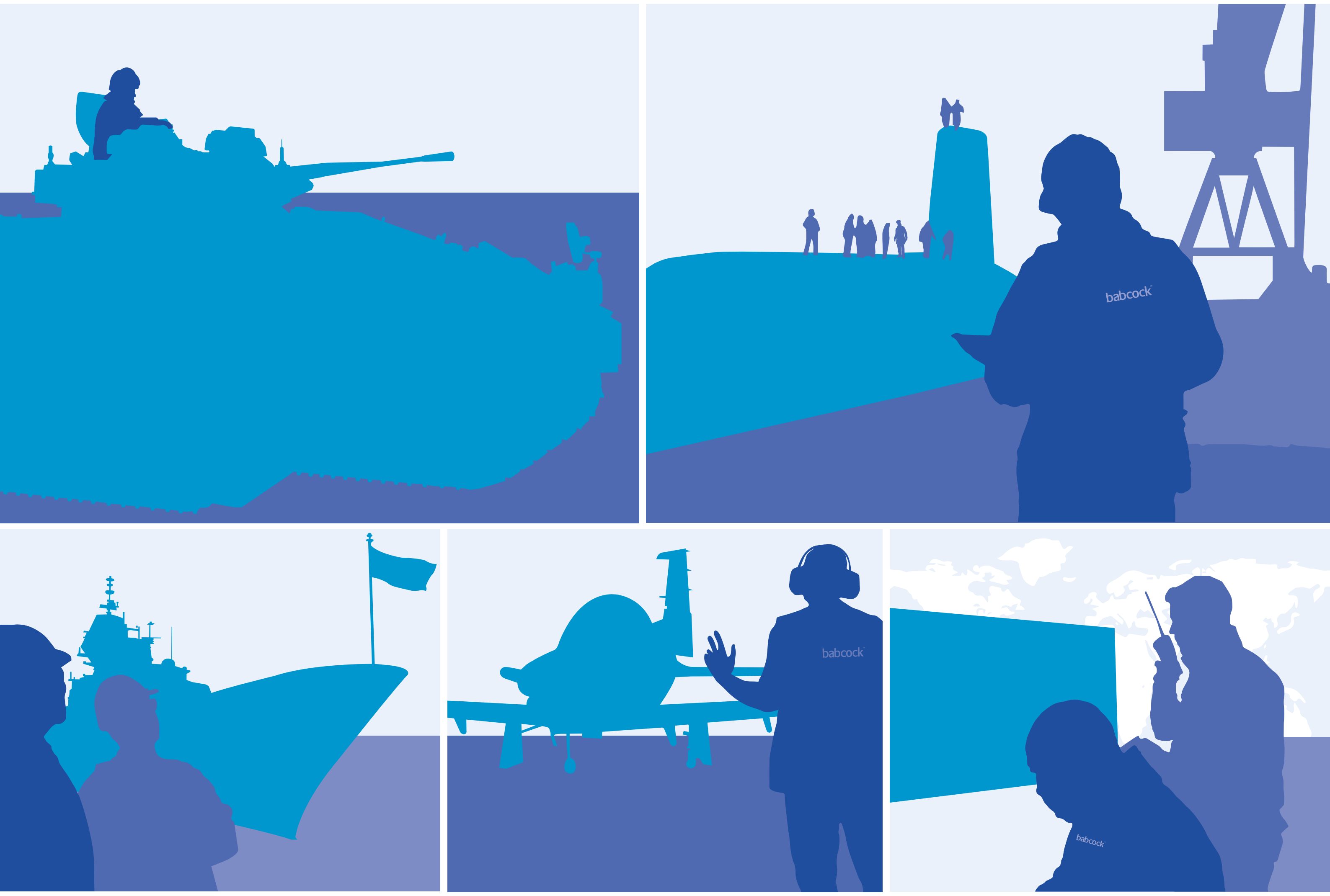
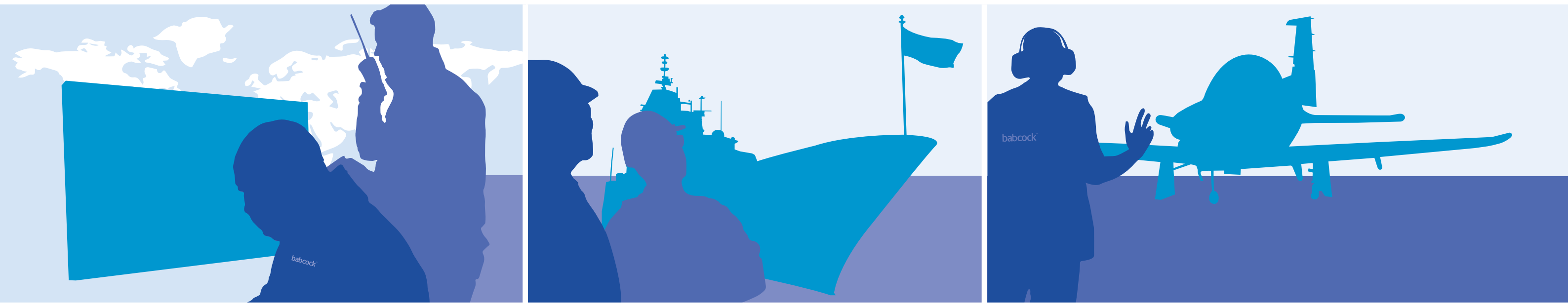
babcock™



What we do matters

Annual Report and Financial Statements 2024

What we do matters



Babcock is an international defence, aerospace and security company

Our mission has never been clearer: in times of geopolitical instability and disruption, we play a crucial role. More than ever, what we do matters

Creating a safe and secure world, together

Protecting lives, maintaining lines of defence, ensuring critical services and assets are readily available, affordable, future proof

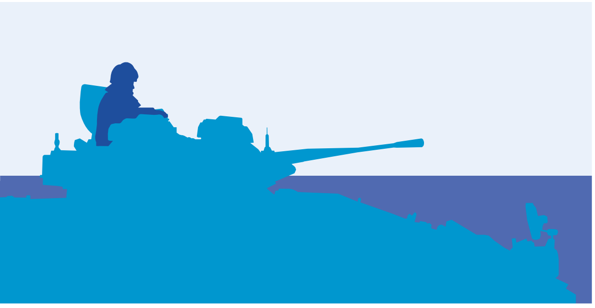
Side by side with the armed forces

Enabling them to fulfil their duty, we make their mission, our mission. From nuclear submarines beneath the waves, to the latest land vehicle technology, to secure communications in space

Contents

Forward-looking statements

Statements in this Annual Report, including those regarding the possible or assumed future or performance of Babcock or its industry, as well as any trend projections or statements about Babcock's or management's beliefs or expectations, may constitute forward-looking statements. By their nature, forward-looking statements involve known and unknown risks and uncertainties as well as other factors, many of which are beyond Babcock's control. These risks, uncertainties and factors may cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements. No assurance is given that any forward-looking statements will prove to be correct. The information and opinions contained in this Annual Report do not purport to be comprehensive, are provided as at the date of the Annual Report and are subject to change without notice. Babcock is not under any obligation to update or keep current any information in the Annual Report, including any forward-looking statements.



Making sure the services we support are equipped for their missions

Delivering the capability they need, where and when they need it. Harnessing the right technology for the greatest impact at the right cost

Delivering without compromise

Always striving for excellence, bringing integrity and ingenuity to meet today's challenges. Unlocking potential in our business, in our communities and in our customers to meet tomorrow's challenges

What we do matters – this film explains how and why

Financial highlights

Revenue

£4,390m

2023: £4,439m

Statutory cash generated from operations

£374m

2023: £349m

Statutory operating profit

£242m

2023: £46m

Underlying free cash flow*

£160m

2023: £75m

Underlying operating profit*

£238m

2023: £178m

Net debt/EBITDA (covenant basis)*

0.8x

2023: 1.5x

* Underlying operating profit, underlying free cash flow and net debt/EBITDA (covenant basis) are defined as Alternative Performance Measures; see page 39 for more detail.

Strategic highlights

- Cooperation agreement with Saab to develop an advanced naval corvette for Sweden; initial design contract award
- Strategic agreement with HII to collaborate on nuclear-powered submarine capabilities to support the AUKUS endeavour
- Babcock General Logistics Vehicle (GLV) launched to target emerging UK and international opportunities
- Type 31 programme restructured following detailed operational review
- Launched Babcock Skills Academy to develop submarine support capabilities in our growing workforce
- Validation of our net zero targets from the Science Based Targets initiative
- Long-term funding agreements reached with two of our three large pension schemes

Adjustments between statutory and underlying

The Group provides APMs, including underlying operating profit, underlying margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, net debt and net debt excluding leases to enable users to have a more consistent view of the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. They are used by management to assess operating performance and as a basis for forecasting and decision-making, as well as the planning and allocation of capital resources. They are also understood to be used by investors in analysing business performance. The Group's APMs are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies, and they are not intended to be a substitute for, or superior to, measures defined under IFRS. The Group's APMs are consistent with the year ended 31 March 2023. The Group has defined and outlined the purpose of its APMs in the Financial Glossary on page 39.

Understanding Babcock

Our Purpose is to create a safe and secure world, together.

Babcock is an international defence, aerospace and security company providing support and product solutions to enhance our customers' defence capabilities and critical assets.

What we do

Deliver support on complex programmes

We provide through-life technical and engineering support for our customers' assets, delivering improvements in performance, availability and programme cost.

We deliver these critical services to defence and civil customers, including engineering support to naval, land, air and nuclear operations, frontline support, specialist training and asset management.

Product design, manufacture and integration

We design and manufacture a range of defence and specialist equipment from naval ships and weapons handling systems to liquid gas handling systems. We also provide integrated, technology-enabled solutions to our defence customers in areas such as secure communications, electronic warfare and air defence.

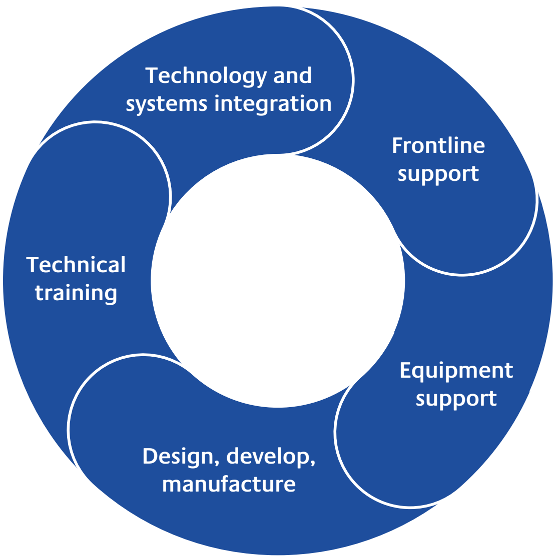
£4.4bn
FY24 revenue

74%
Defence

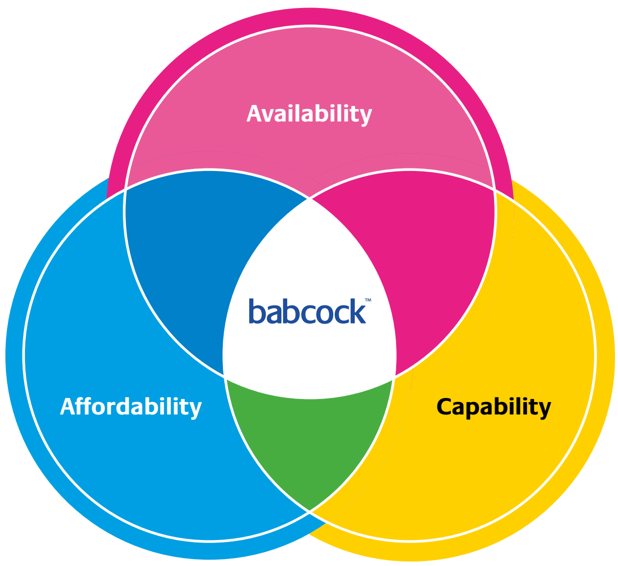
>26,000
Employees

£10.3bn
Contract backlog

Our capabilities

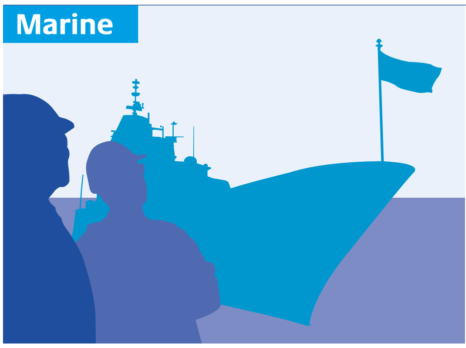


Our customer requirements



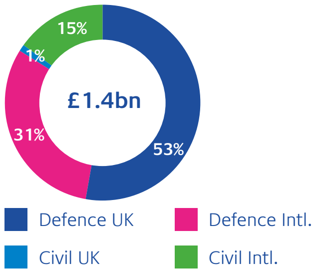
FY24 global revenue profile

Marine



Our c.7,200-strong workforce delivers:
- Design and build of warships
- Warship through-life support
- Submarine and equipment through-life support
- Weapons handling and launch systems for ships and submarines
- Design, build and support of secure military communications systems
- World-leading commercial liquid gas equipment systems

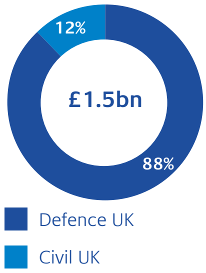
FY24 revenue profile



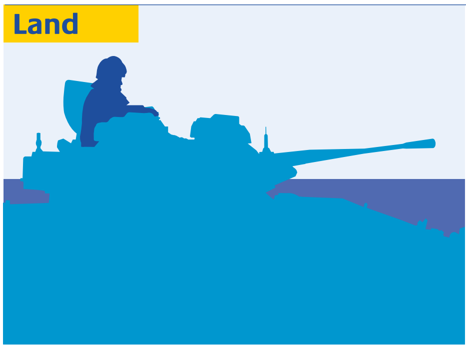
Nuclear

Our c.8,600-strong workforce delivers:
- Complex engineering support to the entire UK nuclear submarine fleet, and to international navies
- Management of critical national infrastructure
- End-to-end engineering integration partnership for AWE deterrent production
- UK civil nuclear new build, generation support and decommissioning projects
- Growing international nuclear services portfolio

FY24 revenue profile

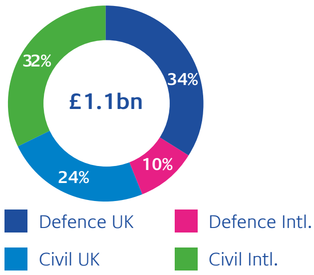


Land

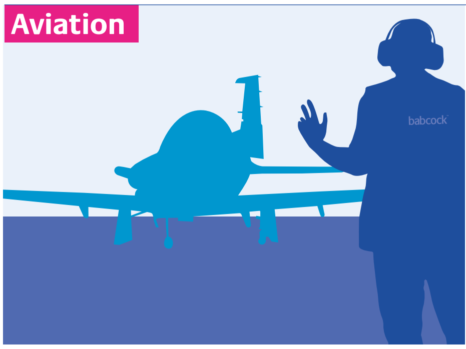


Our c.6,400-strong workforce delivers:
- Military vehicle build and systems integration
- Strategic asset management and through-life engineering support for military equipment
- Engineering services in power generation and transport networks, and through-life support of mining equipment
- Modern individual and collective training for customers with critical missions

FY24 revenue profile

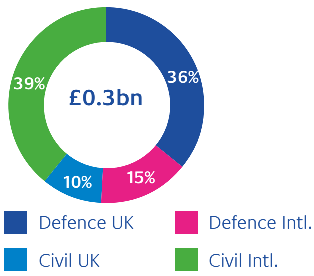


Aviation



Our c.2,500-strong workforce delivers:
- Military training for the two largest Air Forces in Europe (France and UK), training pilots and operators from university through to combat operations
- Through-life support of operational military flying assets
- Critical air operations for governments, saving lives and protecting communities

FY24 revenue profile



Strategy and business model
See pages 14 and 16

Investment case
See page 4

Market review
See page 20

ESG strategy
See page 62

Strong embedded position underpins sustainable growth

Strongly positioned

See page 9

Differentiated proposition

- Focused portfolio in growth markets: 74% defence
- Critical supplier to governments
- Own critical assets
- Highly differentiated proposition combining:
  - Engineering know-how
  - Product development capability
  - Customer intimacy
  - Operational asset knowledge
- Strong focus on ESG

Complex programme delivery:

- High barriers to entry
- End-to-end through-life support
- Proven track record
- Strong visibility
- Capability transfer

Sustainable growth

See page 10

Supportive market dynamics

- Defence budget growth in core markets
- Customers' need for military capability:
  - Equipment modernisation
  - Increased value for money
  - Demand for asset availability
- Energy transition driving nuclear

Clear growth strategy

- Underpinned by £10.3 billion contract backlog and incumbent positions
- Growing opportunity set across all sectors, addressed by:
  - Leveraging our technical capabilities to create incremental and adjacent opportunities
  - Developing our people and capabilities
  - New strategic partnerships and collaborations

Improving margins and cash flow

See page 11

Margin improvement

- Improved contract terms and discipline
- Focus on operational improvement
- Improved programme delivery
- Growth of quality business
- Unwind of legacy contracts

Cash flow improvement and balance sheet

- Programme execution
- Enhanced controls
- Improved bidding governance
- Focus on cash efficiency
- Strong balance sheet: investment-grade credit rating
- Clear capital allocation framework to maximise value for our stakeholders

Creating shareholder value

Strong focus on our medium-term targets

Average annual organic revenue growth	Underlying operating margin	Underlying operating cash conversion
Mid-single digit	≥8%	≥80%

Underpinned by our capital allocation framework

Priority

1. Organic investment
Sustain investment to support business operations and enhance growth potential

2. Financial strength
Maintain strong balance sheet and investment-grade rating

3. Ordinary dividend
Pay an ordinary dividend

Further capital options

Pensions
Accelerate de-risking

M&A
Bolt-on opportunities

Shareholder returns
Further returns of surplus capital to our shareholders

Strong embedded position and sustainable growth + Clear financial targets + Disciplined capital allocation = Confidence in driving value

Chair's statement

This year has seen a shift to an increased focus on defence in public discourse around the world. The sober nature of these conversations reflects the undiminished tensions from the war in Ukraine and adversarial postures in the Indo-Pacific, augmented by the substantial increase in tension in the Middle East following the attack on Israel and subsequent devastating conflict in Gaza.

In response to this uncertain future and recognising its implications, we have seen a proposed increase in defence budgets in all our key countries. However, the expected growth in spend is not yet matched by military demand.

"Our systematic approach, which combines our technical capability, commercial processes and contract governance, will continue to drive improved contract discipline and quality of earnings."

Ruth Cairnie
Chair

While the threats are already present and responding is urgent, development programmes for new ships, submarines and land vehicles typically take a long time. The Group's ability to deliver an increase in the availability and capability of existing resources is therefore ever more relevant, alongside our involvement in product development programmes. These market dynamics led to a 9% increase in our contract backlog in FY24 to £10.3 billion.

Improving delivery

Against this backdrop, I'm pleased to report another year of substantial strategic progress for the Group.

Our transformation is continuing to deliver improved performance both operationally and financially. FY24 saw continued growth in organic revenue and underlying profit. Our cash performance was ahead of the Board's expectations and we ended the year with a stronger balance sheet, despite the increase in the overall estimated programme costs of our legacy Type 31 contract.

We made further progress on improving operational controls, supported by the development of a dedicated Group Risk function, and a framework that enables us to consider risk at all levels across the Group. The Board will maintain its focus on risk as we work through the delivery of legacy contracts. Our systematic approach, which combines our technical capability, commercial processes and contract governance, will continue to drive improved contract discipline and quality of earnings.

Sustainable growth

We have a clear strategy to capture sustainable growth across the sectors; our key drivers for growth are leveraging our technical capability, developing our people and building strategic partnerships. We were delighted to present our strategy to investors at our Capital Markets Day in February 2024.

One of the encouraging signs of progress this year was the partnerships we forged with major international companies. In July 2023 we entered a global agreement with HII to collaborate on nuclear opportunities in the civil and defence market.

In September 2023 we signed a Strategic Cooperation Agreement with Saab to leverage our collective strengths to offer a broad range of products, services and solutions. Saab subsequently awarded Babcock an initial contract to support the design for the development of the Swedish Navy's new Corvette. And in November we signed a Memorandum of Understanding with South Korea's Hanwha Aerospace to offer enhanced capabilities across land, air and sea defence domains, with an initial focus on conventional submarines.

These partnerships not only enhance our ability to offer customers compelling solutions, they provide a high-value, low-risk and fast route to effective market entry and are a keystone of our approach to building out our international portfolio.

Developing our workforce

Success in capturing and delivering the opportunities that lie before us will depend on us developing the necessary skills; the challenge here covers both the size and shape of our future workforce. Therefore, the recruitment, retention and development of our people is a key element of our strategy and we are taking active steps to prepare for future needs.

In August 2023 we launched the Babcock Skills Academy, designed to address the current and future demand for nuclear skills. It will focus initially on developing the expertise needed to manage complex submarine maintenance. In FY24 we also introduced an accelerated training programme for high-demand roles, and we are supporting current employees to gain additional skills, developing our leaders of the future.

In addition to increasing our well-established graduate and apprentice programmes, we have been deploying some innovative routes to employment. I was delighted to meet some of our Production Support Operatives (PSOs) when I visited Rosyth, who have joined Babcock through a new initiative focused on attracting people from a range of backgrounds and experience, including those not currently in education, employment or training. Developed in partnership with trade union and local community partners, our PSOs both support and learn from experienced colleagues. We also launched a pilot pre-apprenticeship programme, which we intend to roll-out to Devonport in FY25.

Babcock is a people business, which is why our ongoing cultural change programme is critical to our success. On each of my visits to our operational sites through the year, I have spent time with people in different roles across the organisation, listening to their views on our strategy, transformation and leadership. From this, I have been delighted to see first-hand some real signs of tangible changes in our culture, for example understanding of how individual team roles link to our broader objectives; recognising the Company's enduring commitment to safety and what it means; and appreciation of increased engagement and communication.

Outlook

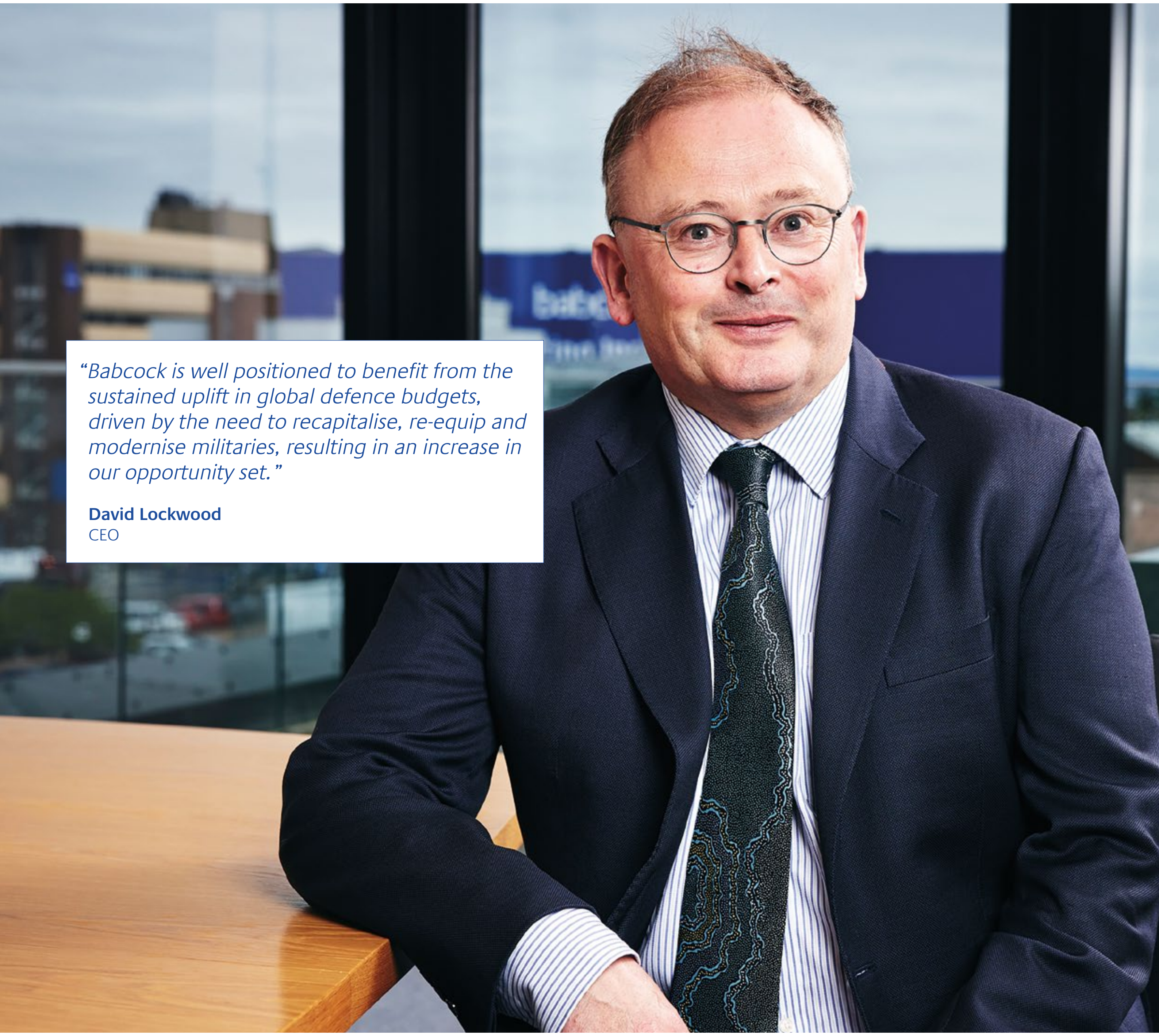
With a strong balance sheet, improving operational performance and an increasing opportunity set before us, the Company is well set to deliver its objective of sustainable growth. The Board is confident of making further progress against our medium-term ambitions in FY25.

Ruth Cairnie
Chair

CEO review

Introduction

FY24 was another year of improving delivery and increasing momentum for Babcock, with growth in underlying profit and cash flow performance ahead of our expectations. Revenue grew organically[1] by 11% to £4.4 billion and underlying operating profit[1] improved 34% to £238 million, which generated underlying operating cash flow[1] of £323 million, an underlying operating cash conversion[1] of 136%. On a statutory basis, we delivered operating profit of £242 million and cash generated from operations of £374 million. We ended the year strongly positioned for future success, and remain confident of delivering sustainable growth and improving margins in the medium term and beyond.



"Babcock is well positioned to benefit from the sustained uplift in global defence budgets, driven by the need to recapitalise, re-equip and modernise militaries, resulting in an increase in our opportunity set."

David Lockwood
CEO

Our contract backlog[1] increased by 9% to £10.3 billion, reflecting demand for our specialist capabilities in our core defence and security markets and demonstrating our potential for continued growth. In addition, we made good strategic progress, entering into a number of important partnerships and cooperation agreements, including with Saab in Sweden and Huntington Ingalls Industries (HII) in the US, where we will leverage our complementary technical capabilities to address opportunities emerging in both existing and new markets.

Our balance sheet continues to strengthen. Since we began our transformation during FY21, net debt[1] is down £1.2 billion to £435 million at the end of FY24, and our aggregate pension deficit has reduced by more than £500 million to c.£200 million on a technical provision basis.

Reflecting this strengthened financial base and improved outlook, in December 2023, S&P Global upgraded our credit rating for the second time in 15 months to BBB+ (stable). In November 2023, following a four-year hiatus, the Board reinstated the dividend, and has recommended a final dividend of 3.3 pence per share, taking the total dividend for FY24 to 5.0 pence per share (FY23: nil), in line with our capital allocation priorities set out in FY23 to deliver shareholder value.

Our global people strategy continues to place our c.26,000 workforce at the heart of our business, fostering inclusion and diversity and providing the critical skills training, development, recruitment and retention that will enable us to deliver our growth aspirations.

Strong underlying FY24 results

Revenue of £4,390 million was in line with FY23, with strong organic revenue growth[1] of 11%. The growth was delivered across Nuclear (+29%) and Land (+17%), which offset an expected revenue decline in Aviation (-17%).

The 34% increase in underlying operating profit[1] to £238 million (FY23: £178 million) reflects strong performance across the Group, in particular Nuclear, Aviation and Land, and a £17 million one-off profit on a property disposal. Also within underlying operating profit[1] is a £90 million loss on the Type 31 contract (FY23: £100 million loss), as set out in our trading update 17 July 2024. As a result, underlying operating margin improved 140 basis points to 5.4%.

Excluding the Type 31 impact and material one-off credits, underlying operating profit[1] increased 17% to £311 million, generating a margin of 7.0% (as described on page 38). The FY23 baseline underlying operating profit and underlying operating margin for our medium-term guidance was £265 million and 6.6% respectively (see page 38).

Margin expansion remains a key focus. At a sector level, Nuclear delivered a 180 basis points improvement in underlying operating margin[1] to 7.2%. Land also performed well, delivering an underlying operating margin of 8.8% including the one-off profit on property disposal. Aviation profitability improved significantly, with a 360 basis points improvement to 5.6% driven by pricing, contract timing and prior year disposals. Marine underlying operating margin of 0.9% was impacted by the Type 31 loss, which more than offset the positive impact of licence income on the Polish frigate programme.

Due to our strong underlying operating cash performance, we made additional pension deficit repair payments of £35 million as part of a long-term funding agreement in one of our three major pension schemes. As a result, this scheme has reached self-sufficiency and is not expected to require further deficit repair contributions and we are in the process of closure to future accruals. We also reached an agreement with the Trustees on another of our major pension schemes regarding a long-term funding plan and closure of the scheme to future accrual, providing clarity to both the scheme and the Company. As a result of these actions, we now expect the total Group pension deficit repair payments to reduce to around £40 million per annum (previously £65 million per annum).

Our aggregate pension deficit position on a technical provision basis reduced to c.£200 million (FY23: c.£400 million). We also reduced our net debt excluding leases[1] to £211 million. As a result of this and improved profitability, net debt to EBITDA (covenant basis) reduced to 0.8x (FY23: 1.5x).

Babcock is strongly positioned with a wide opportunity set. As a result, we are confident that we can deliver sustainable growth and improved margins and cash flow over the medium term and beyond.

Type 31 programme

Signed in 2019, the Type 31 contract for five ships is the last material legacy onerous contract the Group is managing. We have continued to make good operational progress on the programme through the year, with the superstructure of the first ship almost complete and work is also progressing on the second ship. During the year we settled the Dispute Resolution Process with the customer, which has enabled the restructuring of the programme to drive efficiency.

However, overall estimated programme costs have increased due to the maturing of the design and an increase in the forecast cost of labour in Rosyth, which is expected to be higher than CPI, the indexation within the Type 31 contract. These cost increases have caused the total contract outturn to deteriorate by £90 million over the life of the programme.

During the year, we initiated an operational improvement programme to challenge all aspects of the contract, facilitated by the fact that the design is now more mature. Although this has increased the volume of work, the design maturity has allowed us to target improvements in productivity and ongoing support costs as well as benefitting prospective export sales of our Arrowhead 140 design. As a result, we expect to deliver additional programme benefits over the course of the programme from improvements in productivity and further work relating to the continuation of the Type 31 contract. We considered the available evidence in respect of these benefits against the evidential bar required to recognise them and decided not to take them fully into account in the loss, although we do expect the benefits to be delivered over the course of the programme.

Strongly positioned

With 74% of Group revenue and 78% total contract backlog[1] in the Defence sector, our portfolio is increasingly focused and well-placed to address rising global security requirements. Rising geopolitical tensions are driving the recent growth in defence budgets. However, the growth in defence budgets is still not matched by the growth in military demand, making Babcock's ability to affordably add increased value, essential. Additionally, the threats that governments face are here today, while typically new product development programmes take years to deliver. Increasing availability and capability with existing assets have become ever more important.

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

Sustainable growth

Current market dynamics, in particular the growth in defence budgets driven by the need to recapitalise, re-equip and modernise militaries, have resulted in an increase in our opportunity set. This translated to a 9% increase in our contract backlog[1] in FY24 to £10.3 billion. This was driven by further major contract awards and renewals, for example in Nuclear, both major infrastructure and programme contracts related to the UK's nuclear submarine enterprise, and in Marine, extension of the Canadian submarine support contract. Our contract backlog gives us significant visibility and a deep understanding of customer requirements.

We have a clear strategy to deliver sustainable growth across the Group by leveraging our technical capability, developing our people and building strategic partnerships.

UK growth

IIn UK defence, our largest market, accounting for around 60% of Group revenue, we continue to optimise our position as the second largest supplier to the UK MOD, strengthening our relationships and targeting selective new programmes.

Optimise our position

The major recapitalisation of our Devonport facility, which plays a critical role in delivering the UK's nuclear submarine support capability, continues at pace, in preparation for the next 50+ years of nuclear submarine support. In November 2023, we were awarded a c.£750 million infrastructure contract to upgrade a key dry dock in readiness for the deep maintenance programme for the Royal Navy's Astute Class submarines, scheduled to commence in the coming years. This, together with more Astute Class submarines entering the fleet and further infrastructure programme contract awards, including ongoing refurbishment of the dry dock for deep maintenance of Vanguard Class nuclear deterrent submarines and the future Dreadnought Class deterrent submarine, will underpin revenue growth in our defence nuclear activities over the medium and long-term. Discussions are also ongoing to establish a formal long-term partnership to help improve submarine availability against a backdrop of increasing operational requirements.

We continue to develop our position as a leading provider in secure communications to the military, having successfully begun the management and operation of Skynet, the UK MOD's military communication system, following a 12-month mobilisation process. This vital work is being delivered with our partners SES, Intelsat and GovSat, global leaders in the commercial and military satellite industry. We believe that the successful implementation of this operationally critical service will create opportunities for further growth.

Selective new programmes

We are also selectively targeting new programmes in the UK, many of which will also position Babcock for emerging international opportunities.

We continue to develop our Land portfolio of product-based offerings which reflect our deep understanding of customer requirements. Babcock's General Logistics Vehicle (GLV), built around the proven Toyota Land Cruiser 70 series platform, was launched in September 2023 with an initial focus on the upcoming UK MOD tender to replace the current British Army Land Rover fleet.

The GLV meets the requirements of military and security forces across the world and we are pursuing a number of export opportunities. In June 2024 we launched a medium wheelbase variant and a six-wheel drive variant will follow in FY25.

We have also signed a collaboration agreement with Singapore Technology Engineering for the manufacture of its 120mm mortar system in the UK and we are tracking a number of opportunities to supply and integrate this capability.

In Devonport, we commenced initial production of the Jackal 3 High Mobility Transporter vehicle at our newly created facility within the Plymouth Freeport. The contract, to deliver 70 vehicles for the British Army, is one of the first to deliver on the UK's Land Industrial Strategy. Production is ramping up and we see opportunity to provide further vehicles to the UK, whilst also pursuing international opportunities in collaboration with Supacat.

Our bid to become the Strategic Training Partner for the Army Collective Training Service (ACTS), together with our partners in Team Crucible, has progressed to the Invitation to Tender stage. We are offering a digitally enabled and data driven solution, building out the technological and commercial infrastructure needed to support an ever-evolving collective training system that can adapt as fast as the operating environment evolves.

In naval nuclear, AUKUS represents a significant opportunity, both in the UK and internationally. In October 2023 we signed a five-year contract with the UK MOD to provide input in the detailed design for the new Ship Submersible Nuclear AUKUS (SSN-A) submarine, which will replace the Astute Class and is planned to be the design on which the Australian Navy builds its future fleet. Ensuring that future support is properly considered at the design stage is expected to result in increased availability throughout the life of the submarine.

International growth

We see significant opportunity to grow international revenues through expansion in our focus countries, increased direct exports and the establishment of strategic industrial partnerships.

Expansion in focus countries:

In France we continue to support military fighter pilot training. As a result of the success of that programme, the French Air Force has decided to outsource further training support opportunities for the first time. We are currently bidding for an initial training stage outsourcing opportunity, MENTOR2, and are undergoing pre-qualification on the future transport pilot training opportunity.

We are also looking at opportunities to expand our operations in mainland Europe and are actively bidding an opportunity to support fighter pilot training for the Belgian Air Force from Babcock France. The French and Belgian Air Forces have a long history of working closely together, so our track record in France represents a compelling reference case.

In Canada, we have signed a Technical Cooperation Agreement with Hanwha Ocean and HD Hyundai Heavy Industries to collaborate on the Canadian Patrol Submarine Project, which will research procurement options for its next generation submarines.

Direct exports

We celebrated a number of major milestones in the MIECZNIK frigate programme in Poland, including the keel-laying of the first ship in the programme. Following the Strategic Cooperation Agreement signed in 2022, we were pleased to finalise the design licence agreement which allows the PGZ-MIECZNIK consortium to build three frigates for the Polish Navy. We also entered into a framework agreement that will further strengthen our partnership.

We continue to support Ukraine. In July 2023, we were awarded a contract by the UK MOD to support urgent operational requirements for Ukraine's military assets.

The contract sees Babcock provide operational support to armoured vehicles provided by the UK to the Ukrainian military, such as Challenger 2 tanks and the Combat Vehicle Reconnaissance (Tracked) – known as CVRT, train Ukrainian personnel and manage vital equipment, supply chains and spares. In May 2024, we announced work was underway on an in-country facility to deliver engineering support, including the repair and overhaul of military vehicles. In partnership with UDI, Ukraine's state-owned defence industry, Babcock will ensure that critical military assets are available when and where they are needed most, enhancing the country's defence capability.

Strategic partnerships

Our ability to form partnerships with leading industry players is a key part of our growth strategy. Working with a strong local partner represents the highest-value, lowest-risk and fastest route to effective market entry.

We formed a number of significant strategic partnerships in FY24. In July 2023, we entered into a global strategic agreement with HII, America's largest shipbuilder, to collaborate on naval and civil nuclear decommissioning and construction opportunities in the UK and US, as well as for AUKUS. The companies agreed to apply their complementary capabilities, including in build and support, to existing nuclear decommissioning contracts for US ships and UK submarines, and to look at opportunities to work together to upskill and enhance both organisations' capability for the benefit of the UK, US and future Australian programmes. The memorandum of understanding (MoU) also identified opportunities for cooperation in civil nuclear, including power plant and component design, fabrication and construction in North America and the UK. The launch of the H&B Defence Joint Venture in Australia in June 2024 is the first tangible outcome from that collaboration and offers Australia a one-stop-shop for support of their emerging nuclear submarine operational and support requirements.

In addition, Babcock, HII and Bechtel signed an MoU to collaborate in Australia to support the AUKUS nuclear submarine enterprise. Our complementary capabilities represent an opportunity to play a key role in development of the specialist infrastructure needed for the planned fleet of up to eight Virginia Class and SSN-AUKUS nuclear-powered submarines.

In September 2023, we signed a Strategic Cooperation Agreement with Saab to enable the delivery of enhanced capabilities to customers by leveraging our collective strengths to offer a broad range of products, services and integrated solutions.

Subsequently, in May 2024 Babcock was selected by Saab to support the development of the Swedish Navy's new Luleå-class Surface Combatant. Babcock will initially provide engineering support, including structural design and auxiliary systems, supporting Saab to complete the basic design phase. The two companies will also work together to identify potential export markets for the Luleå design.

In November, we signed an MoU with South Korea's Hanwha Aerospace to offer enhanced capabilities across land, air and sea domains. Under the agreement we will work together to pursue global opportunities, with an initial focus on conventional submarines.

Improving margins and cash flow

We are making good progress towards delivering our medium-term guidance set out in FY23 of average annual revenue growth in the mid-single digits, an underlying operating margin[1] of at least 8% and underlying operating cash conversion[1] of at least 80%.

We will achieve this through further progress in execution and delivery, improved systems and overhead rationalisation, supported by the improvements we have made to internal governance.

Our systematic approach to programme risk management through the coordination of our technical capability, commercial processes and contract governance is driving contract discipline and an improving mix of higher-margin new business.

Our focus on improving programme execution and efficiency is evidenced in the 10-year DSG contract to support the British Army land vehicles fleet. Following a major overhaul of operations in recent years, delivery has significantly improved, resulting in a de-risking of the final two years of delivery of the base contract which will complete in FY25.

As a result, profitability improved sufficiently in FY24 to elevate the contract out of the category of legacy low to zero margin programmes. Following notification by our UK MOD customer of its intention to exercise up to five option years for DSG from FY26, we have commenced a period of negotiation and transition as we move towards contract signature. The revised model will result in better outcomes for all stakeholders throughout the rest of the decade.

In FY24, we returned HMS Vanguard to the Royal Navy after the most complex nuclear submarine deep maintenance programme (DMP) and life-extension (LIFEX) ever undertaken in the UK, representing a significant de-risking of our nuclear business. DMP and LIFEX of the second of the class, HMS Victorious, is underway following an agreed full cost recovery contract in March 2024 worth an estimated £560 million, with the Submarine Delivery Agency (SDA). The new commercial framework for the delivery of this programme represents a truly collaborative effort with the SDA to support an essential part of the UK's defences.

Our focus on operational cash efficiency has delivered overperformance in cash generation over the last two years, with average underlying operating cash conversion of over 100%, despite ongoing investment catch up in systems and assets. There remains some risk of reversal of the contract timing factors such as early customer receipts that drove strong cash outperformance in FY24 and FY23, leading to an expected second half cash flow weighting in FY25.

Trading in the first quarter of FY25

Trading in the first quarter ended 30 June 2024 was in line with expectations.

Outlook

Our expectations for FY25 remain unchanged. With c.70% of FY25 expected revenue under contract at 1 April 2024, we enter the year strongly positioned with good momentum and are confident of making further progress against our medium-term guidance: to deliver mid-single digit average annual revenue growth and achieve underlying operating margins of at least 8% and underlying operating cash conversion of at least 80%.

David Lockwood OBE
Chief Executive

1. A defined Alternative Performance Measure (APM) as set out in the Financial Glossary on pages 39 to 43

Skills – capable today, ready for tomorrow

Babcock is a people business. We have a lot of opportunities ahead of us and are ensuring we have the workforce we need, both now and in the future. That means delivering the growth, skills and capability enhancements that will support our customers' critical programmes for years to come.

The right people, with the right skills, in the right place.

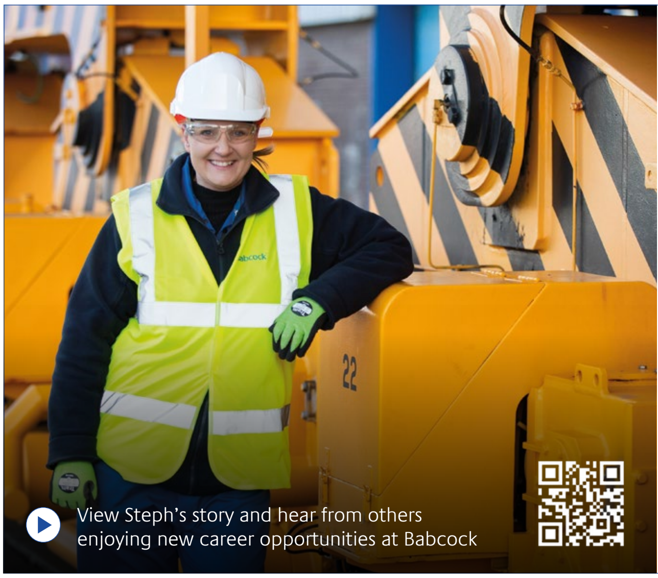
New approaches to identify people and talent

A career with Babcock can start from anywhere
We have introduced new approaches outside traditional routes, opening up opportunities to a broader range of people, as well as supporting existing employees to gain additional skills and retrain into new roles and careers:

- attracting people from a range of backgrounds and experience, including those not currently in education, employment or training
- assessing people first on characteristics such as attitude and teamwork rather than qualifications, broadening our talent pool.

New initiatives introduced:

- skills-based work academy programme developed, in conjunction with the Department of Work and Pensions and Plymouth City Council, to help people transition back to the workforce, supporting the new Jackal vehicles for the British Army
- employability pilot with Argyle Community Trust and KAEFER, offering valuable insights into various roles at Babcock including electrical engineering, insulating and labouring, supporting people in the local community who may be facing challenges getting back into work.



View Steph's story and hear from others enjoying new career opportunities at Babcock

In focus: Production Support Operative
350 new Production Support Operative (PSO) jobs are being created at Rosyth. This new programme, developed in partnership with trade unions and local community partners, offers people a different route to employment.

"I was a cleaner in the company for seven years. When I found out I had secured a place on the PSO programme I was over the moon. This was really the start of a career for me.

"The best part about the programme is that I have a clear purpose and understanding of how I am making an impact to the company, our customers and the defence industry."

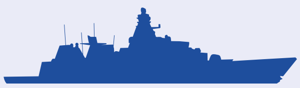
Steph
Production Support Operative, Rosyth

Creating futures

We are continuing to grow our early careers programmes, with over 1,600 apprentices and graduates currently working across the Group. New initiatives introduced:

- roll-out of pre-apprenticeship programmes in Clyde, Rosyth and Devonport, designed for those who need some support and training to meet engineering apprenticeship entry requirements
- launch of our Group-wide Project Management graduate programme, allowing graduates to rotate across different sectors within the Group, giving them valuable exposure and skill development across the sectors in which we work.

600+
new early careers employees in year



1,000
new jobs to be created at Rosyth over four years

See our Early Careers website for more information

Leveraging our technical skills

The complex and critical nature of our work means we can provide unique career opportunities and skilled technical training, which contribute to creating a safe and secure world, together.

Programmes being delivered include:

- operation and upgrade of the Defence High Frequency Communications System, providing operation, management and maintenance upgrades to support our servicemen and women on critical operations in Australia and overseas. The new system is providing an enhanced communications capability with reliability and operational resilience not seen before within this technology domain
- enhancing and maximising the skills and talent within our engineering community through a consistent global engineering framework. This will ensure the complex and critical work for which we are renowned is delivered, in a collaborative way, by the best people, wherever they happen to be in the world.

In focus: Babcock Skills Academy

Launched in August 2023, our Skills Academy is focused on addressing the current and future nuclear skills demand for our programmes, as well as the wider civil and defence nuclear enterprise.

2,000+
people expected to flow through in its first three years, and 10,000+ over the next five years

Developing complex skills for deep submarine maintenance through the Babcock Skills Academy

In focus: Train to Fit

'Train to Fit' accelerated training programmes for high-demand roles for motivated candidates.

"My background is in the healthcare sector, but when the opportunity arose to be part of the Babcock team, a well-established organisation which improves lives, I couldn't resist. The 'Train to Fit' accelerated training programme was intense but invaluable. I learned so much that I have been able to take forward into my new role."

Cheri
Scheduler, Devonport

Building strategic partnerships through collaboration

Collaborate to accelerate

We work with a variety of organisations to deliver impactful results which leverage our scale and minimise duplication, while providing our customers and communities with what they need.

Key strategic partnerships include:

- a new partnership between the University of Adelaide and our Australasian business to collaborate on talent attraction and development, designed to support national security and realise the potential presented by AUKUS
- continuation of our active support for Women in Defence and Women in Nuclear to improve the representation of women including in leadership roles
- partnering with a range of other universities including Strathclyde University and Cranfield University to support and develop leaders of the future
- working with EngineeringUK, focusing on early careers.

In focus: Nuclear Skills Taskforce

Operating across both defence and civil nuclear, we are leading the way to retain and grow the critical mass of nuclear skills we need today and tomorrow.

We are a key industrial partner on the Nuclear Skills Taskforce, which has developed the 10-year National Nuclear Strategic Plan for Skills to secure the specialist skills needed to deliver the national nuclear enterprise, including:

- full-time executive support to this Government-led task force
- leading the development of a South West regional hub collaboration
- actively supporting Destination Nuclear, the UK's first-ever national nuclear communications and recruitment campaign.

Creating a safe and secure world, together

Our Purpose

To create a safe and secure world, together

Our strategy

In growth areas of defence, aerospace and security

Leverage our technical capability

- Grow our UK business through optimising our existing position and entering selective new programmes
- Grow our international business through expanding activity in our focus countries, direct exports and strategic partnerships

Develop our people and capabilities

- Build our engineering capability, enhancing the mobility of our engineers
- Progress our early careers and back to work programmes
- Develop engineering and nuclear skills through the Babcock Skills Academy as well as via national and industry initiatives

Build strategic partnerships

- Work with our customers to deliver critical solutions
- Develop innovative solutions to solve complex customer challenges
- Work with industry partners to enter new markets and programmes

Be a responsible corporate citizen

- Progress our five ESG priorities and apply our framework for integrating sustainability into growth
- Promote the vital role of defence and national security aligned with ESG

Our four sectors

Our capabilities span four key markets, with 74% of our business in defence

Marine
See page 44

Nuclear
See page 48

Land
See page 52

Aviation
See page 56

Our strategy aims to deliver

Over the medium and long term, we are focused on delivering value for all our stakeholders

Improved outcomes for our customers

A better place to work

Returns for our shareholders

Our growth strategy

UK

- Optimise position
- Selective new programmes

International

- Expansion in focus countries
- Direct exports
- Strategic partnerships

Our growth strategy in action

We have a sustainable growth strategy. In the UK, where we have a strong position, we are optimising our existing positions and bidding selectively for new programmes.

Internationally, we are expanding our footprint in, and from, our focus countries. We are also developing our exports from the UK, particularly in our Marine sector. And finally, we are forming alliances with strong partners who see value in working with us and who understand the markets we're entering.

Optimise position:
Case study – DSG extension
The MOD has notified us of its intention to exercise up to five option years on our current contract to deliver equipment and support to over 30,000 British Army vehicles. The transition activity will result in better outcomes for all stakeholders.

Selective new programmes:
Case study – MRSS
The MOD has begun the first, or concept, phase of a programme to develop Multi Role Support Ships (MRSS), extremely versatile warships which will replace the Royal Navy's current amphibious flagships and support vessels.

Expansion in focus countries:
Case study – Belgium military air
Babcock France is bidding on a contract to support the training of Belgium's military fighter pilots. We already support training for French military pilots and the two air forces have historically worked closely together.

Direct exports:
Case study – Polish frigate programme
The Transfer of Knowledge and Technology (TOKAT) framework agreement between Babcock and Poland's PGZ-Miecznik consortium is providing opportunities for us to forge closer ties with our Polish partners.

Strategic partnership:
Case study – HII
In 2023 we entered into a strategic agreement with Huntington Ingalls Industries (HII) to collaborate on naval and civil nuclear decommissioning and construction opportunities in both the UK and US.

Driving sustainable growth

We provide a range of products and service solutions to enhance our customers' defence capabilities and critical assets. Our business model is underpinned by a deep understanding of technology integration and engineering, infrastructure management and specialist training. We help our customers around the world to cost effectively improve the capability, reliability and availability of their most critical assets.

Our key strengths and resources

Our people
We rely on our people, and their experience and skills, to deliver for our customers and solve challenges every day. We aim to better support and empower our workforce of over 26,000.

Customer relationships
We are a trusted partner, critical to our customers' ability to solve complex problems. Through long-term programmes and contracts, we work collaboratively with our customers to understand their needs and identify solutions that add value.

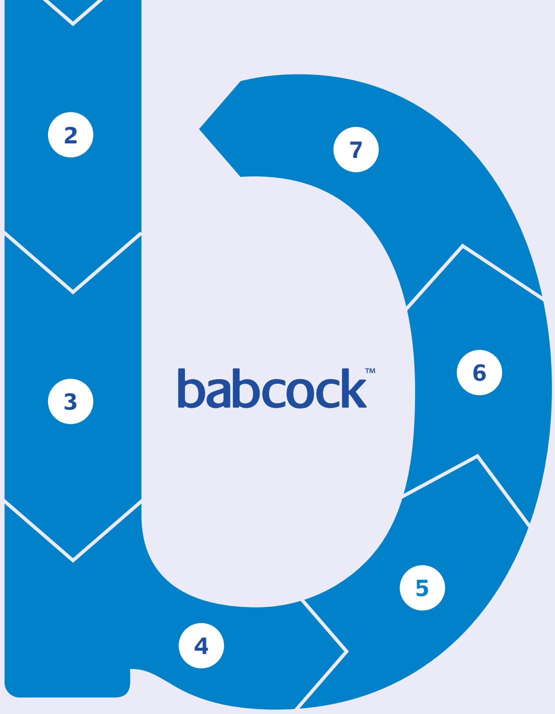
Our assets
We own critical national infrastructure across the UK, including the Rosyth and Devonport Royal dockyards. We also operate a range of customer-owned critical assets such as naval and air force bases, complex engineering facilities and aircraft for the delivery of emergency services and military training.

Our technology and know-how
We use our technology and our highly specialised engineering know-how to solve customer challenges. We have a deep understanding of our customers' assets and are able to integrate technologies and capabilities to support their needs and provide services that add value.

Safety and regulatory compliance
This underpins all work. We and our customers operate in heavily regulated environments where the health, safety and wellbeing of all stakeholders is the number one priority.

How we operate

Our business model is focused on securing and executing long-term, high-value contracts for complex, integrated services, underpinned by rigorous commercial and technical risk frameworks.



1 Foundations
We work collaboratively with government departments, public bodies, highly regulated industries and blue chip companies, and are embedded on crucial long-term programmes. We focus on markets and customers with outsourcing models that require value-add engineering-based support and product development. Our five main markets are the UK, Australasia, France, Canada and South Africa, with operations in and exports to other countries.

2 Bidding and business development
We continually monitor opportunities across our markets, using strong reference cases and deep sector expertise to identify ways to solve new and existing customers' challenges and support their programmes. We have a multi-gate review process for contract bids to help ensure we only bid on value-creating work.

3 Contracting
A significant proportion of our business is carried out on a long-term contract or multi-year framework basis. Our contract backlog of £10.3 billion of contracted work provides a base level of revenue for the years ahead, supplemented by new business wins, framework orders, contract extensions and variations, and short-cycle work.

Revenue is recognised as we deliver on our contracts and performance obligations are satisfied. We have an established review process to manage contract risk. See page 89 for our principal risks.

4 Sustainability
Our ESG strategy is a key component of how we deliver and increase the sustainability and growth of our business. Our business has a significant impact on society and the environment and sustainability is an integral part of our corporate strategy and how we do business. See page 62 for our ESG review.

5 Technology-based solutions
We apply technology-based solutions to solve complex customer problems. We invest in technologies that optimise asset utilisation, advance manufacturing, enhance support capabilities and add value to customers. Our data analytics, digital design and integration capabilities reduce costs and increase the customer's ability to adapt to technology developments.

6 Partnerships and collaboration
Partnering and collaboration are key to our success in bringing market-leading capabilities to our customers. We bring together organisations to deliver engineering and technology-based products and support solutions that add value to our customers and increase access to markets.

7 Investment and capability
The cash we generate funds selective reinvestment into the business, principally through capital expenditure to develop our unique infrastructure, equipment, IT systems and engineering talent. See page 5 for our capital allocation framework.

See how we are managing commercial and technical risk on pages 18

Creating stakeholder value

Customers
Delivering for our customers and partnering with them on the challenges they face.

Investors
Creating shareholder value through growth, cash generation and the efficient allocation of capital. Delivering shareholder returns through dividends and increased share value.

Employees
Creating a better place to work where employees are valued and motivated at all times.

Regulatory and industry bodies
Never compromising on safety and complying with regulations at all times.

Supply chain
Creating jobs and nurturing investment through collaboration with our supply chain.

Communities
Providing jobs and investment across the UK and ensuring we act responsibly at all times in the interests of local communities around our sites.

See page 60 for more on our stakeholder engagement

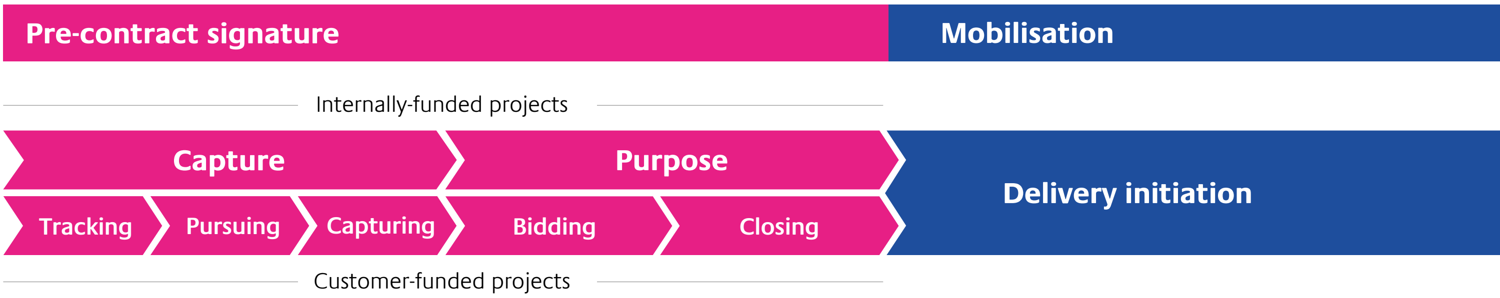
Managing commercial and technical risk

What we do is complex. We're a business that delivers a wide range of programmes with interdependencies across our partnerships, our supply chain and our customers. Our average programme length is five years, but some are decades-long, spanning multiple governments, geopolitical changes and unforeseen economic challenges.

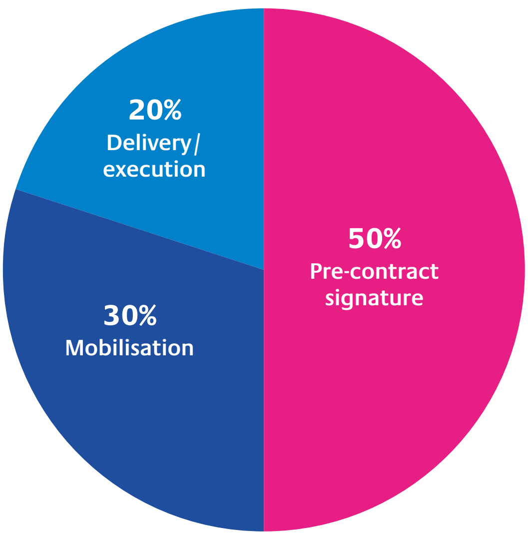
Every contract and programme we deliver is different, so there's no one-size-fits-all approach. That means we need more than red tape and oversight. We need an approach and leadership that deliver high levels of programme discipline, taking account of the specific needs of each contract whilst delivering a common best-in-class methodology.

For existing contracts, this is about managing commercial risk and protecting our margins. And for new contracts, it's about embedding those principles right from the start with a gated approach to capturing, understanding and managing risk. It's about getting it right throughout the entire project lifecycle, from identifying the opportunity, through bidding and winning, mobilising and delivering, all the way to closing the programme down at its completion. It's about understanding the technological environment and requirements, and making sure we have the capability to deliver.

Our risk framework is structured around contract risk phasing. We judge around 50% of contract risk can be managed and mitigated before signing a contract, around 30% during the mobilisation phase and 20% during contract execution and delivery. Our risk framework enables us to prepare for and take on appropriate risk and manage it effectively, resulting in predictable outcomes for all our stakeholders.



Contract risk phasing



See how we are managing our principal risks and management controls on pages 89

Pre-contract signature

- Improved focus on contractual set up and 'what Babcock needs'
- Linked to Global Management Framework
- Renewed bid governance

Why? To ensure we sign contracts we can deliver that best benefit all stakeholders

Technical governance framework

Questions we ask ourselves

1. Is the proposed technical solution **compliant** (customer and regulatory requirements)?
2. Is the technical solution **achievable** (technical, workforce, cost, schedule)?
3. Do we have a known, acceptable and manageable **risk profile**?

Ensures we can commit to deliver the technical solution

Key themes of our operations and business delivery

Predictable delivery, predictable business

People	People deliver through integrated cross-functional teams	Enabled, accountable and highly competent workforce
Process	Consistent end-to-end lifecycle management, supported by mature governance	Agile and integrated ways of working
Controls	Proportionate controls delivering predictable outcomes	Enabling systems and technology

Delivery

Define → Execute → Handover and close

Mobilisation

- Early in the business lifecycle
- Resourcing contractual requirements
- Cross-organisation communication

Why? To ensure a smooth transition to delivery, with a lower risk profile

Delivery

- Increased oversight
- Effective course correct
- Restructured relationships
- Rationalised supply chain
- Strategic supplier relationships

Why? To delight all stakeholders and maximise margin return

Technical governance framework

Ensure we have defined and planned engineering work scope:

1. Alignment with customer on requirements
2. Appropriate resource mobilisation
3. Access to tools and facilities
4. Technical risk management plan

Ensures everything is in place before we start delivering the solution

Technical reviews aligned with engineering lifecycle transition points to test:

1. Progress against requirements
2. Cost and schedule
3. Managing risks

Ensures the delivered technical solution is compliant, on time and within cost

Market review

Defence remains our largest market

Babcock is an international defence, aerospace and security company providing support and product solutions to enhance our customers' defence capabilities and critical assets. We have a critical role in global defence and security with operations in the UK, Australia, New Zealand, Canada and France. We also design and manufacture equipment and systems for several other nations including the US and South Korea, and we continue to grow our international revenues from other allied nations through direct exports and partnerships.

Our defence customers all have increasingly complex capability requirements with a focus on value for money, high utilisation of their assets, modernisation and flexibility. These requirements are driven by:

- An unstable geopolitical environment, evolving threats and unpredictable crises
- The need to deliver value for money
- The need to develop and apply enhanced technology to counter new threats
- The need for supply chain resilience
- Customer ESG requirements

Driven by our customer requirements

Babcock combines extensive experience of customers' assets in operation with strong engineering know-how and highly collaborative customer relationships.

This highly differentiated proposition enables us to deliver complex product and service solutions which meet our key customer requirements of availability, affordability and capability.

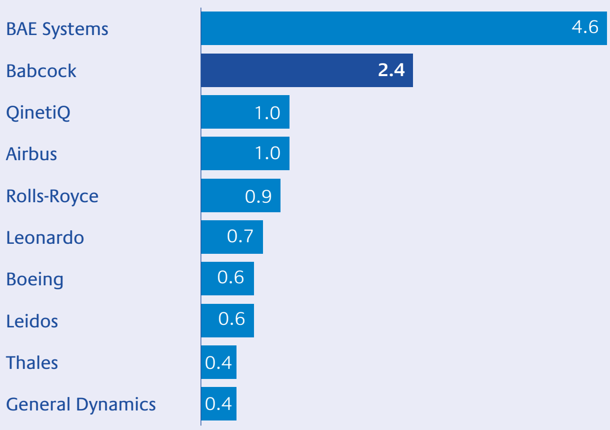
Availability – Our customers require high utilisation of complex assets, from ships and submarines to military and emergency services aircraft and vehicles. Our fleet support and sustainment models are increasingly geared to higher value-add availability-based solutions designed to optimise asset utilisation and reduce lifetime costs.

Affordability – Our customers are also demanding value for money on support programmes and new platforms. Our deep understanding of our customers' needs, and our ability to bring suppliers and technologies together to deliver an integrated solution, enable us to provide the affordability and flexibility they require.

Capability – Our customers operate in complex and ever-changing environments, which drives a continual need to adapt and enhance capability. We apply our understanding of technology integration, infrastructure management and specialist training to improve their capability, whether it be through product, support or training solutions.

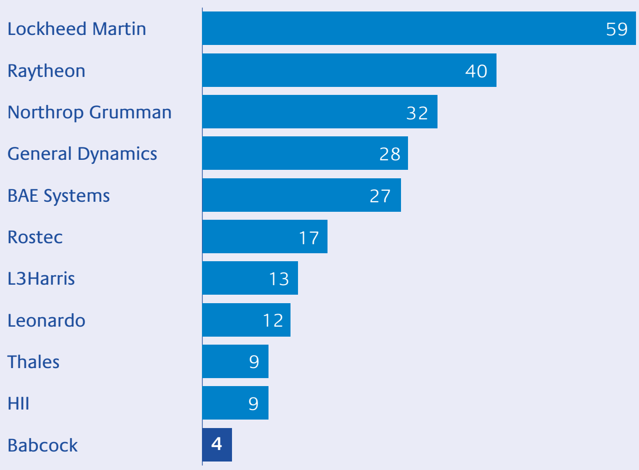
Babcock is the second largest supplier to UK MOD with a growing global presence

UK MOD expenditure[1] (£bn)



Global defence companies[2]

with >50% defence revenue (2023, £bn)



Supportive market dynamics

The geopolitical environment is increasingly unstable with multiple global flashpoints. This is driving increasing defence budgets in our focus countries, alongside greater demand for equipment modernisation, maximum asset availability and better value-add. Net zero and energy security are also driving greater and increasingly complex requirements around the energy transition.

UK	70% of FY24 revenue	Our defence capabilities	Opportunities
c.£54bn defence budget[1]	Our primary defence market is the UK, the third largest defence budget in NATO, where we provide critical support to all the UK's armed forces. As part of the Strategic Partnering Programme, we are working with the UK Government and MOD across multiple critical programmes to ensure the increasingly complex needs of our armed forces are met.	• Submarine infrastructure • Submarine and systems support • Naval base management • Submarine defuel and dismantling • Submarine and systems design • Frigate design and build • Warship support • Space • Electronic warfare • High frequency comms • Army vehicle build and support • Pilot training	• Army Collective Training • UK Aircraft Autonomy programme • UK Protected Mobility programme • AWE fissile support • Mobile Fires system • AUKUS • Naval Support Integrated Global Network (NSIGN)
Asia Pacific	**13% of FY24 revenue**		
c.£75bn defence budgets[3]	We are a key defence company in Australasia as a strategic maritime sustainment and defence communications partner to both Australia and New Zealand with product export capability further afield.	• AUS, NZ warship support • AUS submarine and systems support • AUS, NZ high frequency comms • KOR submarine systems • IDN frigate development	• AUKUS • General Purpose Frigate • Fleet support
Europe	**5% of FY24 revenue**		
c.£150bn defence budgets[4]	We have an established position in France while exporting selected capabilities to Poland, Ukraine, Belgium and Spain in response to equipment modernisation based on strong UK track record.	• FRA pilot training • FRA aircraft support • FRA land support • POL frigate development • UKR warship support • UKR vehicle and equipment support • BEL specialist vehicles • ESP submarine systems	• Flying training • RED Air • Vehicle maintenance, repair and overhaul • Marine support
North America	**4% of FY24 revenue**		
c.£760bn defence budgets[5]	We have a strong history of supporting the Canadian Navy and the US Department of defense.	• CAN submarine support • US submarine components	• Canadian Future Submarine Programme • Fleet support

Sources:

1. UK Ministry Of Defence (MOD) 2023.
2. Stockholm International Peace Research Institute (SIPRI) 2023.
3. SIPRI 2023: AUS, NZL, KOR, IDN.
4. SIPRI 2023: FRA, POL, UKR, BEL, ESP.
5. SIPRI 2023: US, CAN.

How we measure our progress

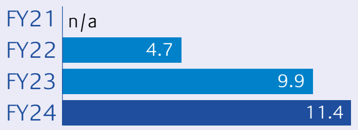
We have six financial and three non-financial key performance indicators (KPIs). The six financial metrics we use to monitor underlying performance are Alternative Performance Measures (APMs), which are not defined by International Financial Reporting Standards (IFRS) and are therefore considered to be non-GAAP (Generally Accepted Accounting Principles) measures.

The Group has defined and outlined the purpose of its APMs in the Financial Glossary starting on page 39.

2024 Financial performance

Organic revenue growth (%)

11.4%



Definition

The movement in revenue compared to that of the previous year excluding the impact of FX, contribution from acquisitions and disposals over the prior and current year.

See note 1 of the accounts for details of our revenue recognition policy.

Commentary

Organic revenue growth in our continuing businesses was 11.4%, driven by Nuclear and Land, partly offset by the expected organic decline in Aviation.

See our operational reviews on page 44

G
- Organic revenue growth

T
- Organic revenue growth

Underlying operating margin (%)

5.4%

Definition

Underlying operating profit, expressed as a percentage of revenue.

See page 25 for a reconciliation of statutory to underlying operating profit.

Commentary

Group margin was up 140 basis points year on year due to an out-performance in Nuclear, Land and Aviation, and a lower loss on the Type 31 contract than FY23.

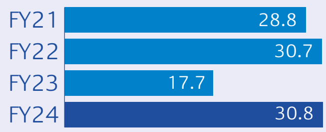
See our commentary on page 27

G
- Underlying operating margin
- Underlying operating profit

T
- Underlying operating margin

Underlying EPS (p)

30.8p



Definition

Underlying earnings after tax divided by the weighted average number of ordinary shares.

Commentary

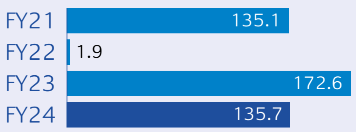
Underlying earnings per share increased 74% in the year, driven by higher underlying profit for the year and a lower loss on the Type 31 contract than FY23. Excluding the Type 31 loss, EPS was 44.2 pence.

See reconciliation on page 27

G
- Underlying basic earnings per share

Underlying operating cash conversion (%)

136%



Definition

Underlying operating cash conversion is defined as underlying operating cash flow after capital expenditure as a percentage of underlying operating profit.

Commentary

Underlying operating cash conversion of 136% reflects better than expected operational performance and early customer receipts affording an accelerated £35 million pension deficit repair contribution and pension deal.

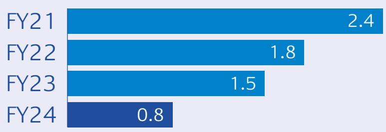
See calculation on page 43

G
- Underlying operating cash conversion
- Underlying operating profit
- Underlying operating cash flow

T
- Underlying operating cash conversion

Net debt/EBITDA (covenant basis)

0.8x



Definition

Net debt to EBITDA as measured in our banking covenants. This uses net debt (excluding leases) divided by underlying earnings before interest, tax, depreciation and amortisation plus JV dividends received. This definition makes a series of adjustments to both Group net debt and Group EBITDA; see page 33 for a reconciliation.

Commentary

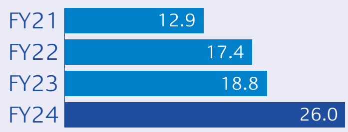
Our net debt to EBITDA (covenant basis) decreased 0.7x to 0.8x. The decrease was driven by lower net debt due to higher underlying operating cash flow and underlying free cash flow performance.

See reconciliation on page 33

G
- EBITDA
- Net debt/EBITDA (covenant basis)

Underlying return on invested capital, pre-tax (ROIC) (%)

26.0%



Definition

Underlying return on invested capital is defined as underlying operating profit plus share of JV profit after tax, divided by the sum of net debt, shareholders' funds and retirement deficit or surpluses.

Commentary

The increase in underlying ROIC reflects a greater underlying operating profit compared to similar invested capital levels year on year. While net debt reduced, shareholder funds and retirement deficit increased.

See calculation on page 33

G
- Underlying return on invested capital

2024 Non-financial performance

Total injuries rate

0.92

Definition

The Total Recordable Injury Rate (TRIR) is a12-month rolling average that relates to the number, per 200,000 working hours (200,000 represents 100 employees working 40 hours for 50 weeks per year), of recordable work-related injuries and illnesses that require medical treatment beyond first aid. In any one year, further assessment of an injury/illness or information from an extended investigation may result in a restatement of prior year figures.

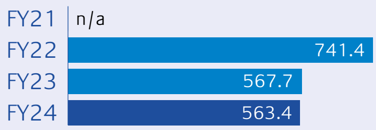
Commentary

Following reductions in previous years, the TRIR had risen during 2023 as the types of activity undertaken changed and the proportion of industrial workforce increased. While the severity of work-related injuries continues to reduce, all of our leaders are committed to visible safety leadership to ensure we reduce injury rates overall. Following the period we have also relaunched our Home Safe Every Day and Safety Starts with Me behaviour programmes across the Group.

See page 81 for more details

CO_2e emissions (tCO_2e/£m)

563.4



Definition

Estimated tonnes of CO_2e emitted as a direct result of revenue-generating operations. The reporting period for our energy consumption and carbon emissions is the calendar year (1 January to 31 December). Reporting calendar year data enables more time to collate, analyse and report our environmental data, which has improved the accuracy and completeness of our data sets. In line with our Scope 3 emission investigations over the last year, figures have been updated to include our comprehensive Scope 3 emission figures dating back to FY22, which were not previously available. FY21 data was not available for Scope 3 emissions.

Commentary

Our CO_2e emissions intensity ratio was down 1% year on year. The absolute carbon emissions increased by 12%, however disproportionate to the revenue growth from operations. Despite an increase in emissions, our intensity ratio has reduced due to the increased revenue from operations.

See page 67 for more details on our emission performance

Senior management gender diversity (%)

23%

Definition

Senior managers are defined as employees (excluding Executive Directors) who have responsibility for planning, directing or controlling the activities of the Group (Executive Committee) or a strategically significant part of the Group (sector or functional leadership teams) and/or who are directors of subsidiary business units (business unit leadership). We also report the gender diversity of the Executive Committee and their direct reports in line with the UK Corporate Governance Code's requirement to report on 'senior management' (see page 82).

Commentary

The volume of senior managers increased during the year, however the senior management gender diversity level remains consistent with the previous year at 23%.

See page 82 for more details on Babcock's gender diversity statistics

Our approach

We went through the process of the Contract Profitability and Balance Sheet review (CPBS) in FY21 to set our approach to running the Group, including creating the right baseline for future performance. We show our financial-based KPI performance for three years, excluding the one-off CPBS adjustments in FY21. This is to provide a meaningful measurement and ongoing baseline, and reflect how we assess operational performance.

Link to management remuneration

Our Remuneration policy, as detailed on pages 140 to 145, includes reference to underlying profit before tax, underlying operating cash flow and non-financial measures.

Operational performance measures

In the operational reviews on pages 44 to 59, we use our first two KPIs (organic revenue growth and underlying operating margin) to measure sector performance. Please see our Financial Glossary on page 39.

G Link to Glossary T Link to medium-term guidance

Financial review

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

The Group's APMs are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies, and they are not intended to be a substitute for, or superior to, measures defined under IFRS. The Group's APMs are consistent with the year ended 31 March 2023. The Group has defined and outlined the purpose of its APMs in the Financial Glossary on page 39.

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

"This year, we've delivered double digit organic revenue and underlying operating profit growth, with cash flow significantly ahead. We are confident in our medium-term guidance and delivering shareholder value."

David Mellors
Chief Financial Officer

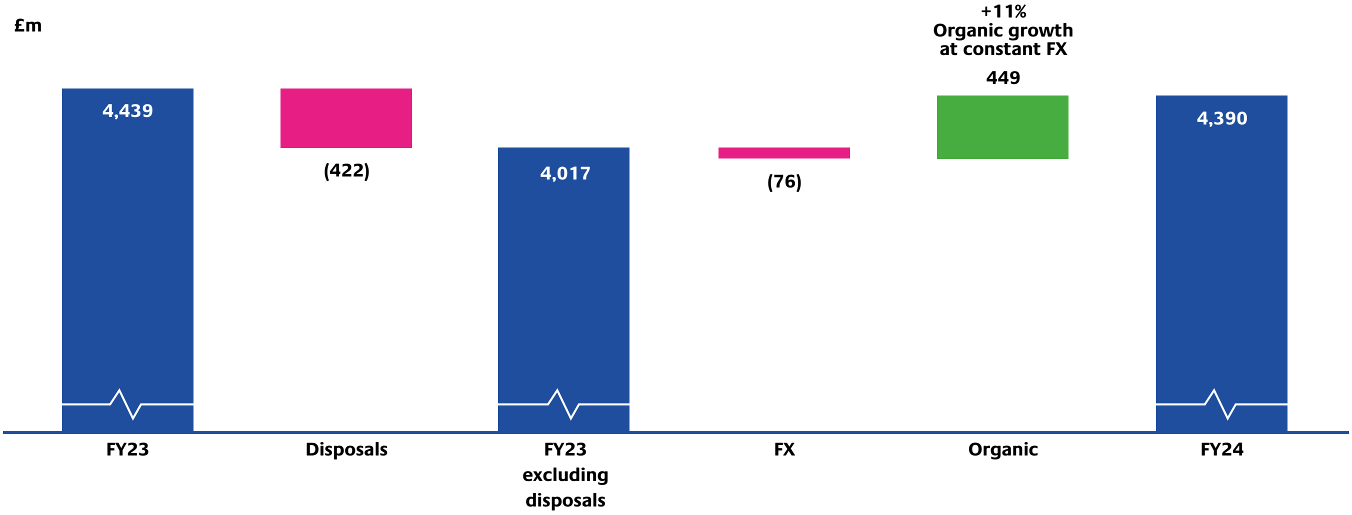
Income statement

	31 March 2024 Underlying £m	31 March 2024 Specific adjusting items £m	31 March 2024 Statutory £m	31 March 2023 Underlying £m	31 March 2023 Specific adjusting items £m	31 March 2023 Statutory £m
Revenue	**4,390.1**	**–**	**4,390.1**	**4,438.6**	**–**	**4,438.6**
Operating profit	**237.8**	**3.8**	**241.6**	**177.9**	**(132.4)**	**45.5**
Operating margin	5.4%		5.5%	4.0%		1.0%
Share of results of joint ventures and associates	9.2	–	9.2	9.3	–	9.3
Net finance costs	(35.9)	1.8	(34.1)	(58.3)	9.7	(48.6)
Profit before tax	**211.1**	**5.6**	**216.7**	**128.9**	**(122.7)**	**6.2**
Income tax (expense)/benefit	(53.5)	5.0	(48.5)	(37.7)	(1.8)	(39.5)
Profit/(loss) after tax	**157.6**	**10.6**	**168.2**	**91.2**	**(124.5)**	**(33.3)**
Non-controlling interest	(2.5)	–	(2.5)	(1.7)	–	(1.7)
Profit/(loss) attributable to the owners of the parent	**155.1**	**10.6**	**165.7**	**89.5**	**(124.5)**	**(35.0)**
Basic EPS	**30.8p**		**32.9p**	**17.7p**		**(6.9)p**
Diluted EPS	**30.1p**		**32.2p**	**17.4p**		**(6.9)p**

A full statutory income statement can be found on page 177.

As described on page 1, statutory operating profit includes specific adjusting items (SAIs) that are not included in underlying operating profit, which is a key APM for the Group. A reconciliation of statutory operating profit to underlying operating profit is shown in the table below and in note 2 of the financial statements on page 198.

Revenue bridge

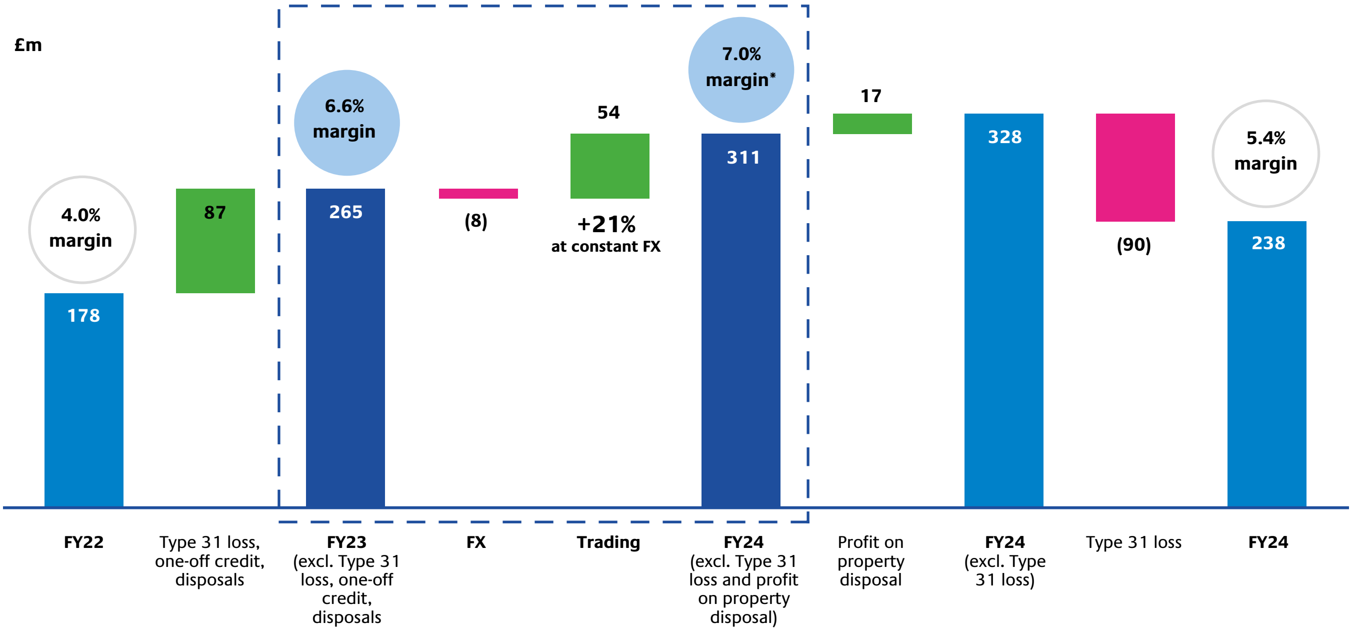


Revenue of £4,390.1 million was similar to FY23 with 11% organic growth offset by a (9)% impact of disposals and a (2)% currency translation headwind. The European AES and Civil Training businesses, both sold in February 2023, contributed £421.6 million to FY23 revenue. The organic increase was driven by strong growth in Nuclear and Land, while Marine was in line with the prior year and Aviation decreased as expected, due to the phasing of French military contracts.

By sector:

- **Marine** revenue of £1,429.1 million, was similar to the prior year, with growth led by major ship and submarine programmes including the Polish MIECZNIK frigate programme and Dreadnought, offset by lower volumes in LGE and ship support.
- **Nuclear** revenue increased 29% to £1,520.9 million. Growth was driven by Major Infrastructure Programme (MIP) revenue, submarine support and new defence contracts in our civil nuclear business.
- **Land** revenue increased 8% to £1,098.6 million, or 17% on an organic basis. Growth was from a broad range of military activities in both UK and international markets, including the first full year of the Defence High Frequency Communications contract in Australia and higher vehicle volumes in defence vehicle engineering as well as in our South Africa business.
- **Aviation** revenue declined 57% to £341.5 million primarily due to the disposal of the European AES business in FY23. Organic revenue declined by 17% due to the expected change in revenue profile of our French defence contracts between aircraft delivery and service phases.

Underlying operating profit bridge



* See page 38

Underlying operating profit increased by 34% to £237.8 million driven by improved performance across the Group and a one-off £17.0 million profit on property disposal, partly offset by a 4% currency translation impact. Also within underlying operating profit is a £90.0 million loss on the Type 31 contract (FY23: £100.1 million loss). By sector:

- **Marine** underlying operating profit was in line with FY23, with improvement driven by three licence sales on the Polish Arrowhead 140 programme and a £10.1 million lower loss on Type 31, offset by lower volume in LGE and lower profitability in Mission Systems, primarily due to contract timing. Excluding the impact of the Type 31 loss, Marine underlying operating profit declined (9%) to £103.1 million.
- **Nuclear** underlying operating profit grew to £109.2 million, a 72% organic increase, driven by revenue growth and non-repeat of a £16 million contract loss in FY23 (this contract has now finished).
- **Land** underlying operating profit grew to £96.3 million, a 12% increase including a one off £17 million profit on property disposal. FY23 underlying operating profit of £85.9 million included a one-off accounting credit of £11.6 million.
- **Aviation** underlying operating profit grew to £19.2 million, a 22% increase reflecting improved pricing, contract timing and lower bid costs.

See segmental analysis tables on page 37.

Type 31 programme

The Type 31 programme represents around 5% of the Group's revenue. Over the year, overall costs have increased due to the maturing of the design and the increase in the cost of labour in the market available in Rosyth, which is forecast to be higher than CPI, the indexation within the Type 31 contract. As a result, the outturn over the lifetime of the contract has deteriorated by £90 million, which has been fully recognised in FY24. The cash impact of this loss is expected to be realised over the remainder of the contract.

During the year, we initiated an operational improvement programme to challenge all aspects of the contract, including a significant focus on cost drivers and financial modelling, supported by external consultants. The Audit Committee has reviewed the programme team's plans to deliver additional programme benefits from improvements in productivity and further work relating to the continuation of the Type 31 contract. We considered the available evidence in respect of these benefits against the evidential bar required to recognise them, and decided not to take them fully into account in the loss, although we do expect the benefits to be delivered over the course of the programme.

Statutory operating profit of £241.6 million increased from £45.5 million in FY23, driven by improved performance across the Group, a one-off £17.0 million profit on disposal and non-repeat of a £117.7 million loss on disposals in FY23, mainly associated with the divestment of the European AES business in February 2023.

Reconciliation of statutory to underlying operating profit

	31 March 2024 £m	31 March 2023 £m
Operating profit	**241.6**	**45.5**
Amortisation of acquired intangibles	10.8	15.8
Business acquisition, merger and divestment related items	(8.2)	117.7
Fair value movement on derivatives	(6.4)	(1.1)
Specific adjusting items impacting operating profit	**(3.8)**	**132.4**
Underlying operating profit	**237.8**	**177.9**

Underlying operating margin of 5.4% (FY23: 4.0%), which includes (2.0)% from the Type 31 loss and 0.4% from the profit on property disposal. The increase in the year was driven by improved operating performance and a lower Type 31 charge. Excluding the impact of the Type 31 loss and the profit on property disposal, the underlying operating margin was 7.0% (FY23: 6.6%) (see page 38).

Statutory operating margin of 5.5% reflects the same drivers as underlying operating margin. The FY23 statutory operating margin of 1.0% was also impacted by a £117.7 million loss on disposals, mainly associated with the divestment of the European AES business in February 2023.

Further analysis of financial performance is included in each sector's operational reviews on page 44 to 59.

Share of joint ventures and associates: The Group's share of results of joint ventures and associates of £9.2 million was similar to FY23, reflecting improved trading in the core Ascent Training (Holdings) Limited and AirTanker Services Limited joint ventures, offset by a £1.1 million write down in Oman.

Underlying net finance costs decreased to £35.9 million (FY23: £58.3 million). Reduced interest costs were driven by a combination of lower debt balances, reduced finance costs following termination of the £300 million RCF in October 2023 and higher interest rates applied to surplus cash balances. In addition, underlying lease interest decreased to £9.8 million (FY23: £16.1 million) following the sale of our European AES business in the prior year and net finance costs associated with defence contract receivables in France reduced to £4.4 million (FY23: £12 million). IAS19 retirement benefit interest represents a charge of £0.8 million (FY23: credit of £7.5 million).

Statutory net finance costs decreased to £34.1 million (FY23: £48.6 million). In addition to the £22.4 million improvement in underlying net finance costs, there was a £7.9 million reduction in the credit related to the fair value movement on derivative and related items to £1.8 million (FY23: £9.7 million).

Underlying income tax expense: Group underlying income tax expense increased to £53.5 million (FY23: £37.7 million) reflecting higher underlying pre-tax profit and a higher UK corporation tax rate in the year. This represents an effective underlying tax rate of 27% (FY23: 32%), or 26% excluding the impact of the Type 31 loss (FY23: 26%), calculated on underlying profit before tax excluding the share of income from joint ventures and associates (which is a post-tax number). The Group's effective underlying tax rate is expected to remain broadly stable over the medium term depending on country profit mix.

Statutory income tax expense: The Group income tax expense was £48.5 million (FY23: £39.5 million), lower than the underlying income tax expense due to the tax impact of the specific adjusting items outlined above and in note 2 of the preliminary financial statements.

Underlying basic earnings per share of 30.8 pence (FY23: 17.7 pence) represents an increase of 74%, driven by higher underlying operating profit for the year. The impact on earnings per share of the £17.0 million profit on disposal and the Type 31 loss was 3.3 pence and (13.4) pence respectively.

Basic earnings per share, on a statutory basis, increased to 32.9 pence (FY23: 6.9 pence loss) reflecting improved profit for the year. The FY23 loss per share was due to lower underlying profit for the year, including the £100.1 million loss on the Type 31 contract, and a loss after tax of £124.5 million from specific adjusting items, mainly associated with the loss on disposal of the European AES business.

Dividend: A final dividend of 3.3 pence per ordinary share (FY23: nil) is payable on Monday 30 September 2024 to shareholders whose names appear on the register at the close of business on Friday 23 August 2024. Shareholders may participate in the dividend re-investment plan and elections must be made by Monday 9 September 2024. Details of the dividend re-investment plan can be found, and shareholders can make elections, at www.babcock-shares.com.

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

	31 March 2024		31 March 2023	
	£m	Basic EPS	£m	Basic EPS
Profit/(loss) after tax for the year	**168.2**	**32.9p**	**(33.3)**	**(6.9)p**
Specific adjusting items, net of tax	(10.6)	(2.1)p	124.5	24.6p
Underlying profit after tax for the year	**157.6**	**30.8p**	**91.2**	**17.7p**

Exchange rates

The translation impact of foreign currency movements resulted in a decrease in revenue of £76 million and a decrease in underlying operating profit of £8 million. The main currencies that have impacted our results are the Canadian Dollar, South African Rand, Euro and Australian Dollar. The currencies with the greatest potential to impact results are the South African Rand and the Australian and Canadian Dollar:

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

Cash flow and net debt

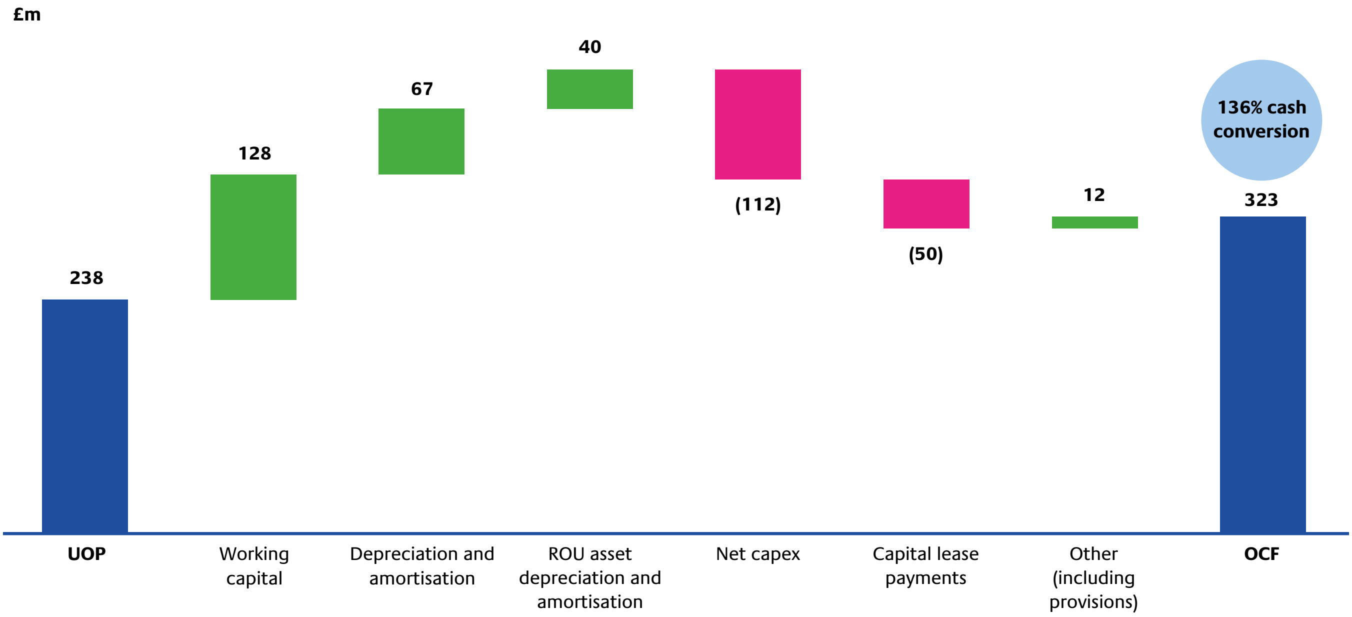
Underlying cash flow and net debt

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

	31 March 2024 £m	31 March 2023 £m
Statutory operating profit	**241.6**	**45.5**
Add back: specific adjusting items (see table on page 27)	(3.8)	132.4
Underlying operating profit	**237.8**	**177.9**
Right of use asset depreciation	39.8	91.3
Other depreciation & amortisation	67.3	84.9
Non-cash items	(8.7)	6.9
Working capital movements	127.5	103.5
Provisions	20.4	37.2
Net capital expenditure	(111.8)	(86.2)
Lease principal payments	(49.6)	(108.5)
Underlying operating cash flow	**322.7**	**307.0**
Underlying operating cash conversion (%)	136%	173%
Pension contributions in excess of income statement	(107.6)	(141.9)
Interest paid (net)	(32.2)	(62.2)
Tax paid	(27.4)	(25.4)
Dividends from joint ventures and associates	7.1	8.7
Cash flows related to specific adjusting items	(2.2)	(10.9)
Underlying free cash flow	**160.4**	**75.3**
Net acquisitions and disposals of subsidiaries	(1.3)	158.6
Dividends paid (including non-controlling interests)	(10.3)	(2.2)
Purchase of own shares	(12.5)	–
Lease principal payments	49.6	108.5
Net new lease arrangements	(54.8)	(115.1)
Leases disposed of/(acquired) with subsidiaries	–	218.1
Other non-cash debt movements	(3.2)	(1.8)
Clarification of net debt definition	–	(36.1)
Fair value movement in debt and related derivatives	0.5	56.0
Exchange movements	0.6	(57.0)
Movement in net debt	**129.0**	**404.3**
Opening net debt	(564.4)	(968.7)
Closing net debt	**(435.4)**	**(564.4)**
Add back: leases	224.5	218.2
Closing net debt excluding leases	**(210.9)**	**(346.2)**

A full statutory cash flow statement can be found on page 180 and a reconciliation to net debt on page 33.

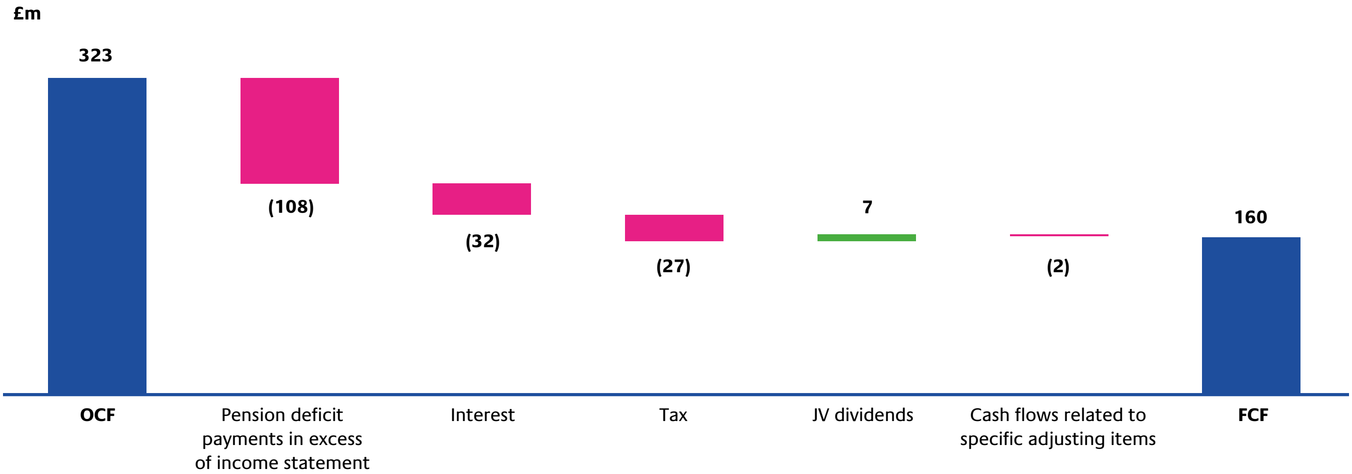
Underlying operating profit to operating cash flow bridge



Underlying operating cash flow increased to £322.7 million (FY23: £307.0 million). The conversion ratio to underlying operating profit of 136% (FY23: 173%) reflects reduced working capital and the impact of the Type 31 long-term contract accounting loss on underlying operating profit. Operating cash conversion was higher in FY23 primarily reflecting lower net capital expenditure and a higher Type 31 loss. Excluding the Type 31 impact on operating profit, underlying operating cash conversion was 98% (FY23: 110%).

- **Working capital**: An inflow of £127.5 million, compared to an inflow of £103.5 million last year, reflects our continued focus on cash flow as a performance measure coupled with earlier than anticipated customer receipts, as well as the impact of the Type 31 loss. There is some risk that favourable timing factors on cash receipts could reverse in the short term depending on the flow of new orders and contract phasing.
- **Net capital expenditure** of £111.8 million increased £25.6 million, driven by a combination of continued investment across the Group to support programme delivery and drive operational performance, and lower proceeds from asset disposals.
  - Gross capex increased to £142.4 million (FY23: £125.1 million) driven by further investment in Devonport to support future growth and ongoing upgrades to systems and controls across the Group, including the roll-out of SAP. We expect FY25 gross capital expenditure to be in the range of £120 million to £150 million.
  - Proceeds from asset disposals reduced £8.3 million to £30.6 million despite a £20.1 million inflow on a property sale in Land in the year, primarily due to lower aircraft sales in our Aviation business.
- **Lease principal payments**, representing the capital element of payments on lease obligations, reduced to £49.6 million (FY23: £108.5 million) following the sale of the European AES business in FY23. This is reversed out below underlying free cash flow as the payment reduces our lease liability (ie no effect on net debt).

Underlying operating cash flow to free cash flow bridge



Underlying free cash flow of £160.4 million compares to £75.3 million in the prior year, reflecting higher underlying operating cash flow, lower pension contributions and lower net interest payments.

- **Pension**: A cash outflow in excess of the income statement charge of £107.6 million (FY23: £141.9 million) was higher than expected due to acceleration of £35 million of contributions as part of a long-term funding deal agreed with Babcock International Group Pension Fund (BIGPF). The higher outflow in FY23, which also included a £35 million accelerated pension payment, reflects the decreasing contribution profile as deficits reduce. As a result of the agreed funding deals (see page 34), we expect future annual pension deficit payments to reduce from around £65 million to around £40 million.
- **Interest**: Net interest paid, excluding that paid by JVs and associates, decreased to £32.2 million (FY23: £62.2 million) due to lower net debt and higher interest earned on surplus cash, lower interest on leases and a reduced finance charge associated with the financing of long-term French defence contract receivables.
- **Taxation**: Tax paid in the year was £27.4 million (FY23: £25.4 million). We expect cash tax paid in FY25 to be approximately £35 million.
- **Dividends received from joint ventures and associates** decreased to £7.1 million (FY23: £8.7 million). We expect dividends from JVs and associates to be slightly higher in FY25.
- **Cash flows related to specific adjusting items**: The £2.2 million cash flows relate mainly to the final costs of disposals provided for as a specific adjusting item in the prior year.

Acquisitions and disposals

A £1.3 million outflow was due to final settlement of certain items in relation to the disposal of businesses in the prior year. An inflow of £158.6 million in FY23 represents net proceeds from the disposal of the European AES business and the sale of the civil training business, net of costs.

New lease arrangements

In addition to net capital expenditure, and not included in underlying free cash flow, £55.2 million (FY23: £117.0 million) of additional lease liabilities were entered into in the period, significantly lower than FY23 following the sale of the European AES business in February 2023. These represent new lease obligations and so are included in net debt but do not involve any cash outflows at inception.

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

	31 March 2024 £m	31 March 2023 £m
Underlying operating cash flow	**322.7**	**307.0**
Add: net capital expenditure	111.8	86.2
Add: lease principal payments	49.6	108.5
Less: pension contributions in excess of income statement	(107.6)	(141.9)
Cash flows related to specific adjusting items	(2.2)	(10.9)
Cash generated from operations	**374.3**	**348.9**
Tax paid	(27.4)	(25.4)
Net interest paid	(32.2)	(62.2)
Net cash flows from operating activities	**314.7**	**261.3**

Statutory cash flow summary

	31 March 2024 £m	31 March 2023 £m
Net cash flow from operating activities	**314.7**	**261.3**
Net cash flow from investing activities	(100.6)	83.5
Net cash flow from financing activities	(85.5)	(666.1)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	**128.6**	**(321.3)**

Net cash flow from operating activities was £314.7 million, an increase of £53.4 million. The main drivers were higher Group operating profit, lower net interest and pension deficit payments.

Net cash flow from investing activities was an outflow of £100.6 million (FY23: inflow of £83.5 million), reflecting continued capital investment across the Group and lower proceeds from asset disposals. On a gross basis, capital expenditure increased to £142.4 million (FY23: £125.1 million). The FY23 inflow included £158.6 million of proceeds from disposals, primarily from the sale of the European AES business.

Net cash flow from financing activities was an outflow of £85.5 million (FY23: outflow of £666.1 million), including £49.6 million lease payments (FY23: £108.5 million), £12.5 million purchase of own shares (FY23: £nil) and £13.1 million repayment of debt (FY23: £556.2 million net repayment, primarily repayment of the €550 million Eurobond in October 2022).

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

	31 March 2024 £m	31 March 2023 £m
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	**128.6**	**(321.3)**
Cash flow from the (increase)/decrease in debt	25.3	629.6
Change in net funds resulting from cash flows	**153.9**	**308.3**
Additional lease obligations	(55.2)	(117.0)
New lease receivables granted	32.4	28.5
Debt held by disposed subsidiaries	–	219.7
Other non-cash movements and changes in fair value	(2.7)	57.9
Clarification of net debt definition	–	(36.1)
Foreign currency translation differences	0.6	(57.0)
Movement in net debt in the year	**129.0**	**404.3**
Opening net debt	(564.4)	(968.7)
Closing net debt	**(435.4)**	**(564.4)**

Net debt

Net debt at 31 March 2024 was £435.4 million, a reduction of £129.0 million driven primarily by underlying free cash flow, offset by payment of the interim dividend reinstated in November 2023 and £12.5 million to purchase own shares for Babcock share schemes. Net debt excluding leases was £210.9 million, representing a reduction of £135.3 million compared to the beginning of the year.

Balance sheet

	31 March 2024 £m	31 March 2023 £m
Intangible assets	928.9	922.2
Property, plant and equipment and right of use assets	692.7	637.6
Investment in joint ventures and associates	59.7	57.4
Working capital	(691.4)	(565.8)
Provisions	(158.2)	(148.7)
Net retirement benefit deficits	(109.7)	(61.4)
Net tax assets	119.9	97.1
Net other financial assets and liabilities	(0.4)	(3.1)
Leases	(224.5)	(218.2)
Net debt excluding leases	(210.9)	(346.2)
Net assets	**406.1**	**370.9**

Property, plant and equipment (PP&E) and right of use assets was £693 million, an increase of £55 million. PP&E increased by £39 million to £517 million reflecting net capital expenditure of £(93) million less depreciation and currency adjustments. Right of use assets increased £17 million to £176 million reflecting net new leases of £59 million less depreciation and currency adjustments.

Working capital was £(691) million, a decrease of £126 million. Net contract liabilities increased £131 million, driven by earlier than anticipated customer receipts, as well as the impact of the Type 31 loss.

Net retirement benefit deficits were £(110) million, an increase of £48 million. The fair value of plan assets of £3,084 million decreased £104 million, driven by negative asset returns less contributions. The present value of pension benefit obligations of £3,194 million decreased £55 million driven by modest changes in actuarial financial and demographic assumptions.

Funding and liquidity

As of 31 March 2024, the Group had access to a total of £1.6 billion of borrowings and facilities. These comprised:

- £775 million RCF, with £45 million maturing on 28 August 2025 and £730 million extended to 28 August 2026
- £300 million bond maturing on 5 October 2026
- €550 million bond, hedged at £493 million, maturing on 13 September 2027
- Two committed overdraft facilities totalling £100 million

At 31 March 2024, the Group's net cash (cash and cash equivalents, less overdrafts) balance was £553 million. This, combined with the undrawn amounts under our committed RCFs and overdraft facilities, gave us liquidity headroom of around £1.4 billion.

Net debt to EBITDA (covenant basis)

While there are several facets to balance sheet strength, a primary measurement relevant to Babcock is the net debt/EBITDA gearing ratio within our debt covenant of 3.5x. This measure is used in the covenant in our RCF facility and includes several adjustments from reported net debt and EBITDA. The net debt/EBITDA gearing ratio (covenant basis) at 31 March 2024 reduced to 0.8x (FY23: 1.5x) due to strong underlying free cash flow and higher underlying operating profit.

	31 March 2024 £m Last 12 months	31 March 2023 £m Last 12 months
Underlying operating profit	**237.8**	**177.9**
Depreciation and amortisation	67.3	84.9
Covenant adjustments[1]	(6.3)	(8.4)
EBITDA	**298.8**	**254.4**
JV and associate dividends	7.1	8.7
EBITDA + JV and associate dividends (covenant basis)	**305.9**	**263.1**
Net debt excluding lease liabilities	**(210.9)**	**(346.2)**
Covenant adjustments[2]	(41.8)	(49.3)
Net debt (covenant basis)	**(252.7)**	**(395.5)**
Net debt/EBITDA	**0.8x**	**1.5x**

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

Interest cover (covenant basis)

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

	31 March 2024 £m Last 12 months	31 March 2023 £m Last 12 months
EBITDA + JV and associate dividends (covenant basis)	**305.9**	**263.1**
Net finance costs	(34.1)	(48.6)
Covenant adjustments[1]	9.6	7.1
Net finance costs (covenant basis)	**(24.5)**	**(41.5)**
Interest cover	**12.5x**	**6.3x**

1. Various adjustments made to reflect accounting standards at the time of inception of the original RCF agreement, including lease and retirement benefit interest.

Return on invested capital, pre-tax (ROIC)

This measure is one of the Group's key performance indicators.

	31 March 2024 £m Last 12 months	31 March 2023 £m Last 12 months
Underlying operating profit	**237.8**	**177.9**
Share of results of joint ventures and associates	9.2	9.3
Underlying operating profit plus share of JV PAT	**247.0**	**187.2**
Net debt excluding leases	210.9	346.2
Leases	224.5	218.2
Shareholder funds – see balance sheet on page 178	406.1	370.9
Retirement deficit/(surplus) – note 25	109.7	61.4
Invested capital	**951.2**	**996.7**
ROIC	**26.0%**	**18.8%**

Pensions

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

IAS 19

At 31 March 2024, the IAS 19 valuation for accounting purposes was a net deficit of £109.7 million (FY23: a net deficit of £61.4 million). The increase in net accounting deficit is a result of a greater reduction in the fair value of plan assets (by £103.7 million to £3,084.3 million, net of £250.8 million longevity swaps) than the reduction in present value of pension benefit obligations (by £55.4 million to £3,194.0 million). The reduction in fair value of plan assets was driven by negative net asset returns, partly offset by scheme contributions. The reduction in pension benefit obligations was mainly a result of modest changes in actuarial financial and demographic assumptions. The fair value of the assets and liabilities of the Group pension schemes at 31 March 2024 and the key assumptions used in the IAS 19 valuation of our schemes are set out in note 25.

	31 March 2024 £m	31 March 2023 £m
Fair value of plan assets (note 25)	3,084.3	3,188.0
Present value of benefit obligations (note 25)	(3,194.0)	(3,249.4)
Net (deficit) at 31 March	**(109.7)**	**(61.4)**

Income statement charge

The charge included within underlying operating profit in FY24 was £23.9 million (FY23: £32.6 million), of which £15.4 million (FY23: £25.8 million) related to service costs and £8.5 million (FY23: £6.8 million) related to expenses. In addition to this, there was an interest charge of £0.8 million (FY23: credit of £7.5 million).

Technical provision

An estimate of the aggregate actuarial deficits of the Group's defined benefit pension schemes, including all longevity swap funding gaps, calculated using each scheme's technical provision basis, as at FY24 was approximately £200 million (FY23: c.£400 million). Such valuations use discount rates based on UK gilts – which differs from the corporate bond approach of IAS 19. This technical provision estimate reflects the discussions and agreements on assumptions with the Trustee of the Babcock Rail Section of the Railways Pension Scheme with respect to the actuarial valuation as at 31 December 2022, and for the other schemes uses assumptions within the latest agreed valuation prior to 31 March 2024.

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

There has been significant progress in reducing the risk of pension scheme deficits during the year. We made additional pension deficit repair payments of £35 million. The BIGPS has around £985 million of pension liabilities (less than 30% of the total Group pension liabilities) on an technical provision basis. The scheme has now reached self-sufficiency and is not expected to require further deficit repair contributions from the company ahead of reaching either buy-in or buy-out, expected by FY29. The Scheme is also in the process of closing to future service accruals.

In addition, the Company has now reached agreement with the Trustees of the DRDPS regarding a long-term funding plan and closure of the scheme to future accrual as well as the most recent triennial valuation. The DRDPS has around £1,400 million of pension liabilities on an technical provision basis (around 40% of total Group pension liabilities). As a result, we expect the total Group pension deficit repair payments to reduce to around £40 million in FY25 (previously £65 million).

Cash contributions

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

	31 March 2024 £m	31 March 2023 £m
Future service contributions	17.2	20.0
Deficit recovery	82.8	123.5
Longevity swap	15.2	15.6
Total cash contributions – employer	**115.2**	**159.1**

Treasury

Treasury activities within the Group are managed in accordance with the parameters set out in the treasury policies and guidelines approved by the Board. A key principle within the treasury policy is that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes. The treasury team is only permitted to enter into financial instruments where it has a high level of confidence in the hedged item occurring. Both the treasury department and the sectors have responsibility for monitoring compliance within the Group to ensure adherence to the principal treasury policies and guidelines. The Group's treasury policies in respect of the management of debt, interest rates, liquidity and currency are outlined below. The Group's treasury policies are kept under close review, particularly given the ongoing economic and market uncertainty.

Debt

Objective

With debt as a key component of available financial capital, the Group seeks to ensure that there is an appropriate balance between continuity, flexibility and cost of debt funding through the use of borrowings, whilst also diversifying the sources of these borrowings with a range of maturities and rates of interest, to reflect the long-term nature of the Group's contracts, commitments and risk profile.

Policy

All the Group's material borrowings are arranged by the treasury department, and funds raised are lent onward to operating subsidiaries as required. It remains the Group's policy to ensure the business is prudently funded and that sufficient headroom is maintained on its facilities to fund its future growth.

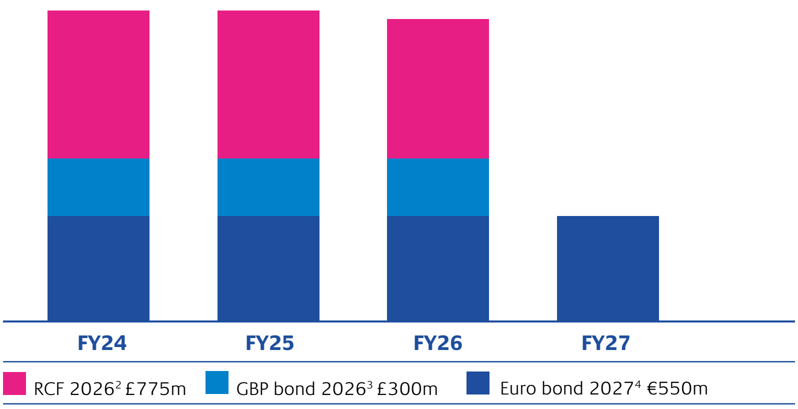
Updates

The Group continues to keep its capital structure under review to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objective.

In 2021 the Group signed a new three-year Revolving Credit Facility (RCF) of £300 million, which expired in May 2024. This facility was cancelled early by the Group in October 2023. The Group has an existing £775 million RCF, of which £45 million matures in August 2025, and the remaining £730 million matures in August 2026.

The Group's main corporate debt comprises a £300 million Sterling bond, maturing October 2026 and a €550 million bond, maturing September 2027. Together, these provide the Group with a total of around £1.6 billion of available committed facilities and bonds.

Debt maturity profile[1] (£m)



1. Chart shows notional value of the debt
2. £730m of £775m RCF extended to 2026, matures 28 August 2026
3. GBP bond 2026 £300m, matures 5 October 2026
4. Euro bond 2027 €550m, hedged at £493m, matures 13 September 2027

Interest rates

Objective
To manage exposure to interest rate fluctuations on borrowings by varying the proportion of fixed rate debt relative to floating rate debt to reflect the underlying nature of the Group's commitments and obligations. As a result, the Group does not maintain a specific set proportion of fixed versus floating debt but monitors the mix to ensure that it is compatible with its business requirements and capital structure.

Policy
Interest rate hedging and the monitoring of the mix between fixed and floating rates is the responsibility of the treasury department and is subject to the policy and guidelines set by the Board and updated from time to time.

Performance
As at 31 March 2024, the Group had 85% fixed rate debt (31 March 2023: 85%) and 15% floating rate debt (31 March 2023: 15%) based on gross debt of £793 million (31 March 2023: £793 million).

Liquidity

Objective
1. To maintain adequate undrawn committed borrowing facilities.
2. To monitor and manage bank credit risk, and credit capacity utilisation.
3. To diversify the sources of financing with a range of maturities and interest rates, to reflect the long-term nature of Group contracts, commitments and risk profile.

Policy
All the Group's material borrowings are arranged by the treasury department and funds raised are lent onward to operating subsidiaries as required.

Each of the Group's sectors provides regular cash forecasts for both management and liquidity purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group and ensure that there is sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities.

The Group adopts a conservative approach to the investment of its surplus cash. It is deposited with financial institutions only for a short duration, and the bank counter-party credit risk is monitored closely on a systematic and ongoing basis.

A credit limit is allocated to each institution taking account of its credit rating and market information.

Performance
The Group continues to keep under review its capital structure to ensure that the sources, tenor and availability of finance are sufficient to meet its stated objectives. The Group continues to monitor the liquidity position and will seek to extend or replace committed debt as the need arises. Surplus cash during the year was invested in short term deposits diversified across several well rated financial institutions in accordance with policy.

Foreign exchange

Objective
To reduce exposure to volatility in earnings and cash flows from movements in foreign currency exchange rates. The Group is exposed to a number of foreign currencies, the most significant being the Euro, US Dollar, South African Rand, Australian Dollar and Canadian Dollar.

Policy — Transaction risk
The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions. To mitigate this risk, the Group's policy is to hedge all material transactional exposures, using financial instruments where appropriate.

Policy — Translation risk
The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and equity accounted investments. It is not the Group's policy to hedge through the use of derivatives the translation effect of exchange rate movements on the income statement or balance sheet of overseas subsidiaries and equity accounted investments it regards as long-term investments. However, where the Group has material assets denominated in a foreign currency, it will consider some matching of those aforementioned assets with foreign currency denominated debt.

Performance
There was a net foreign exchange gain of £3.0m million in the income statement for the year ending 31 March 2024 (31 March 2023: £12.7 million loss).

Segmental analysis

The Group reports its performance through four reporting sectors.

31 March 2024	Marine £m	Nuclear £m	Land £m	Aviation £m	Group £m
Contract backlog	2,992.7	3,104.8	2,593.7	1,641.4	10,332.6
Revenue	1,429.1	1,520.9	1,098.6	341.5	4,390.1
Operating profit	11.0	109.2	96.1	25.3	241.6
Operating margin	0.8%	7.2%	8.7%	7.4%	5.5%
Underlying operating profit	13.1	109.2	96.3	19.2	237.8
Underlying operating margin	0.9%	7.2%	8.8%	5.6%	5.4%

31 March 2023	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
Contract backlog	2,580.7	2,453.8	2,809.8	1,633.0	9,477.3
Revenue	1,439.6	1,179.2	1,017.1	802.7	4,438.6
Operating profit	5.8	63.6	80.9	(104.8)	45.5
Operating profit margin	0.4%	5.4%	8.0%	(13.1)%	1.0%
Underlying operating profit	12.7	63.5	85.9	15.8	177.9
Underlying operating margin	0.9%	5.4%	8.4%	2.0%	4.0%

Segmental analysis continued

FY24 Revenue	Marine £m	Nuclear £m	Land £m	Aviation £m	Group £m
Revenue	1,429.1	1,520.9	1,098.6	341.5	4,390.1
Add: reversal of Type 31 revenue	66.3	–	-	–	66.3
Revenue excl. Type 31 loss	**1,495.4**	**1,520.9**	**1,098.6**	**341.5**	**4,456.4**
Underlying operating profit					
Underlying operating profit (UOP)	13.1	109.2	96.3	19.2	237.8
Add: Type 31 loss	90.0	–	–	–	90.0
UOP excluding Type 31 loss	103.1	109.2	96.3	19.2	327.8
Less: non-trading credits	–	–	(17.0)	–	(17.0)
UOP excl. Type 31 loss and non-trading credits	**103.1**	**109.2**	**79.3**	**19.2**	**310.8**
Underlying operating margin					
Underlying operating margin (UOM)	0.9%	7.2%	8.8%	5.6%	5.4%
UOM excl. Type 31 loss and non-trading credits	**6.9%**	**7.2%**	**7.2%**	**5.6%**	**7.0%**

FY23 Revenue	Marine £m	Nuclear £m	Land £m	Aviation £m	Group £m
Revenue	1,439.6	1,179.2	1,017.1	802.7	4,438.6
Less: Non-trading credits and disposals	–	–	(46.7)	(386.5)	(433.2)
Revenue excluding non-trading credits and disposals	1,439.6	1,179.2	970.4	416.2	4,005.4
Add: reversal of Type 31 revenue	42.6	–	–	–	42.6
Revenue excl. non-trading credits, disposals and Type 31 loss	**1,482.2**	**1,179.2**	**970.4**	**416.2**	**4,048.0**
Underlying operating profit (£m)					
Underlying operating profit (UOP)	12.7	63.5	85.9	15.8	177.9
Add: Type 31 loss	100.1	–	–	–	100.1
UOP excluding Type 31 loss	112.8	63.5	85.9	15.8	278.0
Less: non-trading (credits)/debits	–	–	(13.8)	1.1	(12.7)
UOP excl. non-trading credits, disposals and Type 31 loss	**112.8**	**63.5**	**72.1**	**16.9**	**265.3**
Underlying operating margin					
Underlying operating margin (UOM)	0.9%	5.4%	8.4%	2.0%	4.0%
UOM excl. non-trading credits, disposals and Type 31 loss	**7.6%**	**5.4%**	**7.4%**	**4.1%**	**6.6%**

Financial glossary – Alternative Performance Measures (APMs)

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

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

Organic revenue growth – Group KPI

Closest equivalent IFRS measure: Revenue growth year on year

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

Purpose: A good indicator of business growth.

	31 March 2024 £m	31 March 2023 £m
Prior year revenue	**4,438.6**	**4,101.8**
FX	(76.1)	23.5
(Disposals) / acquisitions	(421.6)	(92.3)
Prior year revenue adjusted for FX and disposals (b)	**3,940.9**	**4,033.0**
Revenue growth (a)	449.2	405.6
Current year revenue	**4,390.1**	**4,438.6**
Organic revenue growth (a)/(b)	11%	10%

Contract backlog

Closest equivalent IFRS measure: No direct equivalent

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

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

	31 March 2024 £m	31 March 2023 £m
Contract backlog	**10,333**	**9,477**

Underlying operating profit

Closest equivalent IFRS measure: Operating profit

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

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

	31 March 2024 £m	31 March 2023 £m
Underlying operating profit	**237.8**	**177.9**
Specific adjusting items	3.8	(132.4)
Operating profit (note 2)	**241.6**	**45.5**

Specific adjusting items (note 2)

	31 March 2024 £m	31 March 2023 £m
Amortisation of acquired intangibles	(10.8)	(15.8)
Business acquisition, merger and divestment related items (note 27)	8.2	(117.7)
Fair value movement on derivatives (note 2)	6.4	1.1
Specific adjusting items impacting operating profit / (loss)	**3.8**	**(132.4)**
Fair value movement on derivatives and related items	1.8	9.7
Specific adjusting items impacting profit / (loss) before tax	**5.6**	**(122.7)**
Income tax benefit / (expense)		
Amortisation of acquired intangibles	3.9	4.1
Business acquisition, merger and divestment related items	(1.0)	(2.1)
Fair value movement on derivatives and related items (note 2)	(2.0)	(2.6)
Tax on Group reorganisation activities	4.7	–
Other tax items including rate change impact	(0.6)	(1.2)
Specific adjusting items impacting income tax benefit / (expense)	**5.0**	**(1.8)**

Underlying operating margin – Group KPI

Closest equivalent IFRS measure: Operating margin

Definition: Underlying operating profit as a percentage of revenue.

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

	31 March 2024 £m	31 March 2023 £m
Revenue	**4,390.1**	**4,438.6**
Underlying operating profit	**237.8**	**177.9**
Underlying operating margin	5.4%	4.0%

Underlying net finance costs

Closest equivalent IFRS measure: Net finance costs

Definition: Net finance costs excluding specific adjusting items.

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

	31 March 2024 £m	31 March 2023 £m
Underlying net finance costs	**(35.9)**	**(58.3)**
Add: specific adjusting items impacting finance costs (note 2)	1.8	9.7
Net finance costs (note 5)	(34.1)	(48.6)

Underlying profit before tax

Closest equivalent IFRS measure: Profit before tax

Definition: Profit before tax excluding all specific adjusting items.

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

	31 March 2024 £m	31 March 2023 £m
Underlying profit before tax	**211.1**	**128.9**
Specific adjusting items impacting profit before tax (note 2)	5.6	(122.7)
Profit before tax	**216.7**	**6.2**

Underlying effective tax rate

Closest equivalent IFRS measure: Effective tax rate

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

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

	Year ended 31 March 2024			Year ended 31 March 2023		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Profit before tax (note 2)	**211.1**	**5.6**	**216.7**	128.9	(122.7)	6.2
Share of profit from joint ventures and associates* (note 14)	(10.3)	–	(10.3)	(9.3)	–	(9.3)
Profit/(loss) before tax excluding profit from joint ventures and associates (a)	200.8	5.6	206.4	119.6	(122.7)	(3.1)
Income tax expense (b)	(53.5)	5.0	(48.5)	(37.7)	(1.8)	(39.5)
Effective tax rate (b)/(a)	**26.6%**		**23.5%**	**31.5%**		**(1,274.2%)**

* Share of profit from joint ventures and associates excludes an impairment of £1.1 million, see note 14.

Underlying basic and diluted earnings per share

Closest equivalent IFRS measure: Basic earnings per share

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

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

	Year ended 31 March 2024			Year ended 31 March 2023		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Profit/(loss) before tax (note 2)	**211.1**	**5.6**	**216.7**	**128.9**	**(122.7)**	**6.2**
Income tax (expense)/benefit (note 2)	(53.5)	5.0	(48.5)	(37.7)	(1.8)	(39.5)
Profit/(loss) after tax for the year	**157.6**	**10.6**	**168.2**	**91.2**	**(124.5)**	**(33.3)**
Amount attributable to owners of the parent	155.1	10.6	165.7	89.5	(124.5)	(35.0)
Amount attributable to non-controlling interests	2.5	–	2.5	1.7	–	1.7
Weighted average number of shares (m)	503.5		503.5	505.4		505.4
Effect of dilutive securities (m)	11.8		11.8	9.5		9.5
Diluted weighted average number of shares (m)	515.3		515.3	514.9		514.9
Basic EPS (note 9)	**30.8p**		**32.9p**	**17.7p**		**(6.9)p**
Diluted EPS (note 9)	**30.1p**		**32.2p**	**17.4p**		**(6.9)p**

Net debt

Closest equivalent IFRS measure: No direct equivalent

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

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

	31 March 2024 £m	31 March 2023 £m
Cash and bank balances	570.6	451.7
Bank overdrafts	(18.0)	(22.2)
Cash, cash equivalents and bank overdrafts	**552.6**	**429.5**
Debt	(749.5)	(765.8)
Derivatives hedging debt	(11.1)	(8.3)
Lease liabilities	(230.5)	(228.8)
Liabilities from financing arrangements	**(991.1)**	**(1,002.9)**
Lease receivables	35.5	38.6
Loans to joint ventures and associates	3.9	9.5
Derivatives hedging interest on debt	(36.3)	(39.1)
Net debt	**(435.4)**	**(564.4)**

Net debt (excluding leases)

Closest equivalent IFRS measure: No direct equivalent

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

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

	31 March 2024 £m	31 March 2023 £m
Net debt	**(435.4)**	**(564.4)**
Leases	224.5	218.2
Net debt (excluding leases)	**(210.9)**	**(346.2)**

Net debt / EBITDA (covenant basis) – Group KPI

Closest equivalent IFRS measure: No direct equivalents

Definition: Net debt (excluding leases), before loans to joint ventures and associates and finance lease receivables, divided by EBITDA (as defined in our banking covenants – being underlying operating profit, defined on page 39, excluding depreciation and amortisation and including certain covenant adjustments) plus JV and associate dividends. See page 33.

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

Interest cover (covenant basis)

Closest equivalent IFRS measure: No direct equivalent

Definition: EBITDA (on a covenant basis), divided by net finance costs and various covenant adjustments made to reflect accounting standards at the time of inception of the RCF agreement, including lease and retirement benefit interest. See page 33.

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

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

Closest equivalent IFRS measure: No direct equivalent

Definition: Underlying operating profit plus share of JV profit after tax, divided by the sum of net debt (excluding leases), shareholders' funds and retirement benefit deficit/(surplus). See page 33.

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

Net capital expenditure

Closest equivalent IFRS measure: Property, plant and equipment and intangible additions

Definition: Property, plant and equipment and intangible additions less proceeds on disposal of property, plant and equipment and intangible assets.

Purpose: To understand net capital investment included in underlying operating cash flow.

	31 March 2024 £m	31 March 2023 £m
Purchases of property, plant and equipment (PP&E) (note 12)	(107.6)	(109.9)
Purchases of intangible assets (note 11)	(33.3)	(21.5)
Movements in unpaid capital expenditure	(1.5)	6.3
Gross capital expenditure	**(142.4)**	**(125.1)**
Proceeds on disposal of PP&E and intangible assets (statement of cash flows)	30.6	38.9
Net capital expenditure	**(111.8)**	**(86.2)**

Underlying operating cash flow

Closest equivalent IFRS measure: Net cash flow from operating activities

Definition: Cash flow from operating activities excluding net income tax, net interest paid, pension contributions in excess of the income statement charge and cash flows related to specific adjusting items and including net capital expenditure and lease principal payments. See page 28.

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

	31 March 2024 £m	31 March 2023 £m
Underlying operating cash flow	322.7	307.0
Add: net capex	111.8	86.2
Add: capital element of lease payments	49.6	108.5
Less: pension contributions in excess of income statement	(107.6)	(141.9)
Non-operating cash items (excluded from underlying cash flow)	(2.2)	(10.9)
Cash generated from operations	374.3	348.9
Tax (paid)/received	(27.4)	(25.4)
Less: net interest paid	(32.2)	(62.2)
Net cash flow from operating activities	**314.7**	**261.3**

Underlying operating cash conversion – Group KPI

Closest equivalent IFRS measure: No direct equivalent

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

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

	31 March 2024 £m	31 March 2023 £m
Underlying operating profit	237.8	177.9
Underlying operating cash flow	322.7	307.0
Operating cash conversion	**135.7%**	**172.6%**

Underlying free cash flow

Closest equivalent IFRS measure: No direct equivalent

Definition: Underlying free cash flow includes cash flows from pension deficit payments, interest, tax, JV dividends, specific adjusting items, in addition to underlying operating cash flow. See page 28.

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

Marine

Our c.7,200 employees design, develop, manufacture and integrate specialist systems, and deliver technical through-life support for complex platforms in the marine sector. Around 80% of Marine's revenue is derived from defence, with the remainder primarily comprising our Liquid Gas Equipment (LGE) business.

"Offering best-of-class technology and leveraging all our support capability is a really key theme for us continuing forward."

Paul Armstrong
Chief Executive, Marine

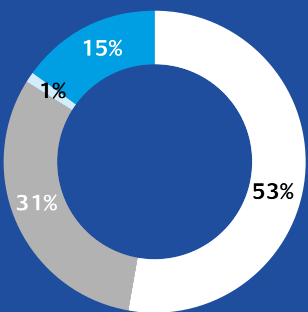
See what we do in Marine and watch Paul talk about the Sector at our recent Capital Markets Day

Operational highlights

- Type 31: HMS Venturer (ship 1) superstructure almost complete, HMS Active (ship 2) keel laid, and HMS Formidable (ship 3) steel cut due 2024. Programme restructured following a detailed operational review
- Three Arrowhead 140 licences delivered and keel laid on first MIECZNIK-Class frigate for the Polish Navy
- Selected by Saab to support the design of the Swedish Navy's Surface Combatant, Luleå Class. Initial contract awarded
- Achieved Operation Service Commencement of the Skynet Service Delivery Wrap space communications contract
- Ukraine Mine Counter Measure Vessel (MCMV) upgrade and support contract fully operational
- Achieved Operative Date for the Australian Regional Maintenance Provider (RMP) West contract

Marine – at a glance

FY24 revenue



Revenue	% of Group revenue
£1.4bn	32%
Number of employees	**Contract backlog**
7,200	£3.0bn

Defence UK | Defence International | Civil UK | Civil International

Financial review

	31 March 2024 £m	31 March 2023 £m
Contract backlog*	**2,992.7**	2,580.7
Revenue	**1,429.1**	1,439.6
Underlying operating profit*	**13.1**	12.7
Underlying operating margin*	**0.9%**	0.9%

* Alternative Performance Measures are defined in the Financial Glossary on page 39.

Revenue decreased by 1% to £1,429.1 million which primarily related to FX translation. Growth from our Arrowhead 140 programmes, including the Polish MIECZNIK frigate programme, and increased activity on Dreadnought systems, was offset by lower volumes in warship support and LGE.

Underlying operating profit of £13.1 million (FY23 £12.7 million), representing an underlying operating margin of 0.9% (FY23: 0.9%), was impacted by a £90.0 million loss on the Type 31 contract (FY23: £100.1 million loss) (see below).

Excluding the Type 31 loss, underlying operating profit decreased by 9% to £103.1 million with the positive contribution from licence fees on the Polish Arrowhead 140 programme more than offset by lower activity in warship support and the LGE business, as well as lower profitability in Mission Systems, primarily due to contract timing and therefore expected to recover.

Type 31: As set out in the CEO review on page 9 and the Financial Review on page 26, we have fully reviewed the Type 31 programme during the year, including resolving the Dispute Resolution Process. Over the year, overall costs have increased due to the maturing of the design and the increase in costs of labour in the market available in Rosyth, which is forecast to be higher than CPI, the indexation contained within the Type 31 contract. As a result, the outturn over the life of the contract has deteriorated by £90.0 million, which has been fully recognised in FY24. The cash impact of this loss is expected to be realised over the remainder of the contract.

Contract backlog increased 16% in the year to £2,993 million (FY23: £2,581 million), driven by a two-year extension to the Canadian Victoria Class submarine support contract, strong liquid gas equipment orders and service expansion of the UK MOD's Skynet satellite communications support contract, offsetting revenue traded on long-term contracts.

What differentiates us

Customer intimacy
- Long-term warship support partner to the UK, Canada, Australia and New Zealand
- Working in alliances with our customers in joint support teams across the same sites
- Developing additional international long-term partnerships

Operational asset understanding
- In-service support to every UK class of warship
- Deep maintenance support to 50% of UK surface warships
- Through-life capability partner for all UK naval guns
- Using digital twin data to improve operational support solutions
- Technical Babcock personnel deployed internationally

Product development and systems expertise
- Market-leading adaptable naval designs for through-life affordability
- Delivering innovative and complex naval systems and equipment using advanced manufacturing capabilities
- Leader in marine LGE systems
- Leading Five Eyes provider of secure defence communications

'Best in class' integration capability
- Delivering multi-Original Equipment Manufacturer (OEM) solutions which offer better availability, affordability and capability
- Unique ability to collaborate with a range of international OEM partners
- Clear focus on customer need, based on intimacy and operational asset knowledge

Operational review

Defence

UK defence

We continue to deliver the Type 31 frigate programme, with the superstructure of HMS Venturer almost complete. Work on the second ship, HMS Active, is progressing, with the keel laid and first double bottom blocks in the build cradle. In March 2024, we announced the intention to create more than 1,000 new jobs over the next four years at our advanced manufacturing and shipbuilding facility in Rosyth. These new roles, which include 400 apprenticeships, will benefit the UK economy and local community.

Following award of the 10-year warship support contract for the UK Royal Navy's QEC aircraft carriers, HMS Prince of Wales departed our Rosyth dockyard in July 2023 following a docking period to repair shaft lines, as well as undertaking planned activities on other underwater equipment and systems. We also welcomed HMS Queen Elizabeth back to Rosyth in March 2024 for docking, repairs and planned maintenance.

At Devonport, the Type 23 frigate life-extension (LIFEX) programme continues, with HMS Iron Duke achieving Ready for Sea and HMS Argyll achieving her undocking ahead of schedule. HMS Argyll is the first Type 23 to undergo a post-LIFEX upkeep under Project RENOWN, designed to reduce the amount of time spent in dock. Also in the period, we completed repairs and docking activity on HMS Somerset, and commenced the use of new hull and structure survey technology on HMS Richmond.

We continue to prepare for the arrival of the first Type 26 frigate, establishing the first remote office at BAE's Scotstoun shipyard to support the transition of the Type 26 Class to in-service support, with the new fleet of frigates base-ported at HMNB Devonport.

We were awarded two new five-year contracts by the UK Ministry of Defence (MOD) to continue providing in-service support for the Royal Navy's Ships Protective System (SPS) equipment.

The US-UK common missile compartment tube assembly programme continues for the US Columbia submarine programme, with further assemblies being delivered in support of the UK's Dreadnought programme. We have a market leading position in submarine missile tube assembly, underpinned by our deployment of advanced manufacturing technology.

Babcock is now on contract to deliver major systems modules for all four Dreadnought Class submarines, with a contract uplift for the remaining boats. During the period, we demonstrated our new complex weapons stowage equipment which will also be installed on the Dreadnought Class.

We were awarded a three-year contract to continue providing critical support to the Royal Navy's Phalanx Close-In Weapon System (CIWS), a rapid-fire, computer-controlled, radar-guided gun that can defeat anti-ship missiles and other close-in threats. The system is installed on multiple Royal Navy platforms, including the Queen Elizabeth Class aircraft carriers.

We achieved the Critical Design Review in the delivery of the UK Royal Navy's next-generation Maritime Electronic Warfare Systems Integrated Capability (MEWSIC) to install cutting edge radar electronic support and electronic warfare command and control capabilities across the new Type 31 and Type 26 frigates, Type 45 air-defence destroyers and QEC aircraft carriers.

Babcock has also been awarded a configuration management contract for the Royal Navy and the Royal Fleet Auxiliary surface ship fleet. The five-year contract will see us continue to operate the Master Record Data Centre, through which the configuration data and information of all surface ships will be managed.

Following a successful mobilisation and seamless transition, Babcock and its partners took over the operation of SKYNET, the UK's military satellite communications capability. The six-year service delivery wrap contract includes the management of the UK military satellite fleet and ground infrastructure for this 24/7 critical capability. When combined with our existing Defence Strategic Radio Service (DSRS) contract to deliver the MOD's secure High Frequency communications capability, Babcock now has a leading position delivering the UK Armed Force's critical communications in both a satcom and satcom-denied environment.

International defence

In Australasia, our contract to sustain the Royal Australian Navy (RAN) ANZAC frigate fleet, in alliance with BAE and Saab Australia, is due to phase into the new RAN Maritime Sustainment Model at the end of 2026. Babcock has completed the first maintenance periods on the replacement contract, Regional Maintenance Provider (RMP) – West, which will provide support for all RAN major surface ships located in Western Australia for the next five

In focus

Delivering at every step in the asset lifecycle

1st commission → Customer intimacy → 2nd commission → Deep maintenance capability upgrades

Affordable improvements in capability and availability

UK, Australian and New Zealand warship through-life support and LIFEX years. We were unsuccessful in our tender to deliver the replacement contract, RMP – East capability, however a sub-contract to transition our support from the RAN's flagship LHD amphibious platforms to the new sustainment model has been secured.

We agreed a new Capability Partnering Arrangement for sustainment of Australia's Collins Class submarines which will see us support existing operational requirements and seek to extend the life of the Babcock managed systems. We continue to deliver the Maritime Fleet Sustainment Services contract which supports the entire New Zealand navy fleet, including the operation of the main naval base infrastructure in Auckland.

In Canada, we continue to deliver the Victoria Class in-service submarine support (VISSC), which was extended to 2027, and are currently working on HMCS Victoria's extended docking work period. Milestones through the year include completion of over 800 hull and system surveys, removal of the diesel generators – a first-in-class evolution – and the commencement of major structural repairs, a large and complex work package to maintain the availability of the ageing platform.

We also signed Technical Cooperation Agreements with Hanwha Ocean and HD Hyundai Heavy Industries and have had ongoing engagements with other submarine OEMs. These activities position Babcock to be an integral partner in the Canadian Patrol Submarine Project, which will succeed the current Victoria Class in the mid-to-late 2030s.

In Poland, we finalised the design licence agreement with the MIECZNIK consortium for the build of three Arrowhead 140 frigates for the Polish Navy. The steel-cut for ship one was held at the Gdynia shipyard in August 2023.

In Sweden, we were selected by Saab as their programme partner to support their work on the Swedish Navy's next generation Luleå Class naval corvette programme. Under the initial contract, Babcock will provide front-end engineering and programme management for design.

In Indonesia, our customer PT PAL laid the keel for the first of two frigates, based on our Arrowhead 140 design.

In Ukraine, we completed the regeneration of UK Sandown Class Mine Counter Measure Vessels (MCMVs) at our Rosyth facility. The Royal Navy provided two of the vessels to the Navy of Ukraine who awarded Babcock a three-year contract to maintain and support the two minehunters. A further two MCMVs have been sold to the Romanian Navy with Babcock providing refurbishment support.

In South Korea, we are delivering systems for Boat 4 of the Jangbogo-III Class submarine programme. Additionally, we have been awarded a seven-year contract to manufacture and install the weapons handling and launch system for Boat 6 of the programme. Babcock is working with the Republic of Korea Navy and Hanwha Ocean to develop an in-service support strategy for the Class.

Civil

Our LGE business marked another year of significant achievements with record order intake of over £300 million. We have cemented our significant market share, winning new orders from existing and new customers and delivery of 50 projects in South East Asia.

With increasing utilisation of hydrogen as a sustainable fuel and with broad application across several sectors, our ecoVLAC® technology is well positioned for growth, and we have secured six contracts for design and build of Cargo Handling Systems for Very Large Ammonia Carriers (VLAC). Additionally, we launched ecoFGSS-FLEX® technology for the use of Ammonia as a ship main engine fuel.

At our Rosyth facility we welcomed two of the UK's fleet of scientific research vessels for planned maintenance. RRS Discovery and RRS Sir David Attenborough spent a total of 16 weeks at Rosyth undergoing through-life support and will return to Rosyth in 2024. We also converted a former UK Royal Navy patrol ship into a medical vessel for Vine Trust at Portsmouth, an international volunteering charity supporting some of the most isolated communities in Tanzania and Peru.

Nuclear

Our c.8,600 employees provide complex through-life engineering support to the entirety of the UK's nuclear submarine fleet, own and manage critical national infrastructure, and provide engineering integration support to AWE. We operate across UK civil nuclear, including new build, generation support and decommissioning.

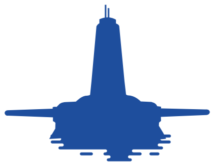
"In the nuclear sector we have a fantastic opportunity to play a key part in the UK's national recommitment to nuclear power in both the civil and the defence market."

Harry Holt
Chief Executive, Nuclear

See what we do in Nuclear and watch Harry talk about the Sector at our recent Capital Markets Day

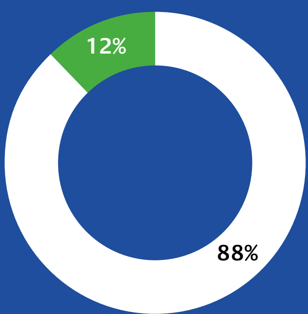
Operational highlights

- Commenced c.£560 million HMS Victorious Deep Maintenance Programme (DMP) – one of the UK's Vanguard Class nuclear submarines
- Returned HMS Vanguard to Royal Navy after her Deep Maintenace Period (DMP) and Life Extension Programme (LIFEX)
- Awarded £750 million infrastructure contract in preparation for Astute Class DMP
- Awarded new contracts in support of the UK's Dreadnought and SSN-AUKUS submarine development programmes
- X-energy and Cavendish Nuclear selected for UK Government's Future Nuclear Enabling Fund (FNEF)



Nuclear – at a glance

FY24 revenue



Defence UK
Civil UK

Revenue	% of Group revenue
£1.5bn	35%
Number of employees	**Contract backlog**
c.8,600	£3.1bn

Financial review

	31 March 2024 £m	31 March 2023 £m
Contract backlog*	**3,104.8**	2,453.8
Revenue	**1,520.9**	1,179.2
Underlying operating profit*	**109.2**	63.5
Underlying operating margin*	**7.2%**	5.4%

* Alternative Performance Measures are defined in the Financial Glossary on page 39

Revenue increased by 29% to £1,520.9 million, driven by strong growth in Major Infrastructure Programme (MIP) revenue, increased Future Maritime Support Programme (FMSP) submarine support activity and new contracts in our civil nuclear business. MIP revenue increased to £459 million (FY23: £267 million).

Underlying operating profit increased by 72% to £109.2 million driven by the revenue growth above and non-recurrence of a £16 million loss on a FY23 programme, which has now completed. As a result, underlying operating margin improved 180 basis points to 7.2%.

Contract backlog increased 27% in the year to £3,105 million (FY23: £2,454 million), driven primarily by the £750 million MIP contract to modernise 10 Dock at our Devonport facility.

What differentiates us

Customer

- Long-term UK MOD submarine support partner
- Strong nuclear regulator relationships
- Growing international portfolio and partnerships eg HII

Operational asset understanding

- Support to every class of UK nuclear submarine
- Deploying innovative technology at AWE fissile production facilities
- OEM for fuel route and primary control systems for EDF-Energy UK fleet
- AUKUS SSN-A platform design for maximum support efficiency

Engineering know-how

- UK's largest nuclear workforce for civil and defence at c.8,600
- Prime partner for Nuclear Skills Taskforce
- Babcock Skills Academy to train 10,000 people in next five years
- Leveraging digital asset data to improve engineering decisions

Unique infrastructure

- Own and operate highly regulated nuclear sites at Devonport and Rosyth
- Management of critical national infrastructure at Devonport, Faslane and Rosyth Naval Bases

Operational review

Defence

UK Defence

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

We are delivering substantial upgrades to existing critical infrastructure at Devonport to support the UK's future capability through a Major Infrastructure Programme (MIP). Following the award of the manufacturing phase contract, the programme to upgrade 10 Dock has entered the formal construction phase, which will deliver a new dock, berth, logistics and production support facilities, primarily for the Astute Class. We are also undertaking the refurbishment of 9 Dock, currently used for the Vanguard Class, the most significant work carried out on the dock for over 20 years, and 15 Dock.

Deep maintenance and life-extension of the second of the UK's Vanguard Class nuclear submarines, HMS Victorious, are underway at Babcock's facility at Devonport following an agreed full cost recovery contract worth an estimated £560 million with the Submarine Delivery Agency (SDA). This follows the completion in-year of HMS Vanguard's deep maintenance period, the most complex submarine maintenance and life-extension programme that has ever been delivered within the enterprise. The first Astute Class submarine has also been received in Devonport and is currently undergoing surveys and work ahead of an in-dock base maintenance programme (BMP). At HMNB Clyde, we continue to deliver a strong performance on submarine maintenance periods against a backdrop of increasing operational demands.

We were awarded a five-year contract to provide input into the detailed design for the new Ship Submersible Nuclear AUKUS (SSNA) submarines which will replace the Astute Class from the late 2030s and will be the future SSN design for the Royal Australian Navy. We also agreed with the SDA a 12-month extension to our Interim Support to the AUKUS Contract to provide consultancy support to the UK and Australian Governments in acquiring, operating, and maintaining nuclear powered submarines for the Royal Australian Navy.

Babcock was awarded a further contract to support the UK's new Dreadnought Class submarines, providing input into the development of the support solution, with a focus on engineering best practice and submarine maintenance to enable improved in-service availability. We continue to deliver good performance and ongoing improvements against our FMSP contract.

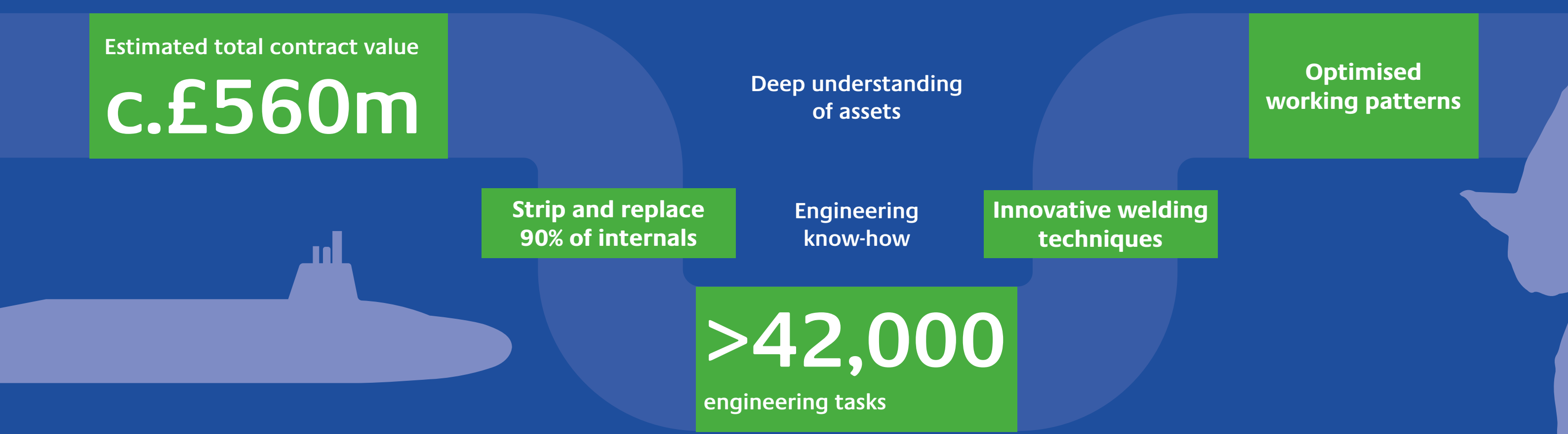
We are supporting the SDA on the Submarine Dismantling Project, working towards the full dismantling of the ex-HMS Swiftsure, which will be a UK first. The decision has been made to undertake the full vessel recycling at Rosyth. We are engaging to shape the future Submarine Disposal Capability programme with the SDA.

Work continues to deliver the Process, Plant and Equipment (PP&E) contract for AWE Aldermaston, with Babcock leading the design, installation and commissioning of complex plant and equipment engineering.

We have taken a leading role to support the UK's Nuclear Skills Task Force, following the recent announcement by the UK Prime Minister of a funded skills plan. We continue to lead on the collaborative work to deliver critically needed skills across the Babcock Nuclear enterprise, developing on the Babcock Skills Academy offering, significantly increasing our early careers intake, upskilling the Babcock workforce and targeting mid-career switchers through our engagement in Destination Nuclear, the first national communications campaign targeting recruitment into the industry.

In focus

HMS Victorious deep maintenance programme



International defence

Babcock and HII have combined forces in Australia to work together to support the critical capabilities required to deliver the AUKUS programme, collaborating to develop the optimal models for nuclear-powered submarine capability, including infrastructure, sustainment, and the necessary skills development.

We have signed an MoU with Bechtel Australia to identify opportunities to leverage complementary expertise to establish and support Australia's conventionally armed nuclear-powered submarine programme (AUKUS). Babcock Australasia has also joined forces with HII, the University of Adelaide, Curtin University and the University of NSW to form the AUKUS Workforce Alliance.

Civil

UK civil nuclear

We continue to support Sellafield with their decommissioning programme and have been short-listed for the Invitation to Tender phase for two key Lots of the 15-year Decommissioning and Nuclear Waste Partners programme.

We have diversified our customer portfolio in the UK, securing work with both Westinghouse and Urenco, supporting the Government's focus on security and front-end fuel cycle. The reprocessed uranium front end conversion project for Westinghouse will design and build a facility to process uranium to enable its future enrichment and use as a nuclear fuel, while the tails management facility project for Urenco will convert depleted uranium hexafluoride to the lower hazard uranium oxide material for long term storage. At Magnox we have mobilised the Hinkley Point A Vault Retrievals Phase 2 contract to provide the design and delivery of an automated solution to safely retrieve, process and package waste from the site's vaults, ready for safe storage.

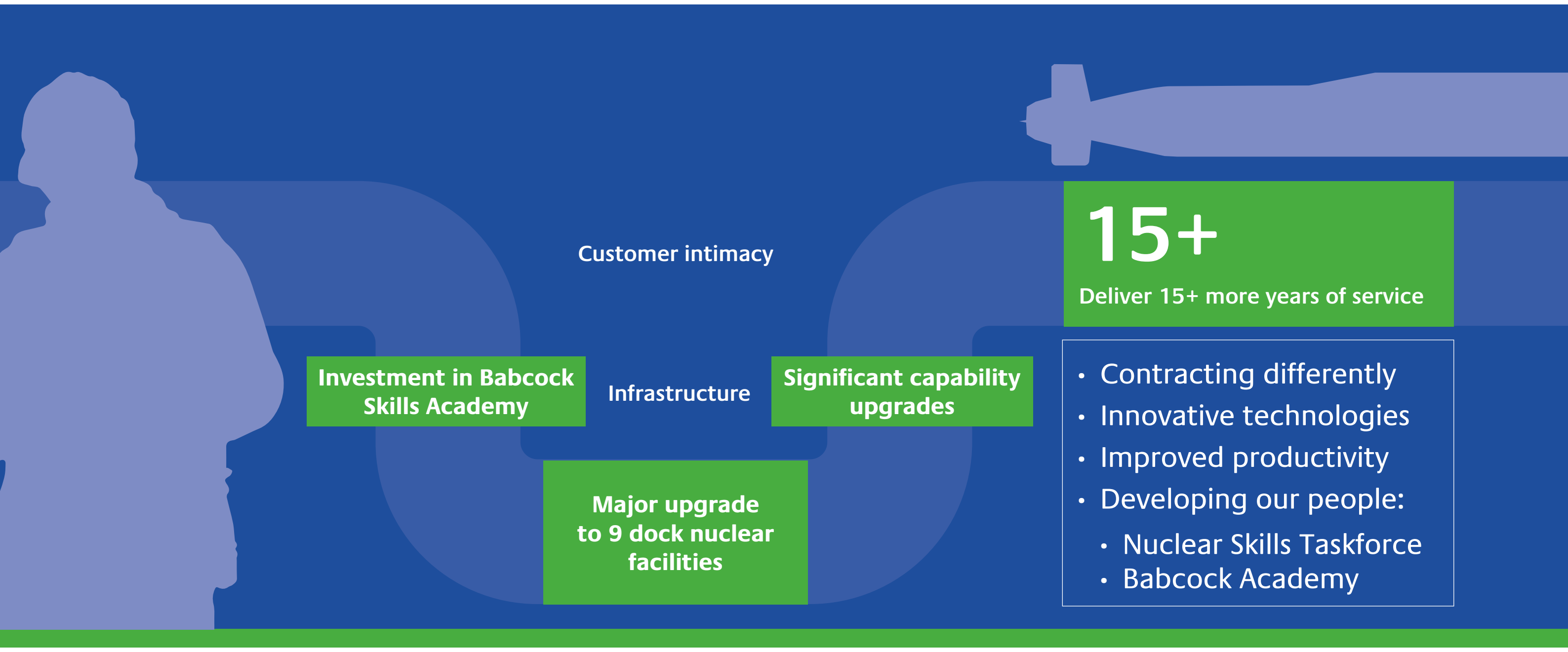
Cavendish Nuclear and X-energy welcomed a funding award from the UK Government's Future Nuclear Enabling Fund to further develop Advanced Modular Reactors (AMRs) in the UK. The Government's award of £3.4 million will be matched by X-energy for a total programme of £6.8 million. The funds will be used to develop UK-specific deployment plans including an assessment of domestic manufacturing and supply chain opportunities, constructability, modularisation studies, and spent fuel management.

In addition to AMRs, we continue to support Rolls Royce and GE-Hitachi, two of the six Small Modular Reactor (SMR) vendors whose designs have recently advanced to the next phase of the UK's SMR competition. We continue to support EDF with Large Gigawatt Reactor delivery at Hinkley Point C and Sizewell C through the MEH Alliance, an unincorporated JV.

International civil nuclear

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

In the US we are continuing to position for other major Tier 1 clean-up opportunities, on the back of the successful award last year of the Portsmouth Gaseous Diffusion Plant Decontamination and Decommissioning Contract with our joint venture partners.



Land

Our c.6,400 employees provide essential services to our customers through three core capabilities, Build, Support and Train. We do this through management, through-life engineering support and build, engineering and systems integration for military vehicles and equipment. We provide individual and collective training for customers with critical missions and deliver engineering services in power generation and transport networks and through-life support of mining equipment.

"The Land business today is refocused and upgraded and the macro environment is generating demand for our services. The world needs us more than ever before."

Tom Newman
Chief Executive, Land

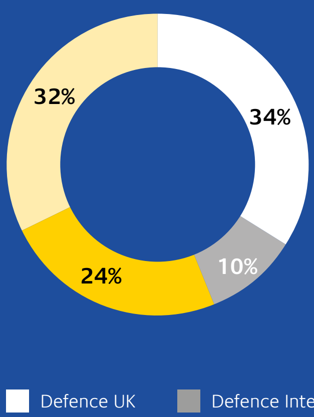
See what we do in Land and watch Tom talk about the Sector at our recent Capital Markets Day

Operational highlights

- DSG contract extension under negotiation
- Launched GLV for the upcoming MOD tender to replace the legacy Army Land Rover fleet; actively exploring export opportunities
- Officially launched production of the High Mobility Transporter Jackal 3 for the British Army, with Supacat
- Signed collaboration agreement with Singapore Technology Engineering for UK mortar systems
- Awarded second ground and equipment support contract for the French Navy, Army and Air Force
- Awarded contract expansion to support UK gifted in-kind platforms to Ukraine
- Secured REME Apprenticeships contract to 2029
- Won ARMCEN support contract for armoured vehicle technical training for British Army

Land – at a glance

FY24 revenue



Revenue **£1.1bn**	% of Group revenue **25%**
Number of employees **6,400**	Contract backlog **£2.6bn**

Financial review

	31 March 2024 £m	31 March 2023 £m
Contract backlog*	**2,593.7**	2,809.8
Revenue	**1,098.6**	1,017.1
Underlying operating profit*	**96.3**	85.9
Underlying operating margin*	**8.8%**	8.4%

* Alternative Performance Measures are defined in the Financial Glossary on page 39

Revenue increased 8% to £1,098.6 million (FY23: £1,017.1 million) with organic growth of 17% offset by a 5% FX translation headwind due to the weakening of the South African Rand against the Pound Sterling and the impact of the disposal of the Civil Training business in FY23. Strong organic growth was across our military activities including equipment support and training for our UK and international customers, ramp up of vehicle engineering contracts and the Australian Defence High Frequency Communication (DHFC) system contract, and continued growth in our South African business, driven by demand for mining equipment.

Underlying operating profit increased 12% to £96.3 million, including a £17.0 million profit on freehold property disposal. FY23 included an £11.6 million one-off accounting credit. The increase was also driven by revenue growth outlined above and improved performance across a number of our Land contracts, including the legacy DSG contract as it approaches its final delivery year. Performance in our South African business was in line with FY23, which benefitted from the close out of the Eskom contract. Underlying margin improved 40 basis points to 8.8% (FY23: 8.4%), including a 1.5% impact (FY23: 1.0%) from the one-off items described above.

Contract backlog decreased 8% to £2,594 million (FY23: £2,810 million) due to revenue traded on long-term contracts and the end of the Metropolitan Police Support contract in FY24.

What differentiates us

Build

- Deep expertise in operational support
- UK civilian armoured vehicle market leader
- Customer intimacy drives better product solutions
- Archer Artillery Alliance (BAE, Babcock, RBSL)

Support

- Integrated with British Army equipment support and planning
- Market data leadership through Palantir collaboration
- Leading industry in deployment of advanced manufacturing

Train

- Largest training supplier to British Army
- 20+ years of delivering critical mission training to reference customers
- R&D on human performance in high-pressure environments

Operational review

Defence

UK Defence

We delivered a strong performance in our defence equipment business. We provided critical support to prepare, repair and regenerate the Army's fleet for the Steadfast Defender exercise, the largest NATO exercise since the Cold War. Following notification by our UK MOD customer of its intention to exercise up to five option years for DSG from FY25/26, we have commenced a period of negotiation and transition as we move through the approvals process to contract signature. The transition activity will result in better outcomes for all stakeholders throughout the rest of the decade.

Babcock's steadfast commitment to providing critical support to Ukraine's military operations continues, providing training of personnel and the refurbishment and regeneration of equipment for Ukraine's Armed Forces through our Project HECTOR contract with the MOD. Having been awarded a contract in June 2023 to support the UK's gifted platforms to Ukraine, we achieved full operational capability and contract expansion in the period. In May 2024, we announced work was underway on an in-country facility to deliver engineering support, including the repair and overhaul of military vehicles, to be delivered in partnership with UDI, Ukraine's state-owned defence industry.

Our ambition to develop a portfolio of product-based offerings remains on track. In February, in collaboration with Supacat, we launched the production of 70 High Mobility Transporters (HMT 400 series) Jackal 3 for the British Army. Production will be undertaken at our new facility within the free port of Devonport.

We launched the Babcock General Logistics Vehicle in September 2023, with a focus on the upcoming MOD tender to replace the legacy Army Land Rover fleet and are pursuing other international opportunities. In June 2025, we launched a medium wheelbase variant and expect to add six-wheel drive variant in FY26.

Babcock remains the principal supplier of Toyota LC300 Civilian Armoured Vehicles to UK government agencies and we celebrated the successful conversion of the 50th vehicle in August 2023.

We signed a collaboration agreement with Singapore Technology Engineering for the manufacture of 120 mm mortar systems in the UK. Our Advanced Manufacturing Business continues to make significant developments in tackling supply chain problems caused by obsolete parts. We co-chair the defence accelerator programme which seeks to increase the availability of defence materiel. Babcock has also successfully converted 25% of the MOD's white fleet to electric vehicles. The programme is creating greater fuel efficiencies and supporting the MODs sustainability goals.

Our Defence Training business performed well in the period, securing a number of key contracts including the Armour Support Contract, an extension to our contract to provide driver training and a further contract to support REME Apprenticeships to August 2029. We have been awarded a three-year contract, supporting Mabway, for the provision of support for the design, preparation and delivery of military training exercises, which will replace our current Hannibal contract. Our bid to become the Strategic Training Partner for the Army Collective Training System (ACTS) has progressed to the Invitation to Tender stage and we continue to have positive engagements with the customer as part of the bid process.

We continue to develop leading edge capabilities. Most notably we were recently able to announce an Enterprise Agreement with Palantir Technologies UK to strengthen our integrated planning function by enhancing our digital capabilities across the Sector. Working with Palantir and investing in our own data science and data engineering capabilities, we are on a journey of better cohering, understanding and modelling thousands of data-points relating to both critical and complex assets and their value chains. The relationship also extends to the synthesis of performance and behavioural data relating to individual and collective training to optimise learning and enhance training outcomes.

International defence

In France, we have successfully completed the transition of the ground support equipment contract awarded last year. Babcock has also been awarded a new seven-year contract to provide in-service support to airfield ground support equipment throughout France's mainland and overseas military bases. This is Babcock's second significant Land Sector contract in France.

In focus

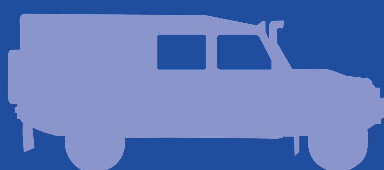
High potential military product business

From civilian armoured vehicle conversion to the design, build and through-life upgrade of militarised mobility vehicles

- Harnessing reliable commercial/military off-the-shelf platforms
- Support expertise influences design
- Sustainable vehicle technologies
- Freeport facility created to support Land Industrial Strategy

Civilian armoured vehicle (LC300)

Babcock General Logistics Vehicle



In Australasia, we continue to mature design of the new Defence Australian High Frequency Communications System through the JP9101 programme. We also signed a three-year contract extension to provide the Australian Department of Defence with streamlining sustainment and acquisition processes for Counter–Chemical Biological Radiological, Nuclear and Explosive (C-CBRNE) capability using our industry-leading asset management systems. We continue to work closely with the New Zealand Ministry of Defence on the Fixed High Frequency Radio Refresh programme.

We continue to be in an active process with the Australian Defence Force (ADF) for a first generation contract for sustainment management services for Land equipment. We are developing solutions to export leading capabilities from the UK to streamline existing support provision, and enhance fleet management, inventory management, engineering and technical management, procurement management, and support to ADF Operations.

In Canada, we signed a Memorandum of Understanding with Roshel to collaboratively explore opportunities to support the Canadian Armed Force's land requirements, providing innovative solutions through the combination of our global asset management expertise and Roshel's specialist vehicle manufacturing. This relationship provides us with the potential to build our civilian armoured vehicle (CAV) in Canada and support the Government of Canada, and address export opportunities in the North American defence and security market.

Civil

UK civil

Both our London Fire Brigade and Metropolitan Police (MPS) training contracts have performed well in the period. However, we have seen lower volumes on the MPS contract as the customer seeks to meet its challenging recruitment targets. We are leading an optimisation programme to support the design of a new entry route programme, focused on improving operational performance in support of transforming the approach to initial recruit training.

We continue to provide effective support to the London Fire Brigade through equipment and vehicle management, servicing and repair.

The trial to reduce the number of planned vehicle movements by up to 50% across the Greater London region will reduce wear and tear and emissions. This allows for greater flexibility in fleet management practices such as vehicle rotation and whole life cost, helping to preserve high-vehicle availability. The trial has provided successful results with a full roll-out across the London Fire Brigade fleet being implemented.

We continue to explore ways in which we can support the UK Government's increasing focus on national resilience efforts, including enhancing the asset management services we provide as part of the New Dimensions programme for event response readiness at national, regional and local level.

Our Rail business continues to deliver strong performance in its key regions of Scotland and Northern Ireland and has started to expand its operations into the significant market in Ireland. Major investment in national rail infrastructure by the Irish Government is a key enabler for building on, levelling up and sustaining recent economic growth across the country. Engagement with industry stakeholders around major engineering programmes progresses, which will see the network modernised, decarbonised and have capacity more than doubled over the next 5 to 10 years.

International civil

South Africa performed strongly, primarily driven by the equipment business, which supplies vehicles and vehicle support to the mining industry. A sustained high demand for commodities continues to drive open cast mining activities, resulting in an expansion of our market share. Our Engineering and Plant businesses delivered results in accordance with forecast. We are actively exploring opportunities within the marine and nuclear sectors to further diversify our portfolio and drive future growth.

We received orders for delivery of strategic spares for Eskom power stations to be delivered over three years. We were awarded five-year milling plant maintenance contracts for two power stations and began work on a significant contract to engineer and replace electrostatic plates at Lethabo power station to reduce particulate emissions.

Aviation

Our c.2,500 employees deliver military pilot training for the two largest Air Forces in Europe (France & UK), through-life support to operational military flying assets and critical air operations for government customers

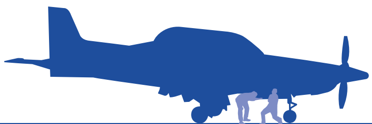
"Our growth plan isn't just an ambition. We are delivering it now, focusing on opportunities we can win and deliver, managing carefully our operational risks and protecting our margins."

Pierre Basquin
Chief Executive, Aviation

See what we do in Aviation and watch Pierre talk about the Sector at our recent Capital Markets Day

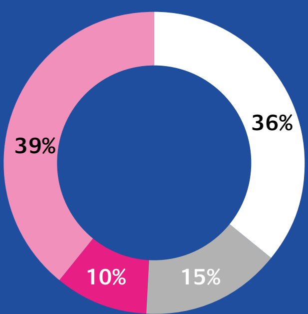
Operational highlights

- Completed delivery of six H160 helicopters to the French Navy as part of a 10-year contract
- Partnered with RAF to deliver the first Elementary Flying Training (EFT) phase of the Ukrainian Pilot Force programme
- Delivered unprecedented firefighting operations in Canada with >99% aircraft availability
- Explored opportunities with Zero Petroleum for the use of synthetic fuels in defence aircraft
- Secured a five-year extension to Victoria Air Ambulance contract in Australia
- After the year end, awarded 12-year contract alongside Airbus to support 48 EC145 helicopters for the Générale de la Sécurité Civile and the French Gendarmerie Nationale



Aviation – at a glance

FY24 revenue



Revenue	% of Group revenue
£0.3bn	8%
Number of employees	**Contract backlog**
c.2,500	£1.6bn

Financial review

	31 March 2024 £m	31 March 2023 £m
Contract backlog*	**1,641.4**	1,633.0
Revenue	**341.5**	802.7
Underlying operating profit*	**19.2**	15.8
Underlying margin*	**5.6%**	2.0%

* Alternative Performance Measures are defined in the Financial Glossary on page 39

Revenue decreased 57% to £341.5 million (FY23: £802.7 million) primarily due to the impact of the sale of the European Aerial Emergency Services (AES) business in February 2023, which contributed revenue of £387 million in FY23. On an organic basis, revenue declined 17% due to the sales mix of our French defence contracts, particularly MENTOR, between aircraft delivery and service phases. Our remaining UK, Australia and Canada aviation businesses all delivered modest growth.

Underlying operating profit increased 22% to £19.2 million (FY23: £15.8 million), despite lower revenue due to favourable sales mix of our French defence contracts, improved pricing and lower bid costs. The prior year also included a £1.1 million loss contribution from the disposed European AES business. As a result, underlying operating margin increased 360bp to 5.6%.

Contract backlog was in line with the prior year at £1,641 million (FY23: £1,633 million), with new orders matched by revenue traded on long-term contracts.

What differentiates us

Customer intimacy

- Embedded into Air Forces and their organisations. We deliver alongside them through long-term partnering contracts
- Our performance directly influences military operational readiness
- As a critical air missions operator, we understand the operational challenges faced by Air Forces: specialist pilot training and asset availability

Operational asset understanding

- Extensive experience of providing operational support and training on multiple fixed wing and rotary wing platforms
- Not reliant on OEMs to maintain and repair the platforms we fly: we do it ourselves
- We optimise flying platforms through the lifecycle to maximise availability and reduce operational costs

Engineering know-how

- Platform agnostic, we deliver tailored solutions to Air Forces
- Ability to mutualise engineering services to jointly support our assets and those owned by military customers
- Wide range of in-house engineering capabilities

Operational review

Defence

UK Defence

Performance on the RAF HADES contract remains strong against a background of customer site laydown and base closures and we are in positive discussions regarding a further contract extension.

We continue to deliver good organic growth in our 11-year agreement with BAE Systems, supporting the RAF's Hawk TMk1 and TMk2 fleet.

Despite some fleet challenges earlier in the year, operations on the RAF Light Aircraft Flying Task contract (LAFT2) are continuing as normal with high levels of availability. We delivered the first Elementary Flying Training (EFT) phase of the Ukrainian Pilot Force training as they prepare to fly F-16 jets, with zero sorties lost due to aircraft unavailability.

We successfully negotiated a 13-year extension to the ground handling support contract for the Future Strategic Tanker Aircraft contract. We continue to provide IT service and improvement projects for the customer and are continuing to build a strong working relationship.

Project MONET, a two-year research and development project to explore the application of emerging technologies to minimise the environmental impact of the Light Aircraft Flying Task, has concluded its first year with a successful environmental impact assessment of the Grob Tutor. Work continues on the next phase to develop a flying testbed aircraft to test technologies in the air.

We signed the Defence Aviation Net Zero Charter, confirming our commitment to help UK Defence meet the challenges of climate change and to advance the testing of synthetic fuels in the military environment across air defence platforms.

We are exploring the use of uncrewed air system technologies to support UK defence, security and government aviation, and working on methods of integrating autonomous and collaborative platforms into the RAF.

International defence

In France, activity continues to ramp up on the MENTOR contract with flying activity above forecast, further enhancing the training delivery. On the FOMEDEC contract, an additional simulator has been set up to deliver 1,500 additional simulator hours (+18%) to the customer. In total, we delivered c.13,500 flight hours and 8,500 simulator hours this year for the French Air Force under both contracts (FOMEDEC and MENTOR). We are also extremely proud to have reached a key milestone this year of 40,000 flight hours on our PC-21 aircraft.

We completed the delivery of our six Airbus H160 helicopters to the French Navy as part of our contract with the French MOD. The aircraft are used to perform Search and Rescue (SAR) missions and have already flown more than 1,750 hours and carried out numerous rescue missions in the Mediterranean and across the Normandy and Brittany coasts. We have also opened the first H160 site for SAR operations in the world, located in Cherbourg (France).

After the year end, we have been awarded a new contract alongside Airbus Helicopters to support the EC145 fleet of the Direction Générale de la Sécurité Civile and the French Gendarmerie Nationale. The 12-year contract covers the aircraft in-service support of a 48 Airbus EC145 helicopters fleet across France mainland and overseas. Additional maintenance work has been delivered to our current seven-year contract with French Customs and Gendarmerie Nationale where we deliver in-service support to their EC135 helicopter fleets. Flying activity is also above contract expectations with a total of 8,141 flight hours (expected 6,500 flying hours).

Bidding activity on military aviation tenders remains high with many ongoing opportunities such as Mentor 2 contract (outsourcing of French military pilots initial training stage), French Air Force tactical and combat training contract and BFTC (outsourcing of the Belgium fighter pilot training).

In Canada, we were unsuccessful in our bid to deliver Canada's Future Aircrew Training (FAcT). We continue to explore opportunities in the military spectrum, leveraging our current civilian capabilities and our international military know-how to support the Royal Canadian Air Force and other Federal Departments in the future.

In focus

The leading training partner to the French Air Force

Revenue up
10x
since FY16, driven primarily by defence opportunities (now c.50% defence)

The largest engineering partner for armed forces' medium-size helicopters (H160, H145, H135)

Successful expansion into supporting military ground assets

Grown our position as the leading training partner to the French Air Force

Strong partnership with leading defence OEMs Dassault Aviation and Airbus Helicopters

In France, Babcock is now perceived as a French defence company with appropriate access to classified opportunities and defence investments

Civil

UK civil

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

International civil

In France, we are growing our ambition to protect citizens and communities in new territories, by developing a joint solution with the Sultanate of Oman to implement a robust and comprehensive Aerial Emergency Medical Service for all citizens and tourists in the country.

In Australasia, we continue to deliver critical emergency services while strengthening our relationships with our customers. We were awarded three key contract extensions this year, making Babcock the biggest provider of aerial emergency medical services in Australia.

The Queensland Government has extended our contract to provide emergency medical services and search and rescue for a further 12 years. The South Australian Government granted a four-year contract extension for the delivery of a State Rescue Helicopter Service. Lastly, we have been awarded a five-year contract extension to continue to provide critical air ambulance operations in Victoria until December 2030.

In Canada, we continued to deliver air ambulance and wildfire suppression services for the Province of Manitoba, helping to protect citizens, communities and natural resources. Last year Canada experienced an unprecedented number of wildfires, which saw our operations deliver over 1,500 flight hours, 674 fire missions and 5,006 water drops. In March 2024, we successfully completed the delivery of the LifeFlight critical care air ambulance services contract for the Province of Manitoba which saw 100% aircraft availability during the year.

We have begun to ramp up the in-service support for British Columbia's new aerial emergency services contract using a fleet of AW169 aircraft. This 10-year contract will start in FY25 with facilities construction.

Why we succeed:

- Differentiated value proposition combining equipment acquisition and conversion, maintenance, operation and training
- Strong track record in UK – flexible model adaptable to French requirements
- We shaped the French Air Force's approach to outsourcing
- Consistent delivery

Stakeholder engagement

Building strong and lasting relationships with our global stakeholder groups is not only vital to our success, it's central to our Purpose: to create a safe and secure world, together.

We recognise the impact we have on our stakeholders and our responsibility to them, which is why increased stakeholder engagement is a key part of our turnaround strategy. We are committed to open and productive engagement with all our stakeholders.

Customers

Why they matter to us

Understanding the needs and challenges of our customers allows us to help them to succeed. We make their mission, our mission; working in partnership with our customers to deliver critical programmes and services. We seek to solve their challenges through the introduction of innovative solutions and technology to support their needs. We build and maintain long-term relationships with our customers to promote our mutual success.

What matters to them

- Safety
- Operational excellence
- Affordability (value for money)
- Availability
- Capability
- Innovation and expertise
- Reliability
- Collaboration
- Deep understanding of their needs, both now and in the future
- Sustainability performance and agenda

How Babcock engages

- Regular ongoing relationship engagement at all levels
- Contract negotiation and execution
- Strategic Partnering Programme
- Collaborating on joint initiatives
- Attendance at key industry events
- Provision of information on sustainability goals

Investors

Why they matter to us

The support of our equity and debt investors and continued access to capital is vital to the long-term success of the Company. We work to ensure that we provide clear and transparent information to the market which allows investors and potential investors to make informed decisions, via market updates, information published on our website, appropriate access to management and active Investor Relations (IR) and Treasury teams.

What matters to them

- Shareholder value
- Financial and operational performance
- Strategy and business development
- Capital structure
- Dividend policy
- Transparency of communications
- Access to management
- Governance
- Sustainability strategy

How Babcock engages

- Annual Report and Financial Statements and AGM
- Results materials and presentations
- Proactive IR team: met with over 300 investors in FY24
- Treasury team engagement with banks, noteholders and credit rating agencies
- Investor roadshows with management and IR team
- Chair and NED engagement with top shareholders
- Investor site visits, including 2024 Capital Markets Day
- Stock exchange announcements and press releases published on various channels including social media

Suppliers

Why they matter to us

To support our global business operations and strategy we require an efficient and highly effective supply chain. This means we need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice.

Our external supply chains are an important part of our performance, and by working collaboratively with suppliers we can ensure continuity of supply, minimise risk and bring innovative solutions to our customers.

What matters to them

- Good working relationships
- Access to opportunities
- Prompt payment and predictable supplier cash flows

How Babcock engages

- Regular open and honest two-way communications
- Supplier Code of Conduct
- Supplier conferences and workshops
- Supplier due diligence
- Involvement in security supply chain development programme SC21

Regulators

Why they matter to us

We manage complex assets in highly regulated sectors: nuclear, defence and aviation. We are committed to providing safe and effective operations. We have to maintain positive and constructive relationships with regulators in order to be able to operate, to help shape policy in our markets and to position for future opportunities.

What matters to them

- Regulations, policies and standards
- Governance and transparency
- Trust and ethics
- Safety and compliance of operations
- Sustainability
- Site-specific issues

How Babcock engages

- Regular engagement (national, local and official level)
- Briefing on key issues
- Dedicated compliance teams
- Response to direct queries
- Coordinated safety improvement programmes

Employees

Why they matter to us

Our success depends on our people. We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. Informed by the responses to our annual Global People Survey, we are focusing on developing and supporting a truly engaged workforce, living our principles and working on shared goals, united by our common Purpose.

What matters to them

- Remuneration, reward and recognition
- Professional development and career progression
- Health, safety and wellbeing
- The Group's aims, goals, priorities and reputation
- Regular engagement with leaders
- An empowering culture
- Inclusion and diversity
- Our ESG agenda
- Employee networks
- Collaboration

How Babcock engages

- Employee forums and meetings
- Global engagement platforms, including an employee app
- Weekly CEO and senior management vlogs
- Access to the CEO via a dedicated email
- A Global People Survey
- Regular internal updates
- Cascade briefings
- Regular safety stand downs and annual safety summit
- Regular training
- Access to independent whistleblowing process
- Senior management and Board visits
- Non-Executive Director responsible for employee engagement at Board level
- Free confidential employee support helpline
- Shadow Executive Committee

Communities

Why they matter to us

We are committed to the communities in which we operate and the broader interests of the customers we serve. We have a responsibility to support the communities in which we operate both economically and socially; community engagement and social value creation are key aspects of our ESG strategy. We want to be a force for good in our communities, particularly where we have major sites of operation and are one of the largest employers in the local area.

What matters to them

- Employment opportunities and economic contribution
- Health, safety and wellbeing
- Making a positive impact on the community, including through volunteering
- Engagement in local education and STEM activities
- Sustainability and protection of the local environment
- Support for indigenous people
- Support for the armed forces community
- Broad community engagement

How Babcock engages

- Regular dialogue at our largest sites on matters of mutual interest
- Sponsorship and donations
- Independent research to analyse our contribution to the local and UK economy
- Employee volunteering
- University and skills partnerships
- Schemes to support people returning to work
- STEM ambassadors
- Significant employer of service leavers, veterans and reservists
- Engagement with and support for local community programmes

s172(1) statement

The Directors confirm that they, both individually and collectively, have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the shareholders as a whole, while having regard for all stakeholders. By considering key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term.

More information on how stakeholders are factored into our decision-making and the Board's engagement with stakeholders can be found in the Governance section in the Chair's introduction on page 111 and on pages 116 to 119, which form part of this statement. Further information on how the Board addressed the different matters set out in s172(1) in performing its duties during the year can be found as follows:

s172(1) factor	Relevant disclosures
a. the likely consequences of any decision in the long term	Driving sustainable growth (pages 15 to 17), ESG strategy (page 62)
b. the interests of the Company's employees	Social (page 80)
c. the need to foster the Company's business relationships with suppliers, customers and others	Stakeholder engagement (page 60), Commercial integrity (page 86)
d. the impact of the Company's operations on the community and environment	Social (page 84), Environment (page 67)
e. the desirability of the Company maintaining a reputation for high standards of business conduct	Governance (page 86)
f. the need to act fairly between members of the Company	Investors (page 60)

Our ESG strategy

Sustainability remains an integral part of our corporate strategy, underpinning our corporate Purpose: to create a safe and secure world, together.

Our five corporate Environmental, Social and Governance (ESG) priorities provide the framework for how we incorporate sustainability into our business, by minimising risk, reducing our environmental footprint, contributing to our communities and transitioning to a more sustainable future for all.

We continue to progress our corporate ESG strategy, ensuring progress towards our commitments and five priorities. Our continued progress against this strategy is evidenced by our ongoing success in reducing our gender pay gap year on year (see page 81) and our award-winning Production Support Operative (PSO) programme (see our sustainability pages on our corporate website). We have also gained approval for our science-based near and long-term emissions reduction targets and verification of our Net Zero target by 2050 from the Science Based Targets initiative (SBTi) (see page 68).

Our ESG priorities

Environment		Social		Governance
We will reduce emissions in line with our short-term science-based targets and long-term Net Zero targets	**We will integrate environmental sustainability into programme design to minimise waste and optimise resources**	**We will ensure the safety and wellbeing of all our people**	**We will make a positive difference to the communities we're proud to be part of and provide high-quality jobs that support local economies**	**We will be a collaborative, trusted partner across the supply chain, helping to tackle common challenges**

Being a responsible citizen matters to Babcock. Our annual Global People Survey (GPS) showed a 5% improvement on our engagement score against the question "Babcock really demonstrates its commitment to our Purpose – creating a safe and secure world, together". We have also captured the views of some of our stakeholders for our materiality assessment which shows those areas of most importance to them. More detail on this is available on the sustainability pages of our corporate website.

Our commitment to the safety of our staff and anyone on our sites remains a key area of focus for us, with 83% of our people believing Babcock is committed to the health and safety of employees (2023 annual GPS). Our TRIR has increased during 2023 as we undertake more complex activities but we expect our increased supervision levels and the growth of experienced workers to result in this rate reducing going forward. Our Global Safety Director also co-chairs the UK Defence Industry Safety Forum where we collaborate with industry partners and the UK MOD to share good practice.

During the past year our Chief Executive Officer, David Lockwood, was appointed the president of ADS Group and Babcock became a founding signatory of the ADS ESG Charter. We have also signed the Defence Aviation Net Zero Charter and we are a Pankhurst Partner for Women in Defence UK, co-designing its first critical mass summit which was held in the summer last year.

We continue to engage with ratings agencies, enhancing, where possible, our level of transparency to provide further insight into a range of environmental, social and governance topics. Our main ESG disclosures and external ratings are listed on page 65 and our GRI and SASB report is available to view on the sustainability pages of our corporate website.

Following the UK Government's 'Sustainability Disclosure Requirements Implementation Update' in May 2024, we are awaiting the release of the UK Sustainability Reporting Standards, which are due in Q1 2025. Following their release we will undertake the necessary preparations to ensure we comply with these standards. As the UK Government referred to in their Implementation Update, we do not expect these standards to come into force before 2026 at the earliest.

To aid our ongoing efforts to increase transparency, we have consolidated a list of our publicly available policies and codes of conduct on our corporate website. We have also started to produce a series of fact sheets on topics, such as Information Security and Health and Safety, to provide insight on our approach.

ESG policies and statements

Progress against our ESG priorities

Priorities	Highlights from FY24
We will reduce emissions in line with our short-term science-based targets and long-term Net Zero targets	• Validation of our science-based targets by the SBTi • 28% of Babcock fleet now made up of Ultra Low Emission Vehicles (ULEV) • Enhanced accuracy and completeness in Babcock's Scope 3 footprint See page 68
We will integrate environmental sustainability into programme design to minimise waste and optimise resources	• Conducted biodiversity assessments and drafted Babcock's Nature Positive Roadmap • Commenced delivery of renewable energy installations • Development of Babcock's Environmental Data Management System See page 70
We will ensure the safety and wellbeing of all our people	• 83% of employees believe that Babcock is truly committed to the health and safety of employees according to our Global People Survey, up from 81% in 2022's survey • Our gender pay gap continued to narrow from 9.6% to 6.7% • We launched our Group-wide Project Management graduate programme See page 80
We will make a positive difference to the communities we're proud to be part of and provide high-quality jobs that support local economies	• We established a dedicated External Engagement team to engage with the local Devonport community, raise awareness of STEM and enhance students' employability skills • Our 582 active STEM Ambassadors visited 708 schools nationwide over the year • We have completed the three Commitment Phases of the Progressive Aboriginal Relations (PAR) programme offered by the Canadian Council for Aboriginal Business (CCAB) See page 84
We will be a collaborative, trusted partner across the supply chain, helping to tackle common challenges	• We published our updated Supplier Code of Conduct, which aligns with the principles of ISO 20400, underscoring our dedication to human rights, fair practices and environmental responsibility • 27.7% of our total spend was with our SME supplier base compared to 24% in FY23 • Our average payment term was 16.3 days to our suppliers versus 21.4 days in FY23 See page 86

Our focus for FY25

- Continue development and delivery of Carbon Reduction Plans
- Deliver renewable energy installations
- Enhance environmental and Net Zero support capabilities

- Build upon the Safety Starts with Me behaviour programme to reinforce our Home Safe Every Day promise
- Continue to focus on closing our gender pay gap
- Significantly increase communication and employee participation in our Be Kind volunteering programme to enhance uptake, community engagement and social impact
- Seek further ways to improve our wellbeing provisions to ensure they continue to respond to the needs of our people

- Introduce our Supplier Assurance manual to transparently communicate our collaboration expectations to our supply base
- Implement carbon emissions tracking software to reduce our supply chain carbon footprint
- Establish ESG ratings to reinforce our commitment to responsible practices

Progress vs ESG commitments and targets

Commitment and targets	Commentary
Progress Plan Zero 40 and minimise the impact on the environment	
Progress Plan Zero 40	• We have reduced our Scope 1 and 2 emissions by 7.6% against our 2021 baseline • Our Scope 3 emissions have increased by 2.4% against our 2021 baseline
Preparing waste management plans across all significant sites by 2024	• Following initial pilots to establish the approach, we have now completed assessments across 42% of our significant sites • We are working to complete the outstanding plans by the end of the year
Zero controlled waste to landfill by 2025	• We are investigating a range of initiatives and working with our partners to identify opportunities to eliminate our waste to landfill by 2025
Eliminate the use of avoidable single-use plastic by 2027	• Our waste working group is investigating a range of initiatives to support delivery of our target
Prepare water management plans across all significant sites by 2024	• Following initial pilots to establish the approach, we have now completed assessments across 38% of our significant sites • We are working to complete the outstanding plans by the end of the year
Maintaining and enhancing biodiverse ecosystems	
Conduct biodiversity assessments across all significant sites by 2024	• Following initial pilot assessments to establish the approach, we have now completed assessments across 31% of our significant sites
Deliver a 10% biodiversity increase across the estate by 2030	• We have conducted a biodiversity Net Gain pilot study and drafted a Nature Positive Roadmap which we are incorporating into our Climate and Nature Transition Plan
TCFD metrics and targets	
Develop a baseline for Scope 1 and 2 emissions by end of 2023	• Complete. We have developed Carbon Reduction Plans covering 95% of our UK operations and are satisfied this has established our emissions reduction pathway baseline • We are working to develop the plans across the remaining international sites over the coming year
Complete an assessment of climate-related risk of all critical Babcock infrastructure by end of 2024	• We are working to conduct detailed climate-related risk assessments across our critical infrastructure by the end of 2024
100% of electricity for Babcock facilities to be sourced from renewable supplies by 2030	• In 2023 approximately 29% of Babcock's electricity was from renewable energy sources, an increase from 25%* in 2022
Complete a review of climate-related changes to working conditions covering all employees who are exposed at geographical locations by April 2023	• Complete
Make a science-based targets submission by April 2023	• Complete
Underpinned by conducting business with honesty, transparency and integrity	

* In the 2023 Annual Report and Financial Statements we reported our percentage of energy from renewable sources for 2022 at 32%. During 2023 we have improved the coverage of our data sets (particularly across international sites) and we therefore restate the 2022 figure at 25%.

Progress vs ESG commitments and targets continued

Commitment and targets	Commentary
Creating a people-centred business where everyone is included	
30% women within senior leadership teams by 2025	• Female representation in senior leadership teams remains consistent at 23%
30% female representation at all levels by 2030	• Our female population has increased to 19% this year and we remain committed to reaching our gender-balance target
Setting clear and measurable objectives that act as the catalyst for driving our longer-term inclusion and diversity goals	• In 2023 we undertook a discovery project across the Group exploring culture, behaviours and leadership through the lens of inclusion and our people's day-to-day experience • In response we have further developed our approach to inclusion that includes adopting Global Stated Commitments focused on internal and external priorities; the release of a Group Inclusion Roadmap to address consistently emerging themes from the discovery work; and the completion of the transition to a centrally led and business-owned inclusion model that is bespoke to each area of our business
Reduce inequalities through a thorough review of our recruitment practices and how we support progression once in employment	• We are taking a range of actions including new policies and ways of working, such as refreshed recruitment processes and supporting leadership development programmes amongst others
Underpinned by conducting business with honesty, transparency and integrity	

ESG disclosure and external ratings

We continue to develop our approach to ESG reporting and work proactively with ratings agencies to enhance, where possible, the level of transparency and provide further insight into a range of environmental, social and governance topics.

GRI Standards and SASB Standards	Reporting with reference to GRI Standards 2021 and SASB Standards (updated in January 2024) for the period April 2023 to March 2024. The report is available on the external website
DJSI score for FY23	Completed DJSI submission in November 2023 and achieved a score of 45/100, which was two points lower than last year
FTSE Russell	Submitted in April 2024 and received an increased score of 3.5, up from 3.0 in 2023
ISS ESG Corporate Rating	Rating is C- in line with prior year
MSCI ESG Rating	Rating is unchanged at 'A'

GRI and SASB Report

ESG and our shareholders

Over the year we have progressed our ESG strategy and ensured progress on our corporate commitments and five ESG priorities while furthering our disclosure on key sustainability interests in line with best practice and regulation. This year we have continued to develop our approach to ESG reporting and enhanced the level of transparency, providing further insight into a range of environmental, social and governance impacts against GRI, SASB and TCFD standards and disclosures.

Environmental: During the year we were proud to be one of the first international defence companies to have gained approval for our science-based near and long-term emissions reduction targets and verification of our Net Zero target by 2050 from the Science Based Targets initiative (SBTi). During the year we were also able to enhance our accuracy and completeness of Scope 3 emissions in line with the Greenhouse Gas Protocol. Read more on page 67.

Social: The health, safety and wellbeing of our employees, customers and the community comes first. Our Global Safety Director co-chairs the Defence Industry Safety Forum where we collaborate with industry partners and the UK MOD to share good practice. During the year, David Lockwood was appointed the president of ADS Group and Babcock became a founding signatory of the ADS ESG Charter. Our gender pay gap continued to narrow this year and we have become a Pankhurst Partner for Women in Defence UK, co-designing its first critical mass summit which was held in the summer last year. Senior management gender diversity is also one of our remuneration targets. See page 150.

Governance: We have continued to support the Company's turnaround by making improvements to the governance of the Group. As covered in our Chair's report (page 110) and our Audit Committee Chair's report (page 128), we have developed our controls enhancement programme and dedicated Group Risk function, enhanced internal capability and a risk framework that considers management of risk at all levels throughout the Group. Our approach to risk management is discussed on page 89. During the year we also published our updated Supplier Code of Conduct, which aligns with the principles of ISO 20400, underscoring our dedication to human rights, fair practices and environmental responsibility.

Defence and civil nuclear

The Group today is over 74% defence focused, reflecting our growth strategy and portfolio alignment programme which started in FY21 when our defence exposure was 56%. We recognise that our business is therefore of increasing relevance to investors assessing stocks through an ESG lens: most notably that we operate in defence and civil nuclear markets. We have a critical role in global defence and national security with operations in the UK, Australia, New Zealand, Canada and France. We also design and manufacture equipment and systems for several other nations including the US and South Korea. As global and political instability increases, we support the view that democracies need to be able to defend themselves from aggressors.

Nuclear deterrents and nuclear power are both crucial to our customers and a democratically elected mandate. Babcock has been supporting the UK's commitment to the Continuous-At-Sea Deterrent for over 50 years, while also delivering complex and critical civil nuclear through-life engineering.

"Investing in defence companies contributes to our national security, defends the civil liberties we all enjoy, while delivering long-term returns for pensions funds and retail investors. That is why the UK's world leading investment management industry supports our defence sector, with the Investment Association's members having invested £35 billion in UK defence companies. Investing in good, high-quality, well-run defence companies is compatible with ESG considerations as long-term sustainable investment is about helping all sectors and all companies in the economy succeed."

Joint statement from the UK Government (HM Treasury) and the Investment Association, 23 April 2024

We will continue to support our customers, both with their defence agenda and their commitment to generate low emission power from nuclear energy.

Certain ESG agencies and investment funds have identified internal screening policies to minimise their portfolio's exposure to specific defence and civil nuclear activities. To enable compliance with their requirements, we disclose key ESG metrics to measure our exposure to these activities as a percentage of revenue. Below we describe our involvement in these areas:

- We do not design, manufacture or sell nuclear weapons or controversial weapons or their components.
- We provide support for our Atomic Weapons Establishment customer's programmes. This work represents less than 2% of FY24 revenue.
- We provide in-service support and through-life maintenance for the entirety of the UK Royal Navy's nuclear powered submarine fleet which includes non-nuclear armed ship-submersible nuclear (SSN) submarines and the nuclear armed ship-submersible ballistic nuclear (SSBN) submarines delivering the Continuous-At-Sea Deterrent. FMSP is our contract to deliver all dockside and fleet time support, base maintenance and deep maintenance periods, including infrastructure and naval base management for both SSNs and SSBNs. We estimate the split of SSBN related support work to be around 2% of FY24 revenue.
- We design and manufacture the non-nuclear weapons handling systems for the UK's future Dreadnought Class SSBNs and manufacture the missile tube assemblies for the joint US/UK common missile compartment for integration into future US and UK SSBNs. This work represents less than 2% of FY24 revenue.
- Nuclear power provides a reliable source of low-carbon electricity and is a critical component of countries' national energy strategies as they move towards net zero carbon. Our civil nuclear business is involved in new build, power generation support, fuel route management and decommissioning. This work represents around 4% of FY24 revenue.

Environment

Babcock is an environmentally conscious organisation and we are working hard to ensure our operations have the least possible impacts. Our environmental and Net Zero strategies strive to ensure sustainability is at the core of our operations as part of our commitment to implement sustainable practices. Over the past year we have continued to make good progress on our sustainable transition.

Babcock Group energy consumption and emissions

		Dec-20	Dec-21	Dec-22	Dec-23
UK					
Scope 1: Direct emissions from owned/controlled operations[1]	tCO_2e	43,795	47,836	35,602	32,458
Scope 2 location-based: Indirect emissions from the use of electricity and steam	tCO_2e	49,853	41,425	38,945	41,607
Scope 2 market-based: Indirect emissions from the use of electricity and steam	tCO_2e	57, 142	62,901	70,166	73,779
Total Scope 1 and 2 emissions market-based	**tCO_2e**	**100,937**	**110,737**	**105,768**	**106,237**
Underlying energy consumption[2]	**kWh**	**426,100,863**	**422,100,145**	**373,636,265**	**356,948,259**
Global (excluding UK)					
Scope 1: Direct emissions from owned/controlled operations[1]	tCO_2e	32,361	29,251	22,785	21,676
Scope 2 location-based: Indirect emissions from the use of electricity and steam	tCO_2e	4,485	4,626	3,725	5,585
Scope 2 market-based: Indirect emissions from the use of electricity and steam	tCO_2e	4,479	4,627	3,718	5,700
Total Scope 1 and 2 emissions market-based	**tCO_2e**	**36,840**	**33,878**	**26,503**	**27,376**
Underlying energy consumption[2]	**kWh**	**139,234,549**	**128,027,641**	**100,726,110**	**98,725,583**
Babcock Group total (UK and global)					
Scope 1: Direct emissions from owned/controlled operations[1]	tCO_2e	76,156	77,087	58,387	54,134
Scope 2 market-based: Indirect emissions from the use of electricity and steam	tCO_2e	61,621	67,528	73,884	79,479
Total Scope 1 and 2 emissions	**tCO_2e**	**137,777**	**144,615**	**132,271**	**133,613**
Total Scope 3 emissions (excluding pensions)[3]	**tCO_2e**	**n/a**	**2,285,752**	**2,067,540**	**2,339,896**
Total value chain emissions (excluding pensions)[3]	**tCO_2e**	**n/a**	**2,430,367**	**2,199,811**	**2,473,509**
Adjusted revenue[4]	**£m**	**n/a**	**3,278**	**3,875**	**4,390**
Intensity ratio[5]	**tCO_2e/£1m Revenue**	**n/a**	**741.4**	**567.7**	**563.4**

Our emissions data is reported in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard under the 'Operational Control' approach. The reporting period for our energy consumption and carbon emissions is the calendar year (1 January to 31 December) due to availability of data to meet annual reporting timescales. This year we have changed our base year to 2021; this aligns to our approved science-based targets and is due to 2021 being the most recent year with a full emissions inventory across all scopes. Our reporting exceeds the Streamlined Energy and Carbon Reporting (SECR) requirements, including a full Scope 3 footprint for the first time this year, backdated to 2021. Scope 3 emissions have been calculated in line with the GHG Protocol Corporate Value Chain (Scope 3) Standard and include elements of future emissions from sold products. This year we have switched to reporting progress against market-based Scope 2 emissions, in line with our improved data granularity. Our market-based Scope 2 emissions are higher than location-based due to significant energy being provided by the energy from waste plant at Devonport (Plymouth) with a high emission intensity. Figures for UK operations follow conversion factors published by BEIS, except the supplier-provided energy from waste factors. Non-UK operations utilise emission factors applicable to the fuel source and location. Appropriate conversion factors have been used to calculate the underlying energy consumption figures. Total Scope 1, 2 and 3 emissions have been divided by annual revenue (adjusted in line with emission boundary) to provide the intensity ratio (tCO_2e per £1m). Organisational changes including the sale of our European aviation business have cumulatively exceeded our materiality threshold (5% emission variance). Accordingly, emissions data for prior years have been adjusted in line with the organisational changes and to include additional data unavailable last year. Emission figures include an element of estimated data, at 7% for 2020, 8% for 2021, 5% for 2022 and 0.03% for 2023. Certain data, estimated to be immaterial to the Group's emissions, has been omitted as it has not been practical to obtain (including operations in Japan and the USA). Metering and monitoring improvements are being implemented to capture these data streams. During the reporting period we delivered a number of improvement initiatives including 'low-hanging fruit' energy conservation measures, reduced use of diesel, reduced aviation operations and improvements to our energy management practices. In previous periods we implemented a range of energy conservation measures such as LED lighting, boiler replacements, metering improvements and solar panel investigations. We do not have the data maturity to report quantitative reductions generated through energy efficiency measures for the current or previous years.

1. Scope 1 emissions include biogenic emissions from combustion of biofuels. In 2023 this equated to 7,261 tCO_2e.
2. Underlying energy consumption figures include an element of Scope 3 business travel in line with SECR requirements.
3. A full Scope 3 footprint (excluding emissions associated with category 15 pensions investments) has been calculated for 2023, 2022 and our 2021 base year. A breakdown of emissions by GHG protocol category is provided on our website. Scope 3 emissions reported in 2020 are only those associated with business travel and fuel and energy-related emissions not reported in Scope 1 or 2.
4. The revenue figures detailed have been adjusted for disposals and acquisitions so as to align with the adjusted emissions baseline.
5. The intensity ratio is based on the adjusted emissions baseline and adjusted revenue.

Plan Zero 40

Science Based Targets initiative (SBTi) validation

We are delighted to announce that Babcock's Net Zero targets and decarbonisation plans have been validated by the SBTi. Achieving the SBTi validation is a significant milestone on our journey to Net Zero and validates that our targets and plans to transition Babcock to Net Zero are robust and evidence-based.

Over the past 12 months we have continued our efforts to decarbonise the organisation. Under our Plan Zero 40 decarbonisation strategy we are approaching decarbonisation through four strands: Estate and Assets, Transport, Products and Services, and Value Chain.

Estate and Assets

Following the successful completion of our Pathfinder Carbon Reduction Plans, we have been working to scale the plans across our global operations. The Carbon Reduction Plans completed to date capture 95% of our Estate and Assets-related carbon emissions. *You can find out more about our Carbon Reduction Plans on the environmental pages of our website.*

Through the year, we have implemented a range of energy conservation and 'low-hanging fruit' measures across the organisation, such as LED lighting replacements, boiler replacements and Building Management System (BMS) improvements. These measures have reduced energy leakage, improved energy efficiency and reduced costs. We continued investigations into renewable energy opportunities across the estate and during FY24 we commenced the installation of over 100kW of solar photovoltaics. We also gained planning permission for over 6MW of installed solar photovoltaics and we have a further 40MW of solar opportunity being investigated, or the equivalent of powering15,000 homes for a year.

Focus for FY25:

- Continued development and delivery of Carbon Reduction Plans
- Delivery of renewable energy installations
- Low-hanging fruit energy conservation measures
- Conduct physical climate risk assessments across critical sites

Estate and Assets carbon emissions

Baseline emissions	**129,764** tCO_2e
2023	**128,701** tCO_2e

Our Net Zero journey

2020	
2021	**Bottom-up carbon strategies** • **strategy planning** • **base-year emissions**
2023	**Strategy delivery**
2024	**All new buildings to be Net Zero operational emissions**
2025	**Full Scope 3 mapping to be complete**

Clarifying Babcock's emissions reduction targets

We previously committed to Net Zero (Scope 1 and 2 emissions) by 2040, and Net Zero across the value chain (Scope 1, 2 and 3) by 2050. Our targets have remained the same, however to comply with our SBTi validation criteria, we are required to use the SBTi's technically accurate and consistent terminology and communicate in adherence with the SBTi guidance. Our Net Zero targets are stated as our 'Long-Term Targets', as follows:

Long-Term targets:

- Reduce absolute Scope 1 and 2 GHG emissions 90% by 2040 from a 2021 base year.*
- Reduce absolute Scope 3 GHG emissions 90% by 2050 from a 2021 base year.

Overall Net Zero target:

- Net Zero greenhouse gas emissions across the value chain by 2050.

Delivery of our Net Zero targets includes:

a. reducing emissions to zero or to a residual level that is consistent with reaching Net Zero emissions at the global or sector level in eligible 1.5°C scenarios or sector pathways; and
b. neutralising any residual emissions at the Net Zero target date and any GHG emissions released into the atmosphere thereafter.

* The target boundary includes land-related emissions and removals from bioenergy feedstocks

Transport

Sustainable transport is a key component of the transition to Net Zero. We have been working to develop our low-carbon and people-focused Sustainable Transport Strategy which will drive decarbonisation across four key areas: Vehicle Fleet, Business Travel, Homeworking and Commuting, and Logistics.

Whilst we fine tune our strategy, over the past 12 months we have continued to make good progress with our transition to 100% Ultra Low Emission Vehicles (ULEV) fleet by 2030, with ULEV now making up 28% of our fleet. In addition to this, our Electric Vehicle (EV) salary sacrifice scheme has continued to support our sustainable transition and we now have over 140 EV vehicles on the scheme. Alongside this, we have progressed investigations into a range of low-carbon transport opportunities across our operations. Dec-23 transport emissions are higher due to increased business travel post COVID-19, and an increase in logistics spend in the year.

Focus for FY25:

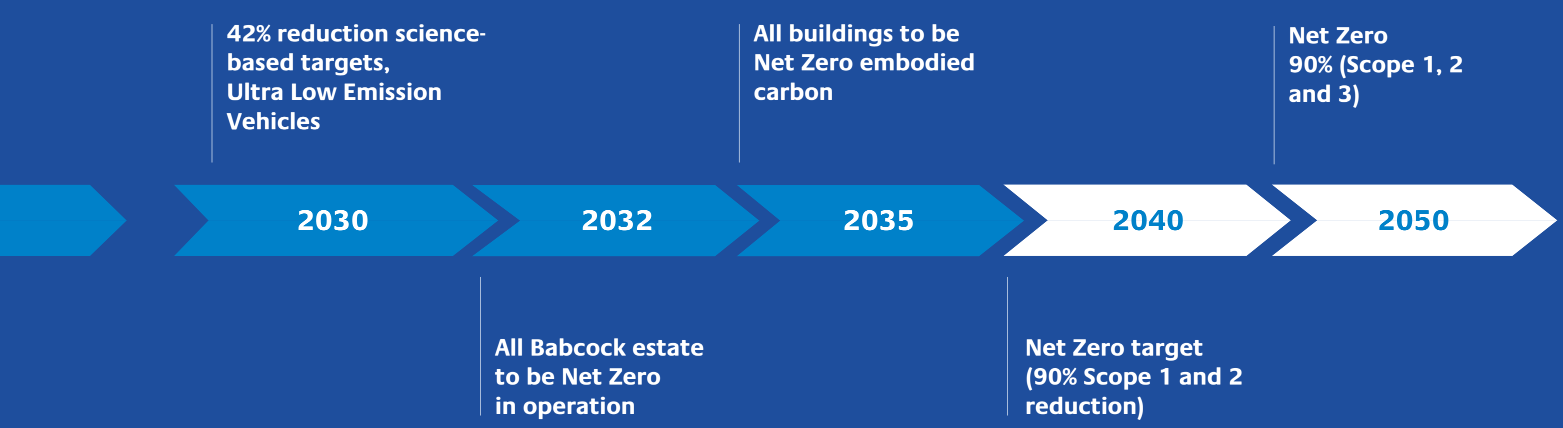
- Continued ULEV roll-out and deployment of EV charging infrastructure
- Enhanced engagement with logistics and distribution supply chain

Transport carbon emissions

Baseline emissions	**88,870** tCO_2e
2023	**120,300** tCO_2e

In focus: Electric assisted cargo bike gets green light at Devonport

After a successful trial, Devonport Dockyard approved the permanent use of Electric Assisted Vehicle (EAV) cargo bikes for on-site deliveries. Compared with diesel van alternatives, the EAV cargo bike is cheaper to operate, reduces transportation times and has a significantly lower environmental footprint.



Products and Services

During FY24 we have continued to mature our Scope 3 footprint and calculation methodologies, and we have now developed a good understanding of our emissions and hot spots. Products and services equate to a large percentage of our carbon footprint and reducing our associated impacts is a priority. Further work is planned to develop the maturity of our calculations and our teams are working to investigate opportunities to integrate Net Zero and environmental considerations into all aspects of delivery.

In creating a safe and secure world, we strive to support our customers on their journeys to Net Zero and become a leader in low-carbon enablement. Across the organisation we are already exploring innovative technologies and low-carbon opportunities with our partners and customers:

- Partnered with Vertical Aerospace on electrified aircraft with potential to replace helicopter operations
- Supported the Shetland Islands on decarbonisation of small boats
- Announced contracts to support the British Army with electric conversion of Land Rovers
- Support the Royal Air Force with experiments on synthetic fuels and hybrid electric aircraft

Focus for FY25:

- Unlock further low-carbon commercial opportunities
- Enhance environmental and Net Zero support capabilities
- Preparation of product and service decarbonisation plans
- Improved maturity of Scope 3 calculations

Products and Services carbon emissions

Baseline emissions	**1,618,573** tCO_2e
2023	**1,593,457** tCO_2e

Find out more about our Scope 3 footprint and calculation methodologies

energy | cavendish nuclear
part of Babcock International Group

In focus: Small Modular Reactors

Funded by the UK Government's Department for Energy Security and Net Zero's Future Nuclear Enabling Fund, Cavendish Nuclear is collaborating as part of an experienced industry team to support the deployment of Small Modular Reactors in the UK. This will contribute towards delivering the UK Government's commitment to reach Net Zero carbon emissions by 2050.

Value Chain

At Babcock we understand our responsibility to support the sustainable transition across our value chain. The impacts from our Value Chain strand equate to 25.5% of our footprint. We have continued to utilise the Environmentally Extended Input Output (EEIO) methodology to calculate our footprint and we are working with our peers, customers and supply chain partners to improve the accuracy of this approach. Decarbonisation of the supply chain is a crucial part of the sustainable transition and we are working to collaborate, influence and support the transition across the Defence value chain.

Focus for FY25:

- Enhanced supply chain engagement
- Implementation of JOSCAR Zero (a supplier management tool which provides visibility of supply chain carbon emissions)
- Improved maturity of Scope 3 calculations

Value chain carbon emissions

Baseline emissions	**593,160** tCO_2e
2023	**631,051** tCO_2e

In focus: Defence Aviation Net Zero Charter

Babcock is a co-signatory to the Defence Aviation Net Zero Charter, which seeks to embed sustainability across Defence Aviation. Signing the Charter demonstrates both Babcock's commitment to sustainability in its own operations and to collaborating with its customers and peers in achieving common goals.

Climate management instruments

To reinforce our dedication to climate action, we have linked executive remuneration to our carbon emissions reduction targets. This approach ensures that our Group CEO and CFO are incentivised to make sustainable choices, prioritise carbon reduction strategies, and drive the integration of environmental considerations into our business operations. By aligning executive rewards with our climate goals, we foster a culture of sustainability and accountability. The remuneration is aligned to delivery of the Carbon Reduction Plans covering our Estate and Assets strand of decarbonisation. Further information can be found on page 152.

As part of our commitment to mitigating carbon emissions, we are investigating the use of an internal carbon pricing mechanism. This tool could allow us to assign a financial value to carbon emissions, enabling us to account for the true cost of our environmental impact.

In focus: Climate and Nature Transition Plan

Over the past 12 months we have made good progress in developing Babcock's Climate and Nature Transition Plan. Our transformational plan will enhance our Plan Zero 40 strategy, and ensure climate and nature considerations are fully embedded and integrated into Babcock's operations. Our plan will ensure we have an effective approach to managing climate-related risks and reducing greenhouse gas emissions and allow us to seize opportunities presented by the transition to a low-carbon economy. This proactive approach will allow the Company to assess the physical and transition risks it faces, ensuring that it can adapt and thrive in a changing business landscape. Embedding the plan will build resilience by integrating climate considerations into our decision-making processes, future-proofing our operations, and enabling long-term, sustainable growth.

Data management

Data is central to Babcock's environmental strategy and enables evidence-based decisions. During FY24, we conducted an audit of our data management systems which identified a number of gaps, which we are working to address. We are continuing to mature our data management systems and enhance our processes to improve the accuracy and completeness of our data sets.

Following extensive investigations, we have decided to transition to a new data management platform which will deliver significant benefits to the organisation and be a key enabler to delivering our sustainable transition. We will be working to implement the new system over the coming year.

Natural environment

Throughout our global operations we interact with a range of natural ecosystems. Maintaining and enhancing the biodiversity of these ecosystems is a priority as we strive to protect and enhance the environment and create a safe and secure world. Babcock is taking a strategic approach to assess and align natural environment considerations into our business strategies. Over 2023, we developed our first Nature Positive Roadmap which will be integrated into our developing Climate and Nature Transition Plan. As part of our Roadmap development, we have commenced the delivery of biodiversity assessments across our organisation.

During FY24 we conducted a Taskforce for Nature-related Financial Disclosures (TNFD) gap analysis across part of our organisation. We generally achieved a basic level of maturity, with some progress in five of the 14 disclosure recommendations. Feedback from the analysis has supported development of the Nature Positive Roadmap which includes planned improvements to: governance and risk management frameworks; biodiversity assessment/calculation methodologies; and approach to target-setting and improvement planning.

Find out more about our Nature Positive Roadmap and biodiversity assessments on our corporate website

Task Force on Climate-related Financial Disclosures

Climate-related financial disclosures

We are committed to decarbonising the organisation, addressing climate-related risks and unlocking climate-related opportunities. We have continued to work to improve our disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) requirements.

During the prior year, we conducted a strategic climate-related risk assessment to assess the financial impact of key risk themes on the organisation's business strategy and financial planning. This year, we have utilised the prior assessment to inform and prioritise areas of focus as part of our Climate and Nature Transition Plan (CNTP) investigations, which is currently under development. We have also made good progress in calculating our Scope 3 footprint (find further details on page 67). We have commenced work to develop our reporting of metrics in line with the TCFD recommended cross-industry metrics. The following are our priorities over the coming year:

- Continue development of our holistic CNTP; for further information on the CNTP please see page 71
- Continue to mature our climate risk identification and assessment processes to ensure that the Group quantifies the specific potential cost or revenue impact of risks and opportunities
- Continue to develop our approach to Metrics and Targets to ensure consistency with all 11 TCFD Recommendations.

As per Listing Rule 9.8.6(8)R we provide disclosure against each of the TCFD's 4 pillars (governance, strategy, risk management and metrics & targets) and confirm that these disclosures are consistent with 9 of the 11 TCFD recommendations and recommended disclosures with the exception of the following matters.

Following our Scope 3 footprint works we are now consistent with Metrics and Targets part b. We do not yet provide sufficient disclosures to be fully consistent with Metrics and Targets part a, as we haven't yet established intended metrics associated with internal carbon prices, transition risks, physical risks or climate-related opportunities. We also do not yet provide potential quantification of each key climate risk presented on specific financial performance metrics (revenues, costs), and therefore are not fully consistent with Strategy part b.

Our climate-related financial disclosures comply with requirements (a-h) of the Companies Act 2006 as amended by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022.

We are working to ensure our Plan Zero 40 and climate risk workstreams are aligned through our holistic CNTP. The CNTP is being developed to capture and manage all aspects of environmental sustainability across Babcock's global operations.

Additional climate-related disclosures can be found in the Risk management, Governance and Financial sections see pages 103, 111 and 187.

Governance

Board oversight of climate-related risks and opportunities

The Board has ultimate responsibility for the Company's strategy and risk management. Our Board oversees climate-related risks and opportunities and discusses Group-wide ESG matters as an integral part of Board strategic discussions. In FY24, the Board conducted a strategy and risk management review. Climate and environmental sustainability is one of Babcock Group's principal risks (for more information please refer to page 103) and therefore climate-related risks are appropriately reviewed and considered when reviewing strategy and the annual budget and five-year plan. The Board had two reviews on Group-led sustainability workstreams including updates on the Plan Zero 40 strategy and the development of the Group's CNTP: covering the Group's externally committed targets to address climate and nature impacts of the Company's operations. To ensure effectiveness and continual improvement, our climate governance framework is being reviewed as part of the CNTP.

See page 114 for further details on our organisational governance framework.

Management's role in assessing and managing climate-related risks and opportunities

Babcock's Corporate ESG Committee is a Principal Management Committee which reports into the Group Executive Committee. The ESG Committee is responsible for Group-wide ESG initiatives, the management of climate-related issues and driving the wider sustainability agenda. Babcock's executive sponsor for ESG is the Land Chief Executive Officer, appointed in September 2023. The ESG Committee meets on a quarterly basis and includes representatives from the Executive Committee.

Board leadership and company purpose outlines the remit and key membership of the Corporate ESG Committee, the Group Executive Committee and the Group Risk Committee (see page 114).

Progress on TCFD compliance, CNTP and our environmental targets is reported to the ESG Committee and the Board. Actions required to further climate-related risk management activities are overseen by the ESG Committee.

Climate and environmental sustainability is one of Babcock Group's principal risks and, as part of our Enterprise Risk Management approach, the risk and its management is reviewed by both the Group Executive Committee and the Group Risk Committee.

Through our CNTP, we are working to develop the policies, processes and procedures to ensure climate risk assessment and management is integrated into all operational decision-making processes, supported by planned investment in environmental data management systems. Over the coming year we are integrating TCFD compliance activities into our CNTP to align with our wider climate and environmental sustainability workstreams and reporting.

Strategy

How the Company is responding to short, medium and long term risks and opportunities

We identify and model climate risks over the following horizons: short term (present to 2030), medium term (2030 to 2040) and long term (2040 to 2100). The horizons are aligned with our short-term 2030 science-based targets, medium-term 2040 decarbonisation targets and our longer-term 2050 Net Zero targets. Modelling risks over a long term horizon allows us to identify and assess impacts which may materialise up to the end of the century, depending on the global climatic conditions.

Babcock continues to operate a top-down, bottom-up approach to climate risk management, with the policy and strategy set at Group level, and responsibility for delivery within the sectors and direct reporting countries (DRCs). Sectors and regions consider the insight and outputs from the climate-related risk assessments, and identify the actions required to deliver corporate climate impact reduction commitments. Such risks and actions are considered in forecasts including in the annual budget and five-year strategic plan.

In addition, consideration has been given to the climate risks and opportunities register as potential areas of material financial reporting impact on critical accounting judgements or key sources of estimation uncertainty, with no current perceived material impact on such judgements or estimates. While climate-related matters are not considered to have a material impact on the Group's critical accounting judgements or key sources of estimation uncertainty, the Group has implemented an effective approach to identify, assess and respond to climate risks appropriately to ensure the continuing resilience of the business model. The climate risk identification and assessment approach is to be matured in the coming year to ensure that the Group quantifies the specific potential cost or revenue impact of risks and opportunities.

Scenario analysis that the Company considers to assess risks and inform strategy

In line with the prior year, the Company considers two potential future climate scenarios which use economic constraints associated with the International Panel on Climate Change's (IPCC's) Shared Socioeconomic Pathway 2 middle of the road scenario: a Paris-aligned 1.5°C for the best-case scenario and a business-as-usual 4°C scenario for the baseline scenario.

The 1.5°C scenario simulates a potential future pathway of the world economy assuming a successful introduction of climate policies, thereby reducing the likelihood of severe climate-related weather events. The 4°C baseline, utilised and agreed by climate modelling experts within the IPCC, assumes the scenario in which no further intervention on climate change is taken, leading to a global-mean temperature rise of 4°C above pre-industrial levels by 2100 and an associated increased likelihood of climate-change related weather events.

Scenario details	1.5ºC warming	4ºC warming
Economic constraints	Moderate global population growth which levels off in the second half of the century. GDP growth in line with historical growth	
Policy expectations	Global climate policies align with emissions to 1.5ºC pathway	No further climate policy intervention
Physical impacts	Reduced likelihood of severe climate-related weather events	Likely increased severity of climate-related weather events

As outlined in the climate risks and opportunities on page 76, we have assessed the impact of physical and transition climate change risks on the relevant parts of the business, and outlined how identified climate-related issues are considered in our business decisions and how these may shape future strategy. On page 74 we outline near term or existing opportunities that we are exploring to capitalise on climate-related opportunities.

We have an effective process for identifying and assessing climate change risks and opportunities and responding appropriately to ensure resilience of the overall business strategy. A summary of our perceived exposure to climate risk and opportunities against the above scenarios is outlined on page 76 and details of the control measures are also provided.

Risk management

Identification, assessment and management of climate-related risks

We have assessed the maturity of our approach to climate risk management; currently this is low and improving our approach is a focus for FY25. Climate risk identification and assessment is integrated into our Enterprise Risk Management Framework for reporting, escalation and corporate oversight. On a quarterly basis, climate-related risks and opportunities are reported and reviewed by Group Risk and Group Environmental teams to monitor individual and thematic risks and opportunities across the Group. Quarterly reporting and review includes proposed control measures, and updates against prior control measures.

Specific sector and country identified climate risks are reviewed quarterly by the Group Risk Committee, as well as being reported into the Audit Committee quarterly and the Board annually. We are continuing to mature our climate change risk identification and quantification process, so that we can comply with specific climate risk and opportunity quantification disclosure requirements as they become applicable. Our Enterprise Risk Management Framework provides a consistent basis for assessing the severity of risks against different classes of risk impact such as those relating to financial or people impacts. For more information on our Enterprise Risk Management Framework please refer to page 131.

Climate risks are assessed from physical and transition perspectives and are assessed over two scenarios (1.5°C and 4°C).

Physical risks: assessed against eight climate hazards. Acute physical risks were considered, which are event-driven, including increased frequency and severity of extreme weather events including: river flooding, forest fires, extreme wind, soil subsidence, surface water flooding and freeze-thaw effects. Two chronic physical risks were also considered which refer to longer-term shifts in climate patterns: extreme heat and coastal inundation.

Transition risks: our assessment disaggregates these economic considerations to a market level, producing price and volume impacts on commodities and sectors across the global economy, against which our supply chain cost structure was assessed. Our approach has not changed since our previous assessment, however our Climate Risk Working Group is planning to review and mature our approach over the year.

We have recently established a Climate Risk Working Group which is tasked with reviewing and improving our climate risk assessment and quantification approach.

Metrics and targets

Metrics and targets used to assess climate-related risks and opportunities

We have reviewed the TCFD guidance on Metrics and Targets and the cross-industry metric categories. We monitor and report against the following cross-industry metrics:

Greenhouse gas emissions are reported externally in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard. Throughout the year we have matured the understanding of our Scope 3 footprint and we now have a detailed view of our entire value chain footprint. We are continuing to develop the maturity of our Scope 3 footprint calculations. For Scope 1, 2 and 3 greenhouse gas emissions and details on calculation methodology, please refer to page 67. Progress against the commitment is included on page 64**.**

Electricity from renewable sources is an externally reported metric. Find details on page 64.

Executive remuneration is linked to the greenhouse emission performance of the organisation. The Remuneration Committee set ESG-related targets relating to reduction in carbon emissions for the PSP grant. For further details on remuneration linked to ESG-related targets, please refer to page 152.

Capital deployment metric used internally to assess progress against our Carbon Reduction Plans.

In addition, Babcock's Net Zero targets and decarbonisation plans have now been validated by the SBTi.

Our recently formed Climate Risk Working Group is working to develop metrics and associated reporting for the below categories. These include the remaining TCFD guidance cross-industry metric categories.

- **Internal carbon price** Opportunity to implement a shadow carbon pricing metric to standardise the approach to assessment of the GHG emission impact of business and investment opportunities, and use in ongoing review of business performance
- **Supply chain resilience** to transition and physical risk for use in supplier due diligence and ongoing monitoring
- **Occupational health review outcomes** to monitor exposure of sites and employees to adverse weather events
- **Physical risk to key facilities** including flood (river and surface) and coastal fire risks
- **Climate-related opportunities** Proportion of revenue, assets or other business activities aligned with climate-related opportunities
- **Transition risks** Amount and extent of assets or business activities vulnerable to transition risks.

Climate–related opportunities

This year we have pushed to capitalise on opportunities which will support the development of a greener economy.

Babcock's LGE business has won a milestone contract from a ship owner in South Korea to deliver its first cutting-edge ecoCO2® cargo handling system for two 22,000m³ liquefied CO_2 (LCO_2) carriers. In an exciting development for the business, the ecoCO2® cargo handling system is the world's first cargo handling and reliquification system for a low-pressure cargo tank design. LGE is also investigating bulk marine transportation of hydrogen, in the form of ammonia (rather than pure liquid hydrogen), and the capture, transportation and storage of CO_2 from current emitters (ie end-to-end solution for liquefied CO_2 carriers).

Across our UK operations we have identified energy and cost saving opportunities as part of our Energy Saving Opportunity Scheme (ESOS) Phase 3 compliance works. Over the coming year our Energy Action Plan will be published as part of our ESOS compliance.

We are continuing to develop Marine R&D programmes to capitalise on potential new markets, and our PHD student is conducting studies to identify sustainable maritime opportunities.

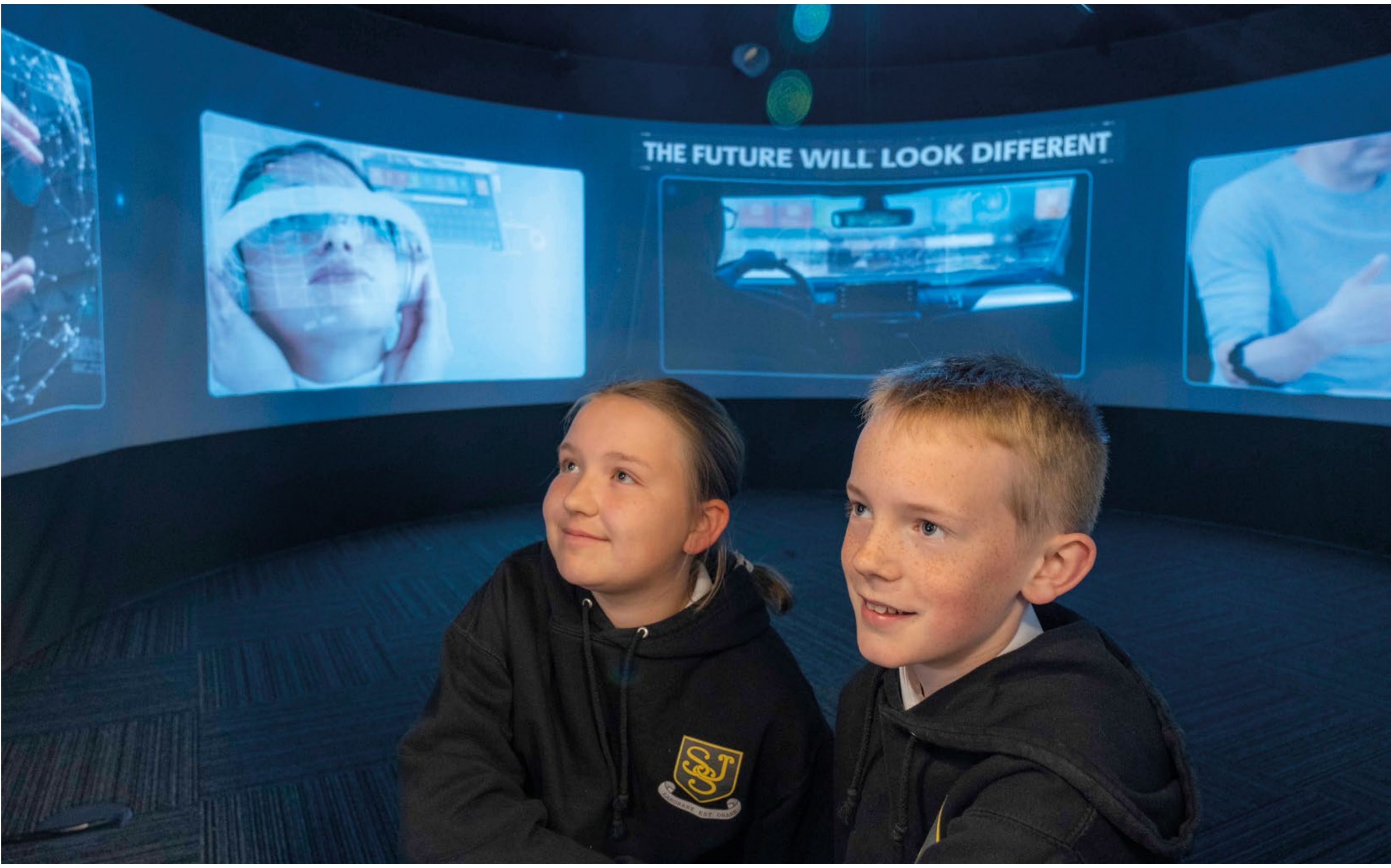
Within our Aviation business, Project MONET is on track to deliver a flying testbed aircraft for the RAF that will demonstrate how new technologies to minimise the environmental impact of flying training can be certified for wider use.

Significant milestones have been maturing the aircraft design, production of the net carbon zero synthetic fuel that will power it and completion of a Life Cycle Assessment of the environmental impact of producing light training aircraft. Early concept work on a hybrid powertrain has produced better than expected results, prompting the RAF to request further information on how this may be developed.

Babcock's helicopter emergency services business is to explore a joint trial with an engine OEM on the use and environmental impact of Sustainable Aviation Fuel with an air ambulance charity.

Babcock UK Aviation is working with the Ministry of Defence to evaluate how to develop materials circularity in a circular economy model. Together with a UK SME, it is aiming to demonstrate and assess the scalability of extracting critical materials from composite materials from defence equipment across sea, land and air. This will provide resilient material supply chains and reduce the environmental impact of current disposal methods.

Across the organisation we continue to work with a variety of customers to support their decarbonisation journeys which present commercial opportunities for Babcock which, due to sensitivities, we are unable to disclose further information.



TCFD progress vs priorities

	FY24 progress	FY25 priorities
Governance	• ESG updates to the Board included climate action and progress on initiatives • FY24 Remuneration Committee considerations included specific ESG objectives and measures	• Review and enhancement of Babcock's climate governance framework in line with the Climate and Nature Transition Plan works
Strategy	• Aligned Plan Zero 40 and climate risk workstreams to create a Babcock CNTP aligned with Transition Plan Taskforce (TPT) requirements	• Integration of the Climate and Nature Transition Plan requirements into Babcock's business-as-usual operations • Embedding climate and nature into all aspects of Babcock's operations
Risk management	• Risk management policy and climate-related Risk Registers updated to fully embed climate risks into our Enterprise Risk Management Framework • Delivery of expanded report into critical suppliers' climate-related risks and associated impact, embedding sustainable procurement checkpoints and on-boarding requirements for new suppliers and sub-contracts	• Climate Risk Working Group to review and refine Babcock's approach to climate risk management • Conduct physical climate risk assessments across critical infrastructure
Metrics and targets	• SBTi submission and gained validation of targets • Scaled Carbon Reduction Plans across the UK estate and progressed investigations into energy efficiency and renewable energy projects	• Make progress against Babcock's corporate ESG commitments and targets • Development of further metrics in line with TCFD recommendations

Climate-related risks and opportunities

Climate risk	Description	Affected sectors and regions	Impact horizon
People welfare **(Physical risk)** Disruption to operations	Disruption to staff and operations due to weather conditions and challenging or unsafe working conditions.	All (Global)	Short/medium
Cost of business **(Transition risk)** Supply chain disruption	Increased climate-related regulation, such as taxes on fossil fuels, may affect Babcock's supply chain cost base or viability of supply chain companies.	All (Global)	Short/medium
Business delivery and continuity **(Physical risk)** Asset damage and operational disruptions	Dockyards owned/operated by Babcock may be flooded due to an increase in sea level and higher frequency of extreme weather, resulting in storm surges.	Marine and Nuclear (UK and Australasia)	Medium/long
Future services **(Transition risk)** Global energy mix changes	Demand impact to Liquid Gas Equipment (LGE) and civil nuclear services.	Marine Nuclear (Global)	Medium/long

Analysis findings	Control measures
Risk of site disruptions due to physical risks is dominated by potential flooding at our Bristol Ashton Vale facility. There are also three sites identified with potential extreme heat increases impacting operations. Physical risks are more acute under a 4°C increase scenario but under a 1.5°C scenario, such physical risks could still result in high levels of lost revenue.	At our three sites exposed to potential extreme heat risk, occupational health assessments have identified those working in higher risk scenarios, such as field service mechanics and confined space maintenance operatives. Training, hazard notices and health guidance are installed at these sites to recognise early signs of temperature-related health conditions, such as heat stroke.
Labour cost changes drive the risk within Babcock's supply chain. Direct carbon costs also increase significantly as a result of government pressure on decarbonisation. Variations in other costs are seen to be less significant up to 2050. Cost increases could be greater in the 1.5°C scenario because of larger labour and carbon cost increases.	In FY24, we broadened our analysis to encompass 1,000 of Babcock's key suppliers, a significant increase from the 300 suppliers analysed during FY23. This comprehensive analysis allowed us to map the trajectories of six critical physical hazards and socioeconomic risks. Following the extensive nature of our study, we did not identify any immediate significant impacts. To enhance our risk resilience, we have updated our tool to map our supply chain against vital climate change indicators. This proactive approach enables us to identify and address vulnerabilities effectively. In our continuous effort to improve our operations, we have implemented a new spend management and supplier onboarding platform, ensuring a consistent approach to supplier due diligence and monitoring. Furthermore, we have updated our Supplier Code of Conduct to incorporate sustainable practices as a standard requirement; reaffirming our commitment to sustainable and responsible business practices.
Dockyard disruption due to coastal flooding has not been identified as a significant physical risk in terms of business interruption or value at risk. However, the scope of this assessment does not consider all aspects of dockyard construction and further on-site analysis for key sites is planned. Projected sea level rise is greater in the 4°C scenario but under a 1.5°C scenario, such coastal inundation could still result in high levels of lost revenue or asset damage.	Across parts of our operations, we use natural external hazards assessments to consider the impact of low probability risks, such as extreme weather events. Devonport mandates these assessments on-site as part of our requirement to ensure full through-life management of our nuclear facilities and to meet established nuclear safety standards, subject to both defence and civil nuclear regulation. To then appraise the best environmental options for infrastructure designs, Devonport works with industry leads, our customers and the local authority to conduct environmental assessments and Best Available Technique reviews where applicable.
Demand for LGE's services in the 4°C scenario could see strong growth, but significant reduction in the demand for gas in the 1.5°C scenario could result in reduced revenue. Under a 1.5°C scenario there is potential for growth in the medium term civil nuclear market with other competing power sources exposed to higher carbon taxes. The transition to low-carbon fuels in the 1.5°C scenario may limit the global demand for gas, potentially reducing demand for LGE's services. Higher carbon taxes may also impact the competitiveness of nuclear power, increasing demand for civil nuclear services. In 2050, the combined impact of these changes in demand results in a significant difference between scenarios. In the medium term, there will likely be an increased demand for emergency services, search and rescue, and emergency firefighting activity in Canada due to extreme weather. Similarly, South Africa has also identified the long-term opportunity to enter the firefighting sector due to extreme weather. As a further result of extreme weather, Australia has identified the opportunity to provide Emergency Medical Support and aid to new geographies in Australia, whilst Canada has identified the opportunities associated with infrastructure development, resource extraction and marine access due to the melting ice.	Our control measures are unchanged from the previous year. We aim to continue to develop our ammonia fuel gas supply system, as well as solutions for the transportation and storage of CO_2 in line with customer and legislative requirements. This will ensure that we are optimising efficiency while developing zero-carbon solutions and increasing business resilience against carbon pricing and its potential result of falling LNG demand. To maximise these opportunities, the given sectors have identified the need to monitor any changes or surges in requirement, the need to conduct careful feasibility planning/assessment, and be able to respond rapidly and agilely to customer requirements, such as the redeployment of assets, in the medium to long term.

Climate-related risks and opportunities

Climate risk	Description	Affected sectors and regions	Impact horizon
Shifting energy generation markets	Shifting energy generation markets result in disruption to customer base and demand for Babcock services.	Africa	Short/medium
Increased weather events	Demand impact to emergency services.	Aviation (Global)	Medium/long
Increased demand for low-carbon solutions	Regulatory pressures and low-carbon stakeholder requirements cause changes to customer requirements leading to demand reduction for existing Babcock services and increased R&D spending to adapt products and services to lower-carbon solutions.	All (Global)	Short/medium
Failure to decarbonise Devonport	Low-carbon electricity will be required to deliver Babcock's decarbonisation targets.	Marine Nuclear (UK)	Medium/long

Analysis findings	Control measures
In Africa, demand for electricity generating technologies and services may vary between the 1.5°C and 4°C scenarios. Our established support services with steam-based energy generators are potentially constrained under the 1.5°C scenario; but there are also opportunities to support the customer on a lower-carbon transition including renewable energy and energy storage opportunities.	We currently undertake emissions abatement projects such as an enhancement strategy to maximise all opportunities within NOx, SOx and PM, and are working with technological partners to identify further abatement projects where we can support. Possible further opportunities are now being assessed such as the conversion of fossil fuel boilers to 'clean coal technologies' over the next 10 to 20 years, the repurposing of current coal-fired stations and the next steps to evaluate the nuclear energy market regarding our entry levels and required qualifications. South Africa's market opportunity in power generation is being investigated through engagement with local initiatives, forums and the creation of a specific Customer Relationship Management system. Exploring the opportunity for energy storage and hydrogen storage is being managed with the early engagement of potential energy technology partners.
In the medium term, there will likely be an increased demand for emergency services, including search and rescue, and emergency firefighting activity due to extreme weather. This impacts existing parts of the Company offering such services, but may also open and grow markets where there is an exposure to extreme weather including Australasia, Canada and South Africa.	Our Australasia, Canada and South Africa teams are engaging constructively with existing and potential customers to understand opportunities.
Changes in stakeholder attitudes towards climate change which will likely be coupled with increased regulation; with both most prevalent under the 1.5°C scenario; requiring greater investment to maintain market share for services and products by delivering lower-carbon services and products. Aviation services offered by the Group, including emergency services, may grow under both scenarios albeit at different rates; however, failure to decarbonise aviation services under the 1.5°C scenario could result in greater lost market share when compared with the 4°C scenario. Marine and Land have both raised potential opportunities and risks in relation to potential increased customer demand for low-carbon products and services. In the medium term, Africa has identified potential increased demand for construction equipment and plant services for low-carbon energy developments because of changes in power plant regulations, an increase in electricity production requirements and the increase in mining of wider materials. In the medium term, Canada has identified likely new low-carbon fuel opportunities with existing and new clients associated with this transition.	Delivering alongside the RAF and Swift Aircraft, Project MONET is on track to deliver a flying testbed aircraft that will demonstrate new technologies to minimise the environmental impact of flying training. Significant milestones have been delivered including: maturing the aircraft design, production of the net carbon zero synthetic fuel that will power it and completion of a Life Cycle Assessment of the environmental impact of producing light training aircraft. Early concept work on a hybrid powertrain has produced better than expected results, prompting the RAF to request further information on how this may be developed. Our helicopter emergency services business is to explore a joint trial with an engine manufacturer on the use and environmental impact of Sustainable Aviation Fuel with an air ambulance charity. We are also continuing to work with industry leaders such as Vertical Aerospace to look at the applications of eVTOL aircraft within our current and future capabilities. Marine has invested in Engineering Concept and created the Clean Maritime SME Group. Land is pursuing Zero Fuels® and the electrification of emergency service vehicles, including delivery of a pilot project for electrifying Land Rovers, and has developed working relationships with leading electric propulsion technology partners. South Africa will continue to monitor the offering of new OEM technologies to customers as and when they become available. Canada is monitoring the realistic possibility of Government funding and incentives to capitalise on low-carbon fuel opportunities, whilst the business continues to investigate synthetic fuel application in Defence and eVTOL aircraft. Through projects such as CMDC Neptune, Babcock Marine is building our market awareness of new marine-based technologies available. Our newly formed Clean Maritime SME Group is the knowledge focal point in marine engineering for new green technologies and low-emission fuels. The combination of our high-level engineering skills with LGE and the nuclear expertise provides Babcock with the opportunity of being at the forefront of the green technology race with potential capitalisation in IP and skills.
The Devonport site potentially experiences significant cost increases under a 1.5°C due to the impact of direct carbon prices. Energy and gas costs would increase, most notably following the expiry of the Energy from Waste contract in 2040 and a switch to the market mix. The introduction and increase in carbon taxes in the 1.5°C scenario could result in higher costs when compared with the 4°C scenario. In the medium term, not achieving our decarbonisation targets could result in Babcock failing to meet customer expectations.	Across the organisation we are developing Carbon Reduction Plans, which map out the decarbonisation activities required to deliver our emissions reduction objectives. We have also identified opportunities for the installation of renewable energy assets across various sites which will drive operational efficiency.

Social

Safety, health and environmental protection underpins everything that we do at Babcock. Fundamental to our Purpose to create a safe and secure world together, we work with colleagues to ensure that our products and services are safe and that our workers, customers and stakeholders go home safe every day.

This year we have continued to embed the health and safety management system and implemented improvements by developing our people, processes and tools.

Governance and engagement

Our work across the globe ranges from through-life technical and engineering support, to specialist training and asset management, to the design and manufacture of defence and complex systems. Many of these operations include high-hazard activities conducted in challenging environments, so working to the highest standards and aligning our processes with our customers is our priority.

Babcock's Global Safety Director co-chairs the UK Defence Industry Safety Forum, where we collaborate with industry partners and the MOD to identify alignment opportunities and share good practices. We have identified common top risks, such as working at height, and published requirements manuals and guidance documents, including a Product Safety Management System manual. These documents define coherent standards and processes to ensure consistency of approach. Working across the disciplines and organisational boundaries ensures an integrated approach, where quality management enables safe products and safe people in all that we do.

We encourage all our people to question and learn through an engaged safety culture that enables continuous improvement. Our 'Safety Starts with Me' programme empowers our people to 'Stop, Think, Act' and helps our leaders to better understand the impact of their decisions.

We have introduced a Safety Stars recognition scheme, where anyone can nominate a team or individual who has demonstrated positive safety behaviours. Numerous Safety Star nominations are received each month and every nominee is thanked by the Corporate Safety Leadership Team. The nominations confirm that every day our people support the safety of others through living our principles.

Our Safety Summit in November 2023 included interactive workshops across 26 sites globally. Over 3,000 people participated in collaborative activities and facilitated discussions to raise awareness and build knowledge of safety, health and environmental topics. Our Safety Summit was commended at the Safety and Health Excellence Awards 2024. Our annual safety stand-down encouraged people to 'Speak Up and Challenge', providing practical advice on how best to intervene when they see something that is unsafe. We continue to engage with our people and in the recent Global People Survey, 83% of employees believe that Babcock is truly committed to the health and safety of employees.

Performance and improvement

As the scale and complexity of our high-hazard activities have increased, we have recruited many new employees and utilised a large number of contingent workers and contractors. Changes to the activities undertaken and the number of inexperienced workers have contributed in some part to the rising Total Recordable Injury Rate[1] and Days Away Case Rate[2]. We are reviewing our safety training and increasing the supervision levels in many of these areas, as well as working across the enterprise to improve the working environment to remove distractions.

Safety starts **with Me**

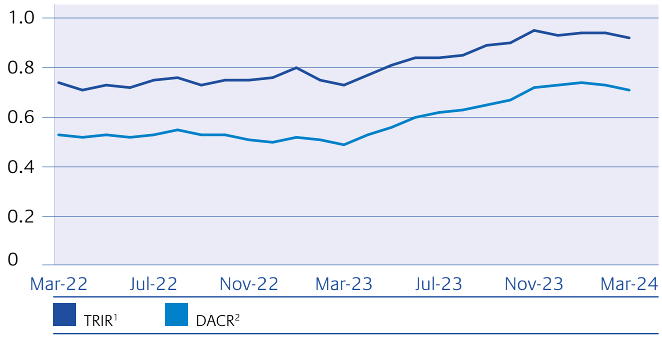
You have the authority to stop work if you feel unsafe

be courageous — **Stop** – if you have a safety concern

think: outcomes — **Think** – how could this be safer?

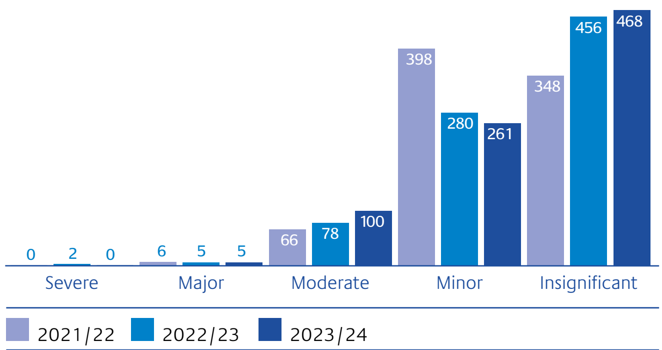
own & deliver — **Act** – make it safe

Babcock injury rates – Total Recordable Injury and Days Away Case Rates



1. Number of recordable work-related injuries and illnesses multiplied by 200,000/total working hours (200,000 hours represents 100 employees working 40 hours for 50 weeks per year)
2. Number of recordable work-related injuries and illnesses resulting in one or more days away from work multiplied by 200,000/total working hours (200,000 hours represents 100 employees working 40 hours for 50 weeks per year)

Injury/illness severity



The overall severity of work-related injuries continues to reduce with the majority of reported accidents causing insignificant bumps and scuffs. However, it has been recognised that the number of injuries and the proportion of accidents that result in fractures and time away from work needs to be addressed. Our leaders, at all levels, are committed to visible safety leadership and we are working with our Occupational Health provider to identify health and wellbeing issues and develop action plans before events occur.

As well as continuing to improve our processes, tools and the working environment, we continue our focus on people as they are key to a successful safety culture. Enabling our people to deliver quality products and services safely requires training and continuous engagement. Building upon good practice from across Babcock, we have delivered standardised training for frontline safety leaders, product safety awareness and safe driving with human factors awareness training for all due for roll-out shortly. We have committed to build upon the 'Safety Starts with Me' behaviours programme, develop our Senior Leaders Safety and Compliance training, and embed the 'Home Safe' commitment that all underpin our promise to ensure people go home safe every day.

An inclusive and diverse company

Our Global People strategy continues to place our people at the heart of our business and define our ambition for the future. It encapsulates our collective aspirations and focuses our work on the critical people areas that will transform Babcock into a more agile, effective, inclusive, sustainable, and people-focused business.

Elements of the work to bring the Strategy to life are outlined below and will ultimately foster an inclusive and diverse company, where our employees truly feel part of a global business.

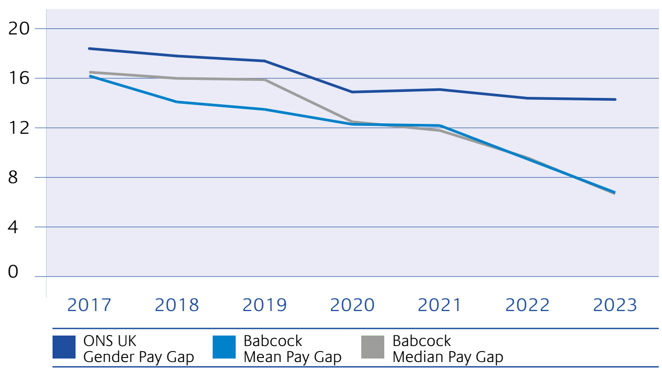
Read our Gender Pay Gap Report on our website

Gender

Gender pay gap

Our challenge is not an equal pay issue, but one of representation as we operate in typically male-dominated sectors. However, our focus remains on enabling a more equal gender balance at all levels of our organisation, and we continue to see year-on-year progress in narrowing our gender pay gap, which this year reduced again from 9.6% to 6.7%.

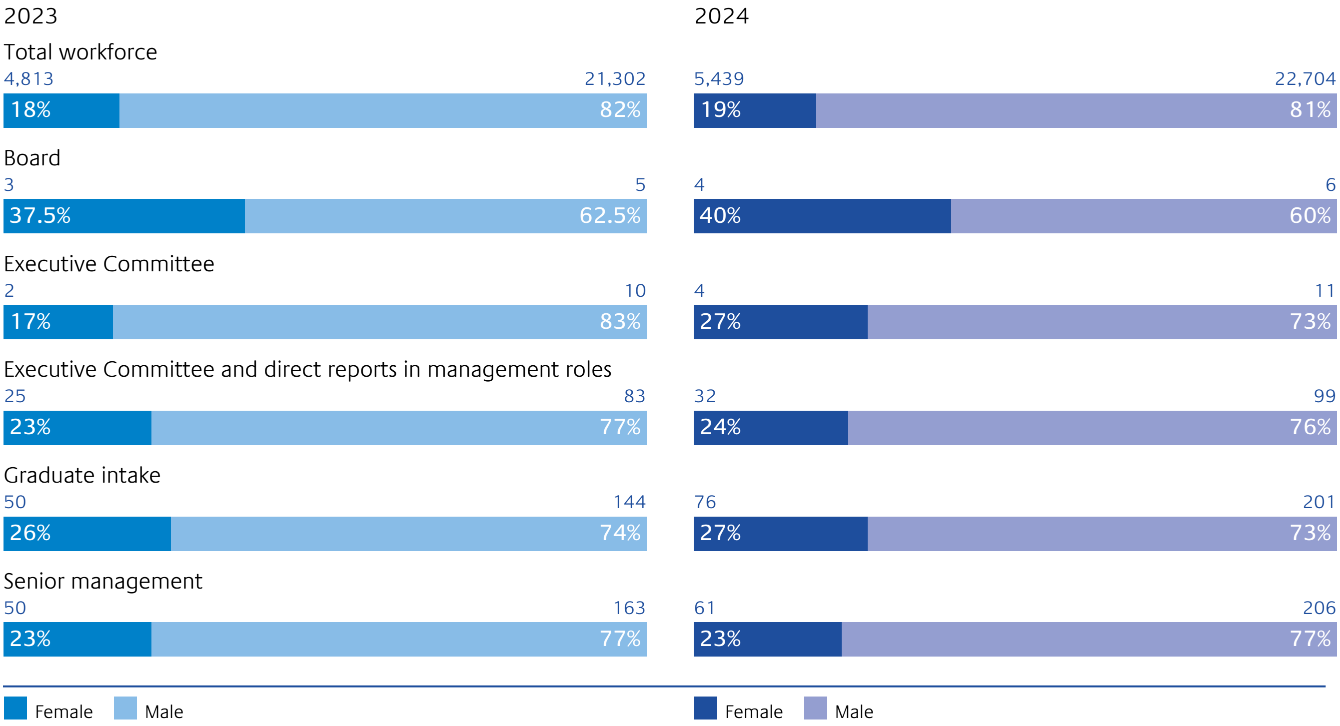
Gender pay gap (%)



Gender balance

Currently, women constitute 19% of our workforce, and we are witnessing an increase in female representation at the Board level, now at 40% (up from 37.5%), while the senior management level remains consistent with the previous year at 23%. We remain steadfast in our commitment to achieving at least 30% female representation in our workforce by 2030.

During the year organisational changes, including the expansion of the Executive Committee (ExCo) and the restructuring of various parts of the business, have influenced the numbers of employees who are identified as senior management. Furthermore, the embedding of the Babcock Role Framework (BRF), which has enabled the categorisation and definition of roles more consistently across the Group, resulted in an increase in this population.



1. Our total workforce is 28,343 which includes 22,704 men, 5,439 women,18 people identifying as non-binary, 129 who 'did not specify' and 53 who chose 'prefer not to say'.
2. Executive Committee total is 15. This figure excludes Executive Committee members on the Board.
3. Executive Committee and direct reports in management roles total 131. This excludes Executive Committee members on the Board.
4. Senior managers are defined as employees (excluding Executive Directors) who have responsibility for planning, directing and controlling the activities of the Group (Executive Committee) or a strategically significant part of the Group (sector/functional leadership teams) and/or who are directors of subsidiary business units (BU leadership).
5. Senior management role total is 267.
6. Graduate intake is 278 (202 UK, 69 Australasia, 7 South Africa).
7. Non-Executive Directors are only included in total headcount and Board figures.

Critical Mass Partner to Women in Defence UK

Our Chair, Ruth Cairnie, is the Patron of the Women in Defence Charter whilst Babcock itself is a founding member of the organisation.

This year we reaffirmed our commitment as a Critical Mass Partner to Women in Defence UK. We support its work to drive gender equity across the defence sector, and this year contributed to the design of the first Women in Defence Critical Mass Summit in summer 2023 and delivered customised workshops. We also incorporated it into our senior leadership team event to drive engagement and awareness.

Ethnicity

We further developed our focus on ethnic diversity by creating our Ethnicity Action Plan. We also became a signatory to the Race at Work Charter and revitalised our B4ME Network.

Our networks

Our networks and communities are important vehicles for promoting an inclusive culture. In FY24, in response to employee feedback, we established three new employee networks: Carers, Disability and Forces. We continue to support our networks and remain committed to helping them flourish. Our Disability Network has continued to grow this year, offering multiple peer support groups and subject matter expertise. This will accelerate progress in building our portfolio of evidence for Disability Confidence Level 2 and maximising engagement with The Valuable 500.

Early careers

We have expanded our early careers programme, welcoming over 600 new early careers employees in the year, comprising over 350 apprentices and over 275 graduates, both within the UK and internationally.

New initiatives included the roll-out of Pre-Apprenticeship Programmes in both Clyde and Rosyth, Scotland and at Devonport, we enhanced our Level 2 apprenticeship programme, further diversifying our offering.

A key highlight was the launch of our Group-wide Project Management graduate programme. This innovative scheme allows graduates to rotate across different sectors within the Group, providing valuable exposure and skill development.

We established a dedicated External Engagement team in Devonport, which will collaborate closely with schools and engage with the local community in the Plymouth 'Travel to Work' area. Its focus will be on raising awareness of STEM and enhancing students' employability skills to continue to build our external engagement portfolio across the UK.

STEM

During FY24, our efforts in science, technology, engineering and maths (STEM) grew, with 582 employees volunteering their time as STEM Ambassadors, supporting us by raising awareness of STEM opportunities to young people. Our engagement spanned 307 primary and 401 secondary schools nationwide, where we provided support in delivering the UK Government's Gatsby Benchmarks.

In May 2024 Babcock welcomed more than 300 local primary school pupils to our annual Festival of Engineering at Rosyth to help them explore the kinds of skills they will need for a career in science, technology, engineering and maths (STEM).

Leadership

Feedback from the 2023 Global People Survey revealed an improvement in the impact and effectiveness of our senior leaders, with growing confidence in their leadership capabilities.

A series of highly impactful virtual workshops tailored for our senior leadership served as a platform for meaningful discussions, knowledge sharing, and collaborative exploration of Babcock's growth and development themes. The workshops preceded our Annual Global Conference.

Ensuring the wellbeing of our people

Using the insights gained from our Global People Survey and in collaboration with colleagues across the organisation, we have developed a wellbeing strategy tailored to the specific needs of our people. This seeks to promote a proactive approach to wellbeing as well as providing support to our people when they need it.

We have made some great progress this year across our four wellbeing pillars (Mental, Social, Financial and Physical), including:

- Launching a new **wellbeing hub**, which brings together all our wellbeing resources, programmes and benefits and makes it easy for colleagues to access support when they need it
- Developing a **wellbeing communication calendar**, which provides a regular drumbeat of messages throughout the year
- Growing and developing our **Mental Health First Aiders Network** to promote and maintain wellbeing through prevention and early intervention
- Launching a new **Employee Assistance Programme**, providing proactive wellbeing resources as well as in-the-moment support and guidance on both work and life issues
- Rolling out **health assessments**, including Stress Risk Assessments, enabling staff and managers to understand and mitigate key risk areas
- Continuing to enhance our **employee benefits provision** with plans to implement our new **inclusive leave** policy across the UK Group to support our people in the moments that matter
- Providing access to **critical incident support** resources to support managers through moments of crisis.

We know we can always do more and so are committed to continuously improving our wellbeing provisions over time. Furthermore, we have expanded the roll-out of workshops offering all managers essential tools and skills.

Progress on the leadership framework continues, with the translation of our principles into observable behaviours. This framework serves to hold our leaders accountable and foster a culture of performance and development. It provides a globally consistent model and tools for effective people management, succession planning and talent acquisition.

Innovative learning solutions were piloted for our senior leadership cohort in Canada and the UK. The programme focused on enhancing business acumen and commercial skills while emphasising the direct correlation between leadership actions and achieved outcomes.

Support for armed forces, veterans and reservists

Given the nature of our work, we have a longstanding history of recruiting and developing ex-services personnel both in the UK and around the globe.

In the UK, we hold a Gold Award from the MOD's Armed Forces Covenant, and through our work with the Careers Transition Partnership, charities such as White Ensign Association and Officers Association, and organisations including British Forces Resettlement Services (BFRS), Forces Families and Pathfinder Magazine, we recruited 890 new ex-services employees in 2023 alone. In fact, we estimate that 16% of our total workforce has some form of connection to the armed forces, whether as a leaver, reservist, or as a member of a forces family.

Babcock has the size and breadth to offer a range of career paths to veterans where their skills and experience are valued.

We are a key sponsor of the Soldiers', Sailors' and Airman's Families Association (SSAFA) and work closely with it to ensure access is open to all of our veterans and forces families.

Broad-Based Black Economic Empowerment

In South Africa, Broad-Based Black Economic Empowerment (BBBEE) targets historical economic disparities by empowering previously disadvantaged groups, especially black South Africans. It emphasises initiatives like ownership, skills development, as well as economic and socio-economic advancement in pursuit of a more inclusive, sustainable economy. Embracing BBBEE principles enhances businesses' access to talent and markets, contributing to a fairer, more prosperous society.

Babcock is deeply committed to uplifting the surrounding communities in which we operate, recognising the link between community sustainability and our business success. We believe we can make a positive impact to local people living in the communities surrounding our operations, providing them with skills and education for a sustainable independent future where they are able to fulfil their needs and improve their living conditions.

Over the years our core focus on sustainable transformation has lain primarily in education. This year, we have upheld our commitment to supporting scholarships that prioritise STEM education. These scholarships aim to provide opportunities for underprivileged children with exceptional potential to pursue studies at private colleges, promoting fairness and nurturing talent development. By extending similar opportunities through our College Programme to children from marginalised backgrounds, we actively foster inclusivity and ensure equitable access to education across all strata of society. Additionally, our internal scholarship initiative for employees' children underscores our dedication to supporting our workforce and their families.

We undertook a programme focusing on the uplifting of women in leadership and women in engineering, through two key programmes: the Intern-Teacher training programme which aims to train teachers in STEM, and the school leadership programme to uplift and better assist principals in managing schools, turning them into reputable institutions of learning. The launch of the Entrepreneurial Development Programme through our Babcock Education and Training division has seen a number of Small, Medium and Micro Enterprises (SMMEs) gain the necessary skills needed to thrive by providing them with the tools and resources needed to establish, sustain and grow entrepreneurial ventures.

Indigenous peoples

Babcock aims to be an inclusive organisation, reflecting the nation we live in and the communities we serve alongside our customers. With a global presence, we acknowledge the importance of engaging and supporting indigenous people in the spaces in which we operate.

In Canada, Babcock has successfully completed the three Commitment Phases of the Canadian Council for Aboriginal Business' (CCAB) Progressive Aboriginal Relations (PAR) programme. We now move into the PAR certification process and will be applying for full certification in the spring of 2025. Babcock Canada has added several indigenous businesses to its supply chain over the last year including: Indigeno Travel LP, Pure Spirit Solutions Inc, Mobile Resources Inc, NCN Thompson Bus & Freight and LaFlesche Inc.

Babcock Canada has also laid the groundwork for significant investment in Indigenous skills training and development. These investments include multiple educational awards targeting indigenous youth enrolled in STEM-related post-secondary education, grants provided to organisations that promote indigenous youth STEM enrolment, and Babcock Canada career awareness through summer co-op terms for high-achieving students, internships and apprenticeships upon graduation.

Babcock Australia is proud of our continued partnership with Engineering Aid Australia and Yalari, a not-for-profit organisation providing educational opportunities to indigenous children in Australia. In addition, we actively support Māori and Pasifika students in increasing their career opportunities through a three-year partnership with TupuToa, a Māori organisation which delivers support for Māori and Pasifika tertiary students, and supports Babcock in identifying interns and graduates to join our Early Careers Programmes.

Through our partnership with Supply Nation in Australia we continue to expand our supply chain to include Aboriginal and Torres Strait Islander-owned businesses across the region. In New Zealand, we work within the Amotai Initiative, to expand our supply chain commitment to Māori and Pasifika-owned businesses.

The skills, services and products provided by indigenous-owned businesses across Australasia are important elements of our nation's sovereign capability and help us to fulfil Babcock's Purpose in 'creating a safe and secure world, together'.

Volunteering

Volunteering is an enriching experience that not only benefits the communities in which we work but also provides our employees with the opportunity to make a lasting impact.

Our annual 'Be Kind Day' gives our people one paid day (or equivalent hours) to volunteer and play an active part in helping others to thrive. In FY24, our employees volunteered over 6,000 hours, up from just over 1,100 hours in FY23.

We have joined forces with the Army Benevolent Fund (ABF), the British Army's national charity, to support a number of its key events. Through the multi-year partnership, we will sponsor two of the charity's landmark events – the Cateran Yomp (pictured), a gruelling 24-hour, 54-mile trek across the stunning Scottish Highlands, and Operation Bletchley, a series of codebreaking challenges.

We have donated to Rapaid, enabling it to expand the number of taxis in Plymouth carrying its free life-saving emergency pressure bandages which enable bystanders and those first on scene after a serious accident or act of violence to stop critical blood loss in victims.

Charity

Our corporate Purpose is 'to create a safe and secure world, together', and our donations and charitable sponsorship policy is designed to support this by broadly focusing on two key criteria.

Firstly, military charities and events. Babcock has always proudly supported our armed services and it remains core to our values. Secondly, we support our communities by focusing on local charities where we have our sites and attract our employees from.

Our sectors and direct reporting countries retain responsibility and management of their donations and sponsorships to ensure their budget goes where it can serve the greatest need and be of most value to those communities, helping us to make a genuine difference.

Since 2019, Babcock Canada has donated to the CFB Esquimalt Military Family Resource Centre, supporting their vital services to military members and their families, including counselling, resources and support, recreation and fitness facilities, events for the community, summer camps and more.

We are proud to be supporting the Families' Activity Breaks (FAB) charity with a donation that will go towards helping bereaved military families participate in one of the camps. We have also advertised volunteering opportunities with the organisation. FAB offers bereaved military families a week-long holiday to take part in fun and challenging activities, and to meet and socialise with others who have experienced a similar loss.

Governance

Commercial integrity

We are committed to conducting business honestly, transparently and with integrity. It is the right and proper way to behave, ensuring we uphold high ethical standards across the Group. It also supports our long-term success.

We understand our reputation and good name are amongst our greatest assets and could easily be lost by actual or suspected unprincipled behaviour. To support good governance and ethical behaviour across our Group, our actions and those of our employees, suppliers and partners are guided by a series of Group policies. These include our Code of Business Conduct and Ethics policy and our newly established Human Rights policy, which are available on our corporate website.

Our policies are reviewed periodically to ensure that they continue to meet current best practice principles and legislative needs. By establishing transparent policies and procedures we can reduce risk to our business and to our customers.

We treat breaches of our Codes or associated guidance seriously. Employees can raise any concerns that our Code or its associated guidance is not being followed without fear of unfavourable consequences for themselves. To ensure that anyone with a concern is able to access advice and support, our independent whistleblowing hotline, EthicsPoint, (operated by NAVEX Global) allows for confidential and anonymous reporting and is available 24 hours a day, seven days a week, in all territories where we are based. Further details are available on our corporate website.

Supply chain governance

Effective supply chain governance, with a focus on ESG, encompasses proactive risk management, transparent practices and collaborative efforts. Beyond safeguarding reputation, it serves as a catalyst for long-term value creation and contributes to a more sustainable future.

Babcock Procurement and Supply Chain is committed to establishing a world-class supply chain that prioritises responsible sourcing, sustainability and governance. By minimising disruptions, reducing costs and enhancing social and environmental impact, we aim to create value for all stakeholders. Collaborating with suppliers, customers and internal stakeholders, we foster transparency, trust and continuous improvement.

Our diverse portfolio of approximately 12,000 suppliers, including both multinational original equipment manufacturers (OEMs) and small and medium enterprises (SMEs), contributes to our ability to deliver quality products and services. Rigorous due diligence ensures compliance and risk management, while our risk resilience AI-driven solution monitors our vast supply chain ecosystem. Through these efforts, Babcock builds a resilient and responsible supply chain.

In the upcoming year we will also introduce ESG ratings for areas of focus in our supply chain. These ratings will play a pivotal role, guiding our commitment to responsible practices. These ratings assess the environmental impact, social responsibility and governance present in our supply chain, influencing decisions that drive sustainability and value creation.

Sustainable sourcing

At Babcock, we recognise the critical importance of responsible sourcing and sustainability in today's global economy. As part of our commitment to ethical and transparent business practices, we maintain strong and sustainable supply chains.

Collaborating closely with our suppliers and sub-tier suppliers, we actively encourage the adoption of sustainable practices.

Our primary goal is to reduce the environmental impact of our supply chain while simultaneously achieving our business objectives. By promoting good labour practices, minimising carbon emissions and conserving natural resources, we aim to create long-term value for all stakeholders.

To reinforce our commitment, we have published our Sustainable Procurement Policy and Supplier Guide as well as our Supplier Code of Conduct. These documents serve as key references for setting expectations with our suppliers regarding ethical and sustainable procurement. Through these guidelines, we encourage suppliers to align with our vision, contribute to social responsibility and support the development of sustainable products and services.

In alignment with the principles of ISO 20400, we have crafted a comprehensive Supplier Code of Conduct that explicitly outlines sustainability expectations, covering environmental protection, fair labour practices and social responsibility. Furthermore, we have integrated sustainability considerations into our supplier processes at sourcing, onboarding and throughout supplier assessments.

In 2024, we will publish a Supplier Assurance manual to enhance transparency for our valued suppliers. This manual will provide insights into our Supplier Assurance processes, including ESG considerations, supplier assessments, audits and development. By sharing this resource, we aim to foster collaboration, responsible practices and sustainable supply chain management.

Scope 3 carbon emissions

We aim to proactively measure and reduce our carbon emissions, underscoring our unwavering commitment to sustainability and acknowledging our environmental impact. To enhance our understanding and mitigate our carbon footprint, we employ a spend-based calculation method to map emissions across our value chain. These insights serve as a foundation for refining Babcock's carbon strategy, enabling us to proactively identify emission reduction opportunities. In FY25, we will introduce our carbon reporting tool (Joscar Zero) to suppliers, focusing on key suppliers and emission hotspots. This tool will assist suppliers in assessing their emissions and developing targeted Carbon Reduction Plans.

To learn more about our Scope 3 emissions please read our Environment section on page 70.

Working with SMEs

Babcock Procurement and Supply Chain, along with its customers, recognises the vital role that SMEs play in building a sustainable and resilient supply chain in the UK. As part of our sustainable procurement strategy, we are committed to fostering the growth of our SME supplier population. We actively monitor our SME spend percentage and take necessary actions to support their development. Additionally, we engage with smaller and local suppliers, particularly those promoting inclusion of under-represented groups, to contribute to economic prosperity and societal integration. In FY24, 27.7% of our total spend was with our SME supplier base compared to 24% in FY23.

Payment to suppliers

At Babcock, we prioritise prompt payment to our suppliers, recognising its importance in maintaining strong relationships and supporting their cash flow. We adhere to payment practices and regulations, and are committed to paying suppliers on time and in accordance with agreed-upon terms. Additionally, we encourage our suppliers to adopt the Prompt Payment Code (UK) throughout their supply chains. In FY24, we achieved an average payment term of 16.3 days to our suppliers, versus 21.4 days in FY23.

Human rights

Babcock upholds all international treaties, including the United Nations Declaration on Human Rights. In the UK, we hold our suppliers and extended supply base to the same standards as outlined in the Modern Slavery Act 2015. We also expect our overseas suppliers to fully understand and align with the Act's intent. By collaborating closely with our suppliers, we aim to build an ethical and sustainable supply chain that benefits all stakeholders.

Our consistent commitment to upholding human rights and our opposition to modern slavery are embedded in our Supplier Code of Conduct which can be found on our website. This code serves as a foundation, providing a transparent framework for our suppliers to align with Babcock's core values, adhere to our policies and meet all relevant legal requirements. By ensuring that our supply chain operates with integrity and transparency, we can explicitly define the standards and expectations that our suppliers must adhere to when conducting business with us.

Our Supplier Code of Conduct reflects our commitment to human rights and responsible practices, including:

- Ensuring work is performed on a voluntary basis and without restriction of movement
- Treating workers equally and without discrimination
- Ensuring workers are of an appropriate age
- Respecting freedom of association and collective bargaining
- Providing reasonable working hours
- Paying workers fair wages
- Protecting workers' health and safety in the workplace
- Providing access to fair procedures and remedies

Our commitment to human rights extends throughout our supplier network and their extended supply chains. We prioritise transparency and responsibility, aiming to uncover and address issues collaboratively.

Our publicly available Group Modern Slavery Transparency Statement defines our commitment to responsible sourcing and supply chain transparency, including our due diligence processes, supplier engagement approach, training and initiatives to promote responsible sourcing. Regular reviews help us monitor compliance and identify areas for improvement.

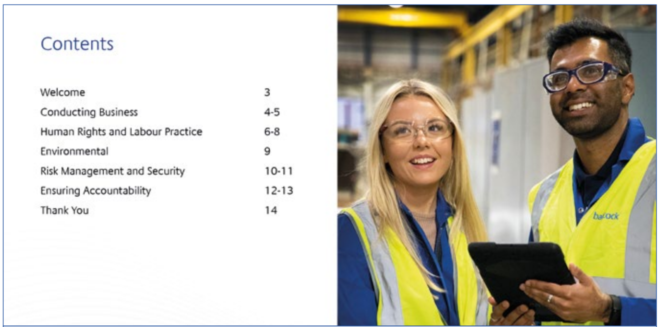
You can read our Modern Slavery Transparency Statement here

Additionally, our strategic Risk Resilience tool enables real-time monitoring though AI and machine learning technology, tracking and generating alerts for indicators such as compensation, employee satisfaction, diversity, workforce rights, safety, prohibiting child or compulsory labour and fair treatment. This proactive approach helps us mitigate hidden risks and respond swiftly to changes in our supply chain.

Fair operating practices

Our commitment to ethical and responsible business practices is underpinned by our Supplier Code of Conduct. It serves as a fundamental component that provides a clear framework for our suppliers to align with Babcock's values, policies and legal requirements. By ensuring that our supply chain operates with integrity and transparency, we are able to maintain a high standard of accountability and sustainability throughout our operations.

As part of our supplier selection process, we conduct thorough assessments to ensure that our suppliers are capable of meeting our financial, commercial, safety, governance, technical, health and security requirements. We periodically review and revalidate these standards to ensure continued compliance throughout the supplier engagement lifecycle. In the UK, we use the Joint Supply Chain Accreditation Register (JOSCAR) due diligence tool, which is a shared industry-wide management system for defence contractors that collects pre-qualification and compliance information about individual suppliers across the UK supply chain.



Contents

Supplier Code of Conduct

Our Babcock Supplier Code of Conduct outlines expectations for suppliers regarding human rights and introduces guidelines for our journey toward Net Zero.

Read the Supplier Code of Conduct on our website

Cyber security

Babcock recognises the threat of cyber attack and the potential consequences including operational disruption, unlawful access or theft of information and resultant reputational damage.

Babcock maintains ongoing plans to mitigate such risks and has an Information Security Committee which meets quarterly to provide governance, direction and assurance that the Babcock security posture is appropriate and effective. Additionally, monthly reviews are maintained with Senior Information Risk Owners to ensure governance of information risk across our business.

Babcock applies all required international and government security standards for secure installation and operation of information systems. Security operations are deployed to establish threats and to protectively monitor for risks to information, systems and networks.

Core IT services are certified to ISO 27001 (Information Security) and ISO 22301 (Business Continuity) standards as well as Cyber Essential Plus, a requirement for UK Government working.

Babcock is a member of the joint UK Ministry of Defence and Industry Defence Cyber Protection Partnership (DCPP) which seeks to ensure the defence supply chain understands the cyber threat and is appropriately protected against attack. Babcock is represented on all the working groups and the DCPP Executive Committee.

Both targeted and global education and training is delivered to staff to help raise cyber awareness across the workforce.

Babcock continues to invest in cyber resilience through improvements in threat intelligence and cyber supply chain security.

Non-financial and sustainability information statement

Reporting on material yet non-financial measures is important in understanding the performance, opportunities and long-term sustainability of the Company and our ability to generate value for all our stakeholders. We disclose non-financial information in the ESG strategy report and throughout the Strategic report. The following summarises where to find further information on each of the key areas of disclosure required by Sections 414CA and 414CB of the Companies Act. This includes the requirement to include Climate Financial Disclosures (CFD) within the Annual Report and Financial Statements. These have been incorporated throughout our TCFD disclosures.

Reporting requirement	Policies and standards	Additional information	Page
Environmental matters	Safety, Health and Environmental Protection policy*	Social	80
	Sustainable Procurement and Supply Chain policy	Sustainable sourcing	86
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CFD disclosures	See TCFD disclosure	Task Force on Climate-related Financial Disclosures	72
Employees	Code of Conduct**	Commercial integrity	86
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	Charity and Sponsorship High-Level guidelines**	Charity	85
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Description of principal risks and impact on business activity	Group Risk Management policy*	Principal risks and management controls	89
Business model		Our business model	16
Non-financial KPIs		Key performance indicators	23

* Available to employees through the Babcock intranet but not published externally.
** Available on the Babcock website and available to employees through the Babcock intranet.

Our principal risks and management controls

"We have continued our risk maturity journey with improved quality of risk output and engagement across Babcock, and strengthened our formal review and gating processes to support delivery of well-governed contracts."

David Lockwood
Chief Executive Officer

Risk and internal control enhancement highlights in the year

- Risk Committee focus on enhanced mitigation strategies with implementation of deep dives on principal risk mitigations
- Substantial enhancement of the Corporate, Sector and Direct Reporting Countries (DRCs) Risk Registers
- Investment in the Risk Leads Community resulting in enhanced risk conversations linked to risk-based decision-making
- Heightened material fraud risk understanding through a series of teach-ins to sectors and DRCs
- Embedded material fraud and climate risks into Risk Register submissions for sectors and DRCs
- Schedule of risk workshops across sectors and DRCs to enhance understanding, and drive consistency and quality of risk outputs
- Embedding and expanding key controls and implementing increased assurance over key controls enhancements.

Heightened risk control to support risk resilience

We have a Risk Management Framework to manage the risk and opportunities inherent within our strategy. As explained at our Capital Markets Day, risk management is at the core of Babcock management practice and an integral part of all our activities, helping us to deliver our commitments to customers, colleagues, and communities. We continue to build on improvements made throughout FY23/24.

FY24 saw valuable enhancements in the quality of Babcock Risk Registers and heightened understanding of the importance of effective risk mitigation. There has been an enhanced understanding of the benefits of Enterprise Risk Management (ERM) across the Babcock senior leadership team. The Risk Committee has continued to develop ERM practice with a healthy level of cross-functional challenge around principal risks and their collective mitigation.

Effective risk management starts with the right conversations to enable better risk-based decision-making. Our Risk Management Framework considers management of risk in the round, top-down and bottom-up correlated through a series of risk conversations with the members of the Group Executive Committee and critical risk influencers.

Risk is considered regularly at Board level. As part of its business planning and annual strategy review process, the Board conducted a robust assessment of principal and emerging risks.

FRC revisions to Corporate Governance Code

The Financial Reporting Council (FRC) has published the 2024 UK Corporate Governance Code and associated guidance. This comes into effect for the Group for the year ending 31 March 2026. The Audit, Risk and Internal Controls section of the updated code now includes the requirement for a declaration on the effectiveness of the material controls at the balance sheet date, a requirement effective for the March 2027 Annual Report. The Group has been proactively assessing current maturity, and planning for compliance.

Our Risk Management Framework

Our Risk Management Framework, (below) is used consistently across the Group, clarifying ownership and the differing levels of assurance. The risk framework includes a Risk Committee where all principal risks are comprehensively challenged throughout the year. We have refined the Global Risk Management policy and User Requirements manual which is now embedded via tailored training and awareness sessions across the Group.

The Board sets the Group's strategy (page 14). To help deliver this strategy, the Board has in place procedures for identifying, evaluating, and managing the risks inherent in our strategy, alongside the emerging risk landscape. As part of those procedures, the Board reviews and approves the Group's Corporate Risk Register on an annual basis to ensure alignment with the Group's strategy. The Risk Committee provides leadership and oversight of the Group's risk profile. It makes this determination using a consistently applied risk-rating matrix, which assesses the likelihood and impact of each risk occurring and its target state. The Board makes this assessment after taking into consideration the controls and mitigations that the Group has in place.

Co-ordinated by our network of Global Risk Leads, we build our hierarchy of risk by bringing together the Risk Registers of our sectors and DRCs. These Risk Registers include principal, strategic and operational risks, and emerging risks. The sectors and overseas operations compile their Risk Registers using the Global ERM Framework for consistency in approach. The framework requires the risks to be described along with the measures in place to control or manage each risk and to assess their effectiveness. The Group Risk function consolidates the Risk Registers and produces the Group's risk profile, including risk interconnectivities. The Risk Registers show the current rating of each risk and the target state. Each risk rating measures each risk for likelihood and impact, using the five-by-five matrix representing a combination of likelihood and impact. Please see the following graphic for definitions.

Likelihood		Impact	
	Very likely More than 90% chance		**Severe**
	Likely 60–90% chance		**Major**
	Possible 30–60% chance		**Moderate**
	Unlikely 10–30% chance		**Minor**
	Very unlikely Less than 10% chance		**Insignificant**

Group Risk engages with sectors and DRCs quarterly, providing guidance and ensuring a common approach as to how to measure likelihood and impact. We have included the current rating for each principal risk alongside its description (page 95).

On an annual basis, the Risk Committee reviews the scoring matrix. Following the Risk Committee evaluation, the Board, on an annual basis, considers the matrix and reviews the Group's principal and emerging risks. The review includes a description, as well as our controls and mitigations and our risk appetite against each principal risk. In addition to the review of the risk-rating matrix, the Board also undertakes 'deep dives' bi-annually on specific risks.

Our internal control environment

In FY24, the Group has continued to make progress in its internal control environment which aims to protect the Group's assets and to check the reliability and integrity of the Group's information, thereby providing assurance that the Group appropriately manages the risks in our business model and the delivery of our strategy.

Internally published policies set the framework for the Group's internal controls. These policies cover a range of matters intended to mitigate risk, such as health and safety, project management, information security, trade controls, contracting requirements, financial transactions and financial reporting.

The Document of Controls is the cornerstone of internal control systems over financial, reporting and compliance controls; during the year the controls therein were linked to the overall business process Risk Register thereby now operating as the risk and control matrix for the Group, defining risk and control owners, and the control design. The financial reporting controls were assessed for completeness in the prior year, and the Group is now conducting risk-based thematic reviews to review and enhance the design of controls. Reviews started with the Blueprint Fundamentals and now, in line with the planned roadmap, include reviews of accounts receivable and goodwill impairment controls.

The FRC published the 2024 UK Corporate Governance Code and associated guidance in January 2024, and the Group took the opportunity to assess the maturity of risk and internal control systems in response to the guidance. This exercise highlighted elements of the Group's risk and control assurance framework that required enhancements, and validated prioritisation within the existing roadmap. Part of the Group's expected response is to define a material controls assurance map, and proactively enhance assurance across the lines of defence, to provide a solid foundation to meet the Code and guidance as it becomes effective. An early draft of this document has been prepared and shared with the Audit Committee to align enhancement action.

The Blueprint Fundamentals – 15 key contract review, bid review and financial reporting controls – were designed and implemented in late FY23. These controls have continued to be operated throughout the year, with assurance undertaken across all lines of defence including two internal audit reviews and design and implementation external audit testing. In response to findings, control monitoring was increased and formalised, especially around Group bid reviews, to enhance the robustness of the controls. Standardisation of contract review processes, implemented for Group watchlist contracts in FY23, was expanded to all Category A contracts. The design, implementation, testing and rectification approach for these controls gives confidence in the implementation of additional control enhancements planned.

During the year, IT general controls were enhanced by retiring certain legacy systems, aligning user access controls for the Group's treasury management and consolidation systems to other systems in the Neptune estate, adding additional manual controls to improve privileged access controls on the Group's remaining legacy system estate and conducting segregation of duties testing for core procurement processes.

The controls enhancement programme, which will continue into future periods, has benefitted from the ongoing centralisation of key support functions, with FY24 being the first full year with the UK supported by the Finance Business Services team. This team has driven forwards a number of process standardisation initiatives and conducted root cause analysis of historical financial reporting and misstatements below Group materiality for rectification.

In addition, the Group enhanced the fraud Risk Management Framework through sector and DRC submissions of material fraud risks via the quarterly risk returns, conducting fraud risk training to sector and DRC risk leads and seeking external assessment of our overall fraud Risk Management Framework in response to the publication of the Economic Crime and Corporate Transparency Act 2023.

In FY24, the Group concluded the full insourcing of its internal audit activity through the recruitment of four dedicated Internal Audit specialists. The status of the internal audit work programme and the results of each audit are presented at every Audit Committee meeting.

Our risk assurance

We use the three lines of defence model to assure ourselves about the management of the risks that we face. The first line of defence is management control, policies, and procedures, together with management oversight. The second line is internal assurance activities including Group risk management and compliance teams who deliver functional oversight. The third line is independent assurance activities, such as internal audits.

Risk management and internal control annual review

To provide assurance, the Audit Committee performs an annual review of our risk management and internal control systems to assess their effectiveness. After this year's review, the Committee concluded the Company has implemented several control improvements, and had a structured plan to implement further control enhancements covering lessons learnt and progressively meeting the 2024 UK Corporate Governance Code requirements. The Board, following robust assessment, concluded that the risk management process within the Group provides effective management of the principal, emerging and underlying risks. This assessment allows the Board to monitor and review the effectiveness of these processes in adherence to the UK Corporate Governance Code.

Risk Committee

The Risk Committee provides executive management leadership and oversight of the Group's ERM Framework, acting as an interface between the Audit Committee and the business. The Committee has as its principal deliverable the review and challenge of the mitigation and control of the principal risks, as summarised on page 131. All principal risks have an allocated owner. Each principal risk is presented by the Executive Committee owner on a rolling annual programme through evaluation of the status of the principal risk and the effectiveness of its mitigation and discussion around the identified risk appetite. The Risk Committee undertakes a risk discussion around the Group contracts watchlist to ensure adequacy of risk controls and mitigations.

The Risk Committee also commissions 'deep dives' in relation to the businesses' Risk Registers submitted within the Group's quarterly reviews, commissions externally focused emerging risk reports (produced by the Group Risk team) and reviews the Group's approach to high-impact, low-likelihood, black swan, and grey rhino events.

A 'black swan' event refers to an unforeseen and unlikely occurrence that typically has extreme consequences. A 'grey rhino' event is a slowly emerging, highly probable and high impact threat that is ignored.

Risk appetite

Low – Avoidance of risk and uncertainty with low appetite for risk that is likely to have adverse consequences, and aim to eliminate or substantially reduce such risks.

Medium – A degree of risk is tolerated with some appetite for risk and a balance of mitigation effects, with a view of the potential rewards and opportunities.

High – Open to opportunities that may result in a higher residual risk where we have the capability and capacity to manage that risk.

Forward-looking risk priorities – FY25

- Schedule of risk workshops across sectors and DRCs to enhance understanding, and drive consistency and quality of risk outputs
- Analysing options of existing Babcock recording systems for potential use in enterprise risk reporting
- Further embedding of material fraud risk management processes
- Continued investment in the Corporate Governance Code revision and its practical application

Our ERM framework and internal control environment

Board

- Overall responsibility for the Group's strategy and risk management.
- Reviews and approves Babcock's risk-rating matrix, principal risks and Corporate Risks Register on an annual basis to ensure alignment with Babcock's strategy.
- Reviews the Group's financial reports, including annual budget and five-year plan, to monitor financial performance and identify potential issues/ emerging risks.

Group Executive Committee

- Provides consistent, visible and positive tone from the top and ensures risk management is integrated into all Babcock's activities.
- Committee members sponsor and own the principal risks.
- Annual risk workshop to produce the recommended strategic principal risks for submission to the Board.
- Operational risk is formally considered quarterly through the sector and DRCs Risk Register submission prepared by the Group Risk function and also summarises the Group's principal and emerging risks.

External audit

Provides external assurance: its aim is to detect material errors and material irregularities in our financial statements.

Internal audit

Provides independent and objective assurance on governance, risk management and internal control to the Board and the Group.

Audit Committee

- Reviews and monitors the adequacy and effectiveness of the Group's Risk Management Framework and internal control environment.
- Approves the Annual Audit Plan for the external and internal audits.

Group Executive Risk Committee

- The Risk Committee provides executive management leadership and oversight of the Group's Risk Management Framework, risk profile, risk appetite, emerging risks, the UK Corporate Governance Code and other legislative requirements relating to risk, and acts as an interface between the Audit Committee and the business.

Sectors and Direct Reporting Countries

- Global Risks Leads Forum for sharing risk, feedback from governance meetings, reviewing the effectiveness of the Risk Management Framework and process, sharing of good practice and development of risk visualisation reporting tools, reviewing central policies and processes to consider specialist and regional applications and organisational learning.
- Projects, programme, portfolio and operation risks are managed and escalated to their sector and DRCs and then escalated as appropriate to Group Risk and Risk Committee.
- Strategic and Business Unit Risk Registers are reported to Group Risk on a quarterly basis.

Our risk assurance

First line of defence – management

We have written policies covering a range of matters to mitigate risk, such as health and safety, information security, contracting requirements and accounting policies. We underpin these policies with a comprehensive scheme of delegated authorities, which the Board annually reviews and approves. Twice a year, the sectors and DRCs complete a letter of representation to provide confirmation of compliance with the Group's policies.

Management reports up from our business units through the sectors and DRCs to the Board on operational and financial performance.

Second line of defence – internal assurance

The Board and the Group Executive Committee review the Group's financial and operational performance on a regular basis through the monthly reporting packs, which include monthly management accounts, and can compare that performance against the Group's budget, which the Board approves on an annual basis.

Group reviews the sector and DRCs letters of representation to identify any control weaknesses.

Group functions and specific committees monitor certain risks, such as health and safety, finance, tax and treasury.

The Group maintains a comprehensive international insurance programme. The Director of Internal Audit, Risk Assurance & Insurance reports to the Board annually on the strategic approach to that programme.

Third line of defence – independent assurance

The Internal Audit function, which reports to the Audit Committee, provides assurance of the effectiveness of the Group's control environment.

The Audit Committee agrees both the external and internal audit plans on an annual basis.

A number of external regulators and other bodies, such as national Civil Aviation Authorities, the UK Office of Nuclear Regulation, and the International Office for Standardisation, regularly inspect parts of the Group.

All employees have access to a whistleblowing line to allow them to report any concerns that they may have. The Board receives all the reports to the line along with an explanation of how the Group is investigating them and the outcome of the investigation.

The Risk Committee case study

The Risk Committee was established in March 2023 as a committee of the Executive Committee, wholly dedicated to consideration and management of risk and opportunity. In its first year it met every month to ensure that it gave sufficient time and attention to each principal risk; meetings in 2024 will be held quarterly. These principal risks are held on the Babcock Group Corporate Risk Register (CRR) which is owned by the Executive Committee and maintained by the Group Risk team.

The Committee has a published schedule of meetings and tracked attendance, and invites individual Executive Committee members to present the risk they own and manage to the Committee for discussion and challenge. This focuses on the mitigation, strategy, interconnectivity and demonstration of effective delivery of the mitigations and controls wrapped around the principal risks in place to reduce the risk to its target state. Matters considered by the Risk Committee are detailed in the graphic.

The Risk Committee undertakes an annual principal risk establishment session in February to devise the principal risks it will submit to the Board for consideration and approval.

The CRR has additional material risks within it that are considered and managed with the same rigour as the principal risks; these are operationally important, however do not meet the threshold of a principal risk.

On at least an annual basis the Risk Committee undertakes externally facilitated risk management training to help ensure understanding of latest risk thinking and development of capability on more technical issues such as risk appetite and risk capacity. The Risk Committee role in maintenance of the correct risk culture is also considered within this training.

On a bi-annual basis a paper is submitted for Executive Committee consideration around new and emerging risk issues that the Executive Committee needs to be aware of. The paper draws potential areas of interest from risk thought leaders globally and global and national publications such as the World Economic Forum (WEF) Annual Risk Report and the UK National Risk Register.

On a bi-annual basis the Director of Internal Audit, Risk Assurance & Insurance has one-to-one conversations with each of the Executive Committee and pivotal risk influencers such as the Chief Information Security Officer (CISO) and Chief Security Officer (CSO) to discuss live risk matters that are resonating most; these are then used to close the circle of top-down and bottom-up risk data and keep risk thinking as current as possible. The Risk Committee considers risks and the required mitigations contained within Group watchlist projects.

On an annual basis the Risk Committee reviews the Babcock Risk Management policy and manual to ensure that it is functioning effectively and continues to be fit for purpose in the identification and management of operational risks throughout Babcock. It also keeps under review the Corporate Governance Code revisions and their practical application.

Our principal and emerging risks

The Risk Management Framework is described above. Using this framework, the Board has identified on pages 96 to 106 the principal risks that it currently believes to be of greatest significance to the Group, as they have the potential to undermine our ability to achieve our strategic goals and have a detrimental effect on our financial performance. As part of the Group's ongoing risk analysis, four emerging risks have been identified which are kept under review by the Risk Committee.

Emerging risk	Description and management
Geopolitical tension	We mostly operate in, or export to, stable, peaceful democracies, closely allied with the UK through NATO or other such organisations. Nevertheless, the international geopolitical situation is constantly evolving, so we keep abreast of developments globally, working with governments and independent advisors. For new territories, this due diligence includes country risk reports and a formal approval process requiring Board-level authorisation to proceed. In the short to medium term, growing instability in the Euro-Atlantic region, the Indo-Pacific and the Middle East will continue to create volatility within domestic and global markets. This could increase commodity prices, disrupt supply chains and increase cyber threats from state actors. The changing threat environment could drive increased expenditure on defence globally but may also see a reprioritisation of budgets away from traditional large, complex platforms to smaller, uncrewed platforms and cyber.
Supply chain global sanctions circumvention	As governments tighten economic restrictions, the risk of sanctions circumvention increases with growing global geopolitical tensions. Babcock Procurement and Supply Chain must remain vigilant to prevent inadvertent violations. To tackle this complex challenge, we will consider the following strategies: enhancing our due diligence, when engaging with suppliers – we need to scrutinise backgrounds, ownership structures and transaction histories; developing robust frameworks for sanctions compliance; implementing internal controls, policies, and procedures; training employees on regulations to prevent evasion; mapping our supply chains comprehensively, including multiple tiers of suppliers; leveraging technology for real-time monitoring and traceability; and collaborating with partners to maintain transparency and prevent illicit diversions.
Artificial intelligence	Artificial intelligence (AI) is a rapidly developing, emerging technology that provides significant improvements in decision-making. The application of AI offers significant benefits to business operations, however there are several risks that need to be considered when assessing the application of AI: • The risk to the traceability, integrity and repeatability of business decisions and product/services performance through use of AI with an uncontrolled data source or an unknown learning algorithm • The risk that data provided by Babcock as input to an AI engine will then become available to unknown users of the internet or who have access to the same AI database • The risk to Babcock's future competitiveness as a result of not leveraging the benefits of AI There are various risk mitigation options that should be assessed for each potential application of AI including using specifically developed learning engines, implementing the AI on a limited access server accessing a controlled set of data and/or ensuring the final decision is made by a human with the output from AI being used as guidance only (human-in-the-loop).
Personal security	Rising geopolitical tensions and global unrest are driving additional safety and security concerns for our people. This will require an additional investment in training for individuals operating in challenging territories, and measures put in place to ensure greater awareness and skills to manage this risk. Measures and specific controls that are in place today are effective and reviewed regularly, and this will need to be continuously reviewed and updated in line with risks identified through our customer community and other sources.

Changes to the principal risks

Last year's principal risks and uncertainties remain valid.

There have, however, been changes to wording and emphasis to nine of last year's principal risks so they are better articulated as follows:

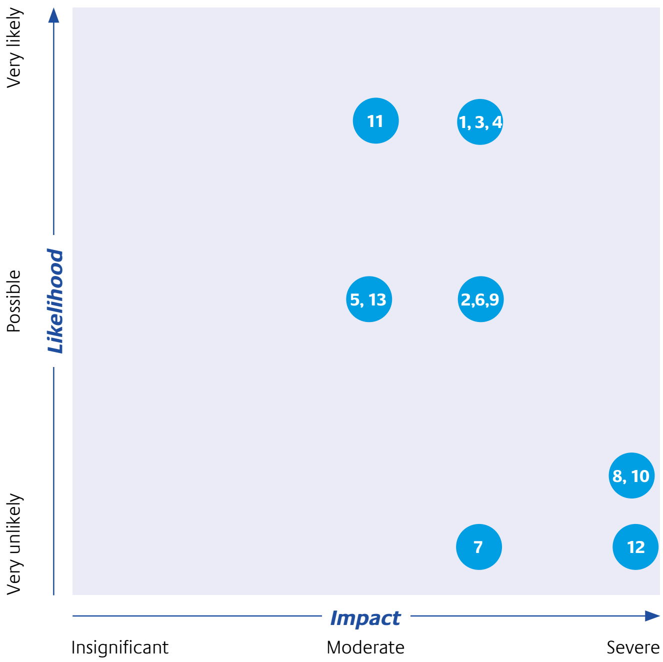
Of last years thirteen principal risks, five have either increased or reduced as follows:

- Market risk likelihood has decreased. Whilst globally we are operating in an increasingly uncertain geopolitical environment, this has increased demand for defence, including significant investment and recapitalisation of defence assets.
- Financial resilience likelihood has decreased. The financial resilience of the Group has improved due to the substantial reduction in net debt and gearing
- Supply chain management likelihood has decreased through targeted controls continuously monitoring procurement and supply chain activities with enhanced governance
- Climate and environmental sustainability impact has increased due to ongoing work to mature our understanding of climate risk and the associated financial and non-financial impacts
- Acquisitions and divestments likelihood and impact have increased. The likelihood of the Group taking advantage of bolt-on acquisition opportunities in line with our capital allocation policy has increased, given the improvement in the balance sheet over the last two years.

Principal risk trend

Babcock operates in a complex global environment and is exposed to a wide range of risks that may undermine our ability to execute our strategy.

Our Enterprise Risk Management is an evolving and dynamic process; therefore, the Group might identify new risks or better understand the significance of existing risks or identify a change in a risk. This means that the risks identified on pages 96 to 106 are not and cannot be an exhaustive list of all principal risks that could affect the Group. The principal risks are not listed in any order of priority. Risks are plotted on a net basis including current mitigations.



	2023 Principal risks	2024 Principal risks	Overall annual risk score trend
1	Contract and project performance	Contract and project performance	↔
2	Existing and new markets	Market risk	↓
3	IT and cyber security	IT and cyber security	↔
4	Pensions	Defined benefit pensions	↔
5	Supply chain management	Supply chain management	↓
6	Operational resilience and business interruption	Operational resilience and business interruption	↔
7	Financial resilience	Financial resilience of the Group	↓
8	Health, safety and compliance including product safety	Safety, health, and environmental protection including product safety	↔
9	Climate and sustainability	Climate and environmental sustainability	↑
10	Technology disruption	Corporate technology disruption	↔
11	Talent management retention and upskilling	Resourcing, retention and skills	↔
12	Regulatory and compliance	Compliance with legislation or other regulatory requirements	↔
13	Acquisitions and disposals	Acquisitions and divestments	↑

Key

↑ Increased ↓ Decreased ↔ No movement

Principal risks, their impact and mitigation

Contract and project performance

Likelihood: Likely

Impact: Major

We execute large contracts, which often require us to price for the long term and for risk transfer. Our contracts can include fixed prices.

Risk appetite: **Medium**

Contract and project performance risk appetite is classified as 'medium' due to the intricate nature of our work in the defence and emergency services sectors. As a company, we are in the business of strategically taking on risks that we can manage effectively. While our aim is to minimise risks to a manageable level, it is important to acknowledge that uncertainties are inherent in project delivery. We prioritise robust risk management within our contracts to mitigate these uncertainties, where possible, and ensure successful outcomes. It is important to make clear that despite our vast efforts, some level of risk remains unavoidable.

Potential impact

Our business model revolves around securing and executing long-term, high-value contracts for complex, integrated services. These contracts often involve outcome-based agreements, and our medium risk appetite is rewarded with appropriate margins. Given the limited number of customers and intense competition in our market sectors, customers wield significant bargaining power, often requiring suppliers to assume substantial risk.

Contract terms can be stringent, with strict conditions and clauses. Underestimating or under-pricing risk exposure, unforeseen costs or supply chain disruptions can inflate our contract delivery costs. Fixed-price contracts can exacerbate this, especially if actual costs exceed projections due to factors like inflation or extended programme durations.

The nature of the complex work we perform and the terms under which industry contracts with the government departments (and the sometimes-onerous terms and conditions that apply) mean there is a residual risk.

Our projects and extensive supply chains expose us to risks such as shortages in raw materials or electronic components, which can lead to increased costs or missed deadlines. Furthermore, long-term contracts often undergo changes in scope or emergent work, requiring diligent management to avoid additional costs or contractual breaches. If key risks materialise, they can escalate our delivery costs, trigger penalties, or damage our reputation, jeopardising current and future contracts.

International conflicts, such as the war in Ukraine, significantly influence contract and performance risks in defence projects by disrupting supply chains, increasing security concerns and fostering political instability. Such conflicts often escalate costs due to heightened security measures and geopolitical risks, leading to uncertainties in project planning and execution. Sub-contractors may face challenges in interpreting and fulfilling contractual obligations amidst legal uncertainties and reputational risks.

Mitigation

To mitigate these risks, we have enhanced our review and gating processes, ensuring alignment with our capabilities and risk appetite. We conduct thorough reviews at contract, business unit, sector and (where appropriate) Group functional executive level, to minimise underestimations of risks and costs, continuously managing risks and opportunities throughout contract lifecycles.

We closely monitor contractual performance at various levels, identifying high-risk contracts for special attention and implementing remediation plans when performance falls short. This includes utilising independent advisors to maintain best practices.

To further enhance our risk management strategies and ensure proactive mitigation across all sectors, we are planning to introduce comprehensive risk mitigation workshops. These workshops will provide a platform for stakeholders across various sectors to come together and collectively identify, assess, and address potential risks inherent in our projects and contracts. Through interactive sessions, participants will have the opportunity to share insights, experiences, and best practices, fostering a collaborative approach to risk management. The workshops will be tailored to address sector-specific challenges and will incorporate lessons learned from past experiences. By equipping our teams with the tools and knowledge needed to identify and mitigate risks effectively, we aim to strengthen our resilience and enhance our ability to deliver successful outcomes for our customers while safeguarding our business interests.

In summary, navigating the complexities of the defence and emergency services sectors requires a proactive approach to risk management, thorough contract evaluation, and continuous performance monitoring to ensure successful project delivery.

IT and cyber security

Likelihood: Likely Impact: Major

A key factor for our customers is our ability to deliver secure IT and other information assurance systems to maintain the confidentiality of sensitive information.

Risk appetite: **Low**

IT and cyber security are fundamental components to Babcock's operations; we continually review the emergence of cyber threats, in an effort to eradicate and mitigate the risk as far as possible.

Potential impact

The impact of an IT or cyber security breach or compromise may be loss of reputation, loss of business advantage, disruptions in business operations or inability to meet contractual obligations.

The nature of our operations and the requirement to hold and process sensitive and confidential information on behalf of our customers makes Babcock a target for cyber attackers. Despite controls designed to protect such information, there can be no guarantee that security measures will be sufficient to prevent security attacks being successful in their attempts to breach or compromise IT systems and misappropriate sensitive and confidential information or otherwise cause destructive or disruptive harm to the Group.

The Group may be seen as a threat target for attack by 'state actors' from overseas countries because of the nature of the Group's activities for its government customers. In addition, failure to invest in our IT infrastructure, for example in replacing legacy systems or introducing new technologies, could create vulnerabilities that may lead to a breach.

The risk of loss of information or data by other means (such as physical loss) is also a risk that we cannot entirely eliminate. Significant data breaches or losses could lead to litigation and fines for breach of applicable regulations such as data protection laws. This could have an adverse effect on the Group's operations and its ability to win future contracts, which may affect our overall financial condition.

Mitigation

We are continuing to build on the historical investments made to enhance our IT security and work has also been undertaken in boosting the security awareness to further increase our cyber resilience. Work on the next generation security platform is underway and this will be correlated directly to future business needs for secure collaboration and sharing of resource and knowledge, in support of the international growth strategy.

We seek to assure our data security through a multi-layered approach that provides a hardened environment, including robust physical security arrangements and data resilience strategies. We have formal security and information assurance governance structures in place to oversee and manage IT, cyber and information security-related risks. We employ specialists in threat intelligence and conduct comprehensive internal and external testing and remediation of potential vulnerabilities. To maintain organisational awareness around cyber security, we provide cyber security education to our staff which includes awareness of social engineering and insider threat. The Group maintains business continuity plans that cover a range of scenarios (including loss of IT availability) and we regularly test the plans that relate to IT and cyber security.

Defined benefit pensions

Likelihood: Likely Impact: Major

The Group has significant defined benefit pension schemes in the UK, which provide for a specified level of pension benefits to scheme members.

Risk appetite: **Low**

Babcock utilises engagement with the pensions schemes' trustees and a balanced pension management approach that looks to mitigate and reduce the risks associated with pensions over the journey to settling the pension obligations.

Potential impact

Member and employer contributions paid into pension scheme funds and the investment returns made in those funds over time have to meet the cost of the defined benefit obligations.

Various assumptions underpin the level of our contributions. These assumptions are subject to change, such as life expectancy of members, gilt yields, investment returns, inflation, and regulatory changes. Based on the assumptions used at any time, there is always a risk of a significant shortfall in the schemes' assets below the calculated cost of the pension obligations. For example, pension liabilities can increase due to rising life expectancy, higher-than-expected inflation rates in the future and lower interest rates.

If the pension trustees believe that the assets in the pension schemes are insufficient to meet pension liabilities or if our balance sheet strength does not meet the pension trustees' expectations, they may require us to make increased contributions and/or lump sum cash payments into the schemes or provide additional security from the Group. The toughening stance of the UK Pensions Regulator may influence our pension trustees' perspectives. Increased contributions or lump sum cash payments may reduce the cash available to meet our other obligations or business needs and may restrict our future growth.

Accounting standard rules governing the measurement of pension liabilities can lead to significant accounting volatility from year to year, due to the need to take account of macroeconomic circumstances beyond the control of the Company. Companies, including Babcock, do not calculate actuarial valuations used for funding on the same basis as IFRS accounting standards. This means the future cash contributions are difficult to derive from the Group's IFRS balance sheet.

When accounting for our defined benefit schemes, we have to use corporate bond-related discount rates to value the pension liabilities. Variations in bond yields and inflationary expectations can materially affect the pensions charge in our income statement from year to year, as well as the value of the net difference between the pension assets and liabilities shown on our balance sheet.

There is a risk that future accounting, regulatory and legislative changes may also adversely impact pension valuations, both accounting and funding, and, hence, costs and cash for the Group.

Mitigation

Group senior management undertakes continuous strategic monitoring and evaluation of the assets and liabilities of the pension scheme. Management aims to increase its engagement with the scheme trustee chairs and with the UK Pensions Regulator.

The pension scheme mitigates the risk of liability increases by having investment strategies that hedge against interest rate and inflation risk and using longevity swaps to limit exposure to increasing life expectancy. Trustees use professional advisors to assist in the hedging of risks.

Safety, health and environmental protection including product safety

Likelihood: Unlikely

Impact: Severe

Our operations entail the potential risk of significant harm to people and property, wherever we operate across the world.

Risk appetite: **Low**

For moral, financial and reputational reasons we should keep the risk as low as possible.

Potential impact

Many parts of our business involve employees and contractors working in potentially hazardous environments, including work with hazardous materials, high-energy systems and in challenging locations. Furthermore, many of the activities that we undertake are in high-hazard industries with inherent risk of harm, such as aerial emergency services and heavy industrial production including shipbuilding. The risks associated with our activities and workplace can cause harm to our people, those affected by our operations and the environment; we work to minimise the risk exposure to as low as reasonably practicable. Similarly, the end user of our products and services could be harmed when using our products so we introduce mitigations in design, manufacture and maintenance to ensure our products are both fit for purpose and safe.

We have moral, regulatory and legal obligations to prevent harm to people and the planet, and there could be significant impacts if we fail to reach the standards and mandated requirements to adequately mitigate safety, health and environmental risks. Accidents and debilitating health conditions can have major, long-term impacts on the lives of those directly affected and, on their families, friends, colleagues and community. Releases of harmful chemicals and emissions can have significant effects on our local environments and wildlife. We may face criminal and civil prosecution, which could result in substantial penalties and fines (some of which are uninsurable); and there may also be serious damage to our reputation with both the public and with our customers (whether justifiable or not). We could be prevented from operating due to employees being unavailable for work, workplaces being unusable, investigations being conducted, or if regulatory approval, permits and certification are withdrawn. These could potentially lead to contractual penalties due to loss of productivity or inability to deliver the contract, which could lead to a loss of business or future opportunities.

These impacts could occur if we cause or contribute to an incident due to a failing on our part, or it is found that we have failed to meet the required standards in place to mitigate these risks. These could be caused by failing to prevent critical equipment failure; inadequate information, poor training and supervision; or the inadequate management of change and learning from previous accidents.

Mitigation

Harm to individuals may arise from failure of processes, tools or people and many situations have elements of all of these, so our mitigations strive to work across these areas to reduce the probability of occurrence and the severity of the impact. Safety, health and environmental protection is our priority with a low tolerance for risk of harm. It has oversight by the Babcock Board and Executive Committee through monthly monitoring of leading and lagging performance indicators. The function is centrally led, with teams in each sector and country working under the direction of the Group Director and the Corporate Safety Leadership Team to support operations to implement improvements in safety, health and environmental protection performance. Induction and task-specific training builds competency of personnel, whilst our communications and behaviours programmes are developing an engaged culture of openness and fairness.

Our global management system enables reporting and investigation of all events and near misses to identify and address causes and share lessons, whilst the development of standardised processes and ways of working provides consistency and quality across the Group. These mitigations are integral to our management systems, which are delivered and certified to international standards, and assured through a programme of internal and external assurance activities. These mitigations enable everyone to go ‘Home Safe Every Day’.

Corporate technology disruption

Likelihood: Very unlikely   Impact: Severe

We have identified three main attributes to potential technological disruption that affects Babcock: the digital change agenda, both within our customers and internal to Babcock; our approach to data management; and finally the disruption of new technology offerings.

Risk appetite: **Low**

Given the materially adverse nature of digital and data risks, Babcock looks to recognise and eradicate the emergence of risks to operations where possible, hence risk appetite being set at low. Exploiting new technology in an appropriate manner can open new markets. However, Babcock does survey the market for new technology to develop into new opportunities. These are assessed for benefit individually and, if deemed of interest, integrated into our research and development programme and managed with project management.

Potential impact

Failure to respond to developing trends may reduce opportunities to augment existing contracts or build new commercial offerings. Digital change is our response to the advancement of modern IT and solutions. Our ability to be responsive to these developments, in a commercially sensitive way, has a material impact on our ability to unlock new business and enhance existing contracts. Our products/services will lag behind competitors and customer requirements if we are unable to incorporate appropriate data and technology-enabled capabilities. If we lag behind in our ability to embrace change and exploit a range of new products and capabilities, then staff retention may also be an issue, hence exacerbating the risk of losing important knowledge.

Mitigation

Focus is retained on developing key programmes to increase the resilience and effectiveness of our corporate IT solutions, information management and data analytics. We are also continuing to work in partnership with our key suppliers to understand the potential of new technologies on the market and develop and maintain roadmaps for our key products and platforms. This includes understanding how best to safely exploit relevant emerging technologies such as machine learning, automation and artificial intelligence.

Compliance with legislation or other regulatory requirements

Likelihood: Very unlikely   Impact: Severe

Our businesses are subject to the laws, regulations, and restrictions of the many jurisdictions in which they operate.

Risk appetite: **Low**

As a diverse global organisation, Babcock operates in multiple highly regulated industries for customers with specialist requirements. The compliance landscape is vast and complex with many regulations, legal obligations, contractual and certification requirements in each area including export controls, data protection and site licences. The laws and regulations that we are subject to include anti-bribery laws, import and export controls, tax, procurement rules, human rights laws, and data protection regulations.

Potential impact

The laws and regulations that we are subject to include but are not limited to anti-bribery laws, import and export controls, tax, procurement rules, human rights laws, and data protection regulations. Failure to maintain compliance with applicable requirements could result in fines and criminal prosecution; the removal of a licence to operate; reputational damage; cost of rectification; debarment from bidding; loss of access to markets; and the loss of substantial business streams (and possible damages claims) and opportunities for future business. If an applicable law or regulation changes, it may cause us substantial expenditure to comply, which may not be recoverable (either fully or at all) under customer contracts.

Compliance with some regulatory requirements is a precondition for being able to carry on a business activity at all, for example in our Nuclear business and our Aviation business. Given the nature of our customers and the markets in which we operate, as well as the services that we provide, we believe that our reputation, not only in terms of delivery but also in terms of behaviour, is a fundamental business asset.

Failings or misconduct (perceived or real) in dealing with a customer or in providing services to them or on their behalf could substantially damage our reputation with that customer or more generally.

Mitigation

We maintain internal policies and procedures in order to ensure the Group complies with all applicable laws and regulations. We also have suitably qualified and experienced employees and expert external advisors to assist on regulatory compliance. Our management systems comprise competent personnel with clear accountabilities for operational regulatory compliance.

Senior management at Group and sector level are keenly aware of reputational risks, which can come from many sources. Our Code of Conduct, together with our Ethics policy, sets out the clear expectations that we have of our employees. We seek to reinforce these values with all employees through a number of different processes, for example our training. We encourage all our employees to use our whistleblowing reporting lines if they see evidence of behaviour which is not in keeping with our values.

We hold indemnities from the UK Nuclear Decommissioning Authority and the UK MOD for nuclear risks to protect against liability for injury or damage caused by nuclear contamination or incidents.

The Board monitors and reviews all reports and their investigations.

Market risk

Likelihood: Possible Impact: Major

We rely on winning and retaining large contracts in both existing and new markets, often characterised by a relatively small number of major customers, which are owned or controlled by, local or national governments.

Risk appetite: **Medium**

This reflects that the successful pursuit and maintenance of a secure and assured pipeline is essential for continued growth, and we may therefore choose to accept the challenge of market risks that we can confidently and securely manage.

Potential impact

Major customers, particularly those government-owned or with government backing, have significant bargaining power and can exert pressure to change, amend or even cancel programmes and contracts. As governments are, or own or fund, many of our major customers, political and public spending decisions may have a significant impact on our contracts and pipeline. For example, the UK Government's national security and international policy objectives control the budget of the MOD.

Whilst changes in customer policy or budgets can potentially offer more opportunities, they can also present risks in terms of spending which may include:

- Reductions in the number, frequency, size, scope, profitability and/or duration of future contract opportunities
- In the case of existing contracts, early termination, non-extension or non-renewal or lower contract spend than anticipated and pressure to renegotiate contract terms in the customer's favour
- Favouring the retention of, or return to, in-house service provision, either generally or in the sectors in which we operate
- Favouring small or medium-sized suppliers or adopting a more transactional rather than a cooperative, partnering approach to customer/supplier relationships.
- Favouring overseas competitors, potentially benefitting from lower production costs and state ownership or subsidies
- Imposing new or extra eligibility requirements as a condition of doing business with the customer that we may not be able readily to comply with, or that might involve significant extra costs, thereby affecting the profitability of doing business with them.

All defence contracts have regulations covering contract terms and pricing, supplemented by acquisition strategies adopted on a case-by-case basis by procurement authorities. Some contracts can be inflexible and onerous.

A number of our contracts with the MOD are subject to the Single Source Contract Regulations (SSCR), which the Single Source Regulations Office (SSRO) administers. The SSRO sets the baseline profit rate for single source contracts let by the MOD on an annual basis. These regulations and their implementation are subject to review by the UK Government, which could lead to lower returns for industry.

We may face challenges in securing contracts in new markets. These include the risk of failing to ensure the required level of market understanding or customer intimacy to anticipate and shape future market requirements; failure to align approaches with customer expectations and a preference for, or state funding of, domestic suppliers. The delivery of contracts may be further challenged by commercial, legal and licensing issues which have the potential to impact bidding success, operations, recruiting, etc.

Factors which may affect existing and new markets equally, some of which have been evident in recent years, include:

- Unforeseen regional or global economic developments
- International conflict and subsequent impacts on global and regional economy, trade and defence requirements
- Changes in governments resulting in changing political priorities, geostrategic relationships and defence posture
- Change in competitor landscapes.

Mitigation

Our focus on aerospace, defence and security defence markets, together with our geographical presence, provides a degree of portfolio diversification. We pursue ongoing dialogue with key customers to understand their requirements, objectives and constraints, so that we can develop the necessary customer intimacy and remain as aligned to them as possible. We monitor expenditure changes in our markets to allow us to make the appropriate adjustments. In the UK we maintain a public listing, as we believe it is an important factor in winning contracts and retaining our business position, particularly with government customers.

We have a clear business strategy to develop a substantial bid pipeline, both in the UK and internationally. We bid for contracts we consider align to the Group strategy and where we believe we stand a realistic chance of success due to, for example, customer intimacy, domain knowledge or technical expertise, in the UK and in export markets. As appropriate, we invest in the development of our capabilities, innovation and people to ensure our products and services are competitive and meet market and customer requirements.

We maintain consistent engagement with our current and prospective customers in our markets. Nearly all of our customers are governments in established, stable democracies. They face regular elections, which often lead to changes in leadership, policy and spending priorities. In our principal markets, we use in-house and external advisors to monitor developments from across the political spectrum. And, in compliance with all relevant local legislation, we engage with stakeholders in power, and in opposition. Instability in the Euro-Atlantic region, the Indo-Pacific and the Middle East will continue to create volatility within domestic and global markets and we keep abreast of developments globally, working with governments and independent advisors. When seeking business in new territories our due diligence includes country risk reports and a formal approval process requiring Board-level authorisation to proceed.

Operational resilience and business interruption

Likelihood: Possible

Impact: Major

Babcock provides critical support to governments and commercial customers, requiring a high level of resilience in operational systems and processes. We provide this support in an increasingly volatile, uncertain, and complex operating environment. A diverse range of internal and external threats could severely interrupt our business, reducing our ability to operate safely and effectively and to the high standards expected by our customers, regulators and partners. As a result, Babcock, must ensure it maintains an Operational Resilience programme that is capable and adaptable to multiple forms of business interruption events.

Risk appetite: **Low**

Ineffective operational resilience arrangements can significantly undermine safety, financial stability, reputation and meeting our regulatory requirements. Given the context in which we operate, Babcock seeks to identify and eliminate risks to its operations where possible and applies stringent controls to mitigate remaining areas of residual risk to as low as reasonably practical (ALARP).

Babcock is committed to continually improving and building upon the foundations of our Operational Resilience programme. Investment is being made to assess and enhance the effectiveness of our plans and procedures through development of an overarching framework within FY25 in order to provide greater consistency, adaptability, and capability across Babcock.

Potential impact

Operations can be impacted by loss of key dependencies such as people, infrastructure and utilities, information, technology and supply chain provisions. Within the highly regulated domains, where robust operational resilience arrangements are mandated, the approvals to operate are key dependencies.

Following any safety incident, robust emergency response and crisis management capabilities are important. Ineffective response and recovery measures can increase the severity of the consequences on individuals and the business through loss of key dependencies.

Without robust operational resilience arrangements, the financial and regulatory repercussions could be severe. Interrupted business activities can lead to significant revenue losses and additional scrutiny from regulators. Additionally, the costs of recovery including expenses for response activities, rebuilding and restoration efforts, as well as payment of compensation, penalties and fines, can be significant. There is also the potential for increases in insurance premiums.

Whilst events that lead to business interruptions can impact on our reputation, the inability to respond appropriately and recover in a timely manner exacerbates the adverse effects to the Babcock reputation with customers and other stakeholders. This can impact long-term brand devaluation, loss of market share and future business opportunities.

Mitigation

Babcock recognises the importance of robust operational resilience capabilities. Babcock has established operational resilience related disciplines (Business Continuity, Emergency Response, Crisis Management) within the organisation. Sectors, DRCs, and sites maintain various emergency response and business continuity plans that are aligned to the risks and regulatory environment in which they operate.

Further work is required to ensure Babcock's overall resilience capability is consolidated and strengthened for Babcock's growth trajectory. Looking ahead, development of the overarching Operational Resilience framework, through recently appointed central expertise, will bring increased standardisation and alignment across the disciplines.

Our IT services provide technology and access to information, and are supported by a range of IT Disaster Recovery Plans which are accredited to the ISO 22301 standard. These plans ensure critical systems and data can be restored within agreeable recovery time limits to support continued business operations.

To mitigate negative reputational impacts, crisis communication processes are embedded within the organisation. These contain clear protocols on how information related to an emergency, crisis or business disruption is to be shared in an honest, transparent and timely fashion with key stakeholders.

In addition, operational resilience related plans and procedures are tested on a periodic basis through exercises and drills conducted with key stakeholders including relevant authorities.

Climate and environmental sustainability

Likelihood: Possible Impact: Major

Climate change is impacting every corner of the earth and poses an existential threat to global stability. Sustainability is an integral part of our corporate strategy and we are working hard to address the climate crisis and minimise the impacts of our operations.

Risk appetite: **Low**

Across our global operations we are working to continually improve our understanding of climate and environmental risks and we are committed to mitigating risks, unlocking opportunities and reducing our environmental impacts.

Potential impact

Climate-related risks may materialise and cause a wide range of adverse impacts to the Group over the short, medium and long term. Unmitigated risks are forecast to deliver financial, commercial, reputational and operational impacts. The severity of the impacts varies depending on the climate scenario and a range of local and macro factors. Climate and environmental sustainability risks to the organisation have been categorised into physical and transition risks.

Physical risks related to climate change can be considered as shocks and stresses:

- Shocks are generally short-term impacts from extreme weather events such as extreme heat, flooding, wildfires, hurricanes etc
- Stresses are generally longer-term risks such as sea level rise, global rise in temperatures and biodiversity loss.

Transition risks relate to risks associated with the transition to a low-carbon economy, including policy and legal changes, technological advancements and market movements to address mitigation and adaptation requirements. Transition risks are commonly broken down into four aspects:

- Policy and legal risks are associated with climate policies, carbon pricing and regulations that restrict negative contributors to climate change
- Technology risks are driven by the development of new technology to support a low-carbon economy
- Market risks are driven by economic and social changes that impact supply and demand, such as changing consumer preferences around supporting fossil fuels
- Reputational risk refers to the impact of negative public perceptions of high-emissions sectors or organisations which are not deemed to be supporting the net zero transition.

Mitigation

Within each of our international entities, Babcock is regulated by, and adheres to, increasing levels of national and international climate-related legislation, as well as strict disclosure requirements pertaining to key sustainability themes such as environmental protection, employee safety, community engagement, commercial integrity and responsible procurement. Our workforce is protected by the required insurance and standards, and it will continue to be fundamental for us to provide a safe environment for all Babcock employees and future generations. Climate and environmental sustainability risks are recorded by the business on a quarterly basis, with mitigation plans developed to mitigate risks. Whilst our approach to climate risk management is currently at a lower level of maturity, we have built upon the climate scenario analysis carried out in FY23 and are continuing work to develop our maturity and integrate climate and sustainability risk into our Enterprise Risk Management.

Plan Zero 40 is our chief mitigation mechanism to combat transition risk and is being scaled across the organisation. As part of this we have committed to completing physical inspections across all critical Babcock sites by December 2024. We recognise the technological improvements required to transition towards a net zero economy for our products and services across the business. Recognising the challenges in delivering net zero, Nature Positive and our wider commitments, our dedicated Environmental team has made significant progress in developing Babcock's Climate and Nature Transition Plan, the enhanced strategy which will ensure Babcock delivers its sustainable transition.

Resourcing, retention and skills

Likelihood: Likely Impact: Moderate

We operate in many specialised engineering and technical domains, which require appropriate skills and experience.

Risk appetite: **Medium**

Avoidance of the risk would increase costs through significant wage inflation, which would have an industry-wide impact, and require over-resourcing and potential negative workforce engagement and retention. Some risk is accepted given the high cost of avoidance and the potential mitigations within our control, such as sharing capability across our global business and compensating for skills shortages in particular areas through investment in training and early careers.

Potential impact

Our business delivery and future growth depend on our ability to recruit, develop and retain experienced, highly skilled employees (including suitably qualified and experienced engineers, technicians, and staff from other specialist skill groups). This is compounded by ongoing change in the skills and experience required as technologies, capabilities and opportunities develop.

Competition for the people we need is high and is likely to remain so. This may be exacerbated by nationality and regulatory restrictions, which may prevent us from accessing talent from the EU or worldwide.

If we have insufficient qualified and experienced employees, this could impair our service delivery to customers or our ability to pursue new business, with consequent risks to our financial results, growth, strategy and reputation, as well as the risk of contract claims.

The cost of recruiting or retaining the suitably qualified and experienced employees we need might increase significantly depending on market conditions including inflation. This could affect our contract profitability.

Mitigation

We have a People Strategy, which is being delivered through our people programme, led by the Group's Chief People Officer. This Programme is informed by workforce planning and includes the upskilling of our workforce to meet future requirements; reinforcing of leadership capability; enhancing our ability to attract talent; investment in early careers; engagement and reward strategies to improve retention; and building better career development opportunities for our employees.

Supply chain management

Likelihood: Possible ↓ Impact: Moderate ↔

The Group is exposed to several risks within its supply chain, which can typically be:

- Volatile markets – inflation, supplier financial risks, energy costs.
- Supply chain disruption events – disruptions to established supply chains such as natural hazards, logistics and mass layoffs.
- Geopolitical and regulatory risk – inclusive of conflicts, industrial action, and sanctions.
- Supply chain cyber security – increased alerts of potential disruption from cyber attacks in our multi-tiered supply chain.
- Part availability for aged customer assets – maintaining assets that are too old to source essential parts, or where cost is prohibitive.

Risk appetite: **Low**

Preference for safe delivery options that have a low degree of inherent risk and only for limited reward potential.

Potential impact

Market volatility: Persistent inflation could lead to prolonged stagflation; this may impact industry growth and productivity. Tight labour markets with elevated wage inflation, coupled with energy price volatility, constrained global supply and increased demand, could further contribute to economic uncertainties.

Supply chain disruptions: In the event of global supply constraints, companies' risk being able to secure supplies within agreed lead times which may result in missed delivery schedules.

Geopolitical relations: Continued conflicts in the Middle East and escalating tensions in the South China Sea pose new risks to the global economic outlook. The overall impact on oil markets and commodities may introduce renewed inflationary pressures, especially during periods of geopolitical or societal stress.

Natural disasters: Events such as earthquakes, hurricanes or floods could disrupt our supply chain by damaging infrastructure or causing delays in transportation. Shipping routes for goods are at risk of disruption due to a variety of factors, including natural events.

Industrial action: Strikes can cause severe disruption to business operations and can have a knock-on effect on supply chains.

Geo-political events, such as militarisation, and the increased threat of cyber attack during conflict can have the potential to significantly disrupt supply chains through regional or global impacts.

Maintaining customer assets of considerable age faces challenges when key parts are unobtainable due to prohibitive costs or lead times.

Mitigation

In our key supplier contracts, where relevant we aim to link them to national indices or specific commercially acceptable inflation indices. Where possible, our long-term supply agreements align with contract durations, working to maintain fixed prices.

We aim to secure contracts with force majeure relief to mitigate potential disruptions. Implementation of long-term demand planning helps to support sustainable resource management. In addition, strategic supplier relationships assist the mitigation of risk and multi-sourcing, and backup strategies bolster our overall supply resilience.

In an attempt to consistently monitor geopolitical and natural hazard risks in our multi-tiered supply chain, we set up and monitor alerts, addressing global events and logistics. Additionally, we collaborate with third-party analysts to provide insights on supply chain management and global disruptions.

We collaborate with our Cyber Security team to assess potential impacts on our IT infrastructure and confidential data. We attempt to consistently monitor our multi-tiered supply chain, addressing cyber threats, ransomware and malware. We also flow down cyber security practices from customer contracts where applicable.

In collaboration with customers, we endeavour to deliver mitigation plans which can involve end-of-life buys and explore alternative supply options. We strive to establish dual sources of supply and address single points of failure through local contract disaster recovery planning where possible.

Acquisitions and divestments

Likelihood: Possible Impact: Moderate

We have built our core strengths organically and through acquisition. Decisions to acquire companies, as well as the process of their acquisition and integration, are complex, time-consuming and expensive. If we believe that a business is not 'core', we may decide to sell that business.

Risk appetite: **Medium**

Babcock will continue to review potential opportunities within the market in a considered and measured way; M&A activity continues to be inherently high risk. Future M&A activity will be undertaken only where it is possible to reduce inherent risk to an acceptable level when balanced against potential rewards and opportunity.

Potential impact

If we acquire companies, we may not realise the financial benefits of the acquisition as expected, due to poor integration execution or to acquisition business cases relying on market conditions or other business assumptions that subsequently do not materialise, challenging the logic of the acquisition decision. Those companies that we consider to be non-core, and therefore disposal candidates, may become distracted or demotivated or lose key employees, which may lead to poor performance whilst also undermining their value to their customers and a potential buyer.

Mitigation

While our focus remains primarily on operational execution, we continue to review potential acquisition opportunities that align with our strategy. We will work to enhance our acquisition and integration capability so that we are ready at the appropriate time in the future.

Financial resilience of the Group

Likelihood: Very unlikely Impact: Major

The Group is exposed to a number of financial risks, some of which are of a macroeconomic nature (for example, foreign currency, interest rates) and some of which are more specific to the Group (for example, liquidity and credit risks).

Risk appetite: **Low**

Babcock recognises the adverse effects of the financial resilience risk on our balance sheet and actively manages this risk via its capital allocation policy, substantial committed debt facilities and maintaining an investment-grade credit rating, allowing access to debt capital markets. However, this risk cannot be eliminated and will always require management.

Potential impact

A lack of financial resilience may hinder us in raising debt funding to invest in existing or future business. The weakness also may cause our existing banks to increase the cost of our funding. If our debt is denominated in a currency other than Sterling, movements in exchange rates may make that debt more costly when we repay it.

Customers and/or suppliers may question our long-term sustainability if we have a weak balance sheet. This may tighten the terms of business on which they are prepared to contract with us or, in the extreme, cause them to not award work to Babcock due to their perception of risk. Credit rating agencies may downgrade our rating, which could increase our cost of borrowing.

The lack of financial resilience may trigger certain pension scheme financial thresholds, requiring us to allocate further resource to the schemes.

We could face capital allocation constraints and consequently have reduced capital to invest in the business to meet all our obligations or to pay a dividend.

In addition, if companies working in the defence or nuclear sectors were deemed not suitable for investment by certain investment funds (eg due to extremely strict ESG policies) the cost and/or availability of capital to the Group could be adversely affected.

Mitigation

The rationalisation of the Group portfolio, raising proceeds from disposals, and ongoing improvement in trading performance have strengthened our balance sheet resulting in the only material debt of the Group being long-term Eurobonds, which are uneconomic to repay.

In respect of immediate liquidity, the Group has a committed bank RCF of £775 million which was not drawn as of 31 March 2024.

We are proactive in our dealings with credit rating agencies and lenders. The Board reviews the financial position of the Group on a monthly basis against the Board-approved three-year plan.

The Group has a very proactive ESG agenda and regularly communicates Group activities to assist in more-informed investment decisions by providers of capital.

Going concern and viability statement

Overview

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

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

For assessing going concern, the Board considered the 12-month period from the date of signing the Group's financial statements for the year ended 31 March 2024. For viability, the Board looked at a five-year view as this is the period over which the Group prepares its strategic plan forecasts.

The use of a five-year period provides a planning tool against which long-term decisions can be made concerning strategic priorities, addressing the Group's stated net zero target and climate-related risks and opportunities, funding requirements (including commitments to Group pension schemes), returns made to shareholders, capital expenditure and resource planning.

The annually prepared budgets and forecasts are compiled using a bottom-up process, aggregating those from the individual business units into sector-level budgets and forecasts. Those sector submissions and the consolidated Group budget and forecasts are then reviewed by the Board and used to monitor business performance.

The Board considered the budgets alongside the Group's available finances, strategy, business model, market outlook and principal risks. The process for identifying and managing the principal risks of the Group is set out in the Principal risks and management controls section on page 89. The Board also considered the mitigation measures being put in place and potential for further mitigation.

The Board considers that the long-term prospects of the Group underpin its conclusions on viability. As outlined in our strategy, business model and markets summaries on pages 14, 16 and 20 of this report, our prospects are supported by:

- a diverse portfolio of businesses based on well-established market positions, focused on naval engineering, support and systems, and on critical services in our core defence and civil markets. In FY24, 74% of Group revenue was defence related and 26% civil;
- a geographically diverse business with a high proportion of sales to governments and other major prime defence contractors. In FY24, 70% of revenue was to UK defence and civil customers, and 30% was international;
- long-term visibility of sales and future sale prospects through an order backlog of £10.3 billion as at 31 March 2024, including incumbent positions on major defence programmes; and
- market positions underpinned by a highly skilled workforce, intellectual property assets and proprietary know-how, which are safeguarded and developed for the future by customer and Group-funded investment.

Available financing

As at 31 March 2024, net debt excluding leases was £210.9 million and the Group therefore had liquidity headroom of £1.4 billion, including net cash of £0.6 billion and undrawn facilities of £0.8 billion. These facilities are considered more than adequate to meet current and other liabilities as they fall due, and support the Group's negative working capital position largely arising from securing customer advances ahead of contract work starting. All of the Group's facilities mature during the viability period, and therefore in assessing liquidity in future periods we have assumed that it will be possible to re-finance the Group's facilities at current market rates.

As of June 2024, the Group's committed facilities and bonds totalling £1.6 billion were as follows:

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

The RCF is the only facility with covenants attached. The key covenant ratios are net debt to EBITDA (covenant basis), gearing ratio, of 3.5x and EBITDA to net interest (interest cover) of 4.0x. These are measured twice per year – on 30 September and 31 March.

The RCF lenders are fully committed to advance funds under the RCF to the Group, provided that the Group has satisfied the usual ongoing undertakings, and the creditworthiness of the Group's relationship banks is closely monitored. Based on their credit ratings we have no credit concerns with our relationship banks. Given the importance of the RCF to the Group's liquidity position, our assessments of going concern and viability have tested the Group's gearing ratio, interest cover and liquidity headroom throughout the period under review up to their current maturity dates and to the end of the five-year plan assuming renewal of the RCF with consistent covenants to those currently applied.

Base case scenario

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

The base case assumes no further reshaping of the business portfolio, so it is not dependent upon any future cash proceeds from divestments. It also maintains pension deficit contributions in excess of income statement charges of around £44 million relating to FY25 and around £40 million in each year thereafter.

Reverse stress testing of the base case

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

Of the remaining measurement points within the available facility period, the lowest required reduction in forecast EBITDA to hit the gearing covenant level was £165 million and the lowest net debt increase was 150%. The lowest required reduction in forecast EBITDA to hit the interest cover covenant was £140 million. Given the mitigating actions that are available and within management's control, such movements are not considered plausible.

Severe but plausible downside scenarios

The Directors also considered a series of SBP downside scenarios which are sensitivities run against the base case budget and forecasts for the duration of the assessment period. These sensitivities include – separately – a reduction in bid pipeline closure (business winning), a deterioration in large programme performance across the Group, a deterioration in the Group's working capital position and a regulator-imposed cessation in flying two of the largest aircraft fleets in the Group. All these separate scenarios showed compliance with the financial covenants throughout the period.

As with any company or group, it would be possible, however unlikely, to model individual risks or combinations of risks that would threaten the financial viability of the Group. The Board has not sought to model events where it considers the likelihood of such events not to be plausible. In preparing a combined SBP downside case, the Board considered the feed of individual risks from the sectors covering the above sensitivities. Overall, there were around 80 profit and cash flow risks identified.

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

These identified risks were seen as 'sector independent' (ie there is no direct read across from one sector to another). The Board decided to reduce the aggregation of the risks by 25% to reflect the implausibility of all such risks fully crystallising within the same period.

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

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

Going concern assessment and viability conclusion

Based on our review, the Directors have concluded that the Group has adequate resources to continue as a going concern for at least 12 months from the date of these financial statements. The Directors have not identified any material uncertainties concerning the Group's ability to continue as a going concern.

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

In concluding on the financial viability of the Group, having considered the scenarios outlined above, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all its liabilities as they fall due up to March 2029.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