages 107 and 108). During FY24, the Committee considered again the period to be covered by the statement and agreed that the five-year period remained the most appropriate timespan for the Group given the business planning cycle, the long-term nature of many of the programmes and the insight gained from the turnaround. In assessing going concern and viability, the Committee challenged management's cash flow projections and timings, which include assumptions, as far as they can be made, in respect of climate change, with related sensitivity analysis and stress-testing scenarios, borrowing facilities available to the Company and the potential application of covenants within loan agreements. The Committee encouraged management to include a reverse stress test within its analysis to support the Viability statement.

Audit, risk and internal control continued

Given the goodwill impairments required in FY21 and FY22 the Committee paid particular attention in FY24 to management's impairment reviews as well as considering the insights from Deloitte following the FY23 audit. The assessment also included sensitivity analyses incorporating potential variability on inflation and climate change. Following its review, the Committee was satisfied that no impairment of goodwill was required in FY24.

The essence of Babcock's business involves long-term contracts frequently involving significant upfront investment and with many extending over multiple years. Consequently, management in preparing the financial statements has to make a number of key judgements and estimates that are specific to each contract.

An important focus for the Audit Committee has been to review and challenge management on these key judgements and estimates, with reference to revenue recognition under IFRS 15, which include:

- **The Company's Type 31 programme**: in FY23, the Company recorded a £100.1 million loss in respect of the programme following significant increases in forecast costs. Since then, the Committee has kept the programme under review, with dedicated reviews before the announcement of the Company's HY24 results and its FY24 results. Over FY24, the Company has undertaken operational improvements in respect of the programme. This included a detailed reassessment of the contract outturn, supported by external consultants. The reassessment reflected a further year of experience of the programme. The Committee recognised that, to determine the contract outturn, the Company would have to make complex assumptions and judgements about the future performance of the programme. Accordingly, the Committee dedicated four meetings to reviewing and challenging the Company's estimates, as well as the sources of those estimations and the processes the Company went through to formulate them. As the Committee conducted its review, it was aware of the complexity involved in the estimations. There were a range of possible future outcomes in respect of each estimate, in addition to which there was the added complexity that all the estimates were inter-related. This complexity could result in a material increase or decrease in the value of the programme's onerous contract provision and contract liabilities, and hence on the Group's profitability. With about £1 billion of estimated cost still to go over the life of the contract, if actual recoveries or costs were to differ from those assumed by 10%, the potential impact on the contract outturn could be about £100 million. As the programme matures, the Committee expects this uncertainty to reduce, although a significant element will remain due to the substantial activity which remains to be done and the length of the programme. In addition to the estimates that the Committee considered, it also reviewed the critical accounting judgements in the determination of the programme's onerous contract provision. In particular, it closely reviewed the judgement relating to the treatment of the benefit of additional work that the Company expects to receive under the programme. The Committee consider the key factors underpinning the judgement, being 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 for recognition and other relevant facts and circumstances, it was concluded that the expected continuation of the programme should not be treated as a benefit expected under the Type 31 contract. Over the year, the Company had devoted significant time and resource in reviewing and improving the Type 31 programme. The Company had brought in a new management team with enhanced capability to restructure the programme as well as supporting the operational improvement programme with external consultants to review and challenge the Company's costs to complete. The Company's actions have resulted in significant improvement plans, which the Committee reviewed. However, having carefully considered the available evidence against the evidential bar required to recognise future benefits, the Committee agreed that the Company should not fully recognise these plans in its FY24 financial statements, even though the Company expects them to be delivered over the course of the programme. At the end of the Committee's review, it was satisfied with the Company's estimates for the Type 31 programme. Following the Committee's review, the Company recorded a further loss of £90 million in respect of the Type 31 programme. The Company announced the loss provision on 17 July 2024. For further information, please see page 184.
- **The Company's Future Maritime Support Programme:** the Committee identified that the programme had risks associated with the transformation savings the programme required the Company to achieve. The Committee noted that, whilst the MOD had approved a significant amount of savings from the first and second years, it had not yet approved a number of the savings from the second and third years. The Committee reviewed the key judgement which related to the inclusion of savings in excess of the extrapolated achieved savings. It considered that the Company had updated its rule set to determine the savings included in the Company's accounting. After its review, the Committee was satisfied with the Company's judgement.

- **Inflation**: the Committee recognised that a key accounting judgement for those contracts which the Company accounts for under an estimate at completion model was the impact of future inflation on the Group's revenue and costs. The Committee noted that the degree of judgement had reduced from FY23 due to the falling trend in inflation. Even so, the Committee reviewed the benchmark guidance given by the Company for use in the calculation of its estimates at completion. In particular it reviewed the accounting for inflation within the Company's Future Maritime Support Programme, which includes an element of firm pricing, as well as the wage increase for FY25. After its reviews, the Committee was satisfied with the Company's estimates.

Following its review, the Committee was of the opinion that the FY24 Annual Report and Accounts was representative of the year and presented a fair, balanced, and understandable overview, providing the necessary information for shareholders to assess the Group's position and performance, business model and strategy and recommended that the Board make its responsibility statements as set out on page 162.

FY25 audit

As described in the Audit Committee Chair's Letter, the Committee decided to review the Company's audit arrangements as it prepared to embark on the next step of its turnaround and to hold a tender for the FY25 audit.

The Committee issued an invitation to tender, which set out the formal process that the Committee would follow. The invitation included the Committee's chosen selection criteria. The Committee had taken care that the selection criteria were transparent and non-discriminatory. The criteria that the Committee chose included quality assurance, resourcing, industry experience, audit approach (including the use of data and analytics tools), approach to key accounting judgements, ability to meet agreed reporting timetables, independence and governance, and fees. As part of the process, the Committee provided information on the Company as well as the opportunity to meet with key members of the Company's Board and management team. Management used the meetings to understand how the tenderer proposed to approach the FY25 audit and, in particular, how it proposed to scope both the Group and the UK subsidiary audits. These meetings gave the Company the opportunity to assess whether the tenderer had an in-depth understanding of the Group, as well as an opportunity to test its commitment to audit timelines and fee proposal. In addition to the meetings, the Committee obtained two formal references for the proposed lead audit partner. The Committee asked all those who met with the tenderers to mark them using the same marking scheme, based on the Committee's selection criteria. It was important to the Committee that, while fees were an element in its assessment, they were not a deciding one. The feedback from the meetings was positive with all criteria averaging between 8 and 9 out of 10 on a scale of 1 to 10 with 10 being the highest.

Management felt that the tenderer had put in considerable effort to understanding the Company's structure and consolidation and that it had designed its approach to allow it to finalise the statutory accounts efficiently without compromising the result announcement timelines. The final stage was a presentation by the tenderer to the Committee.

On the completion of the process, the Committee was satisfied that Forvis Mazars had the capability and capacity to deliver an audit to the required standard and was pleased to recommend to the Board that it appoint Forvis Mazars as the Company's auditors for FY25 and beyond. The Board reviewed the Committee's tender process and confirmed the recommendation.

Since the Board's decision to appoint Forvis Mazars as the Company's auditor for FY25, Forvis Mazars has been shadowing the FY24 audit to get a greater understanding of the Company and the key audit issues. Forvis Mazars will use this understanding as a key part of its planning for its FY25 audit. Its appointment is subject to shareholders' approval at the 2024 AGM, when the Company will propose its appointment. The Committee would like to thank Deloitte for its work since its appointment in 2021 and is looking forward to working with Forvis Mazars in the future.

Code of Business Conduct violations and fraud

The Babcock Code of Business Conduct, which incorporates the Group's whistleblowing policy, contains arrangements for an independent external service provider to receive, in confidence, reports on suspected violations of the Code for reporting to the Board and the Committee as appropriate. Please see page 86 for further details. The Board regularly received reports on matters relating to the Code.