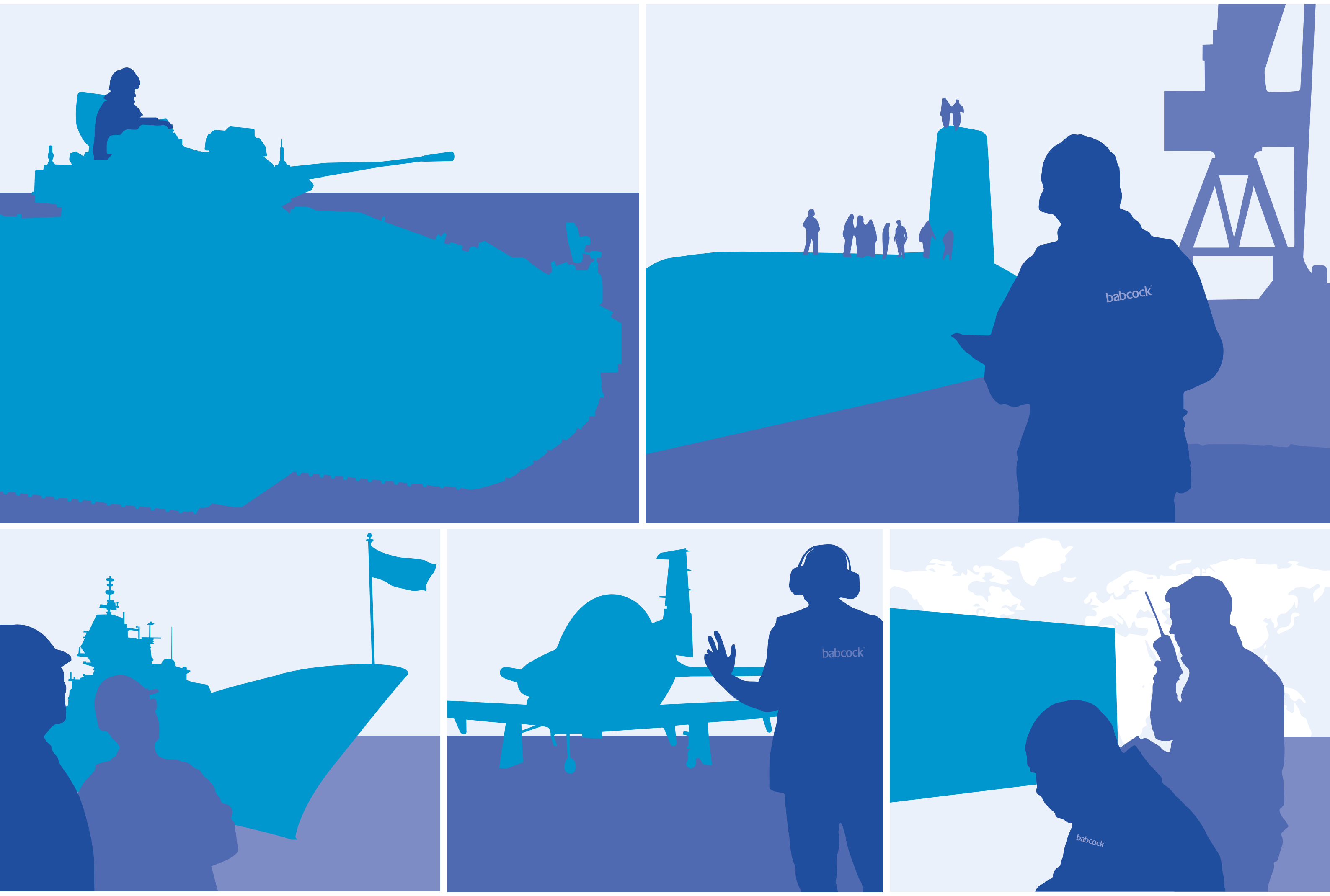
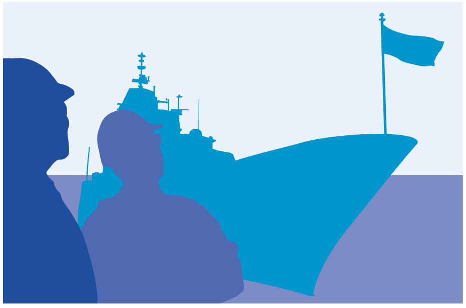
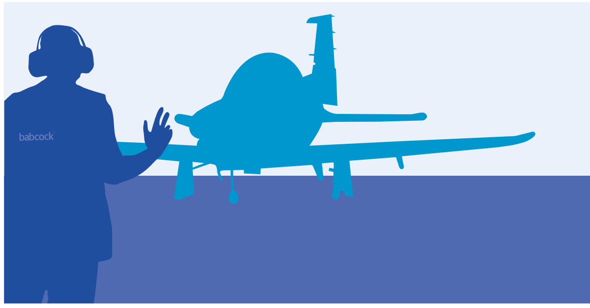
babcock



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

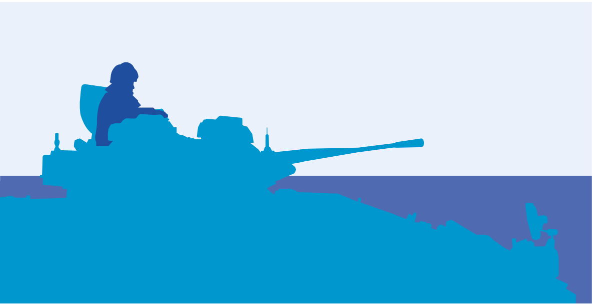
Side by side with the armed forces

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

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

* 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.

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.

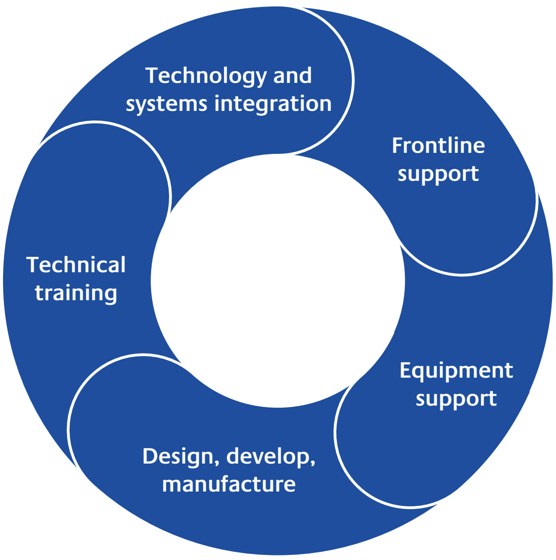
£4.4bn
FY24 revenue

74%
Defence

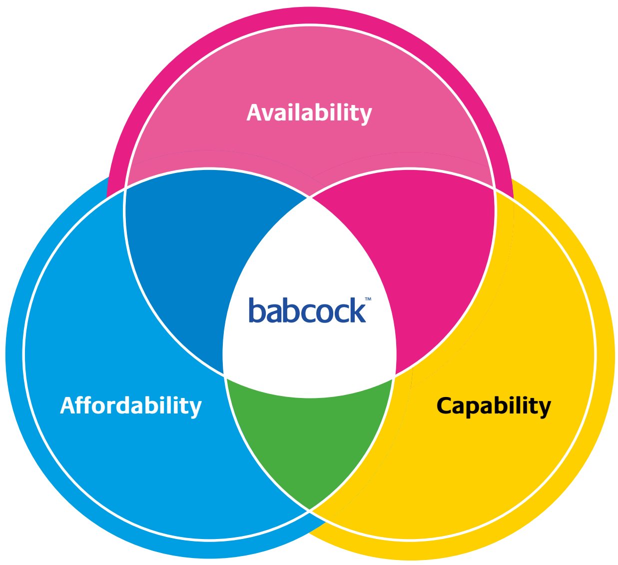
>26,000
Employees

£10.3bn
Contract backlog

Our capabilities

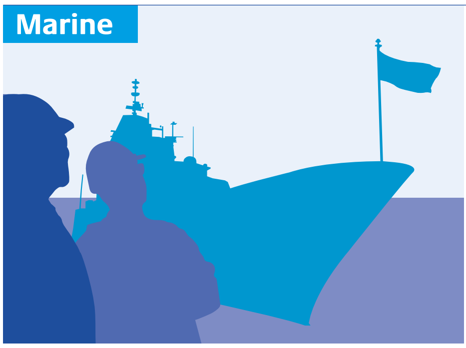


Our customer requirements



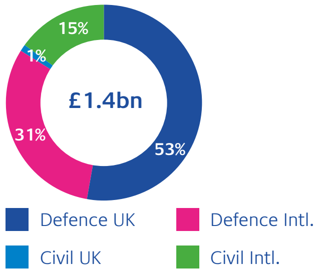
FY24 global revenue profile

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

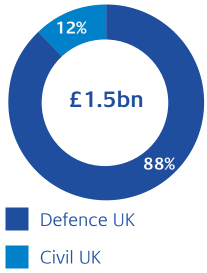
FY24 revenue profile



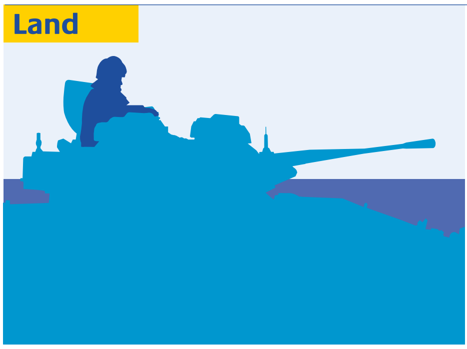
Nuclear

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

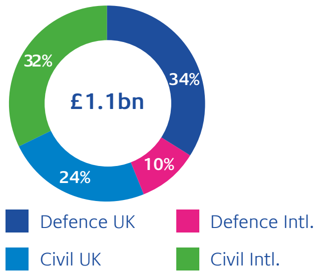


Land

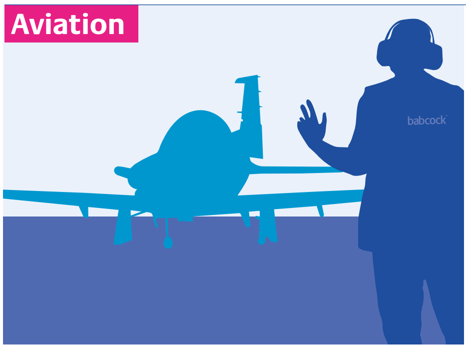


Our c.6,400-strong workforce delivers:
- Military vehicle build and systems integration
- Strategic asset management and through-life engineering support for military equipment
- Engineering services in power generation and transport networks, and through-life support of mining equipment
- Modern individual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

FY24 revenue profile

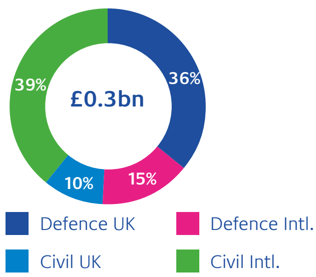


Aviation



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

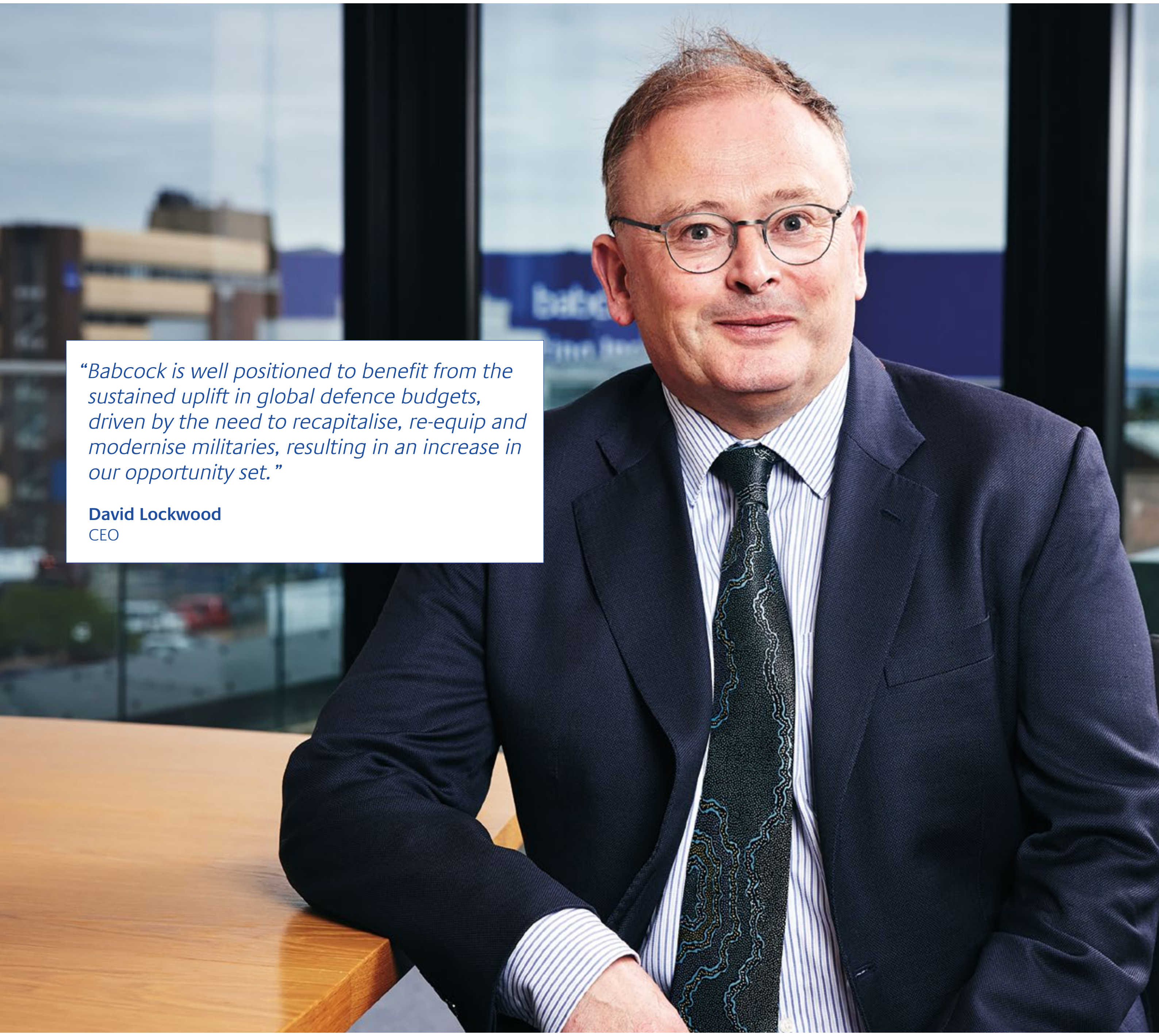
With a strong balance sheet, improving operational performance and an increasing opportunity set before us, the Company is well set to deliver its objective of sustainable growth. The Board is confident of making further progress against our medium-term ambitions in FY25.

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

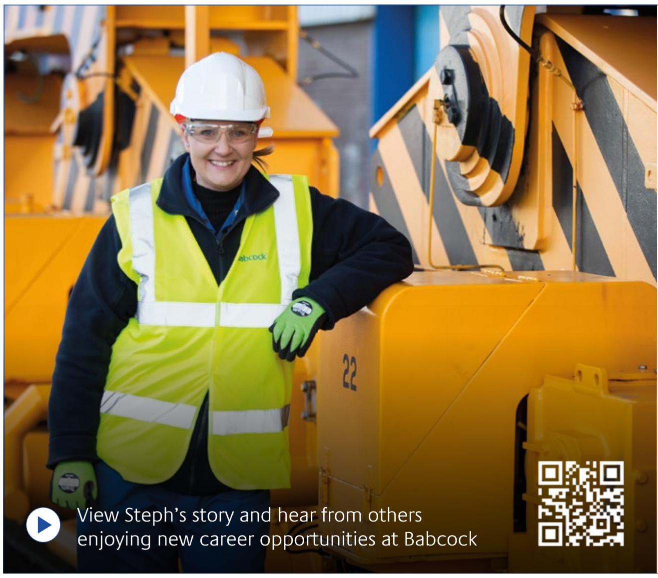
A career with Babcock can start from anywhere

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."

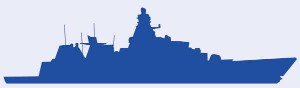
Steph
Production Support Operative, Rosyth

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

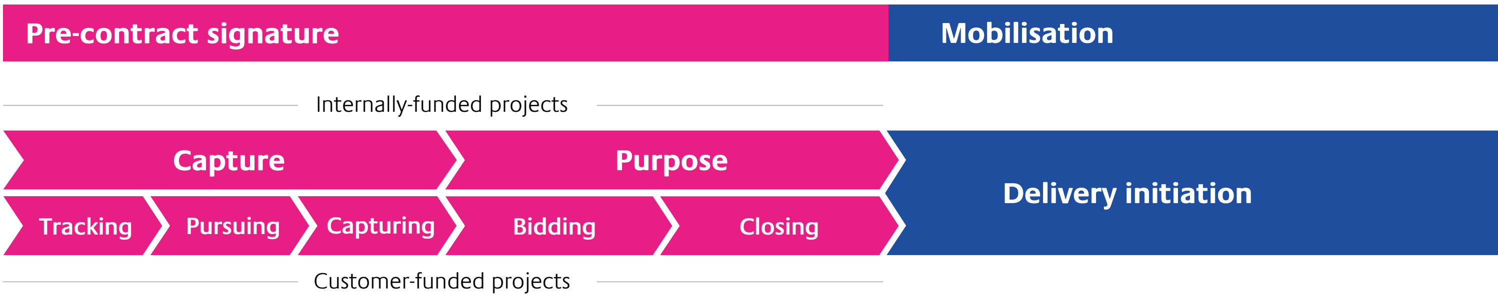
Managing commercial and technical risk

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.

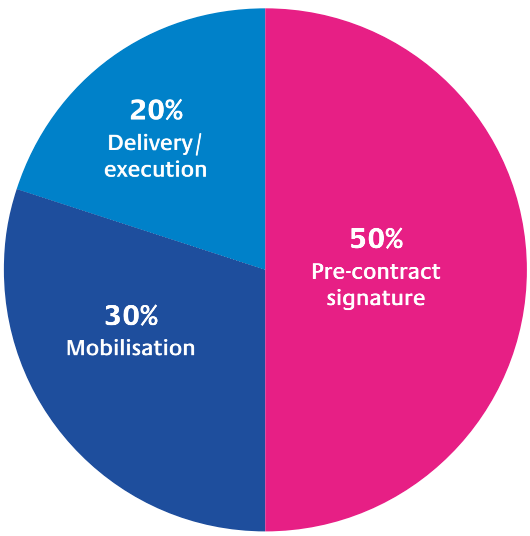
Every contract and programme we deliver is different, so there's no one-size-fits-all approach. That means we need more than red tape and oversight. We need an approach and leadership that deliver high levels of programme discipline, taking account of the specific needs of each contract whilst delivering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

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

Predictable delivery, predictable business

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.

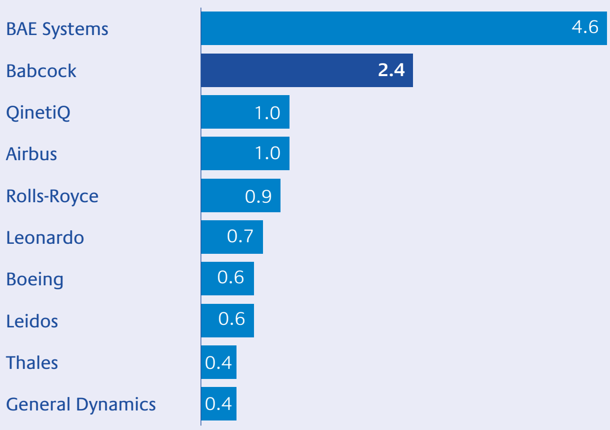
Availability – Our customers require high utilisation of complex assets, from ships and submarines to military and emergency services aircraft and vehicles. Our fleet support and sustainment models are increasingly geared to higher value-add availability-based solutions designed to optimise asset utilisation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

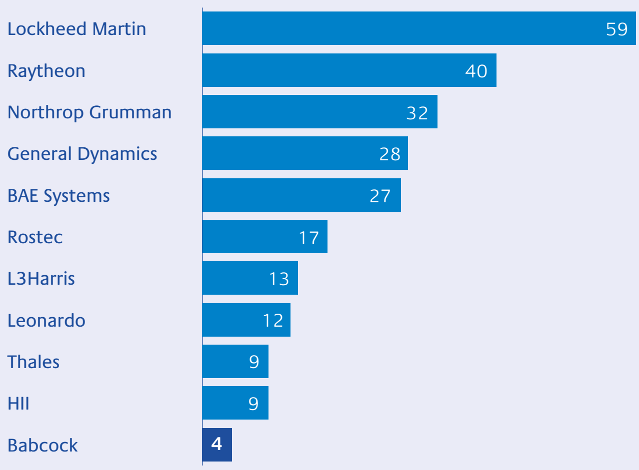
Babcock is the second largest supplier to UK MOD with a growing global presence

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

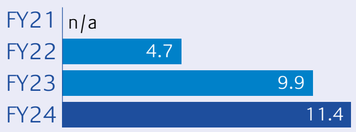
We have six financial and three non-financial key performance indicators (KPIs). The six financial metrics we use to monitor underlying performance are Alternative Performance Measures (APMs), which are not defined by International Financial Reporting Standards (IFRS) and are therefore considered to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

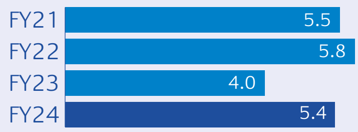
See our operational reviews on page 44

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.

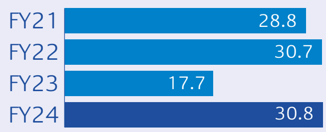
See our commentary on page 27

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.

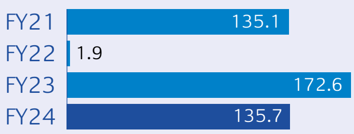
Commentary
Underlying earnings per share increased 74% in the year, driven by higher underlying profit for the year and a lower loss on the Type 31 contract than FY23. Excluding the Type 31 loss, EPS was 44.2 pence.

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.

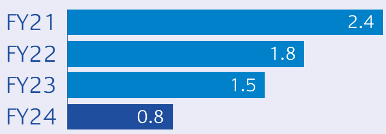
See calculation on page 43

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.

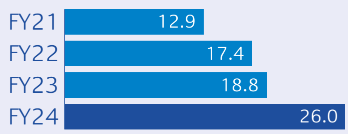
Commentary
Our net debt to EBITDA (covenant basis) decreased 0.7x to 0.8x. The decrease was driven by lower net debt due to higher underlying operating cash flow and underlying free cash flow performance.

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.

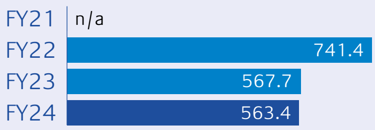
Commentary

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

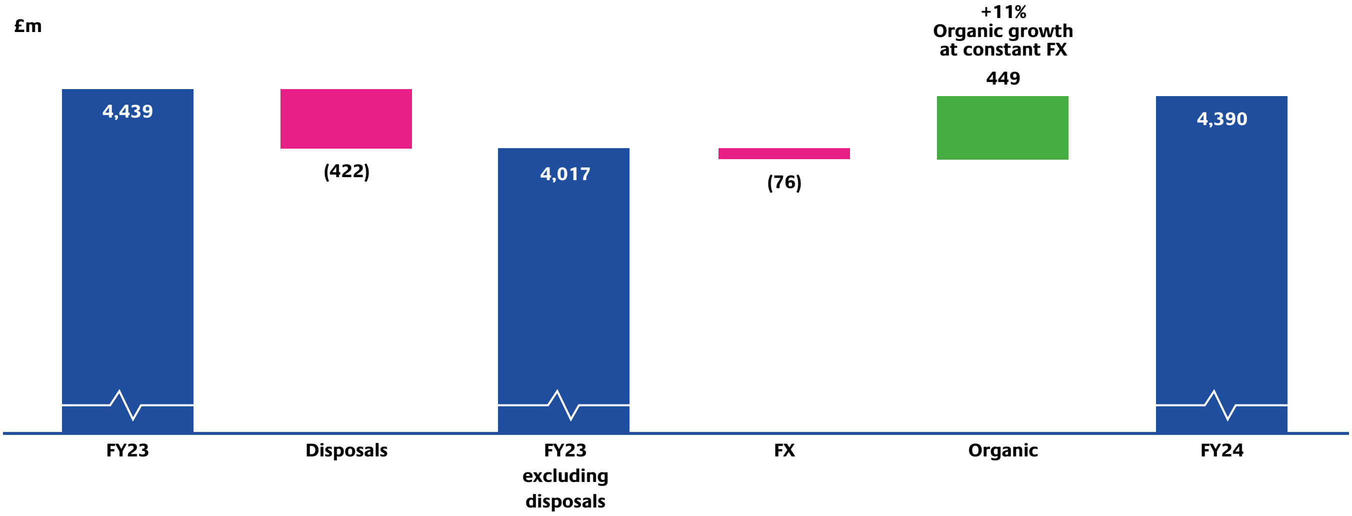
Income statement

	31 March 2024			31 March 2023		
	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	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

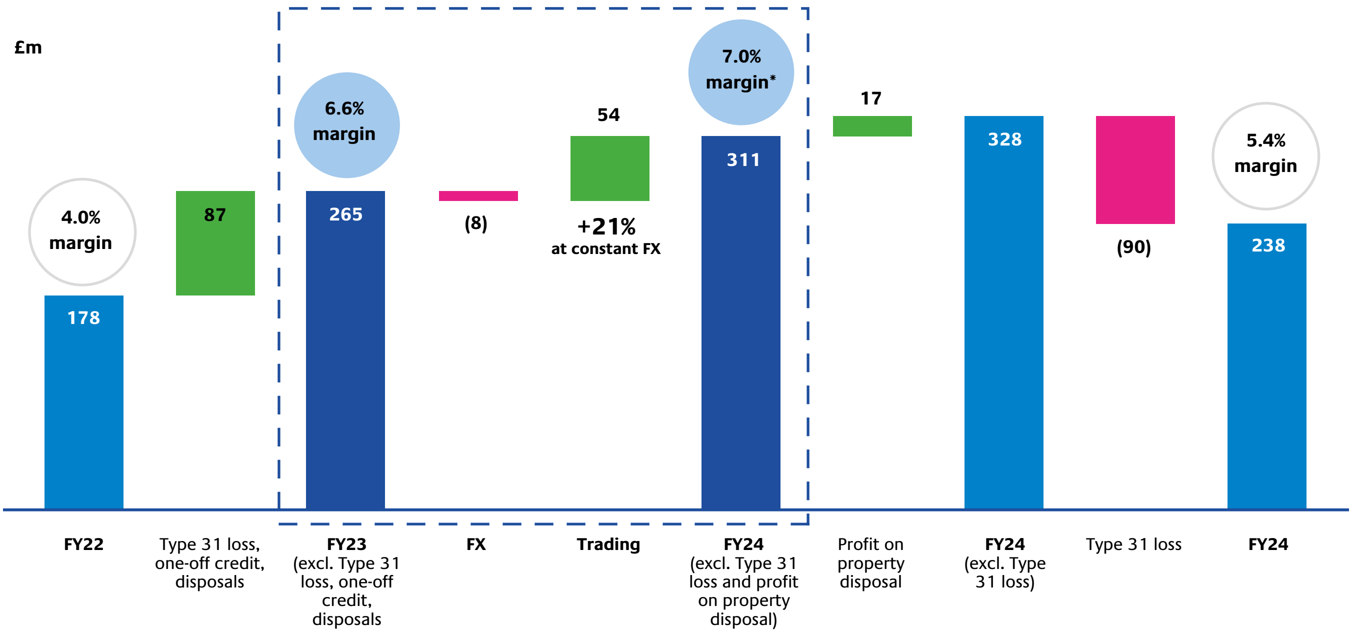


Revenue of £4,390.1 million was similar to FY23 with 11% organic growth offset by a (9)% impact of disposals and a (2)% currency translation headwind. The European AES and Civil Training businesses, both sold in February 2023, contributed £421.6 million to FY23 revenue. The organic increase was driven 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

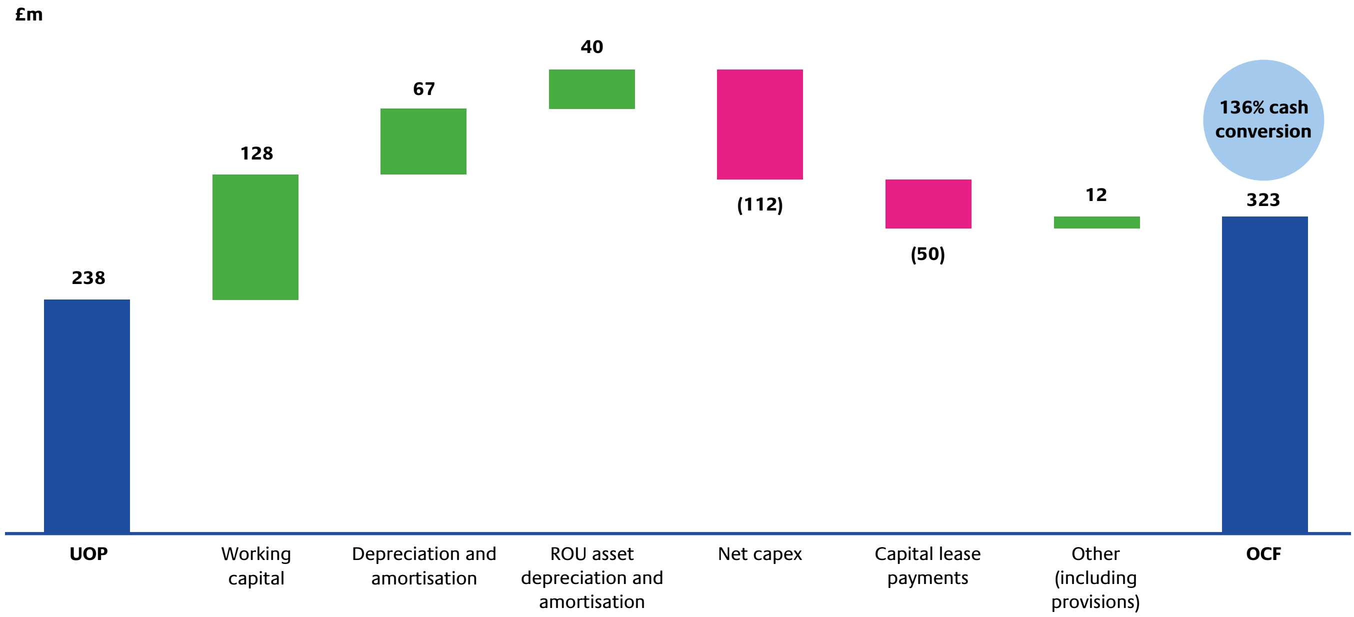
Underlying cash flow and net debt

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.

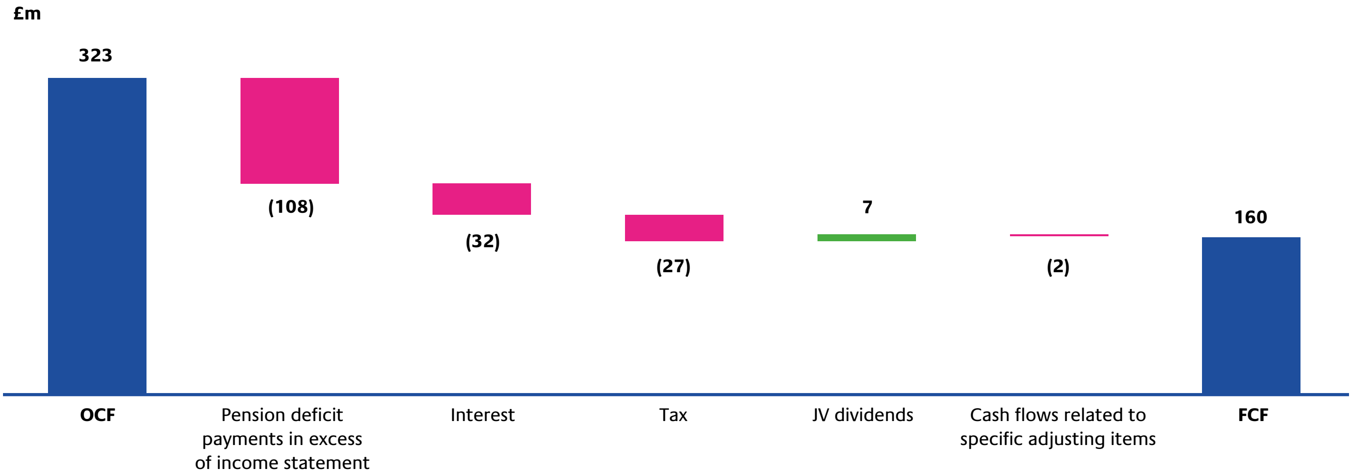
Underlying operating profit to operating cash flow bridge



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.

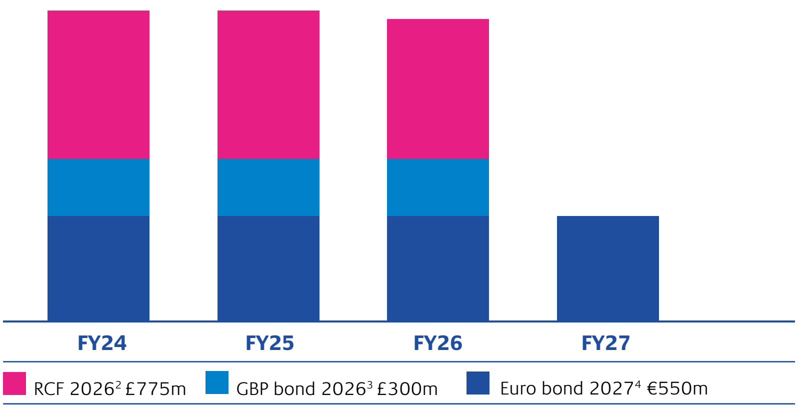
Updates

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

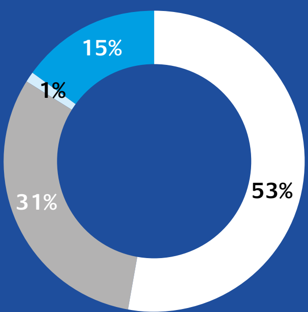
See what we do in Marine and watch Paul talk about the Sector at our recent Capital Markets Day

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.

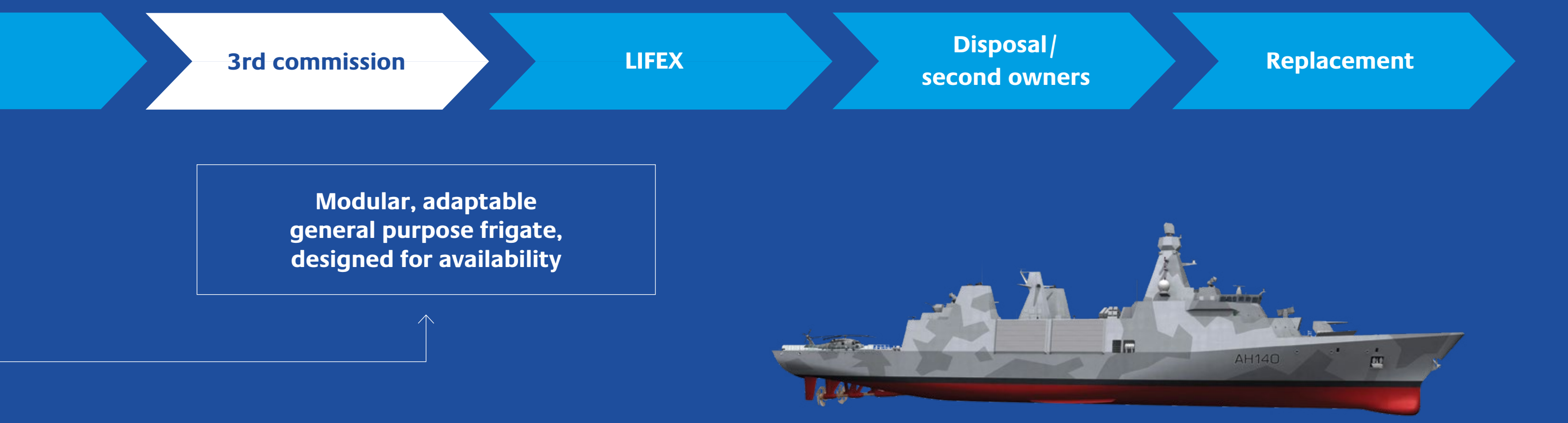
In South Korea, we are delivering systems for Boat 4 of the Jangbogo-III Class submarine programme. Additionally, we have been awarded a seven-year contract to manufacture and install the weapons handling and launch system for Boat 6 of the programme. Babcock is working with the Republic of Korea Navy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

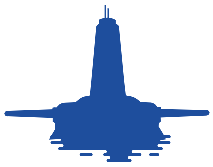
"In the nuclear sector we have a fantastic opportunity to play a key part in the UK's national recommitment to nuclear power in both the civil and the defence market."

Harry Holt
Chief Executive, Nuclear

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

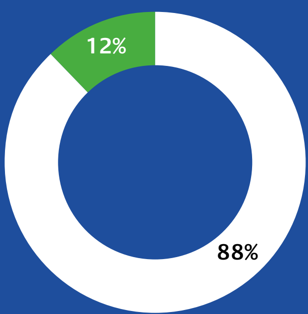
Operational highlights

- 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



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

Estimated total contract value

c.£560m

Deep understanding of assets

Optimised working patterns

Strip and replace 90% of internals

Engineering know-how

Innovative welding techniques

>42,000

engineering tasks

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.

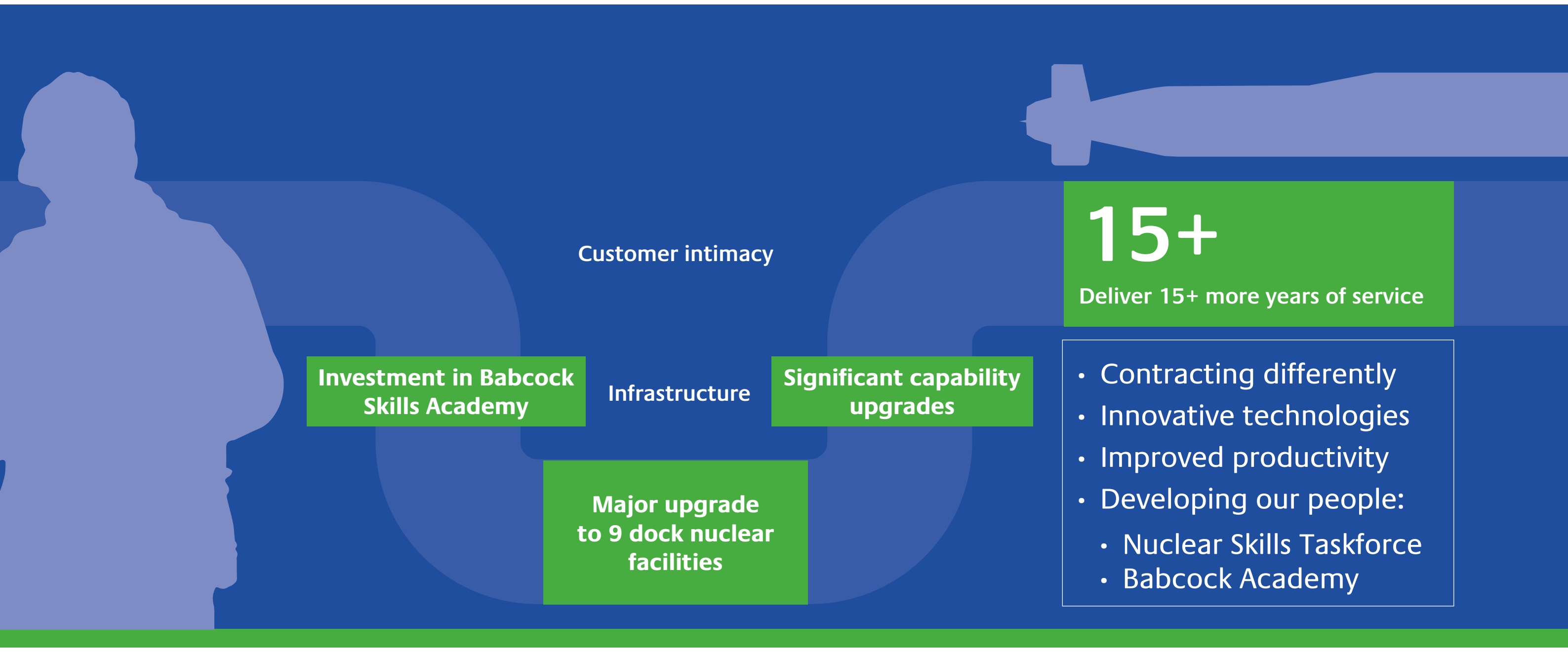
We have diversified our customer portfolio in the UK, securing work with both Westinghouse and Urenco, supporting the Government's focus on security and front-end fuel cycle. The reprocessed uranium front end conversion project for Westinghouse will design and build a facility to process uranium to enable 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.

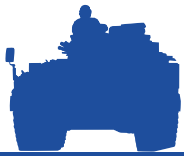
"The Land business today is refocused and upgraded and the macro environment is generating demand for our services. The world needs us more than ever before."

Tom Newman
Chief Executive, Land

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

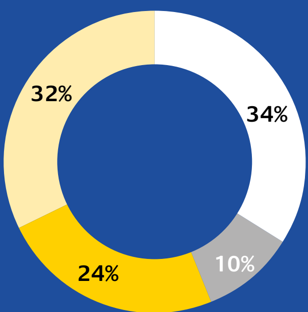
Operational highlights

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

Defence UK | Defence International | Civil UK | Civil International

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

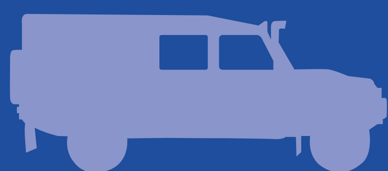
High potential military product business

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

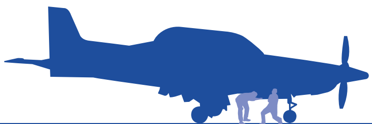
"Our growth plan isn't just an ambition. We are delivering it now, focusing on opportunities we can win and deliver, managing carefully our operational risks and protecting our margins."

Pierre Basquin
Chief Executive, Aviation

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

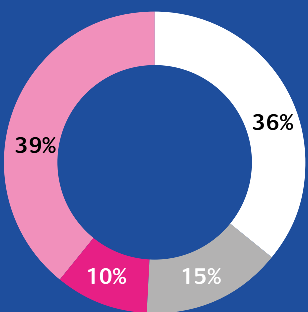
Operational highlights

- 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



Defence UK | Defence International | Civil UK | Civil International

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

2030 – 42% reduction science-based targets, Ultra Low Emission Vehicles

2032 – All Babcock estate to be Net Zero in operation

2035 – All buildings to be Net Zero embodied carbon

2040 – Net Zero target (90% Scope 1 and 2 reduction)

2050 – Net Zero 90% (Scope 1, 2 and 3)

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

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.

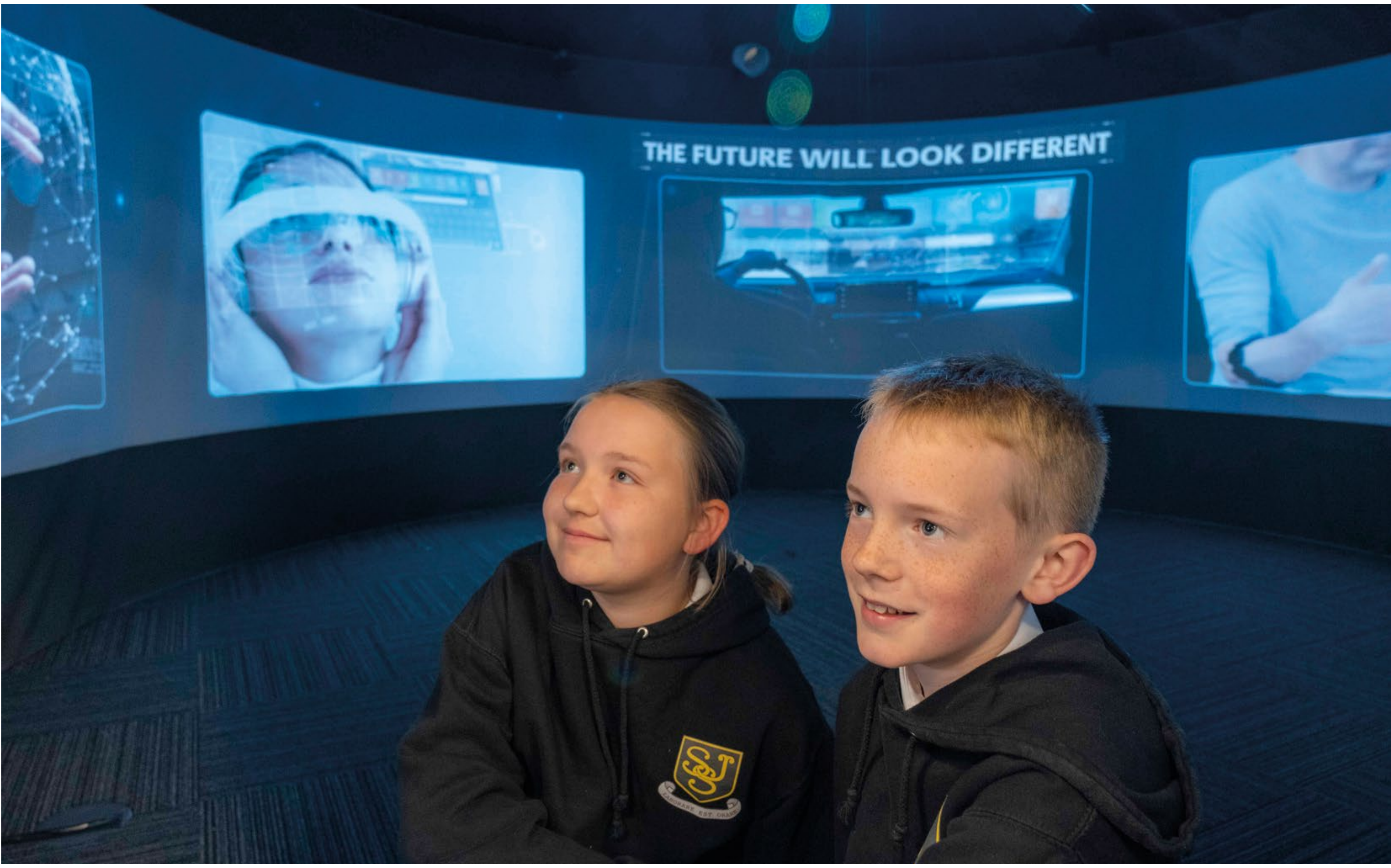
Within our Aviation business, Project MONET is on track to deliver a flying testbed aircraft for the RAF that will demonstrate how new technologies to minimise the environmental impact of flying training can be certified for wider use.

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

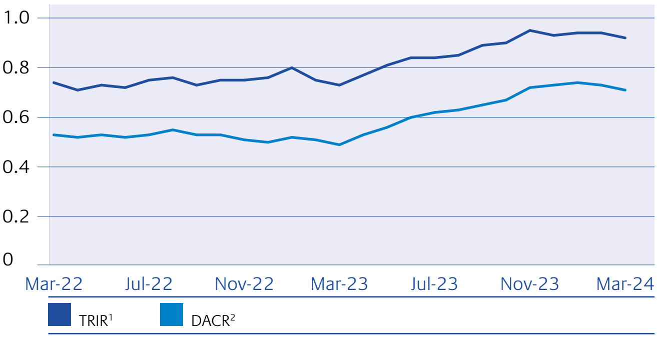
You have the authority to stop work if you feel unsafe

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

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

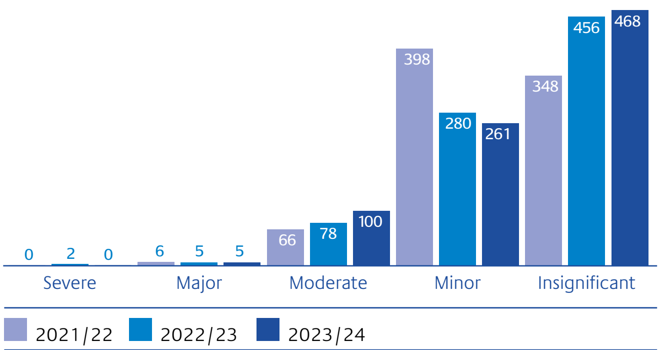
own & deliver — **Act** – make it safe

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.

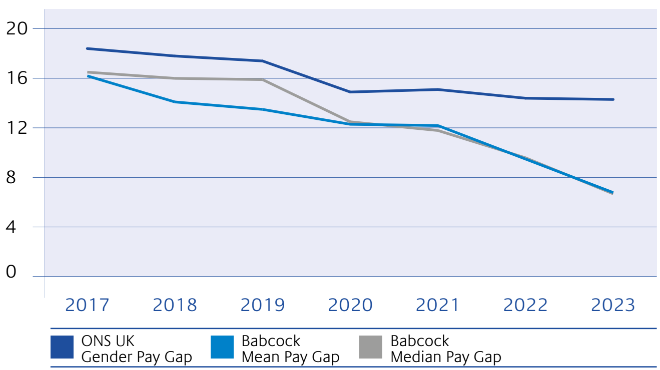
Read our Gender Pay Gap Report on our website

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%.

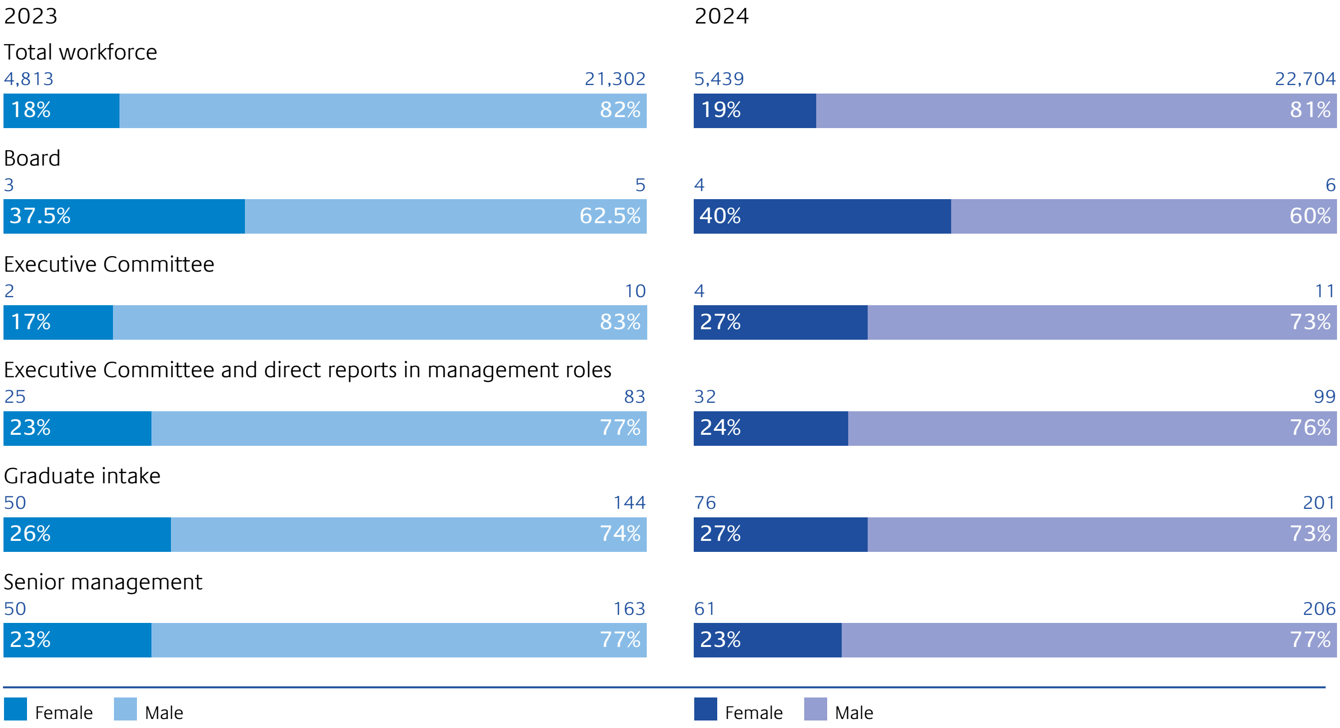
Gender pay gap (%)



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.

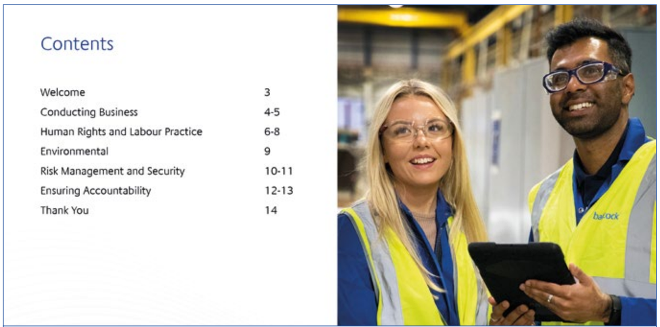
You can read our Modern Slavery Transparency Statement here

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.



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
	TCFD disclosure	Task Force on Climate-related Financial Disclosures	72
CFD disclosures	See TCFD disclosure	Task Force on Climate-related Financial Disclosures	72
Employees	Code of Conduct**	Commercial integrity	86
	Safety, Health and Environmental Protection policy*	Social	80
	Charity and Sponsorship High-Level guidelines**	Charity	85
	Be Kind Day – Global Volunteering policy**	Volunteering	85
	Gender Pay Gap Report**	Gender	81
Human rights	Code of Conduct**	Commercial integrity	86
	Supplier Code of Conduct**	Fair operating practices	87
	Human Rights policy**	Governance	86
	Modern Slavery Transparency Statement**	Human rights	87
Social matters	Anti-bribery and Corruption/Ethics policy**	Commercial integrity	86
	Code of Conduct**	Commercial integrity	86
	Safety, Health and Environmental Protection policy*	Social	80
Anti-bribery and corruption	Anti-Bribery and Corruption/Ethics policy**	Commercial integrity	86
	Whistleblowing policy**	Commercial integrity	86
	Supplier Code of Conduct**	Fair operating practices	87
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.

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.

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.

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.

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.

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:

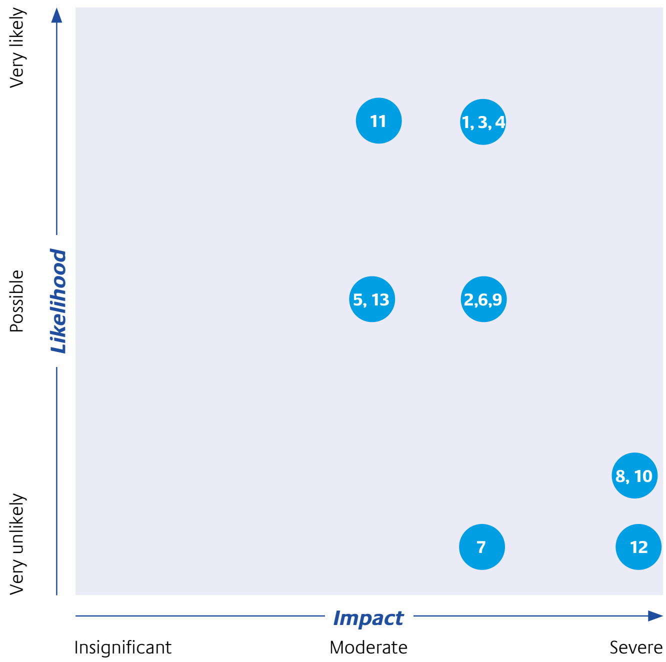
Of last years thirteen principal risks, five have either increased or reduced as follows:

- 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	No movement
2	Existing and new markets	Market risk	Decreased
3	IT and cyber security	IT and cyber security	No movement
4	Pensions	Defined benefit pensions	No movement
5	Supply chain management	Supply chain management	Decreased
6	Operational resilience and business interruption	Operational resilience and business interruption	No movement
7	Financial resilience	Financial resilience of the Group	Decreased
8	Health, safety and compliance including product safety	Safety, health, and environmental protection including product safety	No movement
9	Climate and sustainability	Climate and environmental sustainability	Increased
10	Technology disruption	Corporate technology disruption	No movement
11	Talent management retention and upskilling	Resourcing, retention and skills	No movement
12	Regulatory and compliance	Compliance with legislation or other regulatory requirements	No movement
13	Acquisitions and disposals	Acquisitions and divestments	Increased

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.

Likelihood: Likely   Impact: Moderate

Resourcing, retention and skills

We operate in many specialised engineering and technical domains, which require appropriate skills and experience.

Risk appetite: **Medium**

Avoidance of the risk would increase costs through significant wage inflation, which would have an industry-wide impact, and require over-resourcing and potential negative workforce engagement and retention. Some risk is accepted given the high cost of avoidance and the potential mitigations within our control, such as sharing capability across our global business and compensating for skills shortages in particular areas through investment in training and early careers.

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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Chair's introduction

Ruth Cairnie
Chair

Dear fellow Shareholder

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

Risk and controls

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

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

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

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

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

Our growth strategy

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

Engagement, people and culture

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

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

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

Board membership and effectiveness

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

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

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

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

ESG

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

The year ahead

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

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

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

Ruth Cairnie
Chair

Statement of compliance

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

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

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

Board of Directors

Ruth Cairnie
Chair

Appointed: April 2019

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

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

Carl-Peter Forster
Senior Independent Director

Appointed: June 2020

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

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

David Lockwood OBE
Chief Executive Officer

Appointed: September 2020

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

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

John Ramsay
Independent Non-Executive Director

Appointed: January 2022

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

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

David Mellors
Chief Financial Officer

Appointed: November 2020

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

Current external appointments: None

Lucy Dimes
Independent Non-Executive Director

Appointed: April 2018

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

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

The Right Honourable The Lord Parker of Minsmere, GCVO, KCB
Independent Non-Executive Director

Appointed: November 2020

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

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

Sir Kevin Smith
Independent Non-Executive Director

Appointed: June 2023

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

Current external appointments: None

Jane Moriarty
Independent Non-Executive Director

Appointed: December 2022

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

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

Dr Claudia Natanson MBE
Independent Non-Executive Director

Appointed: March 2024

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

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

Appointment key

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

Board leadership and company purpose

Board leadership

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

The Board

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

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

Principal Board Committees

Audit Committee

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

See pages 128 to 135

Remuneration Committee

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

See pages 136 to 156

Nominations Committee

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

See pages 126 to 127

Group Executive Committee

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

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

Principal Management Committees

Corporate ESG Committee

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

See page 72

Corporate Safety Leadership Team

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

See page 80

Group Information Security Committee

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

See page 87

Group Risk Committee

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

See page 89

Company purpose

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

Effective decision-making and oversight

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

All scheduled meetings consider:

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

Regularly the Board considers:

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

Setting and overseeing strategy

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

How the Board monitors culture

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

Leading by example

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

Listening to our people

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

Ethics and whistleblowing

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

Other cultural indicators

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

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

Board leadership and company purpose continued

Factoring our stakeholders into our decision-making

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

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

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

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

How the Board engages

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

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

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

Board leadership and company purpose continued

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

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

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

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

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

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

How the Board keeps s172 on its agenda

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

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

Division of responsibilities

Defining Board responsibilities

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

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

Non-Executive

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

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

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

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

Executive

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

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

Articles of Association

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

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

Summary of key matters reserved for the Board

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

Meetings and attendance

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

Conflicts of interest and independence

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

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

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

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

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

Time commitment

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

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

Board and Committee membership, meetings and attendance

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

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

Composition, succession and evaluation

Composition

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

Diversity policy

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

Board diversity

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

Board and executive management ethnicity

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

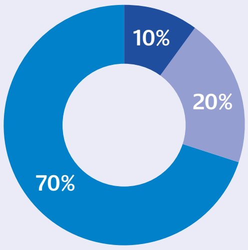
Board and executive management gender

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

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

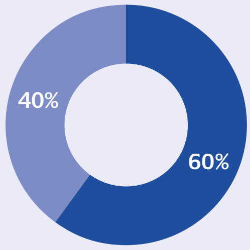
Board information

Independence



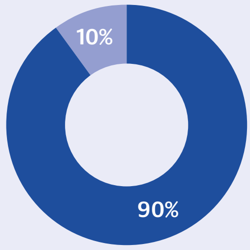
- Chair (independent on appointment)
- Executive Directors
- Independent Non-Executive Directors

Gender



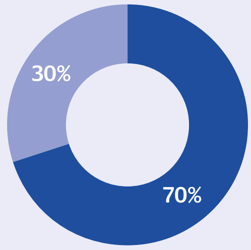
- Men
- Women

Ethnicity



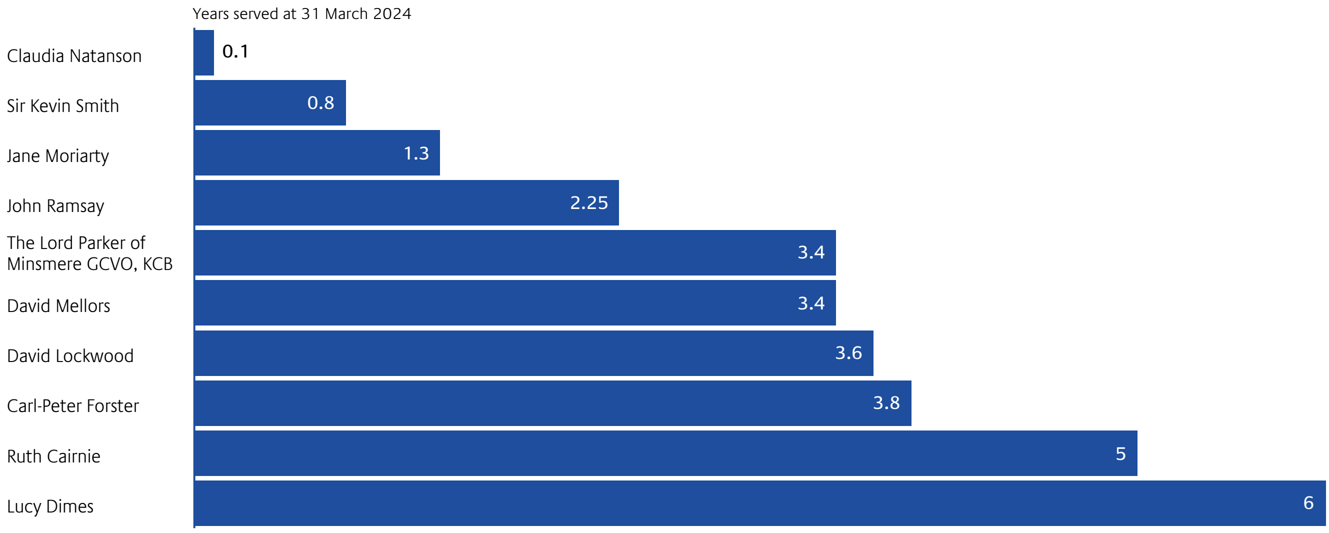
- White British or other White (including minority-white groups)
- Black / African / Caribbean / Black British

Nationality



- UK
- Non-UK / dual national

Board tenure



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

Composition, succession and evaluation continued

Succession

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

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

Director training

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

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

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

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

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

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

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

Evaluation

2023/24 Board performance review

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

Progress made on actions identified in the FY23 review

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

Areas of assessment and findings for the FY24 Board evaluation

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

Composition, succession and evaluation continued
Nominations Committee report

Ruth Cairnie
Chair of the Nominations Committee

Key facts

The Committee
Ruth Cairnie chairs the Committee.

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

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

For attendance, please see page 121.

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

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

Dear fellow Shareholder

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

Progress on Board composition

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

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

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

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

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

Succession and talent

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

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

Culture

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

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

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

Inclusion and Diversity

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

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

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

Ruth Cairnie
Chair

Audit, risk and internal control
Audit Committee report

John Ramsay
Chair of the Audit Committee

Key facts

The Committee

John Ramsay chairs the Committee.

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

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

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

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

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

Highlights

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

Key responsibilities

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

Dear fellow Shareholder

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

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

Update following FY23 audit

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

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

Internal control roadmap

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

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

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

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

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

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

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

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

Audit, risk and internal control continued

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

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

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

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

FY25 audit

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

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

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

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

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

Priorities for FY25

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

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

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

John Ramsay
Committee Chair

Committee report

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

Risk management and internal control systems

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

Internal control systems

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

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

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

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

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

Risk management

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

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

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

Audit, risk and internal control continued

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

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

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

FY24 external audit

Deloitte has now completed its third annual audit.

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

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

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

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

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

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

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

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

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

Independence

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

Audit quality

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

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

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

Internal Audit and assurance

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

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

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

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

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

Financial statements

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

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

Audit, risk and internal control continued

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

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

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

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

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

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

FY25 audit

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

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

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

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

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

Code of Business Conduct violations and fraud

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

Remuneration Committee report

Carl-Peter Forster
Chair of the Remuneration Committee

Key facts

The Committee

Carl-Peter Forster has chaired the Committee since September 2022 and has been a member of the Committee since joining the Board in June 2020. The other Committee members are currently John Ramsay, Lucy Dimes and Jane Moriarty. Please see pages 112 and 113 for biographies and page 121 for attendance.

Highlights

- Approval of the Company's Remuneration policy by shareholders at the 2023 AGM with a vote for of 98%
- Review of FY24 remuneration outcomes
- Deciding on the FY25 implementation of the Remuneration policy

Key responsibilities

- Oversight of reward matters across the Group
- Maintenance of a strong link between strategy, stakeholder experience and Executive Director reward
- Approval of reward outcomes for the Executive Directors

Dear fellow Shareholder

We, your Remuneration Committee, have had another busy year supporting the Board by ensuring that there is a strong link between strategy, stakeholder experience and executive reward. In FY24 the Company produced strong revenue growth, underlying operating profit up on last year (though there was a further loss on our Type 31 contract, which we fully recognised in FY24), underlying free cash flow significantly in advance of expectations and long-term pension funding plans agreed with two of our three large pension schemes. We have reflected this performance in our discussions of the FY24 remuneration outcomes, which we have summarised on page 138, with further detail from page 147. Before starting my report to you, I would like to thank my fellow Committee members for their time and commitment over the year.

New Remuneration policy

As I explained in my letter last year, our key focus in FY23 was our review of the Company's Remuneration policy, which was due for renewal. To ensure a successful outcome, we engaged extensively with you, our shareholders, to understand your priorities. Our engagement covered shareholders representing over 60% of the Company's share capital. We incorporated the feedback we received from shareholders into our final policy, which we proposed to shareholders at the AGM in September 2023. We were delighted that shareholders voted to approve our Remuneration policy with a vote for of 98%. I would like to thank all those who took part in our consultation, as well as those voting for their time and support of the Company.

Remuneration in FY24

I have mentioned the business context in which we took our decisions over FY24 in my opening paragraph. We believe that the remuneration outcomes summarised below reflect the Company's performance and the broader context, including shareholders' experience and interests. In summary, we approved the following outcomes:

FY24 Salary: We have moved our salary review to July for all employees who are not subject to collective pay bargaining. We believe that this population is the best comparator for the Executive Directors and their pay review outcome is an important consideration when we discuss salary increases for the Executive Directors. In 2023, the increase for those employees was 5%. In July 2023, we considered salary increases for our Executive Directors. Mr Lockwood had already indicated that he would decline any pay increase, but we concluded that, in light of the Company's performance, we would have offered him an increase of 5%. In respect of Mr Mellors, we increased his salary by 3.5%.

FY24 annual bonus: We decided to continue with substantially the same structure for the FY24 annual bonus for Executive Directors as we did for FY22 and FY23. It was based 80% on underlying financial performance measures, split equally between underlying operating cash flow (OCF) and underlying operating profit (OP). In line with past practice, we maintained the percentage allocated to non-financial measures at 20%. As in FY23, we adopted a wide range for the performance targets and retained discretion to ensure that the outcome aligned to the experience of the Group's stakeholders.

For the OP element of the FY24 bonus the Committee included the full impact of the Type 31 loss in its calculation, leading to a zero pay-out on this element. With the strong OCF performance, the OCF element paid out in full. On that basis, the Committee awarded an annual bonus payout for FY24 of 59.6% of maximum for David Lockwood and 58% of maximum for David Mellors. Please see page 147 for more detail.

2020 Performance Share Plan (PSP) awards: As we reported last year, we granted the 2020 PSP award in December 2020 due to the impact of COVID-19. At the time of the award, we scaled back the maximum opportunity by 10% from a maximum of 200% of salary to 180%, to reflect the Company's share price performance prior to grant. The vesting of the awards was linked to two performance measures – 50% on cumulative underlying free cash flow (FCF) over three years ending FY23 and 50% on relative Total Shareholder Return (TSR) over three years ending 30 November 2023. In line with best practice guidance from investors and representatives, we scaled back the grant by a further 10% of salary due to the delay in finalising the FCF targets caused by the Contract Profitability and Balance Sheet review.

We confirmed the outcome of the FCF measure in our FY23 Annual Report (at 100% of this component), but we could not confirm the outcome of the relative TSR measure until this Annual Report. We indicated in our FY23 Annual Report that the relative TSR measure was tracking at zero vesting at the end of FY23. However, due to the strong share price performance following the release of our FY23 results, the final vesting outcome of the relative TSR element was assessed to be 100%. As we had committed, before confirming the vesting, we reviewed the award to determine whether we should apply any additional downwards adjustment to address any windfall gains. Over the performance period, the Company's share price had risen by about 12%. We believe that this recovery reflects the strategic actions taken by the Executive Directors and are satisfied that there was no windfall gain. Therefore, the Committee concluded not to apply any adjustment, particularly given the up-front reduction which had been made at grant.

2021 PSP awards: We granted the 2021 PSP award in August 2021 with the same performance measures as the 2020 PSP grant – underlying FCF and relative TSR, equally weighted and both over the same three-year performance period ending on 31 March 2024. As we do for every grant, we reviewed the share price performance over the year prior to the grant to satisfy ourselves that the award of the full opportunity (then 200% of salary) was appropriate. We also carefully considered the underlying FCF targets as we wanted to focus the Executive Directors on delivering core performance. Therefore, we set the targets to exclude certain cash flow items such as voluntary excess pension deficit payments and operating model restructuring costs. The outturn for the 2021 PSP grant will be 100% of the overall award, reflecting Babcock's strong performance over the performance period. For more information, please see page 150.

2023 PSP grant: We granted the 2023 PSP award for the Executive Directors in September 2023. In line with the approach to implementation that we disclosed in our FY23 Annual Report, we set the award opportunity for the CEO at 250% of salary (within the limits approved by shareholders at the 2023 AGM) and refined the PSP measures to align more closely with the drivers of the Company's long-term performance and strategy. The measures are underlying free cash flow (an indicator of cash generation), underlying operating margin (an important indicator of operating efficiency), organic revenue growth (an indicator of business growth) and ESG (reflecting the strategic importance of visible improvements, both due to shareholder sentiment that companies need to play their part in improving the UK's performance in this area and the increasing importance of the ESG agenda to our people). We have set the targets for each measure to ensure that they are appropriately stretching. For more detail, please see page 150.

Remuneration for FY25

As we did in FY24, we have continued to balance the wish of shareholders that we incentivise our Executive Directors to deliver the Board's strategic actions with the need to align the implementation of the policy with shareholder interests.

We have done this as follows:

FY25 salary increase: In keeping with its usual practice, the Committee reviewed the Executive Directors' base salaries at the same time as other UK employees not covered by collective bargaining. The Committee's review was informed by the average increase for those employees, being the population that the Committee believes is the best internal comparator for the Executive Directors. The Committee also considered the differentiated approach implemented across Babcock to rewarding individual performance (reinforcing our key principle of consistency in the remuneration philosophy and principles that underpin decision-making at all levels of the Company) whereby employees making strong contributions are awarded with above-average increases. Since his appointment, Mr Lockwood has delivered a consistently strong performance in leading the reset of the Company, a large and complex organisation, to the benefit of all its stakeholders. Over the period of the reset, Mr Lockwood has accepted only one very limited salary increase. To ensure that the Company is adequately rewarding Mr Lockwood for his performance as well as incentivising him to continue to lead and grow the Company for the benefit of all its shareholders over the reset period, the Committee resolved to increase Mr Lockwood's salary more materially from 1 July 2024 by 11% to £905,760. The Committee considers the adjustment to be commensurate with Mr Lockwood's performance. The resulting salary remains below that which would have resulted if salary increases had been awarded at a lower rate than the average increase for the workforce since Mr Lockwood's appointment. The proposed salary is also reflective of the competitive landscape in which the Company competes for executive talent, being other FTSE aerospace & defence companies and those of comparable scale and complexity to Babcock. The Committee did consider the impact on operating profit of the Type 31 contract loss but concluded the rationale for the proposed salary increase remained robust, due to Mr Lockwood's further drive on management quality, his leveraging of the Group's functional capabilities to support the programme and the resulting improvement plans.

In respect of Mr Mellors, the Committee increased his salary by 4%, in line with the average increase for those UK employees not subject to collective pay bargaining.

FY25 annual bonus: We will keep the structure of the Executive Directors' annual bonus consistent with that for FY24, with measures based on underlying OCF, underlying OP and non-financial objectives. The maximum award opportunity is 150% of salary and the Executive Directors will defer 40% of any earned bonus into the Company's shares for three years. We have set the measures and targets, which we will disclose in full in our report next year. Please see page 151 for more detail.

2024 PSP awards: We will grant awards under the PSP to the Executive Directors later in 2024, covering the three-year period FY25 to FY27. We will continue with the measures we adopted for the 2023 PSP award (underlying free cash flow, underlying operating margin, organic revenue growth and ESG), as we believe that they still align closely with the drivers of the Company's long-term performance and strategy. We have set the targets for each measure to ensure that they are appropriately stretching. For more detail, please see page 152.

Focus for FY25

We will continue to support the strategic aims of the Group through our work on the Committee, in particular, through our implementation of our Remuneration policy. As part of that, we will continue to engage with our key stakeholders, our shareholders and employees, to understand their views. We will use this engagement to ensure the implementation of our Remuneration policy reflects best practice, supports the Group's strategic direction and incentivises employees to deliver value to shareholders.

Again, thank you for your support. If you have any questions, I will be at the 2024 AGM and would be happy to discuss them with you.

Carl-Peter Forster
Committee Chair

Remuneration at a glance

This section provides an overview of the Company's performance over FY24 and the remuneration received by our Executive Directors. You can find full details in the Annual report on remuneration on pages 146 to 156.

FY24 remuneration outcomes

FY24 annual bonus

The Committee based the FY24 bonus on a mix of financial and non-financial measures; the performance targets for which (and actual performance against these) are set out below. For a full description of the FY24 annual bonus, please see page 147.

Measures	Warranted payout (% of maximum bonus)				Performance targets	
	D Lockwood		D Mellors			
Underlying operating profit (OP)[1]	40% Max	0% Outturn	40% Max	0% Outturn	Threshold	£273.2m
					Target	£287.6m
					Stretch	£316.4m
					Outturn	£237.8m
Underlying operating cash flow (OCF)[1]	40% Max	40% Outturn	40% Max	40% Outturn	Threshold	£195.8m
					Target	£230.3m
					Stretch	£264.8m
					Outturn	£322.7m
Non-financial[2]	20% Max	19.6% Outturn	20% Max	18% Outturn		
Total	100% Max	59.6% Outturn	100% Max	58% Outturn		

1. For definitions, please see the fuller description of the FY24 bonus on page 147.
2. The Committee has merged several measures into an overall assessment in this table for disclosure purposes.

2020 PSP

The Committee approved the 2020 PSP grant in December 2020, delayed due to COVID-19. Vesting was based 50% on underlying free cash flow (FCF) over the three years to 31 March 2023 and 50% on relative Total Shareholder Return (TSR) over three years to 30 November 2023. Performance against both measures warranted 100% vesting.

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)	Outturn[1]	Vesting (% of overall award)
3-year FCF post exceptional items	50%	£140m	£210m	£ 253m	50%
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	50%	Median TSR	Median TSR + 9% pa	Median TSR + 12.6% pa	50%
				Total vesting	100%

1. As disclosed in last year's report, the Committee adjusted the FCF outturn to exclude the cash flow impact of certain items, as the Committee wanted to focus management on driving core performance. For more information, please see page 149.

2021 PSP

The Committee approved the 2021 PSP grant in August 2021. Vesting was based 50% on underlying free cash flow (FCF) and 50% on relative Total Shareholder Return (TSR), both over three years to 31 March 2024. Performance against both measures warranted 100% vesting.

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)	Outturn[1]	Vesting (% of overall award)
3-year FCF post exceptional items	50%	£162m	£244m	£346.9m	50%
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	50%	Median TSR	Median TSR + 9% pa	Median TSR + 25.7% pa	50%
				Total vesting	100%

1. The Committee adjusted the FCF outturn to exclude the cash flow impact of certain items, as the Committee wanted to focus management on driving core performance. For more information, please see page 150.

Implementation of the Remuneration policy in FY25

For the current financial year, the Committee intends to implement the Remuneration policy as set out in the table below.

Element of remuneration	Base salary	Pension	Benefits
Implementation for FY25	David Lockwood: £905,760 David Mellors: £614,840 The Committee reviewed the base salary of the Executive Directors in June 2024 and increased Mr Lockwood's salary by 11% and Mr Mellors' salary by 4%.	10% of salary	Unchanged from FY24

Element of remuneration	Annual bonus and Deferred Bonus Plan (DBP)	PSP
Implementation for FY25	The bonus structure is consistent with that used for FY24, with awards of up to 150% of salary based on the achievement of financial targets, underlying operating profit (OP) and underlying operating cash flow (OCF) (each a 40% weighting) and non-financial measures (a 20% weighting). The Committee has maintained its normal practice of paying 60% of any bonus earned in cash, with the remaining 40% deferred in shares for three years. For more detail, please see page 151.	PSP awards of 250% and 200% of salary for the CEO and CFO respectively, with vesting based on measures the Committee believes are most appropriate: underlying FCF (weighted 30%), underlying operating margin (weighted 30%), organic revenue growth (weighted 25%, and subject to a discretionary operating margin underpin) and ESG (weighted 15%).

Alignment of the Remuneration policy

The Committee has assessed the policy as compliant with the pillars set out in paragraph 40 of the 2018 Corporate Governance Code:

Clarity	The Committee believes that the disclosure of the remuneration arrangements is transparent, with clear rationale provided on its maintenance and any changes to policy. The Committee remains committed to consulting with shareholders on the policy and its implementation.
Simplicity	The policy and the Committee's approach to its implementation are simple and well understood. The performance measures used in the PSP, along with those in the annual bonus, align to Babcock's strategy.
Risk	The Committee has ensured that remuneration arrangements do not encourage or reward excessive risk-taking by setting targets which are stretching, but achievable, with discretion to adjust formulaic annual bonus and PSP outcomes, and with suitable underpins where necessary.
Predictability and proportionality	The link of the performance measures to strategy and the setting of targets balances predictability and proportionality by ensuring outcomes do not reward poor performance.
Culture	The policy is consistent with Babcock's culture as well as its strategy, therefore driving behaviours which promote the long-term success of the Company for the benefit of all stakeholders.

Compliance statement

This report has been prepared in compliance with all relevant remuneration reporting regulations in force at the time and in respect of the financial year under review.

This report contains both auditable and non-auditable information. The information subject to audit is marked.

Remuneration policy report

Shareholders approved our current Remuneration policy at our 2023 AGM with a vote in favour of 98%. We intend to apply the policy, which came into effect on 28 September 2023, for up to a three-year period until we propose a new Remuneration policy to shareholders for their approval at the 2026 AGM at the latest. You can find the current policy at www.babcockinternational.com/who-we-are/leadership-and-governance.

Key principles of the Remuneration policy

Our Remuneration policy for Executive Directors reflects a preference that we believe the majority of our shareholders share – to rely more heavily on the value of variable performance-related rewards than on the fixed elements of pay, to incentivise and reward success. The Committee, therefore, weights the focus of executive remuneration towards performance-related pay with a particular emphasis on long-term performance. The Committee believes that, properly structured and with suitable safeguards, variable performance-related rewards are the best way of linking pay to strategy, risk management and shareholders' interests.

Remuneration policy for Executive Directors

Base salary

Purpose and link to strategy	To recruit and retain the best executive talent to execute our strategic objectives at appropriate cost.
Operation	The Committee reviews base salaries annually, with reference to the individual's role, experience and performance; salary levels at relevant comparators are considered, but do not in themselves drive decision-making.
Opportunity	The Committee anticipates that increases in salary for the wider employee population over the term of this policy will guide it on any increases for the Executive Directors. In certain circumstances (including, but not limited to, a material increase in job size or complexity, market forces, promotion or recruitment), the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain fair and competitive.
Performance metrics	Business and individual performance are considerations in setting base salary.

Pension

Purpose and link to strategy	To provide market-competitive retirement benefits.
Operation	Cash supplement in lieu (wholly or partly) of pension benefits for ongoing service and/or membership of the Group's defined benefit or defined contribution pension scheme.
Opportunity	Executive Directors receive pension benefits up to the value (10% of salary, as of FY25) equivalent to the maximum level of pension benefits provided under the Company's regular defined contribution pension plans as offered to the wider workforce in the relevant market as may be in effect or amended from time to time.
Performance metrics	Not performance-related.

Benefits

Purpose and link to strategy	Designed to be competitive in the market in which the Group employs the individual, or to meet costs effectively incurred at the Company's request.
Operation	The Group provides a range of benefits, which may include (but are not limited to): life insurance; medical insurance; car and fuel benefits and allowances; home-to-work travel and related costs; and accommodation benefits and related costs. The Group may offer other benefits (eg relocation) if the Committee considers it appropriate and reasonable.
Opportunity	Benefit values vary by role and are periodically reviewed and set at a level that the Committee considers appropriate in light of relevant market practice for the role and individual circumstances. The cost of the benefits provided changes in accordance with market conditions, which will determine the maximum amount that the Company would pay in the form of benefits during the period of this policy. The Committee retains discretion to approve a higher cost in certain circumstances (eg relocation) or in circumstances where factors outside the Company's control have changed materially.
Performance metrics	Not performance-related.

Annual bonus

Purpose and link to strategy	To underpin delivery of year-on-year financial performance and progress towards strategic non-financial objectives, being structured to motivate delivery against targets and achievement of stretching outperformance, whilst mindful of the achievement of long-term strategy and longer-term risks to the Company. The requirement to defer a substantial part of the bonus into Company shares strengthens the link to long-term sustainable growth.
Operation	Performance targets are set at the start of the year and reflect the responsibilities of the Executive Directors in relation to the delivery of our strategy. At the end of the year, the Committee determines the extent to which the Group has achieved these targets. The Committee has the discretion to adjust the outcome (up or down) within the limits of the plan for corporate transactions, unforeseen events, factors outside reasonable management control, and changes to business priorities or operational arrangements, to ensure targets represent and remain a fair measure of performance. In addition, the Committee considers health and safety performance and may reduce or cancel any annual bonus otherwise payable if it considers it appropriate to do so in light of that performance. The Committee defers at least 40% of annual bonus payments for Executive Directors into Company shares for three years. Dividend equivalents accrued during the deferral period are payable in respect of deferred shares when (and to the extent) these vest. Malus and clawback provisions apply to cash and deferred bonus awards until the third anniversary of the payment/vesting date: if the accounts used to determine the bonus level have to be materially corrected; if the Committee subsequently comes to a view that bonus year performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the deferred bonus did not lapse and facts emerge which, if known at the time, would have caused the deferred bonus to lapse on leaving or would have caused the Committee to exercise any discretion differently.
Opportunity	Maximum bonus opportunity is 150% of salary. For achievement of threshold, the Executive Directors earn up to 15% of maximum bonus; for achievement of target, they earn up to 55% of maximum bonus.
Performance metrics	The Committee determines performance on an annual basis by reference to Group financial measures, eg underlying PBT, underlying OCF, as well as the achievement of non-financial objectives. The weighting on non-financial objectives is limited to 20%, unless the Committee believes exceptional circumstances merit a higher weighting. The Committee retains discretion to vary the financial measures and their weightings annually, to ensure alignment with the business priorities for the year.

Performance Share Plan (PSP)

Purpose and link to strategy	To incentivise delivery of sustainable value creation over the longer term. Long-term measures guard against the Company taking short-term steps to maximise annual rewards at the expense of future performance.
Operation	The Committee has the ability to grant nil-cost options or conditional share awards under the PSP. The Committee reviews award levels and performance conditions, on which vesting depends, from time to time to ensure they remain appropriate. Participants will receive cash or shares equal to the value of any dividends that they would have received over the vesting period on awards that vest. The Committee has the ability to exercise discretion to override the PSP outcome in circumstances where strict application of the performance conditions would produce a result inconsistent with the Company's remuneration principles. An additional two-year holding period will apply to Executive Directors' vested PSP awards before the Company releases them. Malus and clawback provisions apply to PSP awards until the third anniversary of the payment/vesting date: if there is a misstatement of the Group's financial results for any period; if the Committee subsequently comes to a view that performance was materially worse than originally believed; in the event of gross misconduct; or if the award holder leaves employment in circumstances in which the award did not lapse and facts emerge which, if known at the time, would have caused the award to lapse on leaving or caused the Committee to exercise any discretion differently.
Opportunity	Maximum annual PSP award opportunity is 250% of base pay. 16.7% of the maximum award opportunity will vest for threshold performance.
Performance metrics	Vesting of PSP awards is subject to continued employment and Company performance over a three-year performance period. The Committee intends to base PSP awards made during the life of this policy on the achievement of stretching targets that align to key drivers of strategy (including, but not limited to, free cash flow, operating margin, organic revenue growth and ESG). The Committee will review the performance measures, their weightings and performance targets annually to ensure continued alignment with Company strategy.

All-employee plans – Babcock Employee Share Plan

Purpose and link to strategy	To encourage employee ownership of Company shares.
Operation	Open to all UK tax-resident employees, including Executive Directors, of participating Group companies. The plan is an HMRC-approved share incentive plan that allows an employee to purchase shares out of pre-tax salary which, if held for a period approved by HMRC (currently three to five years), are taxed on a favourable basis. The Company can match purchased shares with an award of free shares.
Opportunity	Participants can purchase shares up to the prevailing HMRC limit from time to time. The Company currently offers to match purchases made through the plan at the rate of one free matching share for every 10 shares purchased. The Committee reviews the matching rate periodically, but it will remain bound by the prevailing HMRC limit.
Performance metrics	Not performance-related.

Approach to recruitment remuneration

In the case of hiring or appointing a new Executive Director, the Committee may make use of any of the components of remuneration (and subject to the same limits) set out in the policy above.

In determining appropriate remuneration for new Executive Directors, the Committee will take into consideration all relevant factors (including quantum, the nature of remuneration and from where the Company recruited the candidate) to ensure that arrangements are in the best interests of the Company and its shareholders. The Committee may also make an award in respect of a new external appointment to 'replace' incentive arrangements forfeited on leaving a previous employer over and above the limits set out in the policy in the table above. In doing so, the Committee will consider relevant factors, including any performance conditions attached to these awards, time to vesting and the likelihood of those conditions being met. The fair value of the compensatory award would not be greater than the awards the Company was replacing. In order to facilitate like-for-like compensatory awards on recruitment, the Committee may avail itself of the relevant Listing Rule, if required.

When appointing a new Executive Director by way of promotion from an internal role, the pay structure will be consistent with the policy for external hires detailed above. Where an individual has contractual commitments, outstanding incentive awards and/or pension arrangements prior to their promotion to Executive Director, the Company may honour those arrangements; however, where appropriate the Committee would expect these to transition over time to the arrangements stated above.

When recruiting a new Non-Executive Director, the Committee or Board will structure pay in line with the existing policy, namely a base fee in line with the current fee schedule, with additional fees for fulfilling the role of Senior Independent Director, Chair of the Audit and Remuneration Committees, and Director designated for employee engagement.

Payments from existing awards and commitments

Executive Directors are eligible to receive payment from any award or other commitment made prior to the approval and implementation of the Remuneration policy detailed in this report.

Performance measure selection and approach to target setting

The Committee selects measures used under the annual bonus plans annually to reflect the Group's main strategic objectives for the year. They reflect both financial and non-financial priorities.

The Committee sets performance targets to be stretching but achievable, considering the Company's strategic priorities and the economic environment in which the Company operates. The Committee sets financial targets taking into account a range of reference points, including the Group's strategic and operating plan.

The Committee considers at length the appropriate financial conditions and non-financial objectives to attach to annual bonus awards as well as the financial targets to attach to share awards to ensure they continue to be: (i) relevant to the Group's strategic objectives and aligned with shareholders' interests, mindful of risk management; and (ii) fair by being suitably stretching whilst realistic.

The Committee has discretion to adjust the calculation of short- and long-term performance outcomes in circumstances where application of the formula would produce a result inconsistent with the Company's remuneration principles. Such circumstances may include changes in accounting standards and certain major corporate events such as rights issues, share buybacks, special dividends, corporate restructurings, acquisitions and disposals.

The Committee reviews the performance conditions for share awards prior to the start of each cycle to ensure they remain appropriate. The Committee would not make a material reduction in long-term incentive targets for future awards without prior consultation with our major shareholders.

Executive Director and general employee remuneration

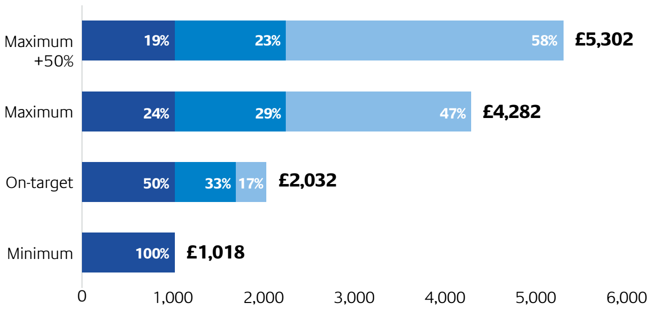
The policy with regard to the remuneration of senior executives below the Board is broadly consistent with that for the Executive Directors, in that it weights remuneration to variable components which are delivered through an annual bonus and equity-based incentives, albeit that restricted stock awards, and not the PSP, are used for participants below Board level. The Committee considers the Remuneration policy for our Executive Directors with the remuneration philosophy and principles that underpin remuneration for the wider Group in mind. The remuneration arrangements for other employees reflect local market practice and the seniority of each role. As a result, the levels and structure of remuneration for different groups of employees will differ from the policy for executives as set out above, but with the common intention that remuneration arrangements for all groups might reasonably be considered to be fair having regard to such factors.

Balance of remuneration for Executive Directors

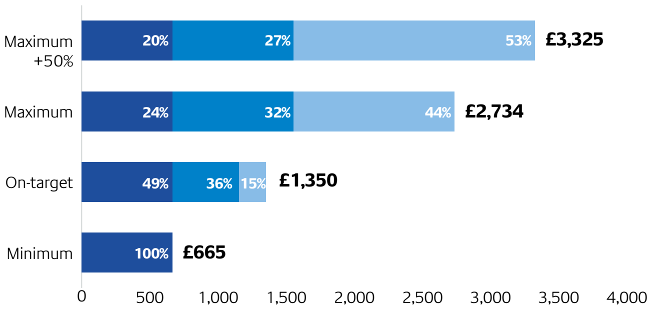
The charts below provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under four different performance scenarios: 'Minimum', 'On-target', 'Maximum' and 'Maximum+50%'.

Potential reward opportunities are based on the Company's Remuneration policy and implementation in FY25, as outlined in the Committee Chair's statement and later in the Annual report on remuneration, applied to base salaries as at 1 April 2024. Note that the projected values exclude the impact of any share price movements except in the 'Maximum+50%' scenario.

Chief Executive
David Lockwood (£'000)



Chief Financial Officer
David Mellors (£'000)



Fixed Bonus PSP

The 'Minimum' scenario shows base salary, pension (and/or pay in lieu of pension) and taxable benefits (ie fixed remuneration). These are the only elements of the Executive Directors' remuneration packages that are not at risk.

The 'On-target' scenario reflects fixed remuneration as above, plus a payout of 55% of the annual bonus and threshold vesting of 16.7% of the maximum award under the PSP.

The 'Maximum' scenario reflects fixed remuneration, plus full payout of all incentives (150% of salary under the annual bonus, 250% of salary under the PSP for the CEO and 200% for the CFO).

The 'Maximum+50%' scenario reflects fixed remuneration, plus full payout of all incentives with the value of the PSP also reflecting an increase of 50% in the share price from grant.

Shareholding guidelines for Executive Directors

The Committee sets shareholding guidelines for the Executive Directors. The current guideline is to build and maintain, over time, a personal (and/or spousal) holding of shares in the Company equivalent in value to at least twice the Executive Director's annual base salary (three times for the CEO). Executive Directors are expected to retain at least half of any shares acquired on the exercise of a share award that remain after the sale of sufficient shares to cover tax and national insurance triggered by the exercise (and associated dealing costs) until the guideline level is achieved and thereafter maintained.

The shareholding requirements include a post-cessation extension such that departing Executive Directors will be required to hold vested Company shares, received through incentive plans granted from FY21 onwards, for two years at a level equal to the lower of their actual shareholding on cessation and the in-post shareholding requirement. Any shares purchased by an Executive Director will not be part of this holding requirement.

Details of Directors' service contracts and exit payments and treatment of awards on a change of control

The following summarises the key terms (excluding remuneration) of the Executive Directors' service contracts:

Executive Directors

Name	Date of service contract	Notice period
David Lockwood (Chief Executive)	29 July 2020	12 months from Company, 12 months from Director
David Mellors (Chief Financial Officer)	29 September 2020	12 months from Company, 12 months from Director

The latest service contracts are available for inspection at the Company's registered office and will also be available at the Company's Annual General Meeting.

The Company's policy is that Executive Directors' service contracts should be capable of being terminated by the Company on not more than 12 months' notice. The Executive Directors' service contracts entitle the Company to terminate their employment without notice by making a payment of salary and benefits in lieu of notice. Under the Executive Directors' contracts, the Company may choose to make the payment in lieu by monthly instalments and mitigation applies such that the Committee may decide to reduce or discontinue further instalments.

In addition to the contractual provisions regarding payment on termination set out above, the Company's incentive plans contain provisions for termination of employment, where the Committee has the discretion to determine the level of award vesting as described in the table below.

Name	Treatment on a change of control	Treatment for a good leaver*	Treatment for other leavers
Annual bonus	Will be paid a time pro-rated proportion, subject to performance during the year, generally paid immediately, with Committee discretion to treat otherwise.	Will be paid a time pro-rated proportion, subject to performance during the year, generally paid at the year end, with Committee discretion to treat otherwise.	No annual bonus entitlement, unless the Committee exercises discretion to treat otherwise.
Deferred bonus awards	Participants may exercise award in full on the change of control, with Committee discretion to treat otherwise.	Entitled to retain any award, which will generally vest at the normal vesting date, with Committee discretion to treat otherwise.	Outstanding awards are forfeited unless the Committee exercises its discretion to treat otherwise.
PSP	Awards generally vest immediately and, for performance-related awards, will be pro-rated for time and remain subject to performance conditions, with Committee discretion to treat otherwise.	Entitled to retain a time pro-rated proportion, which remains subject to performance conditions tested at the normal vesting date. In very exceptional circumstances, the Committee has discretion to allow immediate vesting, but time pro-rating will always apply.	Outstanding awards are forfeited unless the Committee exercises discretion to treat otherwise.

* An individual would generally be considered a 'good leaver' if they leave the Group's employment by reason of injury, ill-health, disability, redundancy or retirement. The treatment of share awards held by Directors who leave on other grounds is entirely at the discretion of the Committee, and in deciding whether (and the extent to which) it would be appropriate to exercise that discretion the Committee will have regard to all the circumstances.

External appointments of Directors

The Directors may accept external appointments with the prior approval of the Chair, provided that such appointments do not prejudice the individual's ability to fulfil their duties for the Group. Any fees for outside appointments are retained by the Director. The Chair will approve such appointments, as the Board believes it is beneficial for Directors to gain experience of practice in other organisations. However, before approving any appointment, she must satisfy herself that there are no conflict issues with the Company (or they can be appropriately dealt with) and the Director will have sufficient time to devote to the Company. During the year, David Lockwood joined the board of John Wood Group PLC as a non-executive director. The Chair was satisfied that the appointment would not detract from his role as CEO and the exchange of experience and practice would be beneficial.

Chair and Non-Executive Directors

Name	Date of appointment as a Director	Date of current appointment letter	Anticipated expiry of present term of appointment (subject to annual re-election)
Ruth Cairnie (Chair)	3 April 2019	28 March 2022	AGM 2025
Lucy Dimes	1 April 2018	28 May 2021	AGM 2024
Carl-Peter Forster	1 June 2020	30 March 2023	AGM 2026
Lord Parker	10 November 2020	30 March 2023	AGM 2026
John Ramsay	6 January 2022	5 January 2022	AGM 2025
Jane Moriarty	1 December 2022	1 December 2022	AGM 2025
Sir Kevin Smith	1 June 2023	31 May 2023	AGM 2026
Claudia Natanson	1 March 2024	12 February 2024	AGM 2027

The Group's Non-Executive Directors serve under letters of appointment as detailed in the table above, normally for no more than three-year terms at a time; however, in all cases appointments are terminable at will at any time by the Company or the Director. All Non-Executive Directors are subject to annual re-election by the Company in general meeting in line with the UK Corporate Governance Code.

The latest written terms of appointment are available for inspection at the Company's registered office and at the Company's Annual General Meeting. The expected time commitment of Non-Executive Directors is set out in their current written terms of appointment.

Details of the Non-Executive Directors' terms of appointment are shown in the table. The appointment and re-appointment, and the remuneration, of Non-Executive Directors are matters reserved for the Nominations Committee and Executive Directors, respectively.

The Non-Executive Directors' fees have been set at a level to reflect the amount of time and level of involvement required in order to carry out their duties as members of the Board and its Committees. The Non-Executive Directors are not eligible to participate in the Company's performance-related incentive plans and do not receive any pension contributions.

Details of the policy on fees paid to our Non-Executive Directors are set out in the table below:

Function	Operation	Opportunity	Performance measures
To attract and retain high-calibre Non-Executive Directors with commercial and other experience relevant to the Company	Fee levels are reviewed against market practice from time to time (by the Chair and the Executive Directors in the case of Non-Executive Director fees and by the Committee in respect of fees payable to the Chair). Additional fees are payable for additional responsibilities such as acting as Senior Independent Director, Chair of the Audit Committee, Chair of the Remuneration Committee and Director designated for employee engagement. Non-Executive Directors do not participate in any incentive schemes, nor do they receive any pension or benefits (other than the cost of travel and accommodation expenses). The Company reviews fee levels by reference to FTSE listed companies of similar size and complexity. It takes into account time commitment, level of involvement required and responsibility when it reviews fee levels. This may result in higher fee levels for overseas Directors.	Non-Executive Director fee increases are applied in line with the outcome of the periodic fee review. Any increases to the Non-Executive Director fee will typically be in line with general movements in market levels of Non-Executive Director fees. In the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board has discretion to make an appropriate adjustment to the fee level.	None

Consideration of employee views

When reviewing Executive Directors' remuneration, the Committee is aware of the proposals for remuneration of all employees. When considering executive pay, the Committee takes into account the experience of employees and their pay. The Committee considers these matters when it conducts its annual review of executive remuneration.

The Company seeks to promote and maintain good relationships with employee representative bodies as part of its employee engagement strategy and consults on matters affecting employees and business performance as required. The Committee engages with employees through its Annual Report, which sets out in detail executive pay. However, in addition, the Company also engages directly with employees through the Global People Survey and through the 'ask David' email; and indirectly through an in-person meeting between the Chair of the Remuneration Committee and the Shadow Executive Committee, a committee made up of representatives from across the Group. At the FY24 meetings, the Chief HR Officer explained the Company's approach to executive pay, including that of the Executive Directors. The Committee takes any feedback it receives into account in its decision-making on executive remuneration.

Consideration of shareholder views

When determining remuneration, the Committee takes into account the views of shareholders and best practice guidelines issued by institutional shareholder bodies. The Committee welcomes feedback from shareholders on the Remuneration policy and arrangements. It commits to consulting with leading shareholders in advance of any significant changes to the Remuneration policy. In developing the policy set out in this report, we consulted with shareholders representing c.60% of our issued share capital, as well as shareholder representative bodies. We had a good level of engagement and are pleased to report that virtually all investors who provided feedback indicated support for the approach initially proposed.

The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate.

Annual report on remuneration

The Committee

The Board appoints the members of the Committee on the recommendation of the Nominations Committee. In accordance with the UK Corporate Governance Code, only independent Non-Executive Directors are members of the Committee.

In total there were seven meetings in the year to 31 March 2024. The Chair and the CEO attend meetings by invitation, as does the CFO on occasion, but they are not present when their own remuneration is being decided. The Chief HR Officer also attends meetings.

The terms of reference for the Committee are available for inspection on the Company's website. The Committee reviewed them during the year. Duties of the Committee include the setting of the policy for the remuneration of the Executive Directors and the Chair, as well as their specific remuneration packages. In determining the Remuneration policy, the Committee takes into account all factors which it deems necessary to ensure that the Company provides members of the senior executive management of the Group with appropriate incentives to encourage strong performance and rewards them for their individual contributions to the success of the Company in a fair and responsible manner. The composition of the Committee and its terms of reference comply with the provisions of the UK Corporate Governance Code.

Advisors

Ellason advised the Committee during the year. Ellason reports directly to the Committee Chair and provides objective and independent analysis, information and advice on all aspects of executive remuneration and market practice, within the context of the objectives and policy set by the Committee. A representative from Ellason typically attends Committee meetings. Ellason also provides participant communications, performance reporting and Non-Executive Directors' fee benchmarking services to the Company. Ellason is a member of the Remuneration Consultants Group and a signatory to the Code of Conduct for consultants to remuneration committees of UK listed companies.

Please see www.remunerationconsultantsgroup.com for details.

Ellason adheres to this Code of Conduct. The Company paid fees to Ellason in respect of work for the Committee carried out in the year under review totalling £65,585 based on time and materials, excluding expenses and VAT.

The Committee reviews Ellason's involvement each year and considers any other relationships that it has with the Company that may limit its independence. Ellason has no relationship with the Company or its Directors beyond those formed in its capacity as appointed advisor to the Committee. The Committee is satisfied that the advice provided by Ellason is objective and independent.

Matters considered

The Committee considered a number of matters during the year to 31 March 2024, including:

- renewing the Remuneration policy bearing in mind market trends and corporate governance best practice
- reviewing the Committee's terms of reference
- considering trends in executive remuneration, remuneration governance and investor views
- reviewing share ownership guidelines for senior executives
- approving the Directors' Remuneration report
- reviewing the continued appointment of the Committee's independent advisors
- making share awards under the Company's share plans
- approving the performance measures and targets to be applied under the Company's PSP
- approving Executive Director salaries for the financial year
- considering performance targets and non-financial objectives for the FY25 annual bonus plan
- approving the level of vesting of the 2020 and 2021 PSP awards
- considering performance against the measures applied to, and level of payout of, the FY23 annual bonus
- agreeing the level of, and targets for, 2023 PSP awards

Summary of shareholder voting

The following table shows the results of the last binding shareholder vote on the Remuneration policy, as well as the advisory vote on the Annual report on remuneration, at the 2023 AGM:

	2023 Remuneration policy		2023 Annual report on remuneration	
Votes cast	Total number of votes	% of votes cast for and against	Total number of votes	% of votes cast for and against
For (including discretionary)	363,326,457	98.29%	361,090,369	98.29%
Against	6,310,888	1.71%	6,296,171	1.71%
Total votes cast (excluding withheld votes)	369,637,345	100%	367,386,540	100%
Votes withheld	230,578		2,481,383	
Total votes cast (including withheld votes)	369,867,923		369,867,923	

Single total figure of remuneration for Executive Directors for FY24 (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director.

	David Lockwood		David Mellors	
	FY24 £'000	FY23 £'000	FY24 £'000	FY23 £'000
Fixed remuneration				
Salary[1]	**816**	816	**586**	571
Benefits in kind and cash[2]	**120**	121	**15**	15
Pension[3]	**82**	82	**59**	57
Annual variable remuneration				
Annual bonus (cash)[4]	**438**	433	**306**	298
DBP (deferred annual bonus plan)[5]	**292**	289	**204**	199
Long-term incentives				
PSP[6]	**2,152**	1,540	**1,507**	1,078
Dividends[7]	**8**	7	**5**	5
Total (of which)	**3,908**	3,288	**2,682**	2,223
Total fixed remuneration[1,2,3]	**1,018**	1,019	**660**	643
Total variable remuneration[4,5,6,7]	**2,890**	2,269	**2,022**	1,580

The figures have been calculated as follows:

1. Salary: Base salary amount paid in the year.
2. Benefits in kind and cash: The value of benefits and salary supplements (other than those in lieu of pensions) including medical insurance, home to work travel expenses incurred at the request of the Company, accommodation-related benefits, car and fuel benefits and costs in connection with accommodation. David Lockwood in FY24 received £98,110 in connection with his accommodation costs in London, which were, at the Company's request, to enable him to lead the business effectively.
3. Pension: The numbers above represent for each year the value of the cash supplement, which for David Lockwood and David Mellors was 10% of base salary.
4. Annual bonus (cash): This is the 60% of total annual bonus earned for performance during the year (see pages 148 and 149 that is not required to be mandatorily deferred into shares under the DBP (see page 141) and is paid in cash.
5. DBP: This is the mandatorily deferred element of the annual bonus earned for performance during the year (40% of earned bonus), which will vest after three years.
6. PSP: The 2020 award was granted in December 2020 at a grant price of 352.47p, with vesting based 50% on cumulative FCF to the end of FY23 and 50% on relative TSR over the three years to 30 November 2023. The value (£631k for David Lockwood and £442k for David Mellors) in the table in the FY23 Annual Report reflected 100% vesting of the FCF component and an expectation of zero vesting of the TSR component. However, the final outturn for the relative TSR was 100% vesting after a strong share price performance following the announcement of the FY23 results. The 2020 PSP values reported above true up the 2020 PSP using a share price at vesting of 399p, of which the values attributable to share price appreciation over the vesting period were £180k and £126k for David Lockwood and David Mellors, respectively. The trued-up value of the FCF component was £770k for David Lockwood and £539k for David Mellors. The trued-up value of the TSR component was £770k for David Lockwood and £539k for David Mellors. The 2021 PSP award was granted in August 2021 with a three-year performance period to 31 March 2024 and will vest in August 2024. The values in the table are based on 100% of the award vesting at an average share price for the three months to 31 March 2024 of 475.74p. The values attributable to share price appreciation over the 2021 PSP vesting period are presently estimated to 31 March 2024, at £552k and £387k for David Lockwood and David Mellors, respectively.
7. Dividends: The Company declared an interim dividend at HY24 prior to the vesting of the 2020 PSP award in November. The dividend accrued to both the 2020 and 2021 awards and will be payable in cash on exercise of the award.

Neither of the Executive Directors participated in a Group pension scheme or otherwise received pension benefits from the Group for service during the year to 31 March 2024. They instead received a cash supplement equal to 10% of salary. There are no additional early retirement benefits.

Supplements paid in lieu of pension do not count for pension, share award or bonus purposes.

Directors benefit from life assurance cover of four times base salary. The cost of providing that life assurance cover was:

Director	FY24 £'000 pa	FY23 £'000
David Lockwood	**4**	4
David Mellors	**3**	3

FY24 annual bonus (audited)

The Committee based the FY24 annual bonus on a mix of financial and non-financial measures. The financial element, weighted 80%, was based equally on Group underlying operating cash flow and Group underlying operating profit performance (based on budgeted foreign exchange rates) against budget. There was nil payout under the underlying operating profit element due to the impact of Type 31; the underlying operating cash flow element paid out in full due to the strong cash performance of the Group. The non-financial measures were principally the themes that the Committee considers to be of material importance to the continued success of the Company. The Committee concluded that the outturn for the non-financial measures should be a 98% payout for Mr Lockwood and a 90% payout for Mr Mellors. The Committee was satisfied that the total outturn of the FY24 bonus, of 59.6% of maximum for Mr Lockwood and 58.0% of maximum for Mr Mellors, reflected the Company's performance over the year and aligned to shareholder experience.

The table below summarises performance against each financial measure, and the bonus outcome.

Bonus element	Threshold[1]	Target	Maximum	Outturn		David Lockwood	David Mellors
Achieving budgeted underlying operating cash flow[2]	£195.8m	£230.3m	£264.8m	£322.7m	Maximum potential (% of salary)	60%	60%
					Outturn (% of salary)	60%	60%
Achieving budgeted underlying operating profit[3]	£273.2m	£287.6m	£316.4m	£237.8m	Maximum potential (% of salary)	60%	60%
					Outturn (% of salary)	0%	0%
Non-financial objectives[4]					Maximum potential (% of salary)	30%	30%
					Outturn (% of salary)	29.4%	27.0%
Total					Maximum potential (% of salary)	150%	150%
					Outturn (% of salary)	89.4%	87.0%

1. Threshold vesting is: 18.8% of maximum for the operating profit and cash flow elements, and 0% for non-financial measures. In line with our policy, overall vesting at threshold is no more than 15% when all measures are considered. Vesting outcomes are determined on a straight-line sliding scale for performance outturns between threshold and target, and between target and maximum.
2. After capital expenditure and before pension payments in excess of the income statement charge. For further detail, please see page 28.
3. For the definition, please see page 40. Our FY23 report incorrectly stated that the FY24 annual bonus would use underlying PBT. In fact, the Committee had adopted underlying operating profit because it is a headline measure of the Group's performance and more relevant to all the participants in the annual bonus scheme.
4. Further details on the non-financial objectives set for FY24 are given below.

FY24 annual bonus non-financial measures

The Committee set non-financial objectives for David Lockwood and David Mellors at the start of the year around strategic management 'Themes' of strategy, people and culture, and ESG, as the Committee believed these themes align to the Company's turnaround.

David Lockwood

Theme	Objective and assessment	Assessment
Strategy: Strengthen position in the UK	Significant progress ahead of Board expectations, including: • Contract backlog up to £10.3 billion driven by Nuclear and Marine • Achieved operation service commencement of the Skynet Service Delivery Wrap space communications contract • Commenced deep maintenance on the second of the UK's Vanguard Class nuclear submarine on improved contract terms • Finalising the DSG contract five-year extension with the UK MOD	Exceeded expectations
Strategy: Grow international business and strengthen capability	Exceptional progress including: • Delivered three Arrowhead 140 licences on the MIECZNIK Class frigate for the Polish Navy • Strengthened strategic relationships with HII (by entering into a global strategic agreement to collaborate on naval and civil nuclear decommissioning and construction opportunities in the UK and the US, and by signing a MoU to collaborate in Australia to support the AUKUS nuclear submarine endeavour) and SAAB (by signing a strategic cooperation agreement to enable the delivery of enhanced capabilities to customers) • Awarded second Land contract to deliver ground and equipment support to the French Navy, Army and Air Force	Exceeded expectations
Strategy: Drive operational transformation	Strong progress towards delivering our medium-term guidance, achieved through a combination of improved execution and delivery, supported by new approach to global risk monitoring and end-to-end technical governance framework	Exceeded expectations
People and culture: Strengthen Babcock's capability to secure the workforce and leadership it requires	Strong progress, evidenced by a 4% improvement in overall employee engagement as well as a 5% improvement across all engagement factors relating to senior leadership, increased internal mobility of the senior leadership team with 20% in new roles over the year, and the launch of the Babcock Skills Academy in Devonport to develop submarine support capabilities in a growing workforce	Exceeded expectations
ESG: Strengthen Babcock's ESG credentials	Good progress with the Company's Net Zero targets being validated by the Science Based Targets initiative	Met expectations

David Mellors

Theme	Objective and assessment	Assessment
Strategy: Improve Group financial base stability	Better than expected free cash flow with operational performance and early customer receipts affording an accelerated £35 million pension deficit repair contribution and an underlying 136% operating cash conversion. Strengthened financial base reflected in S&P Global credit rating upgrade for the second time in 15 months to BBB+ (stable)	Exceeded expectations
Strategy: Drive operational transformation and performance	Good progress on the control enhancement and risk management programme with the embedding of the 'Blueprint' controls, the improvements to the global risk management process, and the establishment of a new insourced Internal Audit function	Met expectations
People and culture	Good progress with the enhancement of the Group's Finance function with new hires made and improvement across all employee engagement factors within the Finance function	Exceeded expectations
ESG	Progress on the Company's Carbon Reduction Plans with the validation of its Net Zero targets from the Science Based Targets initiative	Met expectations

As it does every year, the Committee reviewed the Company's health and safety performance as it is an underpin for the annual bonus. The Committee considered the totality of the Group's health and safety environment over the year including the improved reporting culture as well as the changes made over the year and decided not to exercise its discretion.

The FY24 bonus outcomes for each Executive Director are as follows (40% of which will be deferred under the DBP):

	Payment for financial targets (% salary)	Payment for non-financial targets (% salary)	Total bonus (% salary)	Total bonus (£'000)
David Lockwood	60%	29.4%	89.4%	730
David Mellors	60%	27.0%	87.0%	510

Long-term incentive scheme (PSP) awards vesting during the year (audited)

2020 PSP

The Executive Directors were granted PSP awards on 1 December 2020, delayed due to the impact of the COVID-19 pandemic. The values of the awards were scaled back by 10% from 200% of salary to 180% of salary, to reflect the share price decline in the period prior to the grant. In line with best practice guidance from investors and their representatives, the Committee subsequently further scaled back the award opportunities by a further 10% of salary at the time of finalising the underlying free cash flow (FCF) targets, to recognise the delay in finalising the targets pending the conclusion by the Company of the Contract Profitability and Balance Sheet review in 2021. The Committee recognises that 2020 was an uncertain period for the business and considers the reductions to the 2020 PSP award quantum to be appropriate in the circumstances. Vesting of the awards was based on cumulative underlying free cash flow (FCF) and relative Total Shareholder Return (TSR), with each measure having equal weighting. The performance period for these awards was the three financial years through to 31 March 2023 for cumulative FCF, and the three years starting on the date of grant (1 December 2020) for relative TSR. Through to the end of FY23 the vesting of the FCF component was 100%, as a result of strong underlying cash generation. In respect of the relative TSR component, the Committee indicated in its FY23 report that, as of 31March 2023, Babcock's performance was below Median TSR, implying nil vesting at that time. However, due to the performance of Babcock's share price after the release of its FY23 results, the relative TSR component vested at 100% at the end of the TSR performance period (of 30 November 2023). Awards remain subject to a two-year holding period. At the time of approving the vesting of the awards, the Committee concluded that no further adjustments were necessary to address windfall gains, which it concluded had not arisen.

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)	Adjusted performance	Vesting (% of overall award)
3-year adjusted underlying FCF	50%	£140m	£210m	£253m	50%
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	50%	Median TSR	Median TSR + 9% pa	Median TSR + 12.6% pa	50%

Awards vest on a straight-line sliding scale between threshold and stretch.

2021 PSP

The Committee granted the Executive Directors PSP awards in August 2021. Vesting of the awards is based on cumulative underlying free cash flow (FCF) and relative Total Shareholder Return, equally weighted. The performance period for these awards was the three financial years 1 April 2021 through to 31 March 2024. When setting the underlying FCF targets, the Committee agreed at the time that it would be appropriate to exclude the cash flow impact of certain items, such as voluntary excess pension deficit payments and the operating model restructuring costs, and an Italian fine to ensure that the Committee was appropriately incentivising the Executive Directors to drive core performance. In determining the outturn of the underlying FCF element of the 2021 PSP award, the Committee excluded the cash flow impact for these items, which increased underlying FCF performance by £190 million for the excess pension contributions, £56 million for the deferred VAT payment, £40 million for the operating model restructuring costs and £15 million for the Italian fine.

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)	Adjusted performance	Vesting (% of overall award)
3-year adjusted underlying FCF	50%	£162m	£244m	£346.9m	50%
3-year TSR vs FTSE 350 (excluding investment trusts and financial services)	50%	Median TSR	Median TSR + 9% pa	Median TSR + 25.7% pa	50%

The Committee was satisfied that the outcomes against the measures were reflective of the underlying performance of the Company and no discretion was applied. As a result, the Executive Directors' 2021 awards will vest in full in August 2024 (though subject to a two-year holding period from that date).

Long-term incentive scheme (PSP) award granted during FY24 (audited)

The Committee granted PSP awards in the form of nil-cost options in September 2023 to the Executive Directors, consistent with the Remuneration policy.

Director	Number of shares[1]	Face value[2]	Face value (% of salary)[3]	% of award receivable for threshold performance
David Lockwood	520,408	£2,039,999	250%	16.7%
David Mellors	301,628	£1,182,382	200%	16.7%

1. Awards are in the form of nil-cost options.
2. Based on three-day average share price (of 392p) at time of grant.
3. Expressed as a percentage of salary at the date of the award (29 September 2023). Following shareholder approval of the Remuneration policy at our 2023 AGM with a vote in favour of 98%, the Committee approved an amendment to the PSP rules (using the provisions available to the Committee in the rules) to align the PSP award limit with the Remuneration policy in force at the time of grant.

The 2023 PSP awards are subject to a scorecard of measures comprising underlying free cash flow (weighted 30%), underlying operating margin (30%), organic revenue growth (25%, subject also to a discretionary underpin if operating margin performance is below threshold), and ESG (15%). The performance period for these awards is the three financial years 1 April 2023 through to 31 March 2026.

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)
3-year organic revenue growth	25%	15.7%	23.6%
3-year weighted average underlying operating margin[1]	30%	6.8%	8.0%
3-year cumulative underlying free cash flow	30%	£216m	£324m

1. FY24 and FY25 account for 25% each of the measure whereas FY26 accounts for 50%.

Awards vest on a straight-line sliding scale between threshold and stretch.

The targets for the ESG measures are:

- A reduction in the Company's carbon emissions in FY26 within a range of (6.7)% and (8.5)%. This measure will have a weighting of 7.5% (ie half of the ESG total weighting of 15%). A reduction of (6.7)% will result in 16.7% vesting of this portion of the ESG element, with a reduction of (8.5)% warranting full vesting.
- The achievement of senior management gender diversity range in FY26 of between a threshold of 28.5% and a maximum of 31.5%, being a -5% and +5% range around the Company's gender diversity target. This measure will have a 7.5% weighting, with 16.7% vesting at threshold and full vesting at maximum. The definition of senior management is employees, excluding Executive Directors, who have responsibility for planning, directing or controlling activities of the Group or a strategically significant part of the Group (sector/functional leadership teams) and/or are directors of subsidiary business units (business unit leadership).

Deferred Bonus Plan awards made during FY24 (audited)

In 2023, the Committee approved the payment of annual bonuses to both Executive Directors under the FY23 annual bonus plan. For more detail, please see the single total figure table on page 147.

Single total figure of remuneration for Non-Executive Directors for FY24 (audited)

The table below sets out the total remuneration received by each Non-Executive Director. For details of the fees that applied during FY24, please see page 152:

	Base fee		Additional fee[1]		Total[2]		Total fixed remuneration		Total variable remuneration	
	FY24 £'000	FY23 £'000	FY24 £'000	FY23 £'000	FY24 £'000	FY23 £'000	FY24 £'000	FY23 £'000	FY24 £'000	FY23 £'000
Fixed remuneration										
Ruth Cairnie	**336**	336	**–**	–	**336**	336	**336**	336	**–**	–
Lucy Dimes	**62**	61	**–**	–	**62**	61	**62**	61	**–**	–
Carl-Peter Forster[3]	**73**	72	**15**	11	**88**	83	**88**	83	**–**	–
Lord Parker	**62**	61	**12**	6	**74**	67	**74**	67	**–**	–
John Ramsay[4]	**62**	61	**22**	15	**84**	76	**84**	76	**–**	–
Jane Moriarty	**62**	20	**–**	–	**62**	20	**62**	20	**–**	–
Sir Kevin Smith[5]	**52**	n/a	**–**	–	**52**	n/a	**52**	n/a	**–**	–
Claudia Natanson[6]	**5**	n/a	**–**	–	**5**	n/a	**5**	n/a	**–**	–

1. Relating to role as Chair of the Audit Committee (John Ramsay), Remuneration Committee (Carl-Peter Forster), and Director designated for employee engagement (Lord Parker).
2. Non-Executive Directors did not receive any taxable benefits in FY24 or FY23.
3. Carl-Peter Forster is the Senior Independent Director and Remuneration Committee Chair.
4. A Committee of the Chair and the Executive Directors decided to increase the additional fee for acting as Audit Committee Chair to £18,000 and to grant him a one-off payment of £5,000 in recognition of the material additional time commitment required, above that expected in John Ramsay's letter of appointment.
5. Sir Kevin Smith joined the Board in June 2023.
6. Claudia Natanson joined the Board on 1 March 2024.

Sourcing of shares

Shares needed to satisfy share awards for Directors are shares that the Company either newly issues to the Group's employee share trusts or are shares that those trusts purchase in the market using funds advanced by the Company. The Company finalises the source selection on or before vesting, depending on the Board's view of the best interests of the Company at the time, within the limits of available headroom and dilution restrictions.

Executive Directors' remuneration for FY25

The Committee has set the remuneration for Executive Directors for FY25 in line with its Remuneration policy.

Fixed pay

As explained in the Committee Chair's opening remarks at the start of the Remuneration Committee report on page 136 the Committee reviewed the Executive Director's base salaries and resolved to increase Mr Lockwood's salary by 11% and Mr Mellors' salary by 4% from 1 July 2024.

Salary	1 July 2024	1 April 2024	1 April 2023
David Lockwood	**£905,760**	£816,000	£816,000
David Mellors	**£614,840**	£591,192	£571,200

The Executive Directors will receive the same pension arrangements (ie at 10% of salary) and the same benefits as in FY24.

FY25 annual bonus

The structure of the Executive Director annual bonus for FY25 is consistent with that for FY24, with measures based on underlying operating cash flow, underlying operating profit and non-financial objectives. The Committee has agreed the targets but, due to their commercial sensitivity, it will only disclose them in next year's Annual report on remuneration.

40% of any earned bonus will be deferred into shares for three years, with the remaining 60% payable in cash (in line with our normal Remuneration policy).

2024 PSP awards

The Committee intends to grant awards under the PSP to the Executive Directors in 2024 covering the three-year period FY25 to FY27, with the measures being underlying free cash flow (weighted 30%), underlying operating margin (30%), organic revenue growth (25%, subject also to a discretionary underpin if operating margin performance is below threshold), and ESG (15%).

	% weighting	Threshold performance (16.7% vesting)	Stretch performance (100% vesting)
3-year organic revenue growth	25%	15.0%	23.0%
3-year weighted average underlying operating margin[1]	30%	8.0%	9.0%
3-year cumulative underlying free cash flow	30%	£394.4m	£591.6m

1. FY25 and FY26 account for 25% each of the measure whereas FY27 accounts for 50%. In determining the range for the underlying operating margin measure, the Committee approved the setting of threshold in line with the Company's medium-term guidance, to incentivise achievement of this goal.

Awards vest on a straight-line sliding scale between threshold and stretch.

The targets for the ESG measures are:

A reduction in the Company's carbon emissions in FY27 within a range of (9.4)% and (11.8)%. This measure will have a weighting of 7.5% (ie half of the ESG total weighting of 15%). A reduction of (9.4)% will result in 16.7% vesting of this portion of the ESG element while a reduction of (11.8)% will warrant full vesting.

The achievement of senior management gender diversity range in FY27 of between a threshold of 29.5% and a maximum of 32.6% being a minus 5% and a plus 5% range around the Company's gender diversity target. This measure will have a 7.5% weighting with 16.7% vesting at threshold and full vesting at maximum. The definition of 'senior management' is employees, excluding Executive Directors, who have responsibility for planning, directing or controlling activities of the Group or a strategically significant part of the Group (eg sector or functional leadership team) or are directors of subsidiary business units (business unit leadership).

A two-year holding period will apply to Executive Directors' 2024 PSP awards to the extent that these vest. Malus and clawback provisions apply. In keeping with its typical practice, the Committee will assess for any windfall gains at vesting.

Payments for loss of office (audited)

No payments for loss of office were made during the year ended 31 March 2024.

Payments to past Directors (audited)

John Davies stepped down as an Executive Director on 31 March 2020 and retired as CEO Land on 28 June 2021. His 2020 DBP award (the value of which was disclosed in the 2020 Directors' remuneration report) vested on 14 August 2023.

Non-Executive Directors' fees (including the Chair)

The Committee reviewed the Chair's fee and resolved to increase it by 4% from 1 July 2024 in line with the general UK workforce not covered by collective bargaining arrangements. The fees for Non-Executive Directors will be reviewed later in the year, having been reviewed with effect from 1 September 2023 as set out below.

Annual rate fee	1 July 2024 £	1 September 2023 £	1 April 2023 £
Chair	349,440	336,000	336,000
Senior Independent Director (inclusive of basic fee)	74,000	74,000	72,000
Basic Non-Executive Director's fee (UK-based Directors)[1]	63,000	63,000	61,000
Chair of Audit Committee[2]	18,000	18,000	15,000
Chair of Remuneration Committee[2]	15,000	15,000	15,000
Director designated for employee engagement[2]	15,000	15,000	7,500

1. The Company sets fees for non-UK-based Directors having regard to the extra time commitment involved in attending meetings.
2. The Company pays fees for chairing Board Committees in addition to the basic applicable Non-Executive Director's fee and for acting as the Director designated for employee engagement. The Company does not pay additional fees for membership of Committees.

Percentage change in the remuneration of all Directors compared to the workforce

The table below shows the annual percentage changes in remuneration over the last four years for each individual who was a Director during the year ended 31 March 2024, compared to the average UK employee, as required under the Companies (Directors' Remuneration policy and Directors' Remuneration Report) Regulations 2019 (the Regulations). The Committee will build up this analysis next year to display a five-year history.

The Regulations require this disclosure to provide a comparison of year-on-year changes in Directors' remuneration compared to all other employees of the parent company in the Group. However, the Company does not have any employees, meaning there would be no data to disclose for the broader employee population. The Committee has therefore elected to compare the change in Directors' remuneration with the change in remuneration for the average of the UK employee population, as a suitable comparator group for this purpose.

The Committee monitors this information to ensure that there is appropriate alignment over time in fixed pay between Executive Directors, Non-Executive Directors and UK employees.

	Base salary/fees				Taxable benefits				Single-year variable			
	FY23 to FY24[1]	FY22 to FY23	FY21 to FY22	FY20 to FY21	**FY23 to FY24[1]**	FY22 to FY23	FY21 to FY22	FY20 to FY21	**FY23 to FY24[1]**	FY22 to FY23	FY21 to FY22	FY20 to FY21
Executive Directors												
David Lockwood	**0%**	1%	1%	n/a	**(1)%**	1%	1%	n/a	**1%**	(25)%	n/a	n/a
David Mellors	**3%**	1%	1%	n/a	**0%**	0%	1%	n/a	**3%**	(26)%	n/a	n/a
Non-Executive Directors[2]												
Ruth Cairnie	**0%**	0%	5%	26%	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Lucy Dimes	**2%**	0%	5%	-5%	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Carl-Peter Forster	**6%**	16%	11%	n/a	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Lord Parker	**10%**	10%	5%	n/a	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
John Ramsay	**11%**	0%	n/a	n/a	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Jane Moriarty[3]	**2%**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Sir Kevin Smith[4]	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Claudia Natanson[4]	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Average for all UK employees[5]	**7%**	5%	2%	2%	**0%**	0%	0%	0%	**1%**	(18)%	100%	(100)%

1. It should be noted that the Directors received an increase in pay or fee part-way through the year.
2. A Committee, made up of the Chair and the Executive Directors, reviewed the Non-Executive fees and agreed increases in the basic fee, the fee for the Senior Independent Director, the Audit Committee Chair and the Director designated for employee engagement, as well as a one-off payment for the Audit Committee Chair in recognition of the material additional time the role required. Non-Executive Directors receive fees only. They do not receive taxable benefits and do not participate in incentive schemes.
3. Jane Moriarty joined the Board in December 2022. To facilitate a comparison with FY24, her FY23 has been annualised.
4. Sir Kevin Smith and Claudia Natanson joined during FY24 and hence no year-on-year comparison is available.
5. The single-year variable figure for our UK employees is provided in respect of our annual bonus plan, which has been estimated based on our expected bonus outturn for FY24 at the time of disclosure. This estimate is prior to any discretionary adjustments and for prior years has been trued up once actual results known.

Relative importance of spend on pay

	FY24	FY23	% change
Distribution to shareholders	**£25m**	£0m	n/a
Employee remuneration	**£1,584m**	£1,567m	1%

Distribution to shareholders includes all amounts distributed to shareholders.

CEO pay ratio

The table below provides disclosure of the ratio between the CEO's total remuneration and that of the lower quartile, median and upper quartile UK-based employees.

Figures for the CEO come from the Executive Directors' single figure table on page 147. The Committee determined total remuneration figures for the lower quartile (P25), median (P50) and upper quartile (P75) employees on 31 March 2024 using the 'single figure' methodology to provide a like-for-like comparison with CEO remuneration.

The reporting regulations offer three calculation approaches for determining the P25, P50 and P75 employees – Options A, B and C. From FY23, as reported last year, the Committee concluded to adopt Option B, in recognition of the significant workload placed on our colleagues of the previous methodology in adopting Option A. The Company used the data collected for gender pay gap reporting purposes to identify the three employees representing P25, P50 and P75, calculating the total full-time equivalent remuneration for these three employees on a similar basis to that adopted for the CEO's single figure of total remuneration.

As with last year, the Company excluded bonus payments from the calculations, because it was not feasible to identify those payments for services delivered within the financial year, and because the Company does not know all bonus pay relating to FY24 at the time of publication. Analysis of past data indicates that the three employees would not typically be eligible for a bonus and the exclusion of this element is unlikely to have a significant impact on the ratios reported.

To validate that the figures presented are representative of the pay and benefits of the UK workforce, the Company considered the pay and benefits of a number of employees centred on each of the three employees. Whilst there can be variation in the pay mix for individuals throughout the organisation, the Committee believes that the information presented fairly reflects pay at the relevant quartiles amongst our UK workforce. The three individuals identified were full-time employees during the year and none received an exceptional incentive award, which would otherwise inflate their pay figures. The Company made no adjustments or assumptions to the total remuneration of these employees and calculated the total remuneration in accordance with the methodology used to calculate the single figure of the CEO.

The median CEO pay ratio in FY24 was 89:1, compared to 84:1 in FY23 (having trued up the FY23 ratio for the actual outturn of the 2020 PSP, which vested in December 2023).

The Committee calculated the CEO pay ratio by comparing the CEO's pay to that of Babcock's UK-based workforce. The increase in the ratios reported for FY23 and FY24, when compared to previous years, is primarily driven by the impact on the CEO's single total figure of remuneration of 100% vesting outcomes for the 2020 and 2021 PSP awards. These are the first PSP awards to be eligible to vest to the CEO (who joined in September 2020) and the first awards to vest since the Company began reporting on the CEO pay ratio.

As the remuneration of the CEO has a significant weighting towards variable pay to align his remuneration with Company performance, it is likely that there will be greater variability in his pay year to year than that observed at other levels which have a greater proportion of their pay linked to fixed components. This is consistent with market practices and the Company's reward policies across the organisation. In respect of the general workforce, Babcock understands the need to ensure competitive pay packages across the organisation. For the Committee, it considers the ratios below when making its decisions around the remuneration of the Executive Directors.

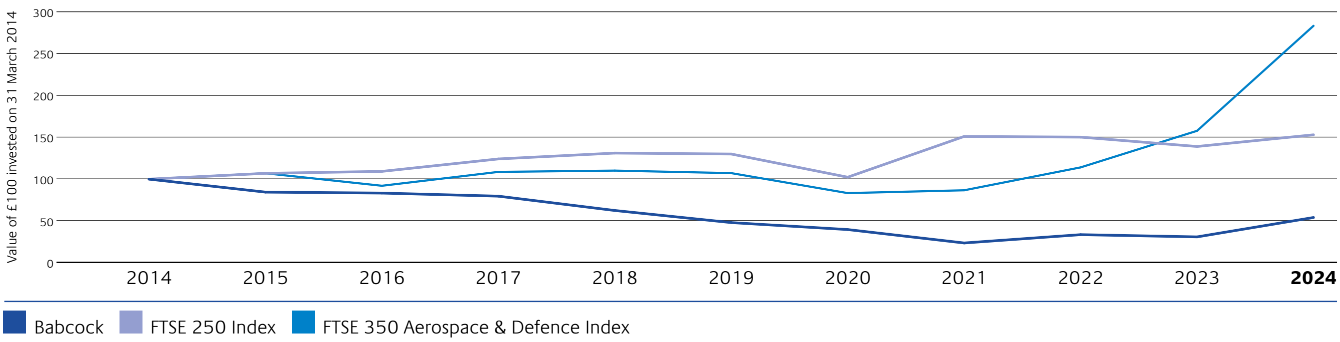
Financial year	Calculation methodology	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
FY24	Option B	104:1	89:1	70:1
FY23	Option B	102:1	84:1	62:1
FY22	Option A	61:1	48:1	36:1
FY21	Option A	30:1	22:1	17:1
FY20	Option C	47:1	37:1	27:1

The ratio for FY23 has been trued up to reflect the 100% vesting of the TSR element of the 2020 PSP, which had the effect of increasing the ratio. The 2020 PSP is the first award granted to the CEO (who joined the Company in September 2020), and the first to vest since the Company began reporting on the CEO pay ratio.

Financial year		P25 (lower quartile)	P50 (median)	P75 (upper quartile)
FY24	Total remuneration (£'000)	£37.6	£44.1	£55.8
	Salary (£'000)	£36.0	£40.8	£53.4

Performance graphs

The following graph shows the TSR for the Company compared to the FTSE 250 and FTSE 350 Aerospace & Defence index, assuming an investor invested £100 on 31 March 2014. The Board considers that the FTSE 250 Index (excluding investment trusts) and FTSE 350 Aerospace & Defence Index currently represent the most appropriate indices (of which Babcock is a constituent) against which to compare Babcock's performance.



The table below details the historical CEO pay over a 10-year period.

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Peter Rogers[1]										
Single figure (£'000)	4,448	2,491	1,091							
Bonus vesting (% max)	78%	60%	66%							
DBMP matching shares vesting (% max)	88.4%	57.8%	17.0%							
PSP/CSOP vesting (% max)	83.5%	37.3%	26.5%							
Archie Bethel[2,3]										
Single figure (£'000)			1,012	2,079	1,969	1,385	334			
Bonus vesting (% max)			66%	61%	58%	14%	0%			
DBMP matching shares vesting (% max)			17.0%	20.0%	n/a	n/a	n/a			
PSP vesting (% max)			26.5%	23.9%	15.1%	0%	0%			
David Lockwood[4]										
Single figure (£'000)							547	1,975	3,288	**3,908**
Bonus vesting (% max)							0%	80%	59%	**59.6%**
PSP vesting (% max)							n/a	n/a	100%	**100%**

1. Until retirement on 31 August 2016.
2. Excludes remuneration received whilst undertaking the role of Chief Operating Officer until August 2016.
3. Until he stepped down as CEO on 14 September 2020.
4. Excludes his salary between joining the Company in August and joining the Board as CEO on 14 September 2020.

Directors’ share ownership (audited)

The Committee sets out below the interests of the Directors (and/or their spouses) in the ordinary shares of the Company as at 31 March 2024:

	At 31 March 2023	At 31 March 2024							
	Shares held	Shares held	Options held						
Director	Owned outright by Director or spouse[1]	Owned outright by Director or spouse[1]	Vested but subject to holding period	Vested but not exercised	Unvested and subject to performance conditions	Unvested and subject to continued employment	S/holding req. (% salary)	Current shareholding (% of salary)[2]	Req. met?
David Lockwood	186,924	**276,174**	**385,848**	**–**	**1,447,276**	**189,021**	**300%**	**339%**	**Yes**
David Mellors	71,268	**188,679**	**270,093**	**–**	**950,436**	**130,421**	**200%**	**323%**	**Yes**
Ruth Cairnie	120,000	**120,000**							
Lucy Dimes	5,000	**5,000**							
Carl-Peter Forster	10,000	**10,000**							
Lord Parker	–	**–**							
John Ramsay	30,000	**30,000**							
Jane Moriarty	–	**–**							
Sir Kevin Smith	n/a	**6,000**							
Claudia Natanson	n/a	**–**							

1. Beneficially held shares of Director and/or spouse.
2. Current shareholdings for comparison with the shareholding requirements for Executive Directors are calculated based on salary as at 31 March 2024 and by reference to shares owned outright by Director or spouse, options vested but subject to holding periods, options vested but not exercised and options unvested but subject only to continued employment. Holdings are valued assuming options are exercised on 31 March 2024 and a three-month average share price to 31 March 2024 of 475.74p and are calculated post tax.

There have been no changes to the continuing Directors’ (or their spouses’) shareholdings between 31 March 2024 and 25 July 2024.

Directors’ share-based awards and options (audited)

The tables below show the various share awards held by Directors under the Company’s various share plans. The Company’s mid-market share price at close of business on 31 March 2024 was 520p. The highest and lowest mid-market share prices in the year ended 31 March 2024 were 533p and 269p, respectively.

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2023	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2024	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from	Expiry date[3]
David Lockwood	PSP 2020	385,848				**385,848**		352.47	Dec 2025	Dec 2026
	PSP 2021	452,450				**452,450**		353.63	Aug 2026	Aug 2027
	PSP 2022	474,418				**474,418**		344.00	Aug 2027	Aug 2028
	DBP 2022[4] (1 year)	168,824		168,824		**0**	375.50	344.00	Aug 2023	Aug 2024
	DBP 2022[4] (3 year)	112,549				**112,549**		344.00	Aug 2025	Aug 2026
	PSP 2023		520,408			**520,408**		392.00	Sept 2028	Sept 2029
	DBP 2023 (3 year)		76,472			**76,472**		377.73	Aug 2026	Aug 2027

Director	Plan and year of award[1]	Number of shares subject to award at 1 April 2023	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 March 2024	Exercise price (pence)[2]	Market value of each share at date of award (pence)	Exercisable from	Expiry date[3]
David Mellors	PSP 2020	270,093				**270,093**		352.47	Dec 2025	Dec 2026
	PSP 2021	316,715				**316,715**		353.63	Aug 2026	Aug 2027
	PSP 2022	332,093				**332,093**		344.00	Aug 2027	Aug 2028
	DBP 2022[4] (1 year)	116,697		116,697		**0**	370.22	344.00	Aug 2023	Aug 2024
	DBP 2022[4] (3 year)	77,798				**77,798**		344.00	Aug 2025	Aug 2026
	PSP 2023		301,628			**301,628**		392.00	Sept 2028	Sept 2029
	DBP 2023 (3 year)		52,623			**52,623**		377.73	Aug 2026	Aug 2027

1. PSP is the Company's Performance Share Plan. Further details about these plans and, where applicable, performance conditions attaching to the awards listed are to be found on page 149. The 2020 PSP awards completed their performance period during FY24 and the awards vested in full; however, the awards are subject to a further two-year holding period. The number of shares awarded under the 2020 PSP shown above reflect the additional 10% of salary reduction described on page 149, which was not reflected in last year's report. Currently, the Executive Directors' PSP awards do not vest until the end of the two-year holding period. The Remuneration Committee has decided that, in line with market practice, it will vest any PSP award, including in-flight awards, after their three-year performance period and allow the Executive Directors to exercise their awards provided that they hold them in trust for the two-year holding period, so that the Executive Directors cannot sell the net number of shares until the end of the holding period.
2. The PSP awards are structured as nil-priced options and are subject to the rules of the PSP, including as to meeting performance targets for PSP awards.
3. Where this date is less than 10 years from the date of award, the Committee may extend the expiry date on one or more occasions, but not beyond the 10th anniversary of the award.
4. The Company requires the Executive Directors to defer only 40% of any annual bonus awarded into shares, which vest after three years. The remaining 60% of any annual bonus is paid in cash. In respect of FY22, David Lockwood and David Mellors agreed to defer the 60% usually paid in cash into shares for one year to align their interests with shareholders.

Summary of share-based awards and options vested during the year

During the year to 31 March 2024 the following awards vested:

Director	Award	Number vesting	Vesting date	Market value of vested shares on award £	Market value of vested shares on vesting date £	Exercise price payable for vested shares (if any) £
David Lockwood	DSBP 2022 1 Year	168,824	1 August 2023	580,755	632,077	Nil
David Mellors	DSBP 2022 1 Year	116,697	1 August 2023	401,438	436,914	Nil

Closing share price on the last dealing date before vesting was 374.40p (31 July 2023).

Other interests

None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

External appointments of Executive Directors in FY24

David Lockwood was appointed as a Non-Executive Director of John Wood Group PLC on 12 March 2024 receiving £3,400 of the annual fee of £62,050 in the accounting period. There were no other fees received by Executive Directors for any external appointment during the year.

The Board approved this Remuneration report on 25 July 2024.

Carl-Peter Forster
Committee Chair

Other statutory information

Directors' report and other disclosures

The Directors' report comprises this section, the principal risks and management controls section in the Strategic report, as well as the rest of the Governance section, the Directors' responsibility statement on page 162 and those sections incorporated by reference below.

Disclosures required by LR 9.8.4 R and which form part of the Directors' report can be found as provided in the table below:

Listing Rule	Topic	Location
9.8.4 (12-13)	Shareholder waivers of dividends and future dividends	Financial statements, note 23 on page 231

Other disclosure requirements set out in LR 9.8.4 R are not applicable to the Company.

Disclosures required pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as updated by the Companies (Miscellaneous Reporting) Regulations 2018 can be located as follows:

Topic	Location
Financial risk management regarding financial instruments	Note 22, page 226
Greenhouse gas emissions	Page 67
Employee engagement	Pages 61, 116, and 127
Fostering business relationships with suppliers, customers and others	Pages 60 to 61, 116 to 117 and throughout the Strategic report
Subsequent events	Note 32 on page 243
Likely future developments in the business of the Group	Pages 20 and 21
Details of important events affecting the Group	Strategic and Directors' reports, in particular pages 8 to 11 and 24 to 43

For the purposes of DTR 4.1.5 R (2) and DTR 4.1.8 R, the required content of the Management report can be found in the Strategic report and the Directors' report including the sections of the Annual Report and Financial Statements incorporated by reference.

The Company

Babcock International Group PLC, registered and domiciled in England and Wales, with the registered number 02342138, is the holding company for the Babcock International Group of companies.

Dividends

An interim dividend of 1.7p per share was declared in the year (2023: nil). The Directors are recommending that shareholders approve at the forthcoming Annual General Meeting a final dividend of 3.3 pence (2023: nil) on each of the ordinary shares of 60 pence to be paid on Monday, 30 September 2024 to shareholders on the register at close of business on Friday, 23 August 2024.

Major shareholdings

As at 31 March 2024, the Company has been notified pursuant to the Disclosure and Transparency Rules (DTR) of the following major interests in voting rights attached to its ordinary shares.

Name	Number of 60 pence ordinary shares on date of notification	% of issued share capital on date of notification
Abrams Bison Investments, L.L.C.	29,311,332	5.80%
Fidelity International Limited	26,958,682	5.30%
Silchester International Investors LLP	25,567,748	5.06%
Invesco Ltd	24,896,615	4.92%
Cobas Asset Management, SGIIC, S.A.	20,458,556	4.05%
Oaktree Capital Management (UK) LLP	15,330,960	3.03%

Since 31 March 2024 the Company has been notified by Cobas Asset Management, SGIIC, S.A. on 5 June 2024 that it has reduced its interest to 14,935,541 shares representing 2.954% of the share capital of the Company. The Company has also been notified, on 26 April 2024 by Fidelity International Limited that it has reduced its interest to 24,450,762 shares representing 4.8% of the share capital. There have been no further notifications between then and the date of this report.

The holdings set out above relate only to notifications of interests in the issued share capital received by the Company pursuant to DTR 5 and consequently do not necessarily represent current levels of interest.

Employment of disabled persons/equal opportunities

Equal opportunities are available for all employees at Babcock including those with disability. We recognise that disability covers a much broader range of both visible and non-visible conditions.

We define disability as: A person is disabled under the Equality Act 2010 if they have a physical or mental impairment that has a 'substantial' and 'long-term' negative effect on their ability to do normal daily activities. This does not mean a person must be registered as disabled. A long-term disability might include something physical (such as a mobility issue, hearing or sight impairment or long-term illness). It also covers people with mental health conditions. Additionally, neurodivergence (for example dyslexia, dyspraxia, Asperger's and autism) are caught within the definition, including where someone is undergoing diagnosis.

- We continue to work on driving an inclusive culture across the Group to help our people to feel able to complete options around health conditions and impairments and inform us that they have a physical and/or other disability. To support continued employment, training, career development and promotion of disabled employees we have a dedicated Disability Action Plan, informed by data and insight, and following the employee lifecycle from attraction to progression and retention; the action plan details support and provisions for disabled colleagues.
- We continued to make progress towards achieving Disability Confident Employer Level 2 (UK Government Disability Confident scheme) working with colleagues to further develop our processes, ensuring we are inclusive and providing support for our employees to enable them to stay in work.
- We developed our Group-wide Disability Network Group further through the establishment of a range of Peer Support Groups in response to network members' needs.

We are also working to review/refresh additional elements of the employee lifecycle, ensuring that disability is a clear consideration at different stages, including recruitment and onboarding.

For more information about the broadening of our inclusion strategy, see pages 81 to 84.

Research and development

The Group commits resources to research and development to the extent management considers necessary for the evolution and growth of its business.

Political donations

No donations were made during the year for political purposes.

Authority to purchase own shares

At the Annual General Meeting in September 2023, members authorised the Company to make market purchases of up to 50,559,660 of its own ordinary shares of 60 pence each.

That authority expires at the forthcoming Annual General Meeting when a resolution will be put to renew it so as to allow purchases of up to a maximum of 10% of the Company's issued share capital. No shares in the Company have been purchased by the Company in the period from 28 September 2023 (the date the current authority was granted) to the date of this report. The Company currently does not hold any treasury shares.

Details of purchases of the Company's shares made during the year to 31 March 2024 by the Babcock Employee Share Trust in connection with the Company's executive share plans are to be found in note 23 on page 231.

Qualifying third-party indemnity provisions

The Company has entered into deeds of indemnity with each of its Directors (who served during the year and/or who are currently Directors) which are qualifying third-party indemnity provisions for the purposes of the Companies Act 2006 in respect of their directorships of the Company and, if applicable, of its subsidiaries.

Under their respective Articles of Association, Directors of Group UK subsidiary companies may be indemnified by the company concerned of which they are or were Directors against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006.

Qualifying pension scheme indemnity provisions are also in place for the benefit of Directors of the Group companies that act as trustees of Group pension schemes.

Significant agreements that take effect, alter or terminate upon a change of control

Many agreements entered into by the Company or its subsidiaries contain provisions entitling the other parties to terminate them in the event of a change of control of the Group company concerned, which could be triggered by a takeover of the Company.

Although the Group has some contracts that on their own are not significant to the Group, several may be with the same customer. If, upon a change of control, the customer decided to terminate all such agreements, the aggregate impact could be very material. In addition, the National Security and Investment Act 2021 that came into force on 4 January 2022 provides the UK Government with new powers to scrutinise and potentially make void transactions on the grounds of national security. The legislation is part of a global trend towards introducing foreign investment laws which has seen a number of other countries introduce similar protections.

The following agreements are those individual agreements which the Company considers to be significant to the Group as a whole that contain provisions giving the other party a specific right to terminate them if the Company is subject to a change of control.

Borrowing facilities

The Group has a Revolving Credit Facility of up to £775 million where £45 million matures in August 2025 and £730 million matures in August 2026, providing funds for general corporate and working capital purposes. In the event of a change of control, the facility provides that the lenders may, within a certain period, call for the payment of any outstanding loans and cancel the facilities.

£1,800,000,000 Euro Medium-Term Note Programme

The Company has a Euro Medium-Term Note Programme under which it has issued three tranches: €550,000,000 1.75% Notes redeemed in 2022; £300,000,000 1.875% Notes due in 2026; and €550,000,000 1.375 % Notes due in 2027.

If there is a change of control of the Company and the Notes then in issue carry an investment-grade credit rating which is either downgraded to non-investment-grade, or carry a non-investment-grade rating which is further downgraded or withdrawn, or do not carry an investment-grade rating and the Company does not obtain an investment-grade rating for the Notes, a Note holder may require that the Company redeem or, at the Company's option, repurchase the Notes.

Share plans
The Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

Contracts with employees or Directors
A description of those agreements with Directors that contain provisions relating to payments in the event of a termination of employment following a change of control of the Company is set out on pages 143 and 144.

Articles of Association of DRDL and RRDL
The Articles of Association of Devonport Royal Dockyard Limited (DRDL) and Rosyth Royal Dockyard Limited (RRDL), both subsidiaries of the Company, grant the MOD as the holder of a special share in each of those companies certain rights in certain circumstances. Such rights include the right to require the sale of shares in, and the right to remove Directors of, the company concerned. The circumstances in which such rights might arise include where the MOD considers that unacceptable ownership, influence or control (domestic or foreign) has been acquired over the company in question and that this is contrary to the essential security interests of the UK. This might apply, for example, in circumstances where any non-UK person(s) directly or indirectly acquire control over more than 30% of the shares of the relevant subsidiary, although such a situation is not of itself such a circumstance unless the MOD in the given situation considers it to be so.

Surface Ship Support Alliance Agreement (SSSA) dated 23 September 2009 between (1) The Secretary of State for Defence, (2) Devonport Royal Dockyard Limited and (3) BAE Surface Ships Limited (as amended)
Any change of control of Devonport Royal Dockyard Limited must be approved in advance by the Secretary of State for Defence. Consent may be withheld to prevent an unsuitable third party taking control. Breach may result in exclusion from the alliance.

Terms of Business Agreement (ToBA) dated 25 March 2010 between (1) The Secretary of State for Defence, (2) Babcock International Group PLC, (3) Devonport Royal Dockyard Limited, (4) Babcock Marine (Clyde) Limited and (5) Rosyth Royal Dockyard Limited (as amended)
The ToBA confirms Babcock as a key support partner of the MOD in the maritime sector and covers the 15-year period from 2010 to 2025. The MOD may terminate the ToBA in the event of a change in control of a relevant operating company or any holding company including the Company in circumstances where, acting on the grounds of national security, the MOD considers that it is inappropriate for the new owners to become involved, or interested, in the work that is the subject of the ToBA. 'Change in control' occurs where a person or group of persons that controls the relevant company ceases to do so or if another person or group of persons acquires control.

Competitive Design Phase Contract for the Type 31 Programme dated 7 December 2018 (as amended and restated on 15 November 2019) between (1) The Secretary of State for Defence and (2) Rosyth Royal Dockyard Limited
The Secretary of State for Defence may terminate if, in its reasonable opinion, a change of control of Rosyth Royal Dockyard Limited or any holding company will be contrary to the defence, national security or national interest of the UK.

Future Maritime Support Programme Lot 11 (Warehousing and Distribution at HMNB Clyde) dated 30 March 2021 between (1) The Secretary of State for Defence and (2) Babcock Marine (Clyde) Limited
The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of Babcock Marine (Clyde) Limited or any other company in the Group that it objects to and in respect of which its concerns have not been addressed.

Future Maritime Support Programme Lot 1 (Naval Bases) dated 28 July 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited
The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Future Maritime Support Programme Lot 2 (Ships Engineering) dated 30 September 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited
The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Future Maritime Support Programme Lot 3 (Submarine Engineering) dated 30 September 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited
The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Future Maritime Support Programme Lot 4 (Hard Facilities Management and Alongside Services at HMNB Clyde) dated 30 September 2021 between (1) The Secretary of State for Defence and (2) Devonport Royal Dockyard Limited
The Secretary of State for Defence may terminate on certain grounds, including national security, if there is a change of control of any of Devonport Royal Dockyard Limited, the Company or a critical key sub-contractor and the Secretary of State's concerns are not addressed or, if relevant, Devonport Royal Dockyard Limited does not terminate the sub-contract.

Share capital and rights attaching to the Company's shares

General

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine). The Directors' practice is to seek authority from shareholders at each year's Annual General Meeting to allot shares (including authority to allot free of statutory pre-emption rights) up to specified amounts and also to buy back the Company's shares, again up to a specified amount.

At a general meeting of the Company, every member has one vote on a show of hands and, on a poll, one vote for each share held. The notice of general meeting specifies deadlines for exercising voting rights, either by proxy or by being present in person, in relation to resolutions to be proposed at a general meeting.

No member is, unless the Board decides otherwise, entitled to attend or vote, either personally or by proxy, at a general meeting or to exercise any other right conferred by being a shareholder if they or any person with an interest in their shares has been sent a notice under s793 of the Companies Act 2006 (which confers upon public companies the power to require the provision of information with respect to interests in their voting shares) and they or any interested person have failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those defaulting shares and that no transfer of any defaulting shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant Section 793 notice, whichever is the earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Conduct Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. The Directors may likewise refuse to register any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws) or by the nationality-related restrictions, more particularly described below.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights in the Company.

At the date of this report 505,596,597 ordinary shares of 60 pence each have been issued and are fully paid up and quoted on the London Stock Exchange.

Nationality-related restrictions on share ownership

Companies which provide aviation services in the EU must comply with the requirements of EC Regulation 1008/2008 (the Regulation) which, amongst other matters, requires those companies to be majority-owned and majority-controlled by EEA nationals (the licensed companies).

At the Company's Annual General Meeting in July 2014, shareholders approved the amendment of the Company's Articles of Association (the Articles) to include provisions intended to assist the Company in ensuring continuing compliance with these obligations by giving the Company and the Directors powers to monitor and, in certain circumstances, actively manage nationality requirements as regards ownership of its shares with a view to protecting the value of the Group undertakings that hold the relevant operating licences. A summary of these powers is set out below. Reference should, however, also be made to the Company's Articles, a copy of which may be found on its website at www.babcockinternational.com. In the event of any conflict between the Articles and this summary, the Articles shall prevail.

Relevant Shares

Relevant Shares are any shares which the Directors have determined or the holders have acknowledged are shares owned by non-EEA nationals for the purposes of the Regulation (Relevant Shares). It is open to shareholders to make representations to the Directors with a view to demonstrating that shares should not be treated as Relevant Shares.

Maintenance of a register of non-EEA shareholders

The Company maintains a register (which is separate from the statutory register of members) containing details of Relevant Shares. This assists the Directors in assessing, on an ongoing basis, whether the number of Relevant Shares is such that action (as outlined below) may be required to prevent or remedy a breach of the Regulation.

The Directors will remove from the separate register particulars of shares where they are satisfied that either the share is no longer a Relevant Share or that the nature of the interest in the share is such that the share should not be treated as a Relevant Share.

Disclosure obligations on share ownership

The Articles empower the Company to, at any time, require a shareholder (or other person with a confirmed or apparent interest in the shares) to provide in writing such information as the Directors determine is necessary or desirable to ascertain such person's nationality and, accordingly, whether details of the shares should be entered in the separate register as Relevant Shares or are capable of being 'Affected Shares' (see below).

If the recipient of a nationality information request from the Company does not respond satisfactorily to the request within the prescribed period (being 21 days from the receipt of the notice), the Company has the power to suspend the right of such shareholder to attend or speak (whether by proxy or in person) at any general or class meeting of the Company or to vote or exercise any other right attaching to the shares in question. Where the shares represent at least 0.25% of the aggregate nominal value of the Company's share capital, the Company may also (subject to certain exceptions) refuse to register the transfer of such shares. The Articles also require that a declaration (in a form prescribed by the Directors) relating to the nationality of the transferee is provided to the Directors upon the transfer of any shares in the Company, failing which the Directors may refuse to register such transfer (see further below).

Power to treat shares as 'Affected Shares'

The Articles empower the Directors, in certain circumstances, to treat shares as 'Affected Shares'. If the Directors determine that any shares are to be treated as Affected Shares, they may serve an 'Affected Share Notice' on the registered shareholder and any other person that appears to have an interest in those shares.

The recipients of an Affected Share Notice are entitled to make representations to the Directors with a view to demonstrating that such shares should not be treated as Affected Shares. The Directors may withdraw an Affected Share Notice if they resolve that the circumstances giving rise to the shares being treated as Affected Shares no longer exist.

Consequences of holding or having an interest in Affected Shares

A holder of Affected Shares is not entitled, in respect of those shares, to attend or speak (whether by proxy or in person) at any general or class meeting of the Company or to vote or to exercise any other right at such meetings, and the rights attaching to such shares will vest in the Chair of the relevant meeting (who may exercise, or refrain from exercising, such rights at his/her sole discretion).

The Affected Shares Notice may, if the Directors determine, also require that the Affected Shares must be disposed of within 10 days of receiving such notice (or such longer period as the Directors may specify) such that the Affected Shares become owned by an EEA national, failing which the Directors may arrange for the sale of the relevant shares at the best price reasonably obtainable at the time. The net proceeds of any sale of Affected Shares would be held in trust and paid (together with such rate of interest as the Directors deem appropriate) to the former registered holder upon surrender of the relevant share certificate in respect of the shares.

Circumstances in which the Directors may determine that shares are Affected Shares

The Articles provide that where the Directors determine that it is necessary to take steps in order to protect an operating licence of the Group they may: (i) seek to identify those shares which have given rise to the determination and to deal with such shares as Affected Shares; and/or (ii) specify a maximum number of shares (which will be less than 50% of the Company's issued share capital) that may be owned by non-EEA nationals and then treat any shares owned by non-EEA nationals in excess of that limit as Affected Shares (the Directors will publish a notice of any specified maximum within two business days of resolving to impose such limit). In deciding which shares are to be dealt with as Affected Shares, the Directors shall be entitled to determine which Relevant Shares in their sole opinion have directly or indirectly caused the relevant determination. However, so far as practicable, the Directors shall have regard to the chronological order in which the Relevant Shares have been entered in the separate register.

Right to refuse registration

The Articles provide the Directors with the power to refuse registration of a share transfer if, in their reasonable opinion, such transfer would result in shares being treated or continuing to be treated as Affected Shares.

The Articles also provide that the Directors shall not register any person as a holder of any share in the Company unless the Directors receive a declaration of nationality relating to such person and such further information as they may reasonably request with respect to that nationality declaration.

The Directors believe that, following the restructuring of the Aviation sector, those companies in which the Company has an interest and which are required to comply with the Regulation (being those companies operating aviation services in the EU) do meet the requirement of the Regulation, including those relating to nationality.

This belief is based on the Company's understanding of the application of the Regulation. There can, however, be no guarantee that this will continue to be their assessment and that it will not be necessary to declare a Permitted Maximum or exercise any other of their or the Company's powers in the Articles referred to above.

Internal controls and risk management

There is a robust process in place to enable the Board to have assurance around the overall risk management including the determination of the nature and extent of the Group's principal risks. Management monitors the financial reporting process and the process for preparing the consolidated accounts through regular reporting and review. Management reviews data for consolidation into the Group's financial statements to ensure that it gives a true and fair view of the Group's results in compliance with applicable accounting policies.

The Board, through the Audit Committee, reviews the effectiveness of the Company's internal control processes formally at least once a year. In FY24, the Board reviewed the enhancements made by the Company over the year, as more particularly described in pages 89 and 90, and was satisfied that the improvements made in FY24 were substantial. Work in FY25 will be focused particularly on the embedding, practice and repetition of operating established controls to provide confidence in their reliable and sustainable operation.

For more detailed information on the improvements in internal controls please see the Audit Committee report on page 128. Further information on the principal internal controls and risk assurances in use in the Company can be found in the Strategic report on pages 89 to 106.

Auditor

As described on page 135 the Board has, subject to shareholder approval, appointed a new statutory auditor for the year ending 31 March 2025. A resolution to appoint Forvis Mazars as independent auditor of the Company will be proposed at the forthcoming Annual General Meeting.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with United Kingdom adopted international accounting standards. The Directors have chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

So far as the Directors are aware there is no relevant audit information of which the Company's auditor is unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Responsibility statement

Each of the Directors, being each Director who is in office at the date the Directors' report is approved and whose names and functions are listed below, confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Ruth Cairnie	Chair
Carl-Peter Forster	Non-Executive Director
John Ramsay	Non-Executive Director
Lucy Dimes	Non-Executive Director
Lord Parker	Non-Executive Director
Jane Moriarty	Non-Executive Director
Sir Kevin Smith	Non-Executive Director
Claudia Natanson	Non-Executive Director
David Lockwood	Chief Executive Officer
David Mellors	Chief Financial Officer

Approval of the Strategic report and the Directors' report

The Strategic report and the Directors' report (pages 1 to 162) for the year ending 31 March 2024 have been approved by the Board and signed on its behalf by:

Ruth Cairnie
Chair

David Lockwood
Chief Executive Officer

25 July 2024

Independent auditor's report to the members of Babcock International Group plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Babcock International Group plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2024 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Company statements of financial position;
- the Group and Company statements of changes in equity;
- the Group cash flow statement; and
- the related Notes 1 to 33 of the Group financial statements and Notes 1 to 13 of the Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the year are disclosed in note 4 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Impact of control deficiencies (Group and Company); • Revenue and margin recognition on key long-term contracts (Group); and • Type 31 Programme Estimates (Group).
Materiality	We have determined materiality to be £20.0m. See section 6.1 for further details on materiality.
Scoping	Our scope covered 25 components of the Group; 22 were subject to a full-scope audit and 3 were subject to specified account balance testing. These components contribute 98% of revenue and 96% of profit before tax. See section 7.1 for further details on our scoping.
Significant changes in our approach	Our audit approach is consistent with the previous year with the exception of: • In the prior year, we identified a key audit matter over the carrying value of goodwill in the Aviation cash generating unit (CGU). Given the high level of headroom and low sensitivity to key assumptions in this CGU, we do not consider there to be a key audit matter associated with this CGU valuation in the current year. • In FY23, the Group disposed part of its European Aerial Emergency Services (AES) businesses and we identified a key audit matter relating to the disposal accounting and the valuation of certain obligations. The key obligations have been settled during FY24 and as a result, this item is no longer considered a key audit matter. • Given the disposal of the European Aerial Emergency Services (AES) businesses the number of component auditors used to perform procedures under our direction and supervision has reduced from eight components to four components. In FY24, we engaged component auditors from Australia, Canada, France and South Africa to perform procedures. See section 7.1 for further details on our scoping.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- Understanding the Group's processes and related controls over the assumptions in the going concern assessment;
- Assessing the Group's available committed borrowing facilities;
- Testing the accuracy of the Group's models, including agreement to the most recent Board approved budgets and forecasts;
- Determining whether the forecasts used within assessing the going concern assumption were consistent, where relevant, with those used within Goodwill impairment modelling;
- Challenging the appropriateness of key assumptions used in the base case and in the severe but plausible scenarios by:
  - reading analyst reports, industry data and other external information and comparing these with management's estimates;
  - comparing forecast revenue with the secured revenue under contract, contract churn rates, contract win rates and historical performance; and
  - comparing contract margin and overhead cost assumptions to historical performance and the current macroeconomic environment;
- Evaluating the historical accuracy of forecasts prepared by the Directors;
- Assessing the sensitivity of the headroom in the forecasts;
- Comparing the risks management has identified in its risk register to the going concern scenarios to assess completeness and accuracy of the modelled scenarios;
- Evaluating the accuracy and completeness of the covenant compliance calculation within the model and performing a recalculation and stress-testing the liquidity and profitability forecasts;
- Evaluating management's downside sensitivities in the context of the FY24 financial position;
- Assessing whether the Group has considered and reflected the impact of climate risks and opportunities in the Group's going concern assessment; and
- Assessing the appropriateness of the disclosures relating to going concern in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Impact of control deficiencies

Refer to page 128 (Audit Committee report)

Key audit matter description	In the audit of the previous two financial years, we identified and reported a number of control deficiencies. These primarily related to the varied practice of implementation of contract review controls across sectors as well as the formal documentation of these controls. We also identified observations in the IT environment relating to privileged access controls and password controls. Further, a number of misstatements were also identified, and while these were individually and collectively immaterial these did highlight the need for greater accuracy in the financial close process. As outlined further in the Audit Committee Report on page 128, management's response and therefore focus in FY24 as part of the internal control roadmap has been in the following areas: • Further embedding the Blueprint Fundamental controls (BFCs). The BFCs are 15 key controls in relation to significant financial reporting risk areas including bid controls, contract review, consolidation, pensions, taxation, and derivative reporting controls. • Embedding and maturing of sector level contract review controls, including the enhancement of control documentation. • Enhancing general IT controls including actioning key findings, particularly over the Group's Neptune system (the Group's primary enterprise resource planning system) or remediating and mitigating risks relating to findings associated with legacy systems. We identified a key audit matter in the current year relating to the following areas of management's remediation programme: • appropriateness of the remediated enhanced BFC and contract review controls; • appropriateness of remediated privileged access and password controls across in-scope applications and their supporting infrastructure; and • whether the remediated controls address previously identified deficiencies.
How the scope of our audit responded to the key audit matter	We have continued to challenge and assess changes to the control environment through the testing of remediated controls and evaluating the impact of the changes on our audit approach. Our procedures included: • interacting with management and the Audit Committee to understand and challenge the actions they were taking as part of the internal controls enhancement programme to address the control deficiencies identified in prior years; • identifying controls relevant to our audit and evaluating those controls, including the changes made as part of the Group's remediation programme. Our expectation when planning the FY24 audit approach was that deficiencies would still remain in the control environment and as such, we did not test relevant controls except for general IT controls in the Group's Neptune system. Given the ongoing remediation efforts and the overall risk surrounding the control deficiencies remaining high, we did not intend to rely on control activities within the Group's control environment. Consequently, the nature, extent and timing of our audit procedures continue to be modified as a result of the risks arising from the deficiencies in the control environment, and we adopted a fully substantive approach in our audit. Our additional procedures, which are consistent with the prior year, included: • using a lower performance materiality (being 60% of materiality) than would be ordinarily used if the control environment had been more mature. This increased the extent of substantive testing performed; • increasing the level of component oversight; • performing additional procedures to identify and address potential fraud risks, including the involvement of a forensic specialist. Due to deficiencies within the IT environment, we also expanded the types of journal entries that we selected for testing; • working with data analytics specialists to complement our substantive testing over key areas where there is a large amount of data, such as the financial consolidation, contract revenue, cost of sales and estimated costs to complete. We performed sample testing to assess completeness and accuracy of the underlying transactional data used in our substantive testing, given the IT control deficiencies noted above. We have used spreadsheet analysing tools to detect formula errors and other anomalies. We have also engaged modelling specialists to assist us in evaluating the integrity of management's going concern and impairment models; and • maintaining the level of seniority in our engagement and review teams which was applied in the previous audit.

Key observations	The Group has made progress in remediating the control deficiencies identified (whether through its own assurance framework, including internal audit, or through the external audit) although the internal controls enhancement programme is expected to continue over a number of years and is not yet complete. The Group's 15 BFCs have been embedded into standard processes in the year although findings were identified in relation to the operation of these controls and the monitoring and retention of evidence to support their operation. In relation to contract review controls, enhancements and standardisation of control documentation have been implemented. However, we continue to observe deficiencies arising from varied practice of implementation specifically regarding group and sector contract review controls. This primarily relates to the retention of evidence of challenge and risk reviews. Based on our audit procedures, we concluded management's actions have remediated the majority of IT control deficiencies throughout the year for the UK's core system (Neptune). The majority of controls were effective at the balance sheet date with key residual findings relating to segregation of duties. Management continue to work on a remediation programme to address these findings, including the cleansing of access conflicts or implementing alternate mitigating controls to address any residual risk. However, remediation will span into FY25, given the size, scale and complexity of the remediation programme. For non-core systems and international IT systems, the number of IT deficiencies remain consistent with prior years and relate to privileged access, segregation of duties, access reviews and password parameters. In relation to the FY24 financial close process, we continue to observe uncorrected misstatements at year-end which are individually and collectively immaterial. Management also corrected a number of audit misstatements identified during the financial close process.

5.2 Revenue and margin recognition on long-term contracts

Refer to page 128 (Audit Committee report), Group Income Statement, Note 1 (Basis of preparation and material accounting policy information), Note 16 (Trade and other receivables and contract assets) and Note 18 (Trade and other payables and contract liabilities).

Key audit matter description	The estimation of lifetime contract margin and the appropriate level of revenue and profit to recognise in any single accounting period requires the exercise of management judgement. Within the Group's contract portfolio there are a number of contracts with values in excess of £1 billion, which extend over a number of years, where there is a significant degree of judgement and which could lead to a material error within the financial statements. Consequently, we consider that revenue and margin recognition within key contracts, and the associated accounting for contract assets, liabilities and provisions, in accordance with IFRS 15: Revenue from Customers with Contracts and IAS 37: Provisions, contingent liabilities and contingent assets represent a key audit matter. The key aspects of IFRS 15 that we considered related to the recognition of variable consideration on contracts and, under IAS 37, the measurement of the provision for loss making contracts. We identified this as an area for potential management bias given the level of judgement involved in: estimating costs to complete on these long-term contracts; cost allocation between contracts; assessing the level of allowable and disallowable costs to recharge; the level of cumulative-catch-up adjustments (CCAs) recorded and the subsequent impact on revenue and margin recognition. In order to identify the key contracts where there is the greatest risk of material misstatement, we undertook a contract risk assessment process for each sector utilising data analytics, the latest contract information, our understanding of the business, the results of prior audits and review of external information about market and geopolitical conditions which might impact certain contracts. We held meetings with key finance and contract managers, attended business review meetings and other key management meetings, read and understood underlying contract documentation and obtained support for key contract judgements. In addition, we looked for contracts which may have higher levels of judgement associated with the risk of schedule delivery or technical complexity, and other indicators that could increase the risk of a material impact on the financial statements, including achieving forecast learner, efficiency and transformation savings and the impact of inflation. As a result of our risk assessment, we identified one contract where we consider there to be the highest degree of judgement required in estimating the outturn margin position (Type 31 Frigates). We have identified a separate key audit matter associated with the Type 31 Programme Estimates, see section 5.3 for further details.

5.2 Revenue and margin recognition on long-term contracts continued

How the scope of our audit responded to the key audit matter	Our contract testing approach included: **Understanding relevant controls** • We obtained an understanding of relevant manual and IT controls and project accounting processes which management have established to ensure that contracts are appropriately forecast, managed, challenged and accounted for. • As part of this, we attended a sample of project contract status review meetings, quarterly business review meetings and Group level meetings to understand the various levels of challenge applied to the forecasts. • As outlined in Key Audit Matter 5.1, we did not rely on any controls for the purposes of our substantive testing. **Challenging management's assumptions and estimates** Our work included: • obtaining an understanding of the contract including relevant contractual clauses and terms and conditions; • making inquiries of contract project teams and other personnel to obtain an understanding of the performance of the project throughout the year and at year-end; • assessing management's IFRS 15 accounting papers and other technical papers setting out judgements taken; • assessing delivery progress and challenging key areas of estimation in overall contract revenue and cost; • performing a risk assessment to identify contracts where cost shifting could impact on the margin recorded and performing testing on contracts with characteristics of audit interest; • analysing historical contract performance and understanding the reason for in-year movements or changes; • performing site visits to inspect the status of construction; • testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract, the associated contingencies and exit liabilities; • substantively testing a sample of actual costs incurred to date to check whether these had been recorded appropriately. • considering historical forecasting accuracy of costs, comparing to similar programmes, and challenging future cost expectations with reference to those data points; • recomputing the cumulative-catch-up adjustments (CCAs) recorded by management; • obtaining evidence and assessing management's transformational savings assumptions; • examining external correspondence to assess the timeframe and contractual performance for delivery of the product or service and any judgements made in respect of these; • assessing the underlying inflation assumptions against competitors, the wider market and inflation rates; • examining internal and external evidence to assess contract status and estimation of variable consideration (including associated recoverability of contract balances), such as customer correspondence; • enquiring with in-house and external legal counsel regarding contract related judgements and claims and contractual entitlement relating to applicable regulations. In addition, obtaining evidence of settlement agreements with customers and where relevant reviewed associated legal correspondence and expert advice; • considering whether there were any indicators of management override of controls or bias in arriving at the reporting position; and • assessing the appropriateness of disclosures in the financial statements.
Key observations	Through our testing of the contracts in relation to this key audit matter we consider the judgements made by the Group in recognising revenue, profit, contract assets and liabilities to be reasonable.

5.3 Type 31 Programme Estimates (Group)

Refer to page 128 (Audit Committee report) and Note 1 (Basis of preparation and material accounting policy information)

Key audit matter description	The Type 31 contract is complex, involving the construction of five ships over a multi-year build programme. The ability of the Group to determine future build cost and schedule duration estimates is critically dependent on the maturity of the ship design. Ship 1 is currently under construction. The Group is therefore required to make both operational and financial assumptions to estimate future costs over a number of years. Forecasting future events over extended periods contains inherent risk and the outcome is uncertain and involves a high degree of management estimation and this is included as a key source of estimation uncertainty in Note 1. In the prior year, a £100m loss was recorded in relation to the contract. In the current year, the Group launched an operational improvement programme to challenge all aspects of the Type 31 programme. This has included a significant focus on cost drivers and financial modelling, supported by external consultants, and led to a number of management changes. The forecast contract outturn has deteriorated by £90m in the year, primarily due to an increase in volume and associated production costs following the maturity of the design and an increase in forecast labour costs. The deterioration in contract outturn in the year has been recognised as a £66m reduction in revenue and £24m increase in the onerous contract provision. As a result, the overall loss provision position at 31 March 2024 is £79m (FY23: £55m). There is a risk that the provision recognised in respect of this contract does not appropriately cover the unavoidable future losses against the contract as required under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37") and that the revenue and margin for this contract has not been recognised in accordance with IFRS 15: 'Revenue from Customers with Contracts' ("IFRS 15"). We have identified a key audit matter in respect of the judgements applied in the assessment of unavoidable future cash flows used to determine the onerous contract provision. The estimates relate to: • the achievement of the build schedule to completion and final acceptance including compliance with contractual delivery dates and performance metrics; • the ability of the Group to estimate build costs over the schedule including the estimation of the number of production hours for manufacturing, structural and outfitting activities and an assessment of the associated labour and resource mix; • the assessment of programme support hours primarily in engineering, which is impacted by the maturity of the ship design, the level of re-work and the number of design change requests; • the ability of the Group to maintain or improve current operational performance through process efficiencies, quality and other engineering improvements over the five ships. Management has assumed certain productivity improvement initiatives to optimise the build schedule and to reduce re-work in order to reduce the cost of manufacture, structural assembly and outfitting of the programme. There is also an assumption that similar activities will naturally be performed more efficiently over time due to continuous repetition, rather than through separate process improvements; • the estimation of the cost of bought-in parts and services through suppliers and sub-contractors including the impact of inflation and planned procurement savings; • the assessment of central overheads that are allocated to the contract; and • the appropriateness of any recognition of offset for expected benefits from further separable work relating to the continuation of the T31 contract beyond the initial build of five ships.

5.3 Type 31 Programme Estimates (Group) continued

How the scope of our audit responded to the key audit matter	We performed site visits to inspect work performed to date and held discussions with various operational team members including the Programme Director, management experts in Design, Engineering, Weight, Group Procurement and Group Human Resources as well as management's external consultants to obtain a detailed understanding of the build schedule and planned build activities and processes including the impact of the planned operational improvement initiatives. We have completed the following audit procedures: • Read the contract to obtain an understanding of the key contractual terms; • Obtained an understanding of relevant controls in place to review the financial performance of the Type 31 contract and forecast future revenue and costs and account for the onerous contract in the Group's financial statements. **Challenging management's assumptions and estimates** We have challenged management's assumptions by considering contradictory evidence and potential management bias. Specifically we have: • Evaluated the reasonableness of future cash flow forecasts with reference to current performance (both in year and post year end to date), trend analysis, historical forecasting accuracy, and forecast operational improvements in the contract to test the future build cost and schedule duration; • Assessed management's ability to improve operating performance through design changes and implementing engineering improvements over the remaining life of the programme to reduce the level re-work and reduce the cost of manufacture. This included testing the volume of design change requests and the hours taken to complete re-work activities by agreeing a sample through to engineering certificates and timesheets; • Challenged management's estimates regarding production hours and the estimated volume of work anticipated to complete the manufacturing, structural and outfitting activities. We have assessed whether, based on current performance, the standard production hours estimates are being met or are trending in line with management's estimate. We have also challenged the reasonableness of the enablement plan which is key to driving the forecast operational improvements; • Challenged the forecast schedule assumptions with reference to current build progress versus forecast and the availability of skilled labour including challenging management's assumptions for the average time and cost to manufacture and install categories of units and parts required to complete the ship. We have validated activities performed to date on a sample basis agreeing to time records and physical inspection of completed items on the ship; • Assessed the sufficiency of management's resourcing plans and the overall cost of labour by assessing their ability to recruit, the mix of the workforce between permanent and contingent workers from the UK and overseas, the utilisation of semi-skilled and apprentice workers and shift patterns and premiums. We have tested a sample of leavers/joiners and assessed whether management's assumption regarding permanent and contingent labour availability is reasonable in order to determine whether the resourcing plan is being met and forecast costs are supportable; • Challenged the estimate of programme support hours with reference to current performance and considered the impact of forecast design changes and re-work assumptions on engineering support time to assess consistency of assumptions; • Challenged whether planned procurement and labour savings are within management's contractual ability to implement, their ability to reasonably assess the financial impact, and the forecast timing of implementation. We have tested a sample of forecast procurement savings to supporting evidence including reviewing correspondence with suppliers and sub-contractors. We have also considered the status of negotiations with trade unions and planned changes to shift patterns; • Challenged management's forecast inflation assumptions by benchmarking against external third party forecast data;

	• Assessed the appropriateness of central overheads which are allocated to the onerous contract provision; • Challenged management's ability to achieve schedule by extrapolating current build and outfitting performance and comparing against contractual delivery dates. In performing this assessment, we have considered the impact of critical activities on schedule performance and management's ability to work on multiple ships concurrently. We have tested a sample of activities to assess whether sufficient time has been factored into management's build and resourcing plans; and • Challenged the recognition of the offset for expected benefits from separable additional work against the onerous contract provision by reference to the original contract bid documentation and evidence of economic linkage with the original contract existing at the time of contract inception. In addition, we have: • Evaluated management's forecast compliance with the contractual performance metrics by understanding the process for assessing compliance and the interdependencies between the metrics; • Evaluated the approach adopted in management's model to determine compliance with the requirements of IAS 37; • Evaluated, in accordance with IAS 8, whether the current year loss provision represents a change in estimate and is therefore recognised in the appropriate period; • Tested the arithmetical accuracy of management's models. • Evaluated the sensitivity analysis prepared by management and performed our own sensitivity calculations to assess the appropriateness of the provision recorded; and • Assessed the appropriateness of the Group's disclosures in respect of onerous contracts and their compliance with the requirements of IAS 37 and IAS 1.
Key observations	During the year, the Company launched an operational improvement programme to address all areas of the Type 31 programme. This has led to a focus on financial modelling a number of management changes. As a result, management's controls were enhanced. We have assessed the key controls relating to Type 31 and similar to our observations set out in section 5.1, we raised deficiencies regarding the retention of documentation to evidence management's challenge and accuracy of information reviewed within the controls. The overall estimated programme costs have increased during the year mainly due to the maturity of the design and increase in the forecast cost of labour. As a consequence of our audit challenge, the Group did not recognise the expected benefits from additional separable work relating to the expected continuation of the Type 31 contract and recognised an increase in forecast costs due to the level of estimation uncertainty. We are satisfied that the resultant estimates made by management in determining the onerous contract provision of £79m for the Type 31 programme are reasonable, and in accordance with IAS 37, and that the revenue and margin for this contract has been recognised in accordance with IFRS 15. Given the uncertainties in forecasting the unavoidable future losses, the disclosure sensitivities in Note 1 provide important information to assess the impact of a significant risk of a material adjustment to the carrying amount of the provision within the next financial year.

6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<table>
<tr><th></th><th>Group financial statements</th><th>Company financial statements</th></tr>
<tr><td>Materiality</td><td>£20.0m (2023: £15.6m)</td><td>£40.7m (2023: £61.7m)</td></tr>
<tr><td>Basis for determining materiality</td><td>Consistent with prior years, materiality has been determined by considering a range of possible benchmarks used by investors and other readers of the financial statements.

The increase from prior years is due to the continued turnaround of the Babcock business following the contract profitability and balance sheet (CPBS) review which included new management and the absence of normalised financial performance These key metrics have now stabilised, we have increased our materiality to £20.0m.

In particular, we considered: revenue; net assets; total assets; and profit before tax excluding amortisation of acquired intangibles, business acquisition, merger and divestment related items, fair value movement on derivatives and related items as defined in note 2.

Our materiality represents:
<table>
<tr><th>Metric</th><th>FY24</th><th>FY23</th></tr>
<tr><td>Revenue</td><td>0.5%</td><td>0.5%</td></tr>
<tr><td>Net assets</td><td>4.9%</td><td>5.4%</td></tr>
<tr><td>Total assets</td><td>0.6%</td><td>0.6%</td></tr>
<tr><td>Profit before tax excluding amortisation of acquired intangibles, business acquisition, merger and divestment related items, fair value movement on derivatives and related items as defined in note 2</td><td>9.5%</td><td>15.5%</td></tr>
</table></td><td>1% of total assets (2023: 1%). A lower materiality of £16.0m was used for the purposes of the Group audit; this was based on 80% of Group materiality (2023: 80%).

The materiality determined for the standalone Company financial statements exceeds the Group materiality. This is due to the fact that the total asset balance of the Company financial statements exceeds the total asset balance of the Group.

Where there were balances and transactions within the Company accounts that were within the scope of the audit of the Group financial statements, our procedures were undertaken using the lower materiality level applicable to the Group audit components. It was only for testing balances not relevant to the Group audit, such as intercompany investment balances, that the higher level of materiality applied in practice.</td></tr>
<tr><td>Rationale for the benchmark applied</td><td>We assessed which line items are the most important to investors and analysts by reading analyst reports and Babcock's communications to shareholders, as well as the communications of peer companies.

Profit before tax is the benchmark ordinarily considered by us when auditing equity listed entities. It provides comparability against companies across all sectors but has limitations particularly where profitability has significantly varied year on year which has been the case for the Group.</td><td>As the Company is non-trading and operates primarily as a holding Company, we believe the total asset position is the most appropriate benchmark to use.</td></tr>
</table>

6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	60% (2023: 60%) of Group materiality	60% (2023: 60%) of Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • The deficiencies identified in the control environment; • The nature of the Group and lack of common controls and processes; and • The nature, volume and size of identified corrected and uncorrected misstatements identified in the prior year.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1,000,000 (2023: £780,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identify when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

We performed our scoping of the Group audit by understanding the Group and its environment, including Group-wide controls, and assessing the audit risks. This exercise considered the relative size of each reporting unit's contribution to revenue, profit before tax and adjusted profit before tax, alongside further financial or contractual risks, which we considered to be present. This resulted in 22 full scope components and 3 components subject to specified account balance audits. Given the disposal of the European Aerial Emergency Services (AES) businesses the number of component auditors used to perform procedures under our direction and supervision has reduced from eight to four.

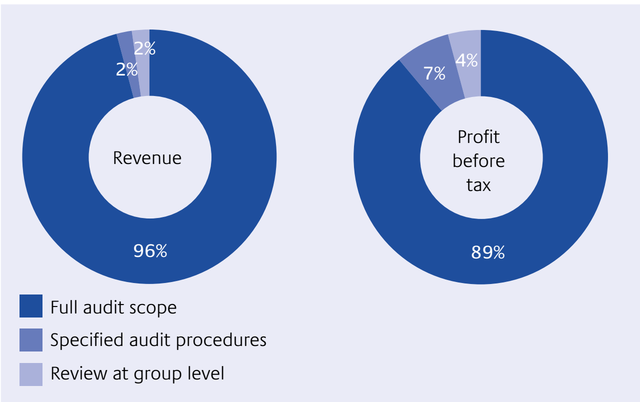
For all other reporting units not included in full scope, we performed centrally directed analytical review procedures to confirm our conclusion that there was no significant risk of material misstatement in the components not subject to audit.

As each of the reporting units maintains separate financial records, we engaged component auditors from the Deloitte member firms in Australia, Canada, France and South Africa, to perform procedures under our direction and supervision. Excluding the Company, component materiality ranged from £4.8 million to £6.0 million (2023: £3.09 million to £4.91 million).

We issued detailed instructions to the component auditors, including specific procedures to address Group level risks such as contracts testing and asset impairment procedures for some geographies, and directed and supervised their work through a number of visits to the component auditor during the planning and performance stages of our audit, alongside frequent remote communication and review of their work.

In addition to the work performed at a component level the Group audit team also performed audit procedures on the Company financial statements including, but not limited to, corporate activities such as treasury and pensions, as well as on the consolidated financial statements themselves. This included entity level controls, litigation provisions, the consolidation, financial statement disclosures and risk assessment work on components not included elsewhere in the scope of our audit. The Group audit team also co-ordinated certain procedures performed on key areas, such as PPE impairment, where audit work is performed by both the Group and component audit teams, as well as analytical reviews on out-of-scope components.

The 22 full scope components and 3 specified account balance audits contribute the proportions of Group totals shown below.



7.2 Our consideration of the control environment
We performed detailed walkthroughs of the processes associated with each of the Group's business cycles, identifying relevant controls and evaluating those controls. We tested controls through a combination of inquiry, observation, inspection, and re-performance. Our expectation when planning the FY24 audit approach was that deficiencies would still remain in the control environment and as such, we did not test relevant controls except for general IT controls in the Group's Neptune system. Given the ongoing remediation efforts and the overall risk surrounding the control deficiencies remaining high, we did not intend to rely on control activities within the Group's control environment. See section 5.1 for further details of our planned approach.

7.3 Our consideration of climate-related risks
The Group has considered climate change risk as part of their risk assessment process when considering the principal risks and uncertainties facing the Group. This is set out in the strategic report on page 103, and in Note 1 to the financial statements on page 187.

The areas of the financial statements that are notably impacted by climate-related considerations are associated with future forecasts in the medium to long term. These include considerations over the recoverable amount of goodwill, intangible assets and property plant and equipment. The Group also considered the potential impact on useful economic lives, disruption to key operating sites and supply chain disruption.

We have performed the following procedures:

- assessed and challenged management's assessment of the key financial statement line items and estimates which are more likely to be materially impacted by climate change risks, given that the more notable impacts of climate change on the business are expected to arise in the medium to long term;
- challenged how management considered climate change in their assessment of going concern and viability based on our understanding of the business environment and by benchmarking relevant assumptions with market data;
- involved our Environmental Social and Governance (ESG) specialists in challenging the Group's climate principal risk assessments. ESG specialists were also involved in evaluating the ESG section of the annual report and assessing Task Force on Climate-related financial disclosures (TCFD) on pages 72 to 79 against the recommendations of the TCFD framework. We considered if any of the information disclosed was inconsistent with the information we obtained through our audit;
- assessed whether climate risk assumptions underpinning specific account balances were appropriately disclosed; and
- read the climate risk disclosures included in the strategic report section of the annual report for consistency with the financial statements and our knowledge of the business environment.

7.4 Working with other auditors
Our oversight of component auditors included directing the planning of their audit work and understanding their risk assessment process to identify key areas of estimates and judgement, as well as supervising the execution of their audit work.

We issued detailed instructions to the component auditors, reviewed and challenged the related component inter-office reporting and findings from their work, reviewed underlying audit files, attended component audit closing conference calls and held regular remote communication to interact on any related audit and accounting matters which arose. Additionally, all teams were involved in our global planning and fraud meeting, which was led by the Group audit team. Visits to meet with certain component teams in Canada, South Africa and France were conducted. Where we did not visit components in person, we maintained an ongoing dialogue virtually and reviewed files remotely.

The Company is located in the United Kingdom and the UK businesses were audited directly by the Group audit team.

We are satisfied that the level of involvement of the Group audit partner and team in the component audits has been appropriate and has enabled us to conclude that sufficient appropriate audit evidence has been obtained in support of our opinion on the Group financial statements as a whole.

8. Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment (in particular the ongoing deficiencies identified in the previous year, see 5.1 above) and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the Board;
- results of our enquiries of the Directors, internal audit, internal and external legal counsel and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether management were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations including obtaining an understanding of the Group's bribery and corruption and whistleblowing policies; and
- the matters discussed with our internal fraud specialists, as part of our initial fraud risk assessment and our engagement team discussions, including fraud schemes that had arisen in similar sectors and industries; and
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including fraud, tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the level of judgement involved in estimating costs to complete on long-term contracts. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override of controls.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty, including in respect of export controls, defence contracting and anti-bribery and corruption legislation.

11.2 Audit response to risks identified

As a result of performing the above, we identified 'Revenue and margin recognition on key long-term contracts' and 'T31 Programme Estimates' as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing against supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of the Directors, the Audit Committee, in-house legal counsel, and where needed, circularising external legal counsel, concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 107;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 107;
- the Directors' statement on fair, balanced and understandable set out on page 162;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 161;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 131; and
- the section describing the work of the Audit Committee set out on page 128.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by shareholders at its Annual General Meeting on 22 September 2021 to audit the financial statements for the year ending 31 March 2022 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ended 31 March 2022 to 31 March 2024. The year ending 31 March 2024 will be the last year of our appointment as auditor.

15.2 Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.15R – DTR 4.1.18R, these financial statements will form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This auditor's report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R.

Makhan Chahal FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP

Statutory Auditor
London, UK

25 July 2024

Group income statement

For the year ended 31 March

	Note	2024 £m	2023 £m
Revenue	2,3	**4,390.1**	4,438.6
Operating costs		**(4,145.0)**	(4,315.7)
Loss resulting from acquisitions and disposals	27	**(3.5)**	(77.4)
Operating profit	2,3,4	**241.6**	45.5
Results from joint ventures and associates	2,14	**9.2**	9.3
Finance income	5	**22.1**	21.9
Finance costs	5	**(56.2)**	(70.5)
Profit before tax	2	**216.7**	6.2
Income tax expense	7	**(48.5)**	(39.5)
Profit/(Loss) for the year		**168.2**	(33.3)
Attributable to:			
Owners of the parent		**165.7**	(35.0)
Non-controlling interest		**2.5**	1.7
Earnings/(Loss) per share			
Basic	9	**32.9p**	(6.9)p
Diluted	9	**32.2p**	(6.9)p

Group statement of comprehensive income

For the year ended 31 March

	Note	2024 £m	2023 £m
Profit/(loss) for the year		**168.2**	(33.3)
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Currency translation differences		**(13.4)**	(0.5)
Reclassification of cumulative currency translation reserve on disposal	27	**–**	(1.2)
Fair value adjustment of interest rate and foreign exchange hedges		**(4.0)**	9.4
Tax, including rate change impact, on fair value adjustment of interest rate and foreign exchange hedges		**(0.5)**	(3.1)
Hedging gains/(losses) reclassified to profit or loss		**6.6**	(10.8)
Share of other comprehensive income of joint ventures and associates	14	**0.3**	4.7
Tax, including rate change impact, on share of other comprehensive income of joint ventures and associates	14	**(0.1)**	(1.2)
Items that will not be reclassified to income statement			
Remeasurement of retirement benefit obligations	25	**(155.1)**	(402.4)
Tax on remeasurement of retirement benefit obligations	7	**38.4**	100.8
Other comprehensive loss, net of tax		**(127.8)**	(304.3)
Total comprehensive income/(loss)		**40.4**	(337.6)
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**39.1**	(337.3)
Non-controlling interest		**1.3**	(0.3)
Total comprehensive income/(loss)		**40.4**	(337.6)

Group statement of changes in equity

	Note	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Total equity attributable to owners of the Company £m	Non-controlling interest £m	Total equity £m
At 1 April 2022		303.4	873.0	768.8	30.6	(1,241.4)	4.0	(56.4)	682.0	19.5	701.5
Loss for the year		–	–	–	–	(35.0)	–	–	(35.0)	1.7	(33.3)
Other comprehensive (loss)/income		–	–	–	–	(301.6)	(1.0)	0.3	(302.3)	(2.0)	(304.3)
Total comprehensive (loss)/income		–	–	–	–	(336.6)	(1.0)	0.3	(337.3)	(0.3)	(337.6)
Dividends		–	–	–	–	–	–	–	–	(2.2)	(2.2)
Share-based payments	24	–	–	–	–	9.4	–	–	9.4	–	9.4
Tax on share-based payments		–	–	–	–	(0.2)	–	–	(0.2)	–	(0.2)
Net movement in equity		–	–	–	–	(327.4)	(1.0)	0.3	(328.1)	(2.5)	(330.6)
At 31 March 2023		**303.4**	**873.0**	**768.8**	**30.6**	**(1,568.8)**	**3.0**	**(56.1)**	**353.9**	**17.0**	**370.9**
At 1 April 2023		**303.4**	**873.0**	**768.8**	**30.6**	**(1,568.8)**	**3.0**	**(56.1)**	**353.9**	**17.0**	**370.9**
Profit for the year		**–**	**–**	**–**	**–**	**165.7**	**–**	**–**	**165.7**	**2.5**	**168.2**
Other comprehensive (loss)/income		**–**	**–**	**–**	**–**	**(116.7)**	**2.3**	**(12.2)**	**(126.6)**	**(1.2)**	**(127.8)**
Total comprehensive income		**–**	**–**	**–**	**–**	**49.0**	**2.3**	**(12.2)**	**39.1**	**1.3**	**40.4**
Dividends	**8**	**–**	**–**	**–**	**–**	**(8.5)**	**–**	**–**	**(8.5)**	**(1.8)**	**(10.3)**
Disposal of subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.7**	**0.7**
Purchase of own shares		**–**	**–**	**–**	**–**	**(12.5)**	**–**	**–**	**(12.5)**	**–**	**(12.5)**
Share-based payments	**24**	**–**	**–**	**–**	**–**	**12.4**	**–**	**–**	**12.4**	**–**	**12.4**
Tax on share-based payments		**–**	**–**	**–**	**–**	**4.5**	**–**	**–**	**4.5**	**–**	**4.5**
Net movement in equity		**–**	**–**	**–**	**–**	**44.9**	**2.3**	**(12.2)**	**35.0**	**0.2**	**35.2**
At 31 March 2024		**303.4**	**873.0**	**768.8**	**30.6**	**(1,523.9)**	**5.3**	**(68.3)**	**388.9**	**17.2**	**406.1**

The other reserve relates to the rights issue of new ordinary shares on 7 May 2014 and the capital redemption reserve relates to the issue and redemption of redeemable ‘B’ preference shares in 2001.

Group statement of financial position

	Note	31 March 2024 £m	31 March 2023 £m
Assets			
Non-current assets			
Goodwill	10	**780.1**	781.4
Other intangible assets	11	**148.8**	140.8
Property, plant and equipment	12	**517.1**	478.5
Right of use assets	13	**175.6**	159.1
Investment in joint ventures and associates	14	**59.7**	57.4
Loan to joint ventures and associates	14	**3.9**	9.5
Retirement benefits surpluses	25	**107.3**	94.8
Other financial assets		**5.3**	7.3
Lease receivables	13, 21	**22.5**	22.2
Derivatives	21	**2.8**	2.6
Deferred tax asset	7	**132.3**	112.2
Trade and other receivables	16	**13.0**	6.4
		1,968.4	1,872.2
Current assets			
Inventories	15	**187.4**	126.8
Trade and other receivables	16	**487.2**	506.9
Contract assets	16	**337.4**	322.5
Income tax recoverable		**10.6**	7.7
Lease receivables	13, 21	**13.0**	16.4
Other financial assets		**1.1**	1.4
Derivatives	21	**4.4**	4.3
Cash and cash equivalents	17, 26	**570.6**	451.7
		1,611.7	1,437.7
Total assets		**3,580.1**	3,309.9
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	23	**303.4**	303.4
Share premium		**873.0**	873.0
Capital redemption and other reserves		**736.4**	746.3
Retained earnings		**(1,523.9)**	(1,568.8)
		388.9	353.9
Non-controlling interest		**17.2**	17.0
Total equity		**406.1**	370.9
Non-current liabilities			
Bank and other borrowings	19	**747.1**	768.4
Lease liabilities	13, 19	**185.9**	178.9
Trade and other payables	18	**5.4**	0.9
Deferred tax liabilities	7	**6.4**	7.0
Derivatives	21	**51.9**	53.3
Retirement benefit deficits	25	**217.0**	156.2
Provisions for other liabilities, including other employee benefits	20	**79.1**	80.8
		1,292.8	1,245.5
Current liabilities			
Bank and other borrowings	19	**20.4**	19.6
Lease liabilities	13, 19	**44.6**	49.9
Trade and other payables	18	**949.2**	911.1
Contract liabilities	18	**761.8**	616.4
Income tax payable		**16.6**	15.8
Derivatives	21	**9.5**	12.8
Provisions for other liabilities, including other employee benefits	20	**79.1**	67.9
		1,881.2	1,693.5
Total liabilities		**3,174.0**	2,939.0
Total equity and liabilities		**3,580.1**	3,309.9

The notes on pages 181 to 246 are an integral part of the consolidated financial statements. The Group financial statements on pages 177 to 246 were approved by the Board of Directors on 25 July 2024 and are signed on its behalf by:

David Lockwood OBE
Director

David Mellors
Director

Group cash flow statement

For the year ended 31 March

	Note	2024 £m	2023 £m
Cash flows from operating activities			
Profit/(loss) for the year		**168.2**	(33.3)
Results from joint ventures and associates	14	**(9.2)**	(9.3)
Income tax expense	7	**48.5**	39.5
Finance income	5	**(22.1)**	(21.9)
Finance costs	5	**56.2**	70.5
Depreciation and impairment of property, plant and equipment	12	**54.1**	77.0
Depreciation and impairment of right of use assets	13	**39.8**	91.3
Amortisation and impairment of intangible assets	11	**24.0**	37.1
Equity share-based payments	24	**12.4**	9.4
Net derivative fair value and currency movement through profit or loss		**(4.9)**	(7.5)
Fair value movement on assets held at fair value through profit or loss		**(2.0)**	–
Loss on disposal of subsidiaries, businesses and joint ventures and associates	27	**3.5**	77.4
Profit on disposal of property, plant and equipment		**(17.1)**	(2.0)
(Profit)/loss on disposal of right of use assets		**(3.6)**	0.8
Loss on disposal of intangible assets		**0.1**	1.7
Cash generated from operations before movement in working capital and retirement benefit payments		**347.9**	330.7
Increase in inventories		**(67.1)**	(25.7)
Decrease/(increase) in receivables		**6.1**	(71.6)
Increase in contract assets		**(18.3)**	(54.2)
Increase in payables		**56.1**	131.4
Increase in contract liabilities		**149.1**	132.3
Increase in provisions		**8.1**	47.9
Retirement benefit contributions in excess of current period expense		**(107.6)**	(141.9)
Cash generated from operations		**374.3**	348.9
Income tax paid		**(27.4)**	(25.4)
Interest paid		**(54.3)**	(77.0)
Interest received		**22.1**	14.8
Net cash flows from operating activities		**314.7**	261.3
Cash flows from investing activities			
Disposal of subsidiaries and joint ventures and associates, net of cash disposed	27	**(1.3)**	158.6
Dividends received from joint ventures and associates	14	**7.1**	8.7
Proceeds on disposal of property, plant and equipment		**30.6**	38.5
Proceeds on disposal of intangible assets		**–**	0.4
Purchases of property, plant and equipment		**(109.7)**	(104.2)
Purchases of intangible assets		**(32.7)**	(20.9)
Loans repaid by joint ventures and associates	14	**7.5**	2.4
Loans advanced to joint ventures and associates	14	**(2.1)**	–
Net cash flows from investing activities		**(100.6)**	83.5
Cash flows from financing activities			
Dividends paid	8	**(8.5)**	–
Lease payments	26	**(49.6)**	(108.5)
Cash inflow from settlement of derivatives	26	**–**	0.8
Bank loans repaid	26	**(13.1)**	(972.8)
Loans raised and facilities drawn down	26	**–**	416.6
Dividends paid to non-controlling interest		**(1.8)**	(2.2)
Purchase of own shares by Babcock Employee Share Trust		**(12.5)**	–
Net cash flows from financing activities		**(85.5)**	(666.1)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**128.6**	(321.3)
Cash, cash equivalents and bank overdrafts at beginning of year	26	**429.5**	756.5
Effects of exchange rate fluctuations	26	**(5.5)**	(5.7)
Cash, cash equivalents and bank overdrafts at end of year	26	**552.6**	429.5

Notes to the Group financial statements

1. Basis of preparation and material accounting policy information

Basis of preparation

Babcock International Group PLC (the parent and ultimate parent company) is a public company limited by shares incorporated in the United Kingdom under the Companies Act. Babcock International Group PLC is listed on the London Stock Exchange and is incorporated and domiciled in England, UK. A description of the nature of the Group's operations and principal activities is set out on page 2.

The financial statements have been prepared in accordance with United Kingdom adopted International Accounting Standards, which has not differed from the previously EU-adopted International Financial Reporting Standards (IFRS), and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value.

Going concern

After making enquiries, the Directors, at the time of approving the financial statements, have a reasonable expectation that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future. As such, the consolidated financial statements have been prepared on a going concern basis – further detail on the key factors impacting the going concern assessment are set out in the Directors' report on page 107. The Board considered the period from 21 July 2024 to 30 September 2025 in its assessment of going concern.

New and amended standards adopted by the Group

The Group applied the following standards and amendments for the first time for the year beginning on 1 April 2023:

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2023 and did not have a material impact on the consolidated financial statements:

- **IFRS 17, *'Insurance Contracts'*:** IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4.

  IFRS 17 allows an entity a policy choice to instead apply IFRS 15 to contracts which would otherwise meet the definition of an insurance contract providing their primary purpose is to provide a service at a fixed fee and provided certain specific conditions are met. Where these conditions are satisfied, the Group's policy is to apply IFRS 15 in all such instances.

  IFRS 17 also contains a number of scope exclusions – for example, warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer are outside the scope of IFRS 17.

  Whilst the Group holds a number of long-term support and maintenance contracts, it has been concluded that such contracts are either subject to the above scope exclusions and policy choices, or do not constitute insurance contracts because there is no transfer of significant insurance risk due to pricing structure such that additional costs are recoverable through variable consideration or final pricing adjustment. As such, none of the long-term support and maintenance contracts are accounted for under IFRS 17.

  The Group has assessed that the standard would impact its captive insurance company as it issues insurance contracts, however, since the contracts insure other Group companies, there is no impact on the Consolidated Financial Statements.

  The impact of adopting IFRS 17 is not material for the Group and no restatement of the prior period Income Statement or Statement of Financial Position was required.

- **Amendments to IAS 1, *'Presentation of Financial Statements'*:** The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

  The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

1. Basis of preparation and material accounting policy information continued

- **Amendments to IAS 8, *'Accounting Policies, Changes in Accounting Estimates and Errors'*:** The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

- **Amendments to IAS 12, *'Income Taxes'*:** The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit.

  Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

  The IASB amended the scope of IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules.

  The amendments introduce a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

  Following the amendments, the group is required to disclose that it has applied the exception and to disclose separately its current tax expense (income) related to Pillar Two income taxes.

New IFRS accounting standards, amendments and interpretations not yet adopted

The Group has not early adopted any other amendment, standard or interpretation that has been issued but is not yet effective. It is expected that these standards and amendments will be adopted on the applicable effective date. The following new or amended IFRS accounting standards, amendments and interpretations not yet adopted are not expected to have a significant impact on the Group:

- **Amendments to IFRS 10 and IAS 28:** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- **Amendments to IAS 1:** Classification of Liabilities as Current or Non-current
- **Amendments to IAS 1:** Non-current Liabilities with Covenants
- **Amendments to IAS 7 and IFRS 7:** Supplier Finance Arrangements
- **Amendments to IFRS 16:** Lease Liability in a Sale and Leaseback

All standards listed above will be adopted with effect from 1 April 2024 with the exception of the Amendments to IFRS 10 and IAS 28 for which the mandatory effective date has not yet been set by the IASB.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings together with its share of joint ventures' and associates' results. Intra-Group transactions, balances, income and expenses are eliminated on consolidation.

(a) Subsidiaries

A subsidiary is an entity controlled by the Group. An entity is controlled by the Group regardless of the level of the Group's equity interest in the entity, when the Group is exposed or has rights to variable returns from its involvement with the entity and has the ability to impact those returns through its power over the entity.

In determining whether control exists, the Group considers all relevant facts and circumstances to assess its control over an entity such as contractual commitments and potential voting rights held by the Group if they are substantive.

Subsidiaries are fully consolidated from the date control has been transferred to the Group and de-consolidated from the date control ceases. Where control ceases, the results for the year up to the date of relinquishing control or closure are analysed as continuing or discontinued operations.

(b) Joint ventures and associates

Associates are those entities over which the Group exercises its significant influence when it has the power to participate in the financial and operating policy decisions of the entity but it does not have the power to control or jointly control the entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

The Group's interests in joint ventures and associates are accounted for by the equity method of accounting and are initially recorded at cost. The Group's investment in joint ventures and associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The carrying values of associates and joint ventures are reviewed on a regular basis and if there is objective evidence that an impairment in value has occurred as a result of one or more events during the period, the investment is impaired.

1. Basis of preparation and material accounting policy information continued

The Group's share of its joint ventures' and associates' post-acquisition profits or losses after tax is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses unless it has incurred obligations to do so.

Unrealised gains and losses on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in the joint venture and associate. Loans to joint ventures are valued at amortised cost less provision for impairment.

Materiality

Various disclosures make reference to items considered as material or immaterial to the financial statements. The Group considers information to be material if omitting it or misstating it could influence decisions that users make on the basis of the financial information provided. Materiality is considered from both a quantitative and qualitative factor perspective. In addition to subsequent specific references to materiality, and in compliance with IFRS, certain disclosures have not been provided where the information resulting from that disclosure is not material.

Critical accounting estimates and judgements

In the course of preparation of the financial statements, judgements and estimates have been made in applying the Group's accounting policies that have had a material effect on the amounts recognised in the financial statements. The application of the Group's accounting policies requires the use of estimates and the inherent uncertainty in certain forward-looking estimates may result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates and judgements in relation to these financial statements are considered below:

(a) Critical accounting judgements

Critical accounting judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below. Detail of the Group's key judgements involving estimates are included in the Key sources of estimation uncertainty section.

(i) Acting as principal or agent

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

(ii) Determining the groups of cash generating units to which goodwill is allocated

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

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

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

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

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

Over time management reviews the basis upon which goodwill is allocated to ensure it remains appropriate as businesses are acquired and divested and reporting structures change, including how information is reported to the Chief Operating Decision Maker. If there was a change in this judgement this could result in a material adjustment to goodwill. Further detail is included in notes 3 and 10.

1. Basis of preparation and material accounting policy information continued

(iii) Additional work expected under the Type 31 contract

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

(b) Key sources of estimation uncertainty

The key sources of estimation uncertainty at the reporting period end that may result in significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year are set out below:

(i) Revenue and profit recognition

The following represent the notable assumptions impacting upon revenue and profit recognition as a result of the Group's contracts with customers:

- **Stage of completion & costs to complete** – The Group's revenue recognition policies require management to make an estimate of the cost to complete for long-term contracts. Management estimates outturn costs on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel. Estimates of cost to complete include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge, and judgements and estimates are reviewed regularly throughout the contract life based on latest available information with adjustments made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn. The most significant estimate of contract outturn relates to the Type 31 programme as outlined below.
- **Variable consideration** – the Group's contracts are often subject to variable consideration including performance-based penalties and incentives, gain/pain share arrangements and other items. Variable consideration is added to the transaction price only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised once the underlying uncertainty is resolved.
- **Inflation** – The level to which the Group's revenue and cost for each contract will be impacted by inflation is a key accounting estimate, as this could cause the revenue and cost of contract delivery to be greater than was expected at the time of contracting. The Group's contracts are exposed to inflation due to rising employment costs, as well as increased costs of raw materials. The Group endeavours to include cost recovery mechanisms or index-linked pricing within its contracts with customers in order to mitigate any inflation risk arising from increasing employment and raw material costs.

Type 31 contract estimates

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

This year we launched an operational improvement programme to address all areas of the Type 31 programme. This has included a significant focus on cost drivers and financial modelling, supported by external consultants, and has led to a number of management changes. This has enabled a more detailed reassessment, robustly supported by actual cost data, other empirical evidence and a further year of experience of the programme.

We recorded a £90m charge at the end of the year. Estimated costs over the life of the contract have increased due to the maturing of the design and an increase in the forecast cost of labour. The £90m charge has been recognised as a £66m reduction in revenue (which increases the contract liability within working capital) and £24m increase in the onerous contract provision.

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

1. Basis of preparation and material accounting policy information continued

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

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

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

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

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

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

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

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

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

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

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

1. Basis of preparation and material accounting policy information continued

The range of possible future outcomes in respect of assumptions made to determine the contract outturn could result in a material increase or decrease in revenue and the value of the onerous contract provision, and hence on the Group's profitability, in the next financial year. The estimates described above are by their nature inter-related for this programme and are unlikely to change with everything else constant. However, for illustrative purposes, we have provided sensitivities to certain isolated changes in key estimates on the basis that all other factors remain constant:

- **Production hours** – which are impacted by production norms, rate of improvement, process efficiencies and quality/engineering improvements (see a) and d) above). A 10% increase/decrease in production hours would increase/decrease the loss by £32m

- **Labour rate** – which is impacted by our ability to recruit permanent staff, the mix of the workforce, ancillary costs and inflation (see b) and g) above). A 10% increase/decrease in the average labour rate would increase/decrease the loss by £45m

- **Supply chain costs** (see c) above) – which are impacted by the agreement of remaining pricing, discounts and incentive arrangements. A 10% increase/decrease in supply chain costs would increase/decrease the loss by £31m

- **Schedule** (see e), f) and h) above) – which are impacted by the build schedule. A 6-month delay beyond the current planning assumption would increase/decrease the loss by £24m

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

To mitigate this, comparisons of actual contract performance and previous forecasts used to assess the contract outturn are performed regularly, with consideration given to whether any revisions to assumptions are required. In the next financial year, many of the 'first time' tasks and work to integrate the various elements of the first ship will be substantially complete. This will reduce the uncertainty over the contract outturn but a significant element will remain due to the substantial activity which extends over the remaining years. In a major ship build programme of this nature, it is inherently possible that there may be changes in circumstances which cannot reasonably be foreseen at the present time.

(ii) Defined benefit pension schemes obligations

The Group's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit pension obligations is sensitive to the inflation, discount rate, actuarial and life expectancy assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit pension obligations. In addition to the inflation, discount rate and life expectancy estimates, management is required to make an accounting judgement relating to the expected availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 25.

(c) Other estimates which are not key sources of estimation uncertainty

(i) The carrying value of goodwill

Goodwill is tested annually for impairment, in accordance with IAS 36, Impairment of Assets ('IAS 36'). The impairment assessment is based on assumptions in relation to future cash flows expected to be generated by the groups of cash generating units to which goodwill is allocated, together with appropriate discounting of the cash flows.

In the prior year, the recoverable amount of goodwill in the Aviation business was identified as a critical accounting estimate given the significance of the remaining carrying value of goodwill, the headroom within the base case and the inherent level of estimation uncertainty required to undertake impairment testing. The assessment of the recoverable value of goodwill elsewhere in the Group was not considered a critical accounting estimate as a result of the headroom within these areas.

In the current year, we have not identified a key source of estimation uncertainty in respect of goodwill. The headroom across all identified groups of CGUs against which goodwill is allocated and monitored is such that no reasonably possible changes in assumptions could result in the complete elimination of the headroom. The key assumptions in estimating the carrying value of goodwill are discount rate, long-term growth rate and growth rate in the short-term cash flows.

Inflation rates are incorporated into the impairment assessment through their inclusion within the growth rates in cash inflows and outflows and through the methodology by which discount rates are determined. Were inflation to impact upon all cash flows equally, an impairment assessment should be neutral to the impact of inflation. The Group has a number of protections and exposures to the impact of inflation across its portfolio of revenue arrangements and supply chain agreements resulting in an indirect impact of inflation on the impairment outturn.

Further information on key assumptions and sensitivity analyses are included in note 10.

1. Basis of preparation and material accounting policy information continued

(ii) Impact of climate change
In preparing the Group financial statements, consideration has been given to the potential impact of climate change. Climate-related matters create risks and opportunities for the Group as set out on pages 76 to 79 of the Strategic Report. Climate-related matters are not considered to have a material impact on the Group's critical accounting judgements or key sources of estimation uncertainty.

Climate-related matters primarily impact the Group through their potential impact on the Group's budgets and forecasts. Budgets and forecasts affect the current year financial statements through their impact on the following areas:

- Going concern and viability of the Group;
- Cash flow forecasts used in impairment assessments of including goodwill, intangible assets and property, plant & equipment;
- Cash flow forecasts used in the Impairment assessments of financial assets; and
- The assessed useful economic lives of the Group's non-current assets

Revised budgets and forecasts, incorporating an estimated financial impact on the climate-related risks and opportunities (described on pages 76 to 79 of the Strategic Report) have been modelled to understand the possible financial impact and the resilience to these sensitivities is the basis for why climate-related matters have been concluded to not have a material impact on the critical accounting judgements or key sources of estimation uncertainty. Whilst there is currently no significant medium-term impact expected from climate change, the Group is aware of the ever-changing risks attached to climate change and will regularly assess these risks against judgements and estimates made in preparing the Group consolidated financial statements.

Material accounting policy information
The material accounting policy information applicable to the Group is set out below. Material accounting policies have been applied consistently throughout the year and the comparative year except as specified below.

(a) Revenue
Revenue recognised represents income derived from contracts with customers for the provision of goods and services in the ordinary course of the Group's activities. The Group recognises revenue in line with IFRS 15, Revenue from Contracts with Customers. IFRS 15 requires the identification of performance obligations in contracts, determination of contract price, allocation of the contract price to the performance obligations and recognition of revenue as performance obligations are satisfied.

(i) Performance obligations
Contracts are assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct if the customer can benefit from them either on their own or together with other resources readily available to the customer and they are separately identifiable in the contract.

In assessing whether the performance obligations are separately identifiable, the services are reviewed to determine the extent to which the goods or services within a contract are interrelated and whether they modify other goods or services within a contract. The Group also considers whether the goods and/or services are integrated and represent a combined output for which the customer has contracted. The integrated output nature of many of the services provided by the Group results in some contracts only having one performance obligation.

(ii) Determination of contract price
The contract price represents the amount of consideration which the Group expects to be entitled in exchange for delivering the promised goods or services to the customer. Contracts can include both fixed and variable consideration.

Inclusion of variable consideration in the contract price requires the exercise of judgement in relation to the amount to be received through unpriced contract variations and claims (see section (v) below for further details) and variable elements of existing contracts, such as performance-based penalties and incentives, and gain/pain share arrangements where cost under/over spends are shared with the customer.

Given the long-term nature of the Group's contracts with customers, a number of arrangements include clauses to allow for inflation within the transaction price. Such inflation clauses are treated as variable consideration.

Elements of variable consideration are estimated at contract inception and at the end of each reporting period. Any required adjustment is made against the contract price in the period in which the adjustment occurs.

Variable consideration is estimated using either the expected value or the most likely amount and is added to the transaction price only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised once the underlying uncertainty is resolved. This judgement is made by suitably qualified and experienced personnel based on the contract terms, status of negotiations with customers and historical experience with customers and with similar contracts. As part of this judgement, variable consideration may be constrained until the uncertainty is resolved. In the case of unpriced variations these will be constrained to the extent that such variable consideration is not considered highly probable.

Variable consideration may be included in the total transaction price or, in certain circumstances, may be allocated to a specific time period. Where variable consideration is allocated to a specific time period this will typically be in relation to performance related deductions.

1. Basis of preparation and material accounting policy information continued

(a) Revenue continued

(iii) Allocation of contract price to performance obligations

Given the bespoke nature of many of the goods and services the Group provides, standalone selling prices are generally not observable and, in these circumstances, the Group allocates the contract price to performance obligations based on cost plus margin. This amount would be the standalone selling price of each performance obligation if contracted with a customer separately.

(iv) Revenue and profit recognition

Performance obligations are satisfied, and revenue recognised, as control of goods and services is transferred to the customer. Control can be transferred at a point in time or over time and the Group determines, for each performance obligation, whether it is satisfied over time or at a point in time.

Revenue recognised over time

Performance obligations are satisfied over time if any of the following criteria are satisfied:

- the customer simultaneously receives and consumes the benefits of the Group's performance as it performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for work done; or
- the Group's performance creates or enhances an asset controlled by the customer.

Typical performance obligations in the Group's contracts that are recognised over time include the delivery of services (such as maintenance, engineering and training), as the customer simultaneously receives and consumes the benefits of the Group's performance as it performs the services. Revenue from the design, manufacture and enhancement of bespoke assets is also recognised over time, as the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin.

Where the Group satisfies performance obligations over time, the Group primarily uses an input method to measure satisfaction of each performance obligation based on costs incurred compared to total estimated contract costs. For the majority of the Group's contracts, this is deemed to be the most appropriate method to measure Babcock's effort in satisfying the applicable performance obligations. Costs are included in the measurement of progress towards satisfying the performance obligation to the extent that there is a direct relationship between the input and satisfaction of the performance obligation. For contracts where costs incurred is not deemed to be the most appropriate measure, the Group uses time elapsed to measure satisfaction of the performance obligation.

Under most of the Group's contracts, the customer pays in accordance with a pre-arranged payment schedule or once milestones have been met. If the amount of revenue recognised (as measured by the methods described above) exceeds the amount of cash received from the customer then the difference will be held on the statement of financial position. This will typically be comprised of a mixture of contract assets and trade receivables. If the amount of cash collected together with amounts due under the contract but uncollected exceeds the amount of revenue recognised then the difference is also held on the statement of financial position as a contract liability. See section (viii) for further details on how contract assets and liabilities are recognised.

Revenue recognised at a point in time

If control of the goods or services is not transferred to the customer over time, then revenue is recognised at the point in time that control is transferred to the customer.

Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to receive payment by the Group. As can be seen from note 3, sale of goods at a point in time represents approximately 7% of Group revenues (2023: 8%). These revenues are delivered predominantly by the Aviation and Land sectors and include sales of equipment to commercial customers and procurement of consumables on behalf of the Ministry of Defence (MOD).

Assessment of contract profitability

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outturn assessments are carried out on a contract-by-contract basis, including consideration of technical and other risks, by suitably qualified and experienced personnel and the assessments of all significant contracts are subject to review and challenge.

Estimating contract revenues can involve judgements around whether the Group will meet performance targets and/or earn incentives, as well as consideration as to whether it is necessary to constrain variable revenues to meet the highly probable not to significantly reverse test set out in paragraph 56 of IFRS 15. When considering variations, claims and contingencies, the Group analyses various factors including the contractual terms, status of negotiations with the customer and historical experience with that customer and with similar contracts. Estimates of costs include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge and estimation uncertainty is resolved on a contract-by-contract basis as contracts near the end of the project lifecycle.

If a contract is deemed to be loss making the present obligation is recognised and measured as provision. Further detail is included in the Provisions accounting policy.

1. Basis of preparation and material accounting policy information continued

(a) Revenue continued

(v) Contract modifications

Claims and variations

The Group's contracts are often amended for changes in the customers' requirements. Contract modifications can relate to changes in both contract scope and price arising in the ordinary course of delivering contracts, which are referred to as contract variations. Such variations may arise as a result of customer requests or instructions or from requests from the Group in response to matters arising during the delivery of contracts. For example, some contracts include the requirement to conduct surveys and to report on or to recommend additional work as required. Some contracts may require the Group to proceed with variations and to agree pricing subsequently. See further detail on accounting for contract modifications below.

Contract modifications can also refer to changes in price only, with no change in scope, where there is a difference of view or dispute in relation to interpretation of contracts. These contract claims and variations are considered to be modifications as referred to in paragraph 18 of IFRS 15.

Accounting for contract modifications

The Group accounts for contract modifications in one of three ways, based on the facts and circumstances of the contract modification:

1. Prospectively, as an additional, separate contract;
2. Prospectively, as a termination of the existing contract and creation of a new contract; or
3. As part of the original contract using a cumulative catch-up.

The Group recognises contract variations, which impact both scope and price, when they are approved in accordance with IFRS 15. The Group's preferred approach is to approve contract modifications by formal contract amendment. However, the approval of contract modifications may be required to be carried out at pace and other mechanisms, informed by established customer relationships and local working arrangements, can be used to achieve approval of contract modifications. In approving contract modifications in these circumstances, the Group considers the scope of the contract modification in the context of the contract scope and contract terms. Contract variations where the formal contract amendment has not been received but which are, in management's judgement, approved are accounted for as a contract modification in accordance with IFRS 15 paragraph 18. Revenue from these contract variations is treated as variable consideration and subject to constraint as outlined in section (b) above, until the pricing is agreed. Contract claims are also considered to be contract modifications in accordance with IFRS 15, and revenue is subject to constraint as outlined in section (ii).

Claims and variations which are not deemed to be contract modifications

Claims can also be raised by Babcock against third-party sub-contractors or suppliers to the Group. As these do not relate to contracts with customers, but rather relate to contracts with suppliers, they are not accounted for under IFRS 15. The Group's accounting policy is to account for such claims in accordance with the contingent asset guidance per IAS 37. Income in relation to these claims will only be recognised once it is virtually certain.

(vi) Costs of obtaining a contract

Directly attributable costs to obtain a contract with a customer that the Group would not have incurred if the contract had not been won are recognised as an asset and amortised on a straight-line basis. Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost are recognised as an expense when incurred.

(vii) Costs to fulfil a contract

Costs to fulfil a contract which do not fall within the scope of another standard are recognised under IFRS 15 as an asset and amortised on a straight-line basis when they meet all of the following criteria:

(i) the costs relate directly to a contract or to an anticipated contract that can be specifically identified;

(ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(iii) the costs are expected to be recovered.

Costs of recruiting or training staff are expensed as incurred.

(viii) Contract assets and liabilities

Contract assets represent amounts for which the Group has a conditional right to consideration in exchange for goods or services that the Group has transferred to the customer. Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

1. Basis of preparation and material accounting policy information continued

(a) Revenue continued

Payment terms are set out in the contract and reflect the timing and performance of service delivery. For substantially all contracts the payment terms are broadly in line with expected satisfaction of performance obligations, and therefore recognition of revenue. Contract assets or liabilities arise on short term timing differences or in those more limited instances where payment terms do not reflect timing and performance of service delivery. In such cases, consideration is given to whether the contract includes a significant financing component with appropriate accounting.

(b) Underlying financial information and specific adjusting items

Definitions and a description of the use of the underlying performance measures can be found in note 2.

(c) Transactions with non-controlling interest

The Group's policy is to treat transactions with non-controlling interest as transactions with owners of the Company. These are therefore reflected as movements in reserves.

(d) Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Onerous contract provisions are recognised after impairment of any assets directly related to the onerous contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Group incurring further costs.

Provisions for onerous revenue contracts are recorded when it becomes probable that total remaining contract fulfilment costs will exceed total remaining revenue not yet recognised. Provisions for losses on contracts are recognised after impairment of any assets directly related to fulfilling the loss-making contract. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly.

A provision for the contractual maintenance, overhaul and repair requirements of right of use aircraft and specific associated aircraft components arising from return condition obligations in aircraft lease contracts is recognised as the obligation to perform contractual maintenance arises with each hour flown. Where lease contracts contain contractual penalties in the event that the Group returns leased aircraft in a condition that does not meet the contractual return condition obligation, the associated provision is measured at the lower of the restoration cost and the detriment penalty in the lease. When maintenance of a leased aircraft component is performed, if the component's remaining flying hours are greater than the return condition outlined in the lease contract then a leasehold improvement asset is recognised in proportion to the excess flying hours above the contractual return condition. Maintenance provisions are not recognised in respect of aircraft components which are maintained under Power-by-the-hour maintenance arrangements, instead the associated payments to the maintenance provider are expensed as incurred. Any additional payments made to or received from maintenance providers at the conclusion of Power-by-the-hour maintenance arrangements are recognised as an expense or as income at the time at which they are incurred or received.

(e) Goodwill and intangible assets

(i) Goodwill

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets, the difference is treated as purchased goodwill and capitalised. Goodwill is allocated to the cash generating unit (or group of cash generating units) expected to benefit from the business combination's synergies.

Goodwill is predominantly monitored at the operating segment level (Marine, Nuclear and Aviation). Land is a singular operating and reporting segment however goodwill is separately monitored and allocated between the Group's Africa operations and those of the other Land operations. Goodwill is therefore separately tested for impairment between these two groups of cash generating units.

When the fair value of the consideration for an acquired undertaking is less than the fair value of its separable net assets, the difference is taken directly to the income statement.

Goodwill relating to acquisitions prior to 1 April 2004 is maintained at its net book value on the date of transition to IFRS. From that date goodwill is not amortised but is reviewed at least annually for impairment.

Goodwill is reviewed for impairment annually at 31 March by assessing the recoverable amount of cash generating units (or groups of cash generating units) by reference to value-in-use calculations or fair value less cost to dispose if such information exists at the balance sheet date (typically only where the Group is progressed with disposal related activities that allow a fair value less cost to dispose to be readily determinable). Goodwill impairments are not subsequently reversed. See note 10 for further information on goodwill impairment reviews.

1. Basis of preparation and material accounting policy information continued

(e) Goodwill and intangible assets continued

On disposal of a subsidiary, joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(ii) Acquired intangibles

Acquired intangibles are the estimated fair value of customer relationships and brands which are in part contractual, represented by the value of the acquired order book, and in part non-contractual, represented by the risk-adjusted value of future orders expected to arise from the relationships.

The carrying value of the contractual element is amortised on a straight-line basis over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation periods, reflecting the lengths of the various contracts, are mainly in the range one year to five years, with a minority of contracts and hence amortisation periods, up to 15 years.

The carrying value of the non-contractual element is amortised over the period in which it is estimated that the relationships are likely to bring economic benefit via future orders.

Relationships are valued on a contract-by-contract and customer-by-customer basis and the pattern of amortisation reflects the expected pattern of benefit in each case. The amortisation profile is determined on a case-by-case basis and in all cases results in a front-loaded profile, reflecting the greater certainty of future orders in the near term compared with the longer term. The amortisation period is in the range between one year to twenty years.

Acquired brand names are valued dependent on the characteristics of the market in which they operate and the likely value a third party would place on them. Useful lives are likewise dependent on market characteristics of the acquired business brand. These are amortised on a straight-line basis over a period of up to five years.

(iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit but not exceeding seven years. Amortisation of development costs is expensed within operating costs in the Group income statement.

(iv) Computer software

Computer software, excluding the Group's Enterprise Resource Planning (ERP) system, includes software licences acquired. Configuration and customisation costs relating to Software-as-a-service agreements are expensed as incurred. Computer software is measured at cost less accumulated amortisation and is amortised on a straight-line basis over its expected useful life of between three and seven years. Amortisation of software costs is expensed within operating costs in the Group income statement.

The Group is implementing an ERP system in phases over several years. The ERP system is amortised over its useful life of 10 years from the date when the asset is available for use, which occurs once the implementation has been completed for each respective business unit.

(f) Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items after the deduction of trade discounts and rebates.

Items of property, plant and equipment are depreciated over their estimated useful lives to any estimated residual value, using the following rates:

Freehold property	2.0% to 8.0%
Leasehold property	Lower of useful economic life or lease term
Plant and equipment	6.6% to 33.3%
Aircraft airframes	2%

Major strategic aircraft spares are classified within property, plant and equipment. Aircraft assets, including spares, are disaggregated into separate components where the components have differing useful lives with the value of each rotable component being measured at the cost of replacement or overhaul of the component and the remaining value of the asset being attributed to the airframe component.

Depreciation is provided on a straight-line basis, or in the case of certain aircraft components on an hours flown basis, to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each financial year end).

1. Basis of preparation and material accounting policy information continued

(f) Property, plant and equipment continued

Subsequent expenditure on the replacement or overhaul of aircraft components is capitalised with the carrying value of the part replaced being written off. Subsequent expenditure on maintenance which enhances the performance of aircraft airframes is capitalised whilst expenditure on replacing elements of aircraft airframes is expensed. Components of owned aircraft which are maintained under Power-by-the-hour maintenance arrangements are not depreciated with the associated payments to the maintenance provider instead being expensed as incurred, as the residual value of the asset is deemed to be equivalent to the cost of the asset. Any additional payments made to or received from maintenance providers at the conclusion of Power-by-the-hour maintenance arrangements are recognised as an expense or as income at the time at which they are incurred or received.

The useful economic life of aircraft is based on management's estimate of how long the aircraft will continue to be operated in the same manner or a similar manner, typically not exceeding 30 years. Where the Group acquires aircraft which have already been used, and may already exceed the typical useful economic life, an individual assessment of useful economic life is performed.

(g) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Qualifying assets include both internally generated intangible assets and property, plant and equipment.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in Other Comprehensive Income and reclassified to the Income Statement when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

All other borrowing costs are recognised in the Income Statement in the period in which they are incurred.

(h) Impairment of non-current assets

Goodwill and indefinite life intangibles are reviewed for impairment at least annually. For all other non-financial non-current assets (including acquired intangible assets, capitalised development costs, software assets, property, plant and equipment and right of use assets) the Group performs impairment testing where indicators of impairment are identified. Impairment testing is performed at the individual asset level. Where an asset does not generate cash flows that are separately identifiable from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal, and value-in-use. When the recoverable amount is less than the carrying amount, an impairment loss is recognised immediately in the Group income statement.

Where an impairment loss on other non-financial non-current assets subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised in prior years. Goodwill impairments are not subsequently reversed.

(i) Net debt

Net debt, including loans to joint ventures and associates and lease receivables is an alternative performance measure of the Group and consists of the total of loans, including the interest rate and foreign exchange derivatives which hedge the loans, bank overdrafts, cash and cash equivalents, loans to joint ventures and associates, lease receivables and lease obligations. The Group's key performance indicators exclude certain lease obligations in order to more closely align with the Group's debt covenants which are prepared on a pre-IFRS 16 basis and the Financial review presents net debt and related performance measures including and excluding certain lease obligations for this purpose.

(j) Leases

The Group as lessee

For all leases in which the Group is a lessee (other than those meeting the criteria detailed below), the Group recognises a right of use asset and corresponding lease liability at commencement of the lease.

The lease liability is the present value of future lease payments discounted at the rate implicit in the lease, if available, or the applicable incremental borrowing rate. The incremental borrowing rate is determined at lease inception based on a number of factors including asset type, lease currency and lease term. Lease payments include fixed payments and variable lease payments dependent on an index or rate, initially measured using the index or rate at the commencement date. The lease term reflects any extension or termination options that the Group is reasonably certain to exercise.

1. Basis of preparation and material accounting policy information continued

(j) Leases continued

The lease liability is subsequently measured at amortised cost using the effective interest rate method, with interest on the lease liability being recognised as a finance expense in the income statement. The lease liability is remeasured, with a corresponding adjustment to the right of use asset, if there is a change in future lease payments, for example resulting from a rent review, change in a rate/index or change in the Group's assessment of whether it is reasonably certain to exercise an extension, termination or purchase option.

The right of use asset is initially recorded at cost, being equal to the lease liability, adjusted for any initial direct costs, lease payments made prior to commencement date, lease incentives received and any dilapidation costs. Depreciation of right of use assets is recognised as an expense in the income statement on a straight-line basis over the shorter of the asset's useful life or expected term of the lease.

Right of use assets arising from sale and leaseback transactions are measured at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. Gains arising on sale and leaseback transactions are recognised to the extent that they relate to the rights transferred to the buyer-lessor whilst losses arising on sale and leaseback transactions are recognised in full.

Right of use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, with the impairment expense being recognised in the income statement. Where a lease is terminated early, any termination fees or gain or loss relating to the release of right of use asset and lease obligation are recognised as a gain or loss through the income statement.

Payments in respect of short-term leases not exceeding 12 months in duration or low-value leases are expensed on a straight-line basis to the income statement as permitted by IFRS 16, 'Leases'.

The Group as lessor

As a lessor, the Group classifies lessor arrangements as finance or operating leases. Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under a finance lease are held on the statement of financial position as a financial asset at an amount equal to the Group's net investment in the lease. The finance lease payments received are treated as finance income and a repayment of principal including initial direct costs. Finance income is allocated over the lease term, with the gross receivable being reviewed for impairment on a regular basis.

(k) Inventory

Inventory is valued at the lower of cost and net realisable value, being the estimated selling price of the assets in the ordinary course of business less estimated costs of completion and costs of sale. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads. Certain purchases of inventories may be subject to cash flow hedges for foreign exchange risk. The initial cost of hedged inventory is adjusted by the associated hedging gain or loss transferred from the cash flow hedge reserve ("basis adjustment"). Inventory is valued using a first-in, first-out ('FIFO') basis.

Spare parts that are consumed in the sale of goods or in the rendering of services are classified as inventory.

(l) Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. The Group does not recognise contingent liabilities. See note 29 for details of contingent liabilities.

(m) Cash and cash equivalents

Group cash and cash equivalents consist of cash at bank and cash in hand, together with short-term deposits with an original maturity of three months or less and money market funds. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are treated as cash equivalents for the purpose of the cash flow statement. In the statement of financial position such overdrafts are presented as current bank and other borrowings.

(n) Taxation

(i) Current income tax

Current income tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

1. Basis of preparation and material accounting policy information continued

(n) Taxation continued

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted, by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are recognised where deferred tax liabilities exist and are expected to reverse in the same period as the deferred tax asset or in periods into which a loss arising from a deferred tax asset can be carried forward or back. In the absence of sufficient deferred tax liabilities, deferred tax assets are recognised where it is probable that there will be future taxable profits from other sources against which a loss arising from the deferred tax asset can be offset. In assessing the availability of future profits, the Group uses profit forecasts consistent with those used for goodwill impairment testing. Profits forecast beyond the Group's five-year budget cycle are risk-weighted to reflect commercial uncertainties.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

(o) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Sterling, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of subsidiaries of the Group using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the year-end exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Exchange differences arising from the translation of the statement of financial positions and income statements of foreign operations into Sterling are recognised as a separate component of equity on consolidation. Results of foreign operations are translated using the average exchange rate for the month of the applicable results, the net assets translated at year-end exchange rates and equity held at historic exchange rates. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at period-end exchange rates.

(p) Finance costs

Finance costs are recognised as an expense in the period in which they are incurred unless they are attributable to an asset under construction, in which case finance costs are capitalised.

(q) Finance income

Finance income is recognised in the period to which it relates using the effective interest rate method.

(r) Employee benefits

(i) Pension obligations

The Group operates a number of pension schemes. The schemes are generally funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

1. Basis of preparation and material accounting policy information continued

(r) Employee benefits continued

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit actuarial valuation method. The service cost and associated administration costs of the Group's pension schemes are charged to operating profit. In addition, a retirement benefit interest charge on the net pension deficit or interest credit on the net pension surplus is included in the income statement as a finance cost or finance income, respectively. Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income so that the Group's statement of financial position reflects the IAS 19 measurement of the schemes' surpluses or deficits at the reporting date.

(ii) Holiday pay

Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned.

(iii) Share-based compensation

The Group operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

The shares purchased by the Group's Employee Stock Ownership Plan (ESOP) trusts are recognised as a deduction to equity. Dividends paid on these shares are accounted for as a deduction to equity.

(s) Financial instruments

(i) Financial assets and liabilities at amortised cost

Cash and cash equivalents, trade receivables (except trade receivables under factoring arrangements), amounts due from related parties and other debtors are classified as financial assets held at amortised cost as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Trade receivables under factoring arrangements are measured at fair value through other comprehensive income because they are held within business model held to collect and sell.

Trade receivables, contract assets and lease receivables include a provision for expected credit losses. The Group measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. For all other financial assets carried at amortised cost, including loans to joint ventures and associates and other debtors, the Group measures the provision at an amount equal to 12-month expected credit losses. See note 22 for further information on how the Group assesses credit risk.

Trade creditors, amounts due to related parties, other creditors, accruals and bank loans and overdrafts are classified as financial liabilities held at amortised cost.

(ii) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at fair value. The Group designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. For derivatives that qualify as cash flow hedges, fair value gains or losses are deferred in equity until the underlying transaction is recognised. Changes in the value of derivatives that are carried at fair value through profit or loss are recorded in the income statement.

(t) Fair value measurement

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the year-end date. Fair value measurements are used on a recurring basis except where used in the acquisition of assets and liabilities through a business combination.

The fair values of derivative financial instruments are determined by the use of valuation techniques based on assumptions that are supported by observable market prices or rates. The fair values of non-financial assets and liabilities are based on observable market prices or rates.

The carrying values of financial assets and liabilities which are not held at fair value in the Group statement of financial position are assumed to approximate to fair value due to their short-term nature, with the exception of fixed rate bonds.

There have been no changes to the valuation techniques used during the year.

(u) Debt factoring

The Group engages in factoring of trade receivables in relation to certain non-UK operations of its Aviation sector as part of its working capital management arrangements. Under these arrangements, the Group transfers the rights to receive factored receivables to the factor in exchange for cash. The Group does not retain late payment or credit risk, and therefore trade receivables are not recognised under the applicable contracts. Any cash received from customers under these contracts is received as agent and transferred directly to the debt factoring counterparty.

1. Basis of preparation and material accounting policy information continued

(v) Dividends
Dividends are recognised as a liability in the Group's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

(w) Government grants and contributions
In the course of our business we receive certain grants or contributions from governments. These are deducted from the related expenses in the income statement. These amounts total £40.0 million (FY23: £22.9 million).

2. Adjustments between statutory and underlying information

Definition of underlying measures and specific adjusting items
The Group provides alternative performance measures, including underlying operating profit, to enable users to have a more consistent view of the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from 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 alternative performance measures are not defined by IFRS and are therefore considered to be non-GAAP measures. The measures may not be comparable to similar measures used by other companies and they are not intended to be a substitute for, or superior to, measures defined under IFRS. The Group's alternative performance measures are consistent with the year ended 31 March 2023.

Underlying operating profit
In any given year the statutory measure of operating profit includes a number of items which the Group considers to either be one-off in nature or otherwise not reflective of underlying performance. Underlying operating profit therefore adjusts statutory operating profit to provide readers with a measure of business performance which the Group considers more consistently analyses the underlying performance of the Group by removing these one-off and other items not reflective of underlying performance that otherwise add volatility to performance.

Underlying operating profit eliminates potential differences in performance caused by purchase price allocations on business combinations in prior periods (amortisation of acquired intangibles), business acquisition, merger and divestment related items, large, infrequent restructuring programmes and fair value movements on derivatives. Transactions such as these may happen regularly and could significantly impact the statutory result in any given year. Adjustments to underlying operating profit may include both income and expenditure items.

Specific adjusting items include:

- Amortisation of acquired intangibles;
- Business acquisition, merger and divestment related items (being amounts related to corporate transactions and gains or losses on disposal of assets or businesses);
- Gains, losses and costs directly arising from the Group's withdrawal from a specific market or geography, including closure costs, severance costs, the disposal of assets and termination of leases;
- The costs of large restructuring programmes that significantly exceed the minor restructuring which occurs in most years as part of normal operations. Restructuring costs incurred as a result of normal operations are included in operating costs and are not excluded from underlying operating profit;
- Profit or loss from amendment, curtailment, settlement or equalisation of Group pension schemes;
- Fair value gain/(loss) on forward rate contracts that are open during the period; and
- Exceptional items that are significant, non-recurring and outside of the normal operating practice. These items are described as exceptional in order to appropriately represent the Group's underlying business performance. No exceptional items have been identified in the current or comparative period.

2. Adjustments between statutory and underlying information continued

Income statement including underlying results

The below table, disclosed as supplementary information, reconciles the non-GAAP measure of underlying operating profit to statutory profit.

		Year ended 31 March 2024			Year ended 31 March 2023		
	Note	Underlying £m	Specific adjusting items £m	Statutory £m	Underlying £m	Specific adjusting items £m	Statutory £m
Revenue	3	**4,390.1**	**–**	**4,390.1**	4,438.6	–	4,438.6
Operating profit/(loss)	3,4	**237.8**	**3.8**	**241.6**	177.9	(132.4)	45.5
Operating margin %		**5.4%**	**–**	**5.5%**	4.0%	–	1.0%
Results from joint ventures and associates	14	**9.2**	**–**	**9.2**	9.3	–	9.3
Net finance costs	5	**(35.9)**	**1.8**	**(34.1)**	(58.3)	9.7	(48.6)
Profit/(loss) before tax		**211.1**	**5.6**	**216.7**	128.9	(122.7)	6.2
Income tax (expense)/benefit	7	**(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)

Earnings per share including underlying measures

	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) 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	**30.8p**		**32.9p**	17.7p		(6.9)p
Diluted EPS	**30.1p**		**32.2p**	17.4p		(6.9)p

Details of specific adjusting items

The impact of specific adjusting items is set out below:

	Year ended 31 March 2024 £m	Year ended 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 and related items	**6.4**	1.1
Adjusting items impacting operating profit/(loss)	**3.8**	(132.4)
Fair value movement on derivatives and related items	**1.8**	9.7
Adjusting items impacting loss before tax	**5.6**	(122.7)
Income tax benefit		
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	**(2.0)**	(2.6)
Exceptional tax on Group reorganisation activities	**4.7**	–
Other tax items including rate change impact	**(0.6)**	(1.2)
Income tax benefit/(expense)	**5.0**	(1.8)

2. Adjustments between statutory and underlying information continued

Reconciliation of statutory to underlying tax rate

	Note	Year ended 31 March 2024 Underlying £m	Year ended 31 March 2024 Specific adjusting items £m	Year ended 31 March 2024 Statutory £m	Year ended 31 March 2023 Underlying £m	Year ended 31 March 2023 Specific adjusting items £m	Year ended 31 March 2023 Statutory £m
Profit/(loss) before tax		**211.1**	**5.6**	**216.7**	128.9	(122.7)	6.2
Share of profit from joint ventures and associates	14	**(10.3)**	**–**	**(10.3)**	(9.3)	–	(9.3)
Profit/(loss) before tax excluding profit from joint ventures and associates		**200.8**	**5.6**	**206.4**	119.6	(122.7)	(3.1)
Income tax (expense)/benefit		**(53.5)**	**5.0**	**(48.5)**	(37.7)	(1.8)	(39.5)
Tax rate		**26.6%**		**23.5%**	31.5%		(1274.2%)

Explanation of specific adjusting items

Amortisation of acquired intangibles

Underlying operating profit excludes the amortisation of acquired intangibles. This item is excluded from underlying results as it arises as a result of purchase price allocations on business combinations and is a non-cash item which does not change each year dependent on the performance of the business. It is therefore not considered to represent the underlying activity of the Group and is removed to aid comparability with peers who have grown organically as opposed to through acquisition. Intangible assets arising as a result of the purchase price allocation on business combinations include customer lists, technology-based assets, order book and trade names. Amortisation of internally generated intangible assets is included within underlying operating profit.

Business acquisition, merger and divestment related items

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

The total net profit relating to business acquisition, merger and divestment related items for the year ended 31 March 2024 was £8.2 million (2023: loss of £117.7 million). The prior year balance consisted of a loss on the disposal of the Aerial Emergency Services business in Europe of £116.9 million, a loss on disposal of the Group's Civil Training business of £3.9 million and a gain relating to the disposal of the Oil & Gas business in Aviation of £3.1 million. The current year profit relates to changes in the cash consideration and provision balances following settlement of certain warranties in respect of prior disposals. Further detail is included in note 27.

Fair value movement on derivatives and related items

These are open forward currency contracts, taken out in the ordinary course of business to manage foreign currency exposures, where the transaction will occur in future periods. Hedge accounting under IFRS is not applied, however these do represent economic hedges. On maturity the currency contract will be closed and recognised in full within underlying operating profit at the same time as the hedged sale or purchase. The net result, at that time, will then more appropriately reflect the related sales price or supplier cost being hedged.

Hedge ineffectiveness on debt and debt-related derivatives that are designated in a hedge relationship are also presented as a specific adjusting item in finance costs. This is presented as a specific adjusting item as this ineffectiveness is caused by a historic off-market designation, the transactions are considered by the Group to represent an economic hedge.

The fair value movement on lease-related derivatives and foreign exchange movements on lease liabilities are also presented as a specific adjusting item in finance costs, as hedge accounting under IFRS is also not applied to these transactions but are also considered by the Group to represent an economic hedge.

Tax

Specific adjusting items in respect of tax comprises a charge of £0.6 million (2023: £1.2 million) arising from the impact of the increase in the rate of corporation tax and a credit of £4.7 million (2023: £nil million) arising from the release of uncertain tax positions in respect of historic group reorganisation activities.

3. Segmental information

The Group has four operating and reportable segments, determined by reference to the goods and services they provide and the markets they serve.

Marine – through-life support of naval ships, equipment and marine infrastructure in the UK and internationally.

Nuclear – through-life support of submarines and complex engineering services in support of major decommissioning programmes and projects, training and operation support, new build programme management and design and installation in the UK.

Land – large-scale critical vehicle fleet management, equipment support and training for military and civil customers.

Aviation – critical engineering services to defence and civil customers worldwide, including pilot training, equipment support, airbase management and operation of aviation fleets delivering emergency services.

The Board, the chief operating decision maker as defined by IFRS 8, monitors the results of these operating and reportable segments and makes decisions about the allocation of resources.

The accounting policies of the reportable segments are the same as the group's accounting policies described in Note 1. The table below presents the underlying results for each reportable segment in accordance with the definition of underlying operating profit, as set out in note 2, and reconciles the underlying operating profit/(loss) to the statutory profit/(loss) before tax.

Year ended 31 March 2024	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	**1,429.1**	**1,520.9**	**1,098.6**	**341.5**	**–**	**4,390.1**
Underlying operating profit	13.1	109.2	96.3	19.2	–	237.8
Specific Adjusting Items (note 2)						
Amortisation of acquired intangibles	(7.5)	–	–	(3.3)	–	(10.8)
Business acquisition, merger and divestment related items	(1.5)	–	(0.2)	9.9	–	8.2
Fair value gain/(loss) on forward rate contracts to be settled in future periods	6.9	–	–	(0.5)	–	6.4
Operating profit	**11.0**	**109.2**	**96.1**	**25.3**	**–**	**241.6**
Results from joint ventures and associates	(2.3)	0.2	0.3	11.0	–	9.2
IFRIC 12 investment income	–	–	0.5	–	–	0.5
Other net finance costs*	–	–	–	–	(34.6)	(34.6)
Profit/(loss) before tax	**8.7**	**109.4**	**96.9**	**36.3**	**(34.6)**	**216.7**

Year ended 31 March 2023	Marine £m	Nuclear £m	Land £m	Aviation £m	Unallocated £m	Total £m
Revenue	**1,439.6**	**1,179.2**	**1,017.1**	**802.7**	**–**	**4,438.6**
Underlying operating profit	12.7	63.5	85.9	15.8	–	177.9
Specific Adjusting Items (note 2)						
Amortisation of acquired intangibles	(9.7)	–	(1.1)	(5.0)	–	(15.8)
Business acquisition, merger and divestment related items	–	–	(4.0)	(113.7)	–	(117.7)
Fair value gain/(loss) on forward rate contracts to be settled in future periods	2.8	0.1	0.1	(1.9)	–	1.1
Operating profit/(loss)	**5.8**	**63.6**	**80.9**	**(104.8)**	**–**	**45.5**
Results from joint ventures and associates	(1.2)	1.1	0.4	9.0	–	9.3
IFRIC 12 investment income	–	–	0.7	–	–	0.7
Other net finance costs*	–	–	–	–	(49.3)	(49.3)
Profit/(loss) before tax	**4.6**	**64.7**	**82.0**	**(95.8)**	**(49.3)**	**6.2**

* Other net finance costs are not allocated to a specific sector.

Revenues of £2.5 billion (2023: £2.2 billion) are derived from a single external customer. These revenues are attributable across all reportable segments.

3. Segmental information continued

Segment assets and liabilities

The reportable segment assets and liabilities at 31 March 2024 and 31 March 2023 and capital expenditure and lease principal payments for the years then ended are as follows:

	Assets		Liabilities		Capital expenditure		Lease payments	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Marine	**799.3**	793.2	**878.0**	762.4	**31.0**	25.2	**4.5**	5.6
Nuclear	**720.9**	636.8	**322.3**	284.8	**67.4**	37.8	**4.3**	3.1
Land	**704.5**	638.2	**464.6**	379.1	**6.4**	3.6	**12.2**	13.9
Aviation	**410.9**	447.5	**191.2**	200.0	**13.6**	44.7	**22.8**	80.9
Unallocated *	**944.5**	794.2	**1,317.9**	1,312.7	**24.0**	13.8	**5.8**	5.0
Group total	**3,580.1**	3,309.9	**3,174.0**	2,939.0	**142.4**	125.1	**49.6**	108.5

* All assets and liabilities are allocated to their appropriate reportable segments except for cash, cash equivalents, borrowings including lease liabilities, income and deferred tax balances and retirement benefit surpluses which are included in the unallocated segment.

Capital expenditure represents additions to property, plant and equipment and intangible assets. Proceeds from the sale of assets totalling £30.6 million (2023: £38.9 million) are not included above, and are predominantly in the Land sector. See note 18 relating to the treatment of amounts payable in respect of capital expenditure.

The segmental analysis of joint ventures and associates is detailed in note 14.

Segmental depreciation and amortisation

The segmental depreciation on property, plant and equipment, right of use assets and amortisation of intangible assets for the years ended 31 March 2024 and 31 March 2023 is as follows:

	Depreciation of property, plant and equipment		Depreciation of right of use assets		Amortisation of intangible assets	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Marine	**11.9**	15.9	**4.0**	5.2	**13.3**	12.7
Nuclear	**23.7**	22.8	**4.7**	2.6	**0.2**	0.2
Land	**3.7**	4.4	**9.3**	10.8	**0.7**	2.3
Aviation	**7.3**	23.6	**14.8**	57.7	**3.4**	5.5
Unallocated	**5.4**	5.4	**7.0**	5.4	**6.4**	7.4
Group total	**52.0**	72.1	**39.8**	81.7	**24.0**	28.1

Segmental asset impairments

The segmental impairment on property, plant and equipment, right of use assets and intangible assets for the years ended 31 March 2024 and 31 March 2023 is as follows:

	Impairment of property, plant and equipment		Impairment of right of use assets		Impairment of intangible assets	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Marine	**–**	–	**–**	–	**–**	–
Nuclear	**–**	–	**–**	–	**–**	–
Land	**–**	–	**–**	0.9	**–**	0.9
Aviation	**2.1**	4.9	**–**	8.7	**–**	2.3
Unallocated	**–**	–	**–**	–	**–**	5.8
Group total	**2.1**	4.9	**–**	9.6	**–**	9.0

3. Segmental information continued

Geographic analysis of non-current assets

The geographic analysis for non-current assets by location of those assets for the years ended 31 March 2024 and 31 March 2023 is as follows:

	2024 £m	2023 £m
United Kingdom	**1,464.5**	1,415.7
Rest of Europe	**54.3**	48.7
Africa	**27.5**	32.7
North America	**16.4**	13.6
Australasia	**137.7**	126.3
Rest of World	**3.1**	3.4
Non-current segment assets	**1,703.5**	1,640.4
Retirement benefits	**107.3**	94.8
Lease receivables	**22.5**	22.2
Derivatives	**2.8**	2.6
Deferred tax asset	**132.3**	112.2
Total non-current assets	**1,968.4**	1,872.2

Geographic analysis of revenue

The geographic analysis of revenue by origin of customer for the years ended 31 March 2024 and 31 March 2023 is as follows:

	Revenue	
Geographic analysis	2024 £m	2023 £m
United Kingdom	**3,081.1**	2,693.3
Rest of Europe	**202.0**	601.0
Africa	**331.6**	329.3
North America	**193.2**	188.1
Australasia	**360.1**	349.5
Rest of World	**222.1**	277.4
Group total	**4,390.1**	4,438.6

The analysis of revenue for the years ended 31 March 2024 and 31 March 2023 is as follows:

	2024 £m	2023 £m Restated[1]
Sale of goods – transferred at a point in time	**304.3**	313.9
Sale of goods – transferred over time	**334.8**	262.3
Sale of goods	**639.1**	576.2
Provision of services – transferred over time	**3,743.9**	3,860.7
Rental income	**7.1**	1.7
Revenue	**4,390.1**	4,438.6

[1] Comparatives have been restated to reflect £38.6m of amounts incorrectly classified as sale of goods – transferred at a point in time that should have been presented as provision of services – transferred over time.

4. Operating profit for the year

The following items have been included in arriving at operating profit for the year:

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Raw materials, subcontracts and other bought-in items used	**2,053.1**	1,857.1
Change in inventories of finished goods and work-in-progress	**(61.1)**	(2.8)
Operating charges	**482.9**	682.6
Employee costs (note 6)	**1,583.5**	1,567.1
Depreciation of property, plant and equipment (note 12)	**52.0**	72.1
Depreciation of right-of-use assets (note 13)	**39.8**	81.7
Amortisation of intangible assets (note 11)		
• Acquired intangibles	**10.8**	15.8
• Other	**13.2**	12.3
Impairment of intangible assets (note 11)	**–**	9.0
Impairment of property, plant and equipment (note 12)	**2.1**	4.9
Impairment of right of use assets (note 13)	**–**	9.6
Gain on disposal of property, plant and equipment	**(17.1)**	(2.0)
Loss on disposal of intangible assets	**0.1**	1.7
(Gain)/loss on disposal of right-of-use assets	**(3.6)**	0.8
Net foreign exchange (gain)/loss	**(3.0)**	12.7
Loss on disposal of subsidiaries and joint ventures	**3.5**	77.4
Gain on derivative instruments at fair value through profit or loss	**(5.7)**	(6.9)
Gain on trade and other receivables measured at fair value	**(2.0)**	–
Total operating charges	**4,148.5**	4,393.1

Services provided by the Group's auditor and network firms

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor:

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Audit fees:		
Fees payable to the parent auditor and its associates for the audit of the parent company's individual and consolidated financial statements	**2.6**	2.4
Fees payable to the parent auditor and its associates in respect of the audit of the Company's subsidiaries	**10.7**	8.1
Audit related assurance fees	**–**	–
Fees for other services:		
Other non-audit services	**–**	–
Total fees paid to the Group's auditor and network firms	**13.3**	10.5

5. Net finance costs

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Finance costs		
Loans, overdrafts and associated interest rate hedges	**38.5**	29.6
Lease interest and foreign exchange movements on lease liabilities	**9.6**	21.7
Amortisation of issue costs of bank loan	**3.0**	3.3
Retirement benefit interest cost	**0.8**	–
Other	**4.3**	15.9
Total finance costs	**56.2**	70.5
Finance income		
Bank deposits, loans and leases	**21.6**	13.7
IFRIC 12 Investment income	**0.5**	0.7
Retirement benefit interest income	**–**	7.5
Total finance income	**22.1**	21.9
Net finance costs	**34.1**	48.6

Net finance costs decreased to £34.1 million (2023: £48.6 million). Included in finance costs are £4.4 million (2023: £12 million) relating to the factoring of receivables for the Mentor contract in France (within other finance costs).

The prior year included a one-off gain of £18 million relating to the valuation of interest rate swaps (within loans, overdrafts and associated interest rate hedges).

6. Employee costs

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Wages and salaries	**1,305.2**	1,289.2
Social security costs	**131.3**	141.3
Share-based payments (note 24)	**12.4**	9.4
Pension costs – defined contribution plans (note 25)	**110.7**	94.6
Pension charges – defined benefit plans (note 25)	**23.9**	32.6
	1,583.5	1,567.1

The average monthly number of people employed by the Group was:

	2024 Number	2023 Number (restated)
Marine	**6,801**	6,270
Nuclear	**8,681**	8,172
Land	**6,042**	6,421
Aviation	**2,494**	5,013
Central functions	**1,145**	859
	25,163	26,735

Average monthly number of people employed has been restated following mis-mapping of sectors in the prior year disclosure.

Emoluments of the Executive Directors are included in employee costs above and reported in the Remuneration report.

Key management compensation

Key management is defined as those employees who are directly responsible for the operational management of the operating segments. The employees would typically report to the Chief Executive. The key management figures given below include Directors.

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Salaries and other short term employee benefits	**13.5**	11.6
Post-employment benefits	**0.6**	0.2
Termination benefits	**0.5**	–
Share-based payments	**5.9**	4.6
	20.5	16.4

7. Taxation

Income tax expense

	Total	
	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Analysis of tax expense in the year		
Current tax		
• UK current year expense	–	0.6
• Overseas current year expense	**21.8**	24.5
• Overseas prior year (benefit) / expense	**(0.1)**	2.9
	21.7	28.0
Deferred tax		
• UK current year expense	**26.1**	11.1
• UK prior year expense/(benefit)	**0.5**	(3.3)
• Overseas current year expense	**1.8**	3.6
• Overseas prior year benefit	**(2.2)**	(1.1)
• Impact of changes in tax rates	**0.6**	1.2
	26.8	11.5
Total income tax expense	**48.5**	39.5

The tax for the year is lower (2023: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Profit before tax	**216.7**	6.2
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 25% (2023: 19%)	**54.2**	1.2
Effects of:		
Expenses not deductible for tax purposes	**3.4**	8.6
Re-measurement of deferred tax in respect of statutory rate changes	**0.6**	1.2
Difference in respect of share of results of joint ventures and associates' results	**(2.6)**	(1.8)
Prior year adjustments	**(1.8)**	(1.5)
Differences in respect of foreign rates	**2.0**	5.8
Unrecognised deferred tax movements	**2.5**	9.0
Deferred tax not previously recognised/derecognised	**(3.1)**	–
Non-taxable profits on disposals and non-deductible losses on disposals	**(2.1)**	22.4
Other	**(4.6)**	(5.4)
Total income tax expense	**48.5**	39.5

Further information on exceptional items and tax on exceptional items is detailed in note 2.

The Group is subject to taxation in several jurisdictions. The complexity of applicable rules may result in legitimate differences of interpretation between the Group and taxing authorities, especially where an economic judgement or valuation is involved. The outcome of tax authority disputes in such areas is not predictable, and to reflect the effect of these uncertain tax positions a provision is recorded which represents management's assessment of the most likely outcome of each issue. At 31 March 2024 the Group held uncertain tax positions of £23.7 million (2023: £20.3 million).

During the prior period the Group made disposals that are expected to be exempt from UK tax due to qualification for the UK substantial shareholding exemption, and from overseas tax as a consequence of local reliefs.

7. Taxation continued

Income tax expense continued

The Organisation for Economic Cooperation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Sharing has published the Pillar Two rules designed to address the tax challenges arising from the digitalisation of the global economy.

It is unclear if the Pillar Two rules create additional temporary differences, whether to remeasure deferred taxes for the Pillar Two model rules and which tax rate to use to measure deferred taxes. In response to this uncertainty, on 23 May 2023 the IASB issued amendments to IAS 12 "Income Taxes", introducing a mandatory temporary exception to the requirements of IAS 12, under which a company does not recognise or disclose information about deferred tax assets and liabilities related to the OECD/G20 Pillar Two model rules. The Group has applied the temporary exception as at 31 March 2024.

Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions in which the Group operates, including the UK. The legislation will be effective for the Group's financial year beginning on 1 April 2024. The Group is in scope of the enacted or substantively enacted legislation and has performed an assessment of its potential exposure to Pillar Two income taxes.

The assessment of the potential exposure to Pillar Two income taxes is based on the most recent tax filings, country by country reporting and financial statements for the constituent entities in the Group. Based on this assessment, the Pillar Two effective tax rates in most jurisdictions in which the Group operates are above 15%. There are a limited number of jurisdictions where the transitional safe harbour rules may not apply. However, in these cases the future Pillar Two effective tax rates are expected to be close to or above 15% and the Group does not expect a material exposure to Pillar Two income taxes in those jurisdictions.

Deferred tax

Deferred tax assets and deferred tax liabilities have been offset if, and only if, there is a legally enforceable right in that jurisdiction to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same Taxation Authorities:

	2024 £m	2023 £m
Deferred tax asset	**132.3**	112.2
Deferred tax liability	**(6.4)**	(7.0)
	125.9	105.2

The movements in deferred tax assets and liabilities during the year are shown below.

	Tangible assets £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
At 1 April 2023	**(40.9)**	**15.3**	**128.0**	**2.8**	**105.2**
Income statement credit/(debit)	**(6.9)**	**(26.7)**	**(2.7)**	**10.1**	**(26.2)**
Tax credit to other comprehensive income/equity	**–**	**38.4**	**–**	**4.0**	**42.4**
Transfer to income tax receivable	**–**	**–**	**5.3**	**–**	**5.3**
Reclassification	**0.6**	**–**	**0.3**	**(0.9)**	**–**
Effect of changes in tax rates					
• Income statement	**1.7**	**–**	**(2.4)**	**0.1**	**(0.6)**
Exchange differences	**0.4**	**–**	**(0.5)**	**(0.1)**	**(0.2)**
At 31 March 2024	**(45.1)**	**27.0**	**128.0**	**16.0**	**125.9**
At 1 April 2022	(32.7)	(48.0)	101.9	16.6	37.8
Income statement credit/(debit)	(6.1)	(28.5)	23.7	0.5	(10.4)
Tax credit/(debit) to other comprehensive income/equity	–	76.6	–	(3.3)	73.3
Transfer from income tax receivable	–	–	–	(5.2)	(5.2)
Disposal of subsidiary	(1.5)	–	(6.3)	(6.5)	(14.3)
Effect of changes in tax rates					
• Income statement	(1.5)	(9.0)	9.5	(0.1)	(1.1)
• Other comprehensive income/equity	–	24.2	–	–	24.2
Exchange differences	0.9	–	(0.8)	0.8	0.9
At 31 March 2023	(40.9)	15.3	128.0	2.8	105.2

7. Taxation continued

Deferred tax continued

The net deferred tax assets of £125.9 million (2023: £105.2 million) include deferred tax assets of £14.0 million (2023: £14.2 million) and deferred tax liabilities of £6.5 million (2023: £7.0 million) in respect of the Group's non-UK operations.

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because the Directors believe that it is probable that these assets will be recovered. The recognition of deferred tax assets in respect of losses can be subjective. The Group's approach to the recognition of deferred tax assets in respect of losses, including how the Group assesses future profitability for recognition purposes, is set out in note 1 to the Accounts.

Net deferred tax assets have been recognised principally in respect of operations in the following jurisdictions: United Kingdom (£118.2 million), Australia (£4.8 million), France (£0.9 million), South Africa (£7.4 million) and New Zealand (£0.8 million). In the prior year net deferred tax assets were recognised principally in the following jurisdictions: United Kingdom (£97.9 million), Australia (£7.4 million), France (£0.5 million), South Africa (£5.3 million) and New Zealand (£0.9 million). The UK was in a net tax loss position for each of the years ended 31 March 2021, 31 March 2022, 31 March 2023 and 31 March 2024. The losses for the years ended 31 March 2021 and 2022 reflected the contract profitability and balance sheet review carried out in 2021 and the restructuring of the business in 2022. The tax losses in the years ended 31 March 2023 and 31 March 2024 were principally attributable to the provision in respect of the Type 31 contract, together with timing differences between the reporting and taxable result. The Directors do not consider that the results for these periods are representative of future trading performance and are satisfied that these net deferred tax assets are recoverable based on future profit forecasts.

No deferred tax has been recognised in respect of temporary differences associated with investments in subsidiaries, branches, associates and interests in joint ventures and joint operations where the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate amount of temporary differences associated with such investments in subsidiaries, branches, associates and interests in joint ventures and joint operations is represented by their post acquisition retained earnings and amounted to £137 million (2023: £257 million).

At the statement of financial position date, deferred tax assets of £128.0 million (2023: £128.0 million) have been recognised in respect of unused tax losses available for carry forward. No deferred tax asset has been recognised in respect of further unutilised tax losses carried forward (excluding capital losses) of £110.5 million (2023: £96.4 million). In addition to these amounts, UK capital losses of £190.4 million (2023: £92.0 million) are being carried forward, with no deferred tax asset having been recognised. Where a deferred tax asset has not been recognised in respect of losses, this is because management considers that those jurisdictions are not likely to generate sufficient taxable income of the appropriate type in the foreseeable future (see note 1). The amounts shown can be carried forward indefinitely.

8. Dividends

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Final dividend for the year ended 31 March 2023 of nil (2022: nil p) per 60p share	**–**	–
Interim dividend for the year ended 31 March 2024 of 1.7p (2023: nil p) per 60p share	**8.5**	–
	8.5	–

After the balance sheet date, the directors proposed a final dividend of 3.3p per ordinary share. The dividend proposed amounts to approximately £17m, although the exact final payment will vary depending on the level of shares held by the Babcock Employee Share Trust. The dividend, which is subject to shareholder approval, will be paid on 30 September 2024 to shareholders registered on 23 August 2024. The payment of this dividend will not have any tax expense consequences for the Group

9. Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the earnings/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year excluding those held in the Babcock Employee Share Trust. Where there is a loss arising the effect of potentially dilutive ordinary shares is anti-dilutive.

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

Number of shares

	2024 Number	2023 Number
Weighted average number of ordinary shares for the purpose of basic EPS	**503,452,989**	505,391,563
Effect of dilutive potential ordinary shares: share options	**11,869,860**	9,528,985
Weighted average number of ordinary shares for the purpose of diluted EPS	**515,322,849**	514,920,548

Earnings per share

	Year ended 31 March 2024			Year ended 31 March 2023		
	Earnings attributable to shareholders £m	Basic per share Pence	Diluted per share Pence	Loss attributable to shareholders £m	Basic per share Pence	Diluted per share Pence
Earnings/(loss) for the year	**165.7**	**32.9**	**32.2**	(35.0)	(6.9)	(6.9)

10. Goodwill

	31 March 2024 £m	31 March 2023 £m
Cost		
At 1 April	**1,823.3**	2,312.7
On disposal of subsidiaries (note 27)	**–**	(488.0)
Exchange adjustments	**(1.3)**	(1.4)
At 31 March	**1,822.0**	1,823.3
Accumulated impairment		
At 1 April	**1,041.9**	1,529.3
On disposal of subsidiaries (note 27)	**–**	(487.4)
At 31 March	**1,041.9**	1,041.9
Net book value at 31 March	**780.1**	781.4

Goodwill was tested for impairment at 31 March 2024 in accordance with IAS 36. This impairment analysis is performed at least annually, as outlined in the Group's accounting policies. As set out in Note 1, the Group monitors goodwill at groups of CGUs aligned to the Group's operating segments for Marine, Aviation and Nuclear. Goodwill is separately allocated and monitored between two groups of CGUs in the Land operating segment – Africa and Land (excluding Africa).

Goodwill is allocated to groups of cash generating units ('CGUs') as set out in the table below:

	31 March 2024 £m	31 March 2023 £m
Marine	**295.5**	296.6
Nuclear	**233.1**	233.1
Land (excluding Africa)	**218.0**	218.0
Aviation	**32.0**	32.0
Africa	**1.5**	1.7
	780.1	781.4

The goodwill allocated to the Africa group of CGUs is immaterial and the Directors do not consider there to be any reasonably possible changes in estimates that would result in impairment of this goodwill. No further disclosures are provided in relation to Africa.

During the prior year the Group disposed of goodwill of £0.6 million through the disposal of part of the Aerial Emergency Services business in Aviation (£nil million) and the Civil Training business in Land (excluding Africa) (£0.6 million).

10. Goodwill continued

Results of goodwill impairment test

The current year impairment test results have not resulted in an impairment for any of the Group's cash generating units. The recoverable amount of the Group's goodwill was assessed by reference to value-in-use calculations. The value-in-use calculations are derived from risk-adjusted cash flows from the Group's five-year plan. Terminal value assessments are included based on year five and an estimated long-term, country-specific growth rate of 2.0 – 4.6% (2023: 1.9 – 4.6%). The process by which the Group's budget is prepared, reviewed and approved benefits from historical experience, visibility of long term work programmes in relation to work undertaken for the UK Government, available government spending information (both UK and overseas), the Group's contract backlog, bid pipeline and the Group's tracking pipeline which monitors opportunities prior to release of tenders. The budget process includes consideration of risks and opportunities at contract and business level, and considered matters such as inflation.

Furthermore, in preparing this assessment we have considered the potential impact of climate change. In particular, we have considered the impact of climate change on the useful economic lives of assets, disruption to key operating sites and supply chain, and potential asset impairments. Our identified climate risks (see pages 76 to 79 for details) predominantly result in adverse cash outflows to the business and have been modelled as such within our sensitivity analysis. We anticipate that a number of these climate risks may result in additional cash inflows as associated climate related costs could be passed onto our customers offsetting the climate risk and a conservative assessment of such cash inflow is also modelled within the sensitivity. These considerations did not have a material impact on the goodwill impairment assessment.

Key assumptions

Key assumptions are based on past experience and expectations of future changes in the market, expected outturn on in-progress significant contracts and pipeline reflecting prevailing economic forecasts, industry specific data, competitor activity and market dynamics.

Pre-tax discount rates derived from the Group's post-tax weighted average cost of capital were used to discount the estimated risk-adjusted cash flows. These pre-tax discount rates reflect the market assessment as at the period end date of the time value of money and the risks specific to the cash-generating units.

Country-specific long-term growth rates are determined based on external analyst assessments of long-term real GDP outlooks in the associated countries. The country-specific real long-term growth rates and discount rates for the Group's operating segments are as follows:

	31 March 2024				31 March 2023			
	Aviation	Land	Marine	Nuclear	Aviation	Land	Marine	Nuclear
Pre-tax discount rate	**13.2**	**12.2**	**12.2**	**12.6**	13.1	13.1	13.1	12.4
Post-tax discount rate	**9.8**	**9.0**	**9.0**	**9.3**	9.8	9.8	9.8	9.3
Long-term real growth rate	**2.0**	**2.2**	**2.1**	**2.0**	2.1	2.1	2.0	1.9

Expected future cash flows used in discounted cash flow models are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, such as demand for the Group's services, together with economic factors such as estimates of costs of revenue and future capital expenditure requirements. Expected future cash flows are also subject to estimation with regard to the impact of inflation – albeit a significant proportion of the Group's longer term revenue contracts include variable consideration in respect of inflation and therefore there is a natural offset on the impact of inflation on both costs and revenue.

Key assumptions in relation to future cash flows included in the value-in-use models are set out below:

Group of CGUs	Key future cash flow assumption
Marine	Continuing delivery of work programmes with the UK Ministry of Defence, including the design and build of Type 31 frigates and the production of vertical missile tubes for the US-UK common missile compartment programme. Future international opportunities in shipbuilding.
Nuclear	Continuing delivery of naval nuclear services to the UK Ministry of Defence, including the FMSP contract. Continuing delivery of opportunities in the UK civil nuclear decommissioning programme together with maintenance of ongoing spend in provision of nuclear engineering services to operational power stations.
Land	Continuing demand for equipment support and training from both military and civil customers, noting that significant elements of equipment support and training are the subject of long-term contracts, not all of which have been assumed to renew.
Aviation	Continuing delivery of long-term contracts with the UK Ministry of Defence. Expansion of activities in key overseas territories.

11. Other intangible assets

	Acquired intangibles – relationships £m	Internally generated software development costs and licences £m	Internally generated development costs and other £m	Assets under construction £m	Total £m
Cost					
At 1 April 2023	**861.0**	**231.3**	**15.0**	**–**	**1,107.3**
Additions	**–**	**6.9**	**10.0**	**16.4**	**33.3**
Reclassification from property, plant and equipment (Note 12)	**–**	**–**	**–**	**1.4**	**1.4**
Reclassification from AUC to in-use assets	**–**	**16.4**	**0.1**	**(16.5)**	**–**
Disposals at cost	**–**	**(1.0)**	**–**	**–**	**(1.0)**
Exchange adjustments	**(10.1)**	**(0.2)**	**(0.1)**	**–**	**(10.4)**
At 31 March 2024	**850.9**	**253.4**	**25.0**	**1.3**	**1,130.6**
Accumulated amortisation and impairment					
At 1 April 2023	**794.4**	**166.5**	**5.6**	**–**	**966.5**
Amortisation charge	**10.8**	**8.6**	**4.6**	**–**	**24.0**
Disposals	**–**	**(0.9)**	**–**	**–**	**(0.9)**
Exchange adjustments	**(7.4)**	**(0.5)**	**0.1**	**–**	**(7.8)**
At 31 March 2024	**797.8**	**173.7**	**10.3**	**–**	**981.8**
Net book value at 31 March 2024	**53.1**	**79.7**	**14.7**	**1.3**	**148.8**
Cost					
At 1 April 2022	1,095.3	222.6	27.6	–	1,345.5
Additions	–	18.1	3.4	–	21.5
Reclassification from property, plant and equipment	–	3.0	0.3	–	3.3
Disposal of subsidiary undertakings (note 27)	(237.0)	(4.9)	(13.9)	–	(255.8)
Disposals at cost	(2.0)	(7.4)	(3.0)	–	(12.4)
Exchange adjustments	4.7	(0.1)	0.6	–	5.2
At 31 March 2023	861.0	231.3	15.0	–	1,107.3
Accumulated amortisation and impairment					
At 1 April 2022	1,005.8	156.8	6.2	–	1,168.8
Amortisation charge	15.8	10.5	1.8	–	28.1
Impairment	–	9.0	–	–	9.0
Disposal of subsidiary undertakings (note 27)	(233.0)	(3.1)	(0.8)	–	(236.9)
Disposals	(2.0)	(6.6)	(1.7)	–	(10.3)
Exchange adjustments	7.8	(0.1)	0.1	–	7.8
At 31 March 2023	794.4	166.5	5.6	–	966.5
Net book value at 31 March 2023	66.6	64.8	9.4	–	140.8

Acquired intangible amortisation charges for the year are recorded in operating costs.

Included in Internally generated software development costs and licences is £36.9 million (2023: £38.6 million) relating to the Group's ERP system, which is amortised over a 10-year period. Included in the acquired intangible balance is £42.8 million (2023: £52.3 million) relating to the acquisition of NSM. This is being amortised over a period of 20 years.

12. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2023	**212.2**	**15.2**	**571.0**	**97.5**	**90.8**	**986.7**
Additions	**2.3**	**0.1**	**22.2**	**5.3**	**77.7**	**107.6**
Reclassfied to other intangible assets (Note 11)	**–**	**–**	**(1.4)**	**–**	**–**	**(1.4)**
Reclassification from AUC to in-use assets	**10.4**	**0.2**	**37.2**	**0.3**	**(48.1)**	**–**
Disposals	**(4.1)**	**–**	**(12.0)**	**(21.0)**	**–**	**(37.1)**
Capitalised borrowing costs	**–**	**–**	**–**	**–**	**3.9**	**3.9**
Exchange adjustments	**(0.2)**	**(0.1)**	**(4.7)**	**(2.2)**	**(0.2)**	**(7.4)**
At 31 March 2024	**220.6**	**15.4**	**612.3**	**79.9**	**124.1**	**1,052.3**
Accumulated depreciation						
At 1 April 2023	**74.4**	**12.1**	**390.6**	**24.9**	**6.2**	**508.2**
Depreciation charge for the year	**7.4**	**1.0**	**39.1**	**4.5**	**–**	**52.0**
Impairment	**–**	**–**	**–**	**2.1**	**–**	**2.1**
Disposals	**(2.2)**	**–**	**(8.7)**	**(12.7)**	**–**	**(23.6)**
Exchange adjustments	**(0.1)**	**(0.1)**	**(2.5)**	**(0.9)**	**0.1**	**(3.5)**
At 31 March 2024	**79.5**	**13.0**	**418.5**	**17.9**	**6.3**	**535.2**
Net book value at 31 March 2024	**141.1**	**2.4**	**193.8**	**62.0**	**117.8**	**517.1**

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2022	151.8	24.7	524.9	303.1	213.9	1,218.4
On disposal of subsidiaries (note 27)	(9.4)	(9.0)	(32.1)	(224.1)	(13.9)	(288.5)
Additions	0.4	0.2	33.2	27.8	48.3	109.9
Transfer to intangible assets	–	–	–	–	(3.3)	(3.3)
Reclassification from AUC to in-use assets	70.0	–	66.0	3.0	(139.0)	–
Transfer from Right-of use-assets	–	–	–	19.5	–	19.5
Disposals	(0.8)	–	(13.1)	(40.2)	(18.8)	(72.9)
Capitalised borrowing costs	–	–	–	–	0.6	0.6
Exchange adjustments	0.2	(0.7)	(7.9)	8.4	3.0	3.0
At 31 March 2023	212.2	15.2	571.0	97.5	90.8	986.7
Accumulated depreciation						
At 1 April 2022	70.7	11.1	373.2	52.3	0.5	507.8
On disposal of subsidiaries (note 27)	(2.9)	(0.5)	(14.3)	(33.9)	–	(51.6)
Depreciation charge for the year	7.1	1.5	45.4	18.1	–	72.1
Impairment	–	–	–	(0.8)	5.7	4.9
Transfer from Right-of-use-assets	–	–	–	11.5	–	11.5
Disposals	(0.7)	–	(11.2)	(24.0)	(0.5)	(36.4)
Exchange adjustments	0.2	–	(2.5)	1.7	0.5	(0.1)
At 31 March 2023	74.4	12.1	390.6	24.9	6.2	508.2
Net book value at 31 March 2023	137.8	3.1	180.4	72.6	84.6	478.5

13. Leases

Group as a lessee

Leases represent rentals payable by the Group for certain operational, distribution and office properties and other assets such as aircraft. The leases have varying terms, purchase options, escalation clauses and renewal rights.

Right of use assets

	Leasehold property £m	Plant and equipment £m	Aircraft fleet £m	Total £m
Cost				
At 1 April 2023	**141.6**	**67.7**	**138.0**	**347.3**
Additions	**21.6**	**12.9**	**34.6**	**69.1**
Disposals	**(21.2)**	**(6.3)**	**(14.8)**	**(42.3)**
Exchange adjustments	**(1.9)**	**(0.2)**	**(4.7)**	**(6.8)**
At 31 March 2024	**140.1**	**74.1**	**153.1**	**367.3**
Accumulated depreciation				
At 1 April 2023	**49.5**	**45.7**	**93.0**	**188.2**
Depreciation charge for the year	**18.0**	**8.9**	**12.9**	**39.8**
Disposals	**(12.6)**	**(5.2)**	**(14.0)**	**(31.8)**
Exchange adjustments	**(1.0)**	**(0.1)**	**(3.4)**	**(4.5)**
At 31 March 2024	**53.9**	**49.3**	**88.5**	**191.7**
Net book value at 31 March 2024	**86.2**	**24.8**	**64.6**	**175.6**
At 1 April 2022	127.3	64.7	383.0	575.0
Additions	37.1	9.8	67.7	114.6
Transfer to Property, plant and equipment	–	–	(19.5)	(19.5)
Disposals	(10.0)	(3.7)	(24.5)	(38.2)
Disposal of subsidiaries (note 27)	(11.5)	(3.5)	(269.8)	(284.8)
Exchange adjustments	(1.3)	0.4	1.1	0.2
At 31 March 2023	141.6	67.7	138.0	347.3
Accumulated depreciation				
At 1 April 2022	42.5	40.9	157.3	240.7
Depreciation charge for the year	20.5	9.1	52.1	81.7
Impairment	0.9	–	8.7	9.6
Disposals	(7.0)	(3.3)	(21.7)	(32.0)
Disposal of subsidiaries (note 27)	(6.9)	(1.3)	(94.6)	(102.8)
Transfer to Property, plant and equipment	–	–	(11.5)	(11.5)
Exchange adjustments	(0.5)	0.3	2.7	2.5
At 31 March 2023	49.5	45.7	93.0	188.2
Net book value at 31 March 2023	92.1	22.0	45.0	159.1

13. Leases continued

Lease liabilities

The following tables show the discounted Group lease liabilities and a reconciliation of opening to closing lease liabilities:

	Total £m
At 1 April 2023	**228.8**
Additions	**68.0**
Disposals	**(12.8)**
Exchange adjustments	**(3.9)**
Lease interest	**9.8**
Lease repayments	**(59.4)**
At 31 March 2024	**230.5**
Non-current lease liabilities	**185.9**
Current lease liabilities	**44.6**
At 31 March 2024	**230.5**

At 1 April 2022	434.1
Additions	117.0
Disposals	(5.3)
Disposal of subsidiaries (note 27)	(218.1)
Exchange adjustments	9.6
Lease interest	15.9
Lease repayments	(124.4)
At 31 March 2023	228.8
Non-current lease liabilities	178.9
Current lease liabilities	49.9
At 31 March 2023	228.8

See note 22 for a maturity analysis of the contractual undiscounted lease payments.

Amounts recognised in the Group income statement

	2024 £m	2023 £m
Interest on lease liabilities	**9.8**	15.9
Right-of-use asset depreciation	**39.8**	81.7
Right-of-use asset impairment	**–**	9.6
(Gain)/loss on disposal of right-of-use assets	**(3.6)**	0.9

The total expense for short term and low value leases was £52.0 million (2023 restated: £38.2 million). The expense is deemed approximate to the cash outflow for short term and low value leases.

Amounts recognised in the Group cash flow statement

	2024 £m	2023 £m
Total cash outflow for principal element of leases	**49.6**	108.5
Total cash outflow for interest element of leases	**9.8**	15.9
Total cash outflow for leases	**59.4**	124.4

13. Leases continued

Group as a lessor

The Group is the lessor in an arrangement for the lease of vehicles and sub-lease of leased properties. These are solely finance lease arrangements. There have been no new material lease arrangements as a lessor in the current year (2023: none).

Amounts recognised in the Group income statement

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Finance lease – interest income	**4.4**	4.4

Finance lease payments receivable

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Within one year	**16.9**	20.3
Greater than one year but less than two years	**13.1**	14.0
Greater than two years but less than three years	**8.8**	9.1
Greater than three years but less than four years	**4.3**	2.4
Greater than four years but less than five years	**0.1**	–
Total undiscounted finance lease payments receivable	**43.2**	45.8
Impact of discounting	**(7.7)**	(7.2)
Finance lease receivable (net investment in the lease)	**35.5**	38.6

There was no material impairment of lease receivables in the year ended 31 March 2024 (2023: £nil).

The Group has minimal residual risk for underlying assets to which it retains the residual rights as all leases for which the Group acts as lessor are finance leases and therefore the asset has been leased for a term equivalent to the asset's useful economic life.

14. Investment in and loans to joint ventures and associates

The Group's material joint ventures and associates are:

	Nature of relationship	Year end	Business activity	% interest held (2024)	% interest held (2023)	Country of incorporation	Principal area of operation
AirTanker Services Limited	Associate	31 Dec	Provision of air-to-air refuelling	23.5%	23.5%	United Kingdom	United Kingdom
Ascent Flight Training (Holdings) Limited	Joint venture	31 Mar	Provision of training services	50.0%	50.0%	United Kingdom	United Kingdom

14. Investment in and loans to joint ventures and associates continued

Summarised financial information for joint ventures and associates

The summarised financial information below reflects the amounts presented in the financial statements of the relevant joint ventures and associates, and not the Group's share of those amounts. These amounts have been adjusted to conform to the Group's accounting policies where required. The summarised financial information has been aggregated to provide useful information to users without excessive detail. Joint ventures that are not considered material to the Group are not shown below.

	31 March 2024		31 March 2023	
Summarised income statement extract (year ended)	Ascent Flight Training (Holdings) Limited	AirTanker Services Limited	Ascent Flight Training (Holdings) Limited	AirTanker Services Limited
Revenue	**168.8**	**254.7**	171.2	181.7
Depreciation and amortisation	**(0.5)**	**(1.7)**	–	(11.5)
Interest income	**3.4**	**1.8**	4.4	0.3
Interest expense	**(2.7)**	**(0.2)**	(5.0)	–
Income tax expense	**(5.7)**	**(5.0)**	(3.5)	(2.3)
Profit from continuing operations	**16.7**	**11.2**	14.5	5.9
Other comprehensive income	**0.4**	**–**	7.0	–
Total comprehensive income	**17.1**	**11.2**	21.5	5.9
Summarised statement of financial position				
Non-current assets	**45.8**	**87.8**	29.2	72.3
Current assets (excluding cash and cash equivalents)	**59.5**	**59.9**	75.5	95.2
Cash and cash equivalents	**55.4**	**86.6**	69.2	71.9
Non-current liabilities	**(94.9)**	**(60.7)**	(109.2)	(63.2)
Current liabilities	**(7.9)**	**(56.0)**	(10.4)	(74.9)
Net assets	**57.9**	**117.6**	54.3	101.3
Ownership	**50%**	**23.5%**	50.0%	23.5%
Carrying value of investment	**29.0**	**27.6**	27.2	23.8

Reconciliation to carrying amounts

	Investment in joint ventures and associates		Loans to joint ventures and associates		Total	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
At 1 April	**57.4**	54.3	**9.5**	12.1	**66.9**	66.4
Share of profits of joint ventures and associates	**10.3**	9.3	**–**	–	**10.3**	9.3
Impairment of joint ventures and associates	**(1.1)**	–	**–**	–	**(1.1)**	–
Results from joint ventures and associates	**9.2**	9.3	**–**	–	**9.2**	9.3
Acquisition and disposal of joint ventures and associates (note 27)	**–**	(1.0)	**–**	–	**–**	(1.0)
Loans repaid by joint ventures and associates	**–**	–	**(7.5)**	(2.4)	**(7.5)**	(2.4)
Increase in loans to joint ventures and associates	**–**	–	**2.1**	–	**2.1**	–
Interest accrued and capitalised	**–**	–	**0.3**	1.0	**0.3**	1.0
Interest received	**–**	–	**(0.5)**	(1.2)	**(0.5)**	(1.2)
Dividends received	**(7.1)**	(8.7)	**–**	–	**(7.1)**	(8.7)
Fair value adjustment of derivatives	**0.3**	4.7	**–**	–	**0.3**	4.7
Tax on fair value adjustment of derivatives	**(0.1)**	(1.2)	**–**	–	**(0.1)**	(1.2)
At 31 March	**59.7**	57.4	**3.9**	9.5	**63.6**	66.9

14. Investment in and loans to joint ventures and associates continued

The total investments in joint ventures and associates is attributable to the following reportable segments:

	2024 £m	2023 £m
Marine	**3.3**	3.7
Nuclear	**1.6**	1.4
Land	**0.2**	0.2
Aviation	**58.5**	61.6
Net book value	**63.6**	66.9

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed. The Group does not have any commitments that have been made to the joint ventures or associates and not recognised at the reporting date.

Joint arrangements are classified as joint ventures where the Group has the right to net assets of the joint arrangement rather than separate rights and obligations to the assets and liabilities of the joint arrangement, respectively. There has been no impairment to loans to joint ventures and associates during the year (2023: £nil). Total cumulative expected credit losses in respect of loans to joint ventures and associates are also £nil (2023: £nil) as the joint ventures and associates are considered to have low credit risk and as such impairment risk is considered minimal.

There are no significant restrictions on the ability of joint ventures and associates to transfer funds to the owners, other than those imposed by the Companies Act 2006 or equivalent local regulations.

15. Inventories

	31 March 2024 £m	31 March 2023 £m
Raw materials and spares	**58.1**	58.6
Work-in-progress	**4.6**	7.2
Finished goods and goods for resale	**124.7**	61.0
Total	**187.4**	126.8

Write-downs of inventories amounted to £13.8 million (2023: £5.4 million). These were recognised as an expense during the year ended 31 March 2024 and included in operating costs in the income statement. Inventory recognised as an expense in the year amounted to £357.2 million (2023: £320.5 million).

16. Trade and other receivables and contract assets

	31 March 2024 £m	31 March 2023 £m
Non-current assets		
Costs to obtain a contract	**0.3**	2.8
Costs to fulfil a contract	**10.2**	1.4
Other debtors	**2.5**	2.2
Non-current trade and other receivables	**13.0**	6.4
Current assets		
Trade receivables	**266.4**	307.3
Less: provision for impairment of receivables	**(8.5)**	(7.3)
Trade receivables – net	**257.9**	300.0
Retentions	**6.1**	6.0
Amounts due from related parties (note 31)	**2.3**	2.1
Other debtors[1]	**25.0**	49.6
Other taxes and social security receivables	**98.1**	79.8
Prepayments	**88.2**	63.7
Costs to obtain a contract	**–**	0.6
Costs to fulfil a contract	**9.6**	5.1
Current trade and other receivables	**487.2**	506.9
Contract assets	**337.4**	322.5
Current trade and other receivables and contract assets	**824.6**	829.4

[1] Included in Other debtors are rebates receivable and other sundry receivables. No individual balance within other debtors is material.

16. Trade and other receivables continued

Trade and other receivables are stated at amortised cost. Details of expected credit losses on trade receivables are provided in note 22, There has been no impairment to either other receivables or contract assets during the year ended 31 March 2024 (2023: £nil).

In the year ended 31 March 2024, amortisation of costs to obtain a contract and costs to fulfil a contract totalled £2.1 million (2023: £5.0 million). An impairment of £nil was recorded in relation to costs to obtain a contract or costs to fulfil a contract (2023: £1.6 million).

The Group recognises that there is an inherent element of estimation uncertainty and judgement involved in assessing contract profitability, as disclosed in note 1. Management have taken a best estimate view of contract outcomes based on the information currently available, after allowing for contingencies, and have applied a constraint to the variable consideration within revenue resulting in a revenue estimate that is suitably cautious under IFRS 15.

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

	Contract assets £m
31 March 2023	**322.5**
Transfers from contract assets recognised at the beginning of the year to trade receivables	**(279.2)**
Increase due to work done not transferred from contract assets	**297.6**
Exchange adjustment	**(3.5)**
31 March 2024	**337.4**

31 March 2022	299.3
Disposal of subsidiary undertaking	(34.6)
Transfers from contract assets recognised at the beginning of the year to receivables	(218.9)
Increase due to work done not transferred from contract assets	273.1
Exchange adjustment	3.6
31 March 2023	322.5

During the year, the Group has recognised a reversal of £34.4 million of revenue in respect of performance obligations satisfied or partially satisfied in previous periods (2023: £48.5m reversal).

The current year figure is significantly impacted by the reduction in margin and consequential revenue reversal on the T31 contract as described in Note 1. This has been offset by a number of cumulative catch-ups on a number of other key programmes driven by forecast margin improvements and the impact of variable consideration being unconstrained as the highly probable test under IFRS 15 has been satisfied in the period.

The prior year balance was significantly impacted by reductions in forecast margin on three of the Group's contracts – predominantly the loss on the T31 programme as described in Note 1. The variance resulting from these contracts was a result of movements in forecast cost to complete rather than a reversal of variable consideration previously seen as highly probable.

At 31 March 2024, there is £7.2 billion (2023: £6.7 billion) of transaction price on contracts with customers that has been allocated to unsatisfied or partially satisfied performance obligations (note this metric has been prepared for IFRS 15 disclosure purposes and therefore does not align to the Group’s contract backlog). Contract backlog is based on the full contractual term of the Group’s agreements whilst the IFRS 15 disclosure may be a shorter contractual period in the event that the customer has the ability to exit contracts prior to the full term for non-substantive penalty payments. Management expects that 40.9% (2023: 37.8%) of the transaction price allocated to unsatisfied performance obligations as at 31 March 2024 will be recognised as revenue during the next reporting period. A further 49.4% (2023: 46.3%) of the transaction price allocated to unsatisfied performance obligations is expected to be recognised as revenue in years two to five after 31 March 2024.

Details on the Group’s approach to assess credit risk are included in note 22.

17. Cash and cash equivalents

	31 March 2024 £m	31 March 2023 £m
Cash at bank and in hand	**218.4**	221.7
Short-term bank deposits	**352.2**	230.0
	570.6	451.7

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	31 March 2024		31 March 2023	
Currency	Total £m	Floating rate £m	Total £m	Floating rate £m
Sterling	**341.0**	**341.0**	319.8	319.8
Euro	**35.4**	**35.4**	7.6	7.6
US Dollar	**18.7**	**18.7**	15.7	15.7
South African Rand	**25.9**	**25.9**	45.3	45.3
Canadian Dollar	**64.1**	**64.1**	19.1	19.1
Omani Rial	**3.8**	**3.8**	5.7	5.7
Australian Dollar	**56.3**	**56.3**	25.1	25.1
Norwegian Krone	**0.5**	**0.5**	0.6	0.6
Swedish Krona	**1.7**	**1.7**	2.4	2.4
New Zealand Dollar	**15.2**	**15.2**	2.8	2.8
Other currencies	**8.0**	**8.0**	7.6	7.6
	570.6	**570.6**	451.7	451.7

Expected credit losses of cash and cash equivalents is £nil (2023: £nil).

18. Trade and other payables and contract liabilities

	2024 £m	2023 £m
Current liabilities		
Contract liabilities	**761.8**	616.4
Trade creditors	**314.3**	239.1
Amounts due to related parties (note 31)	**1.5**	0.8
Other creditors	**13.5**	34.0
Defined contribution pension creditor	**8.3**	7.6
Other taxes and social security	**71.1**	75.5
Accruals	**540.5**	554.1
Trade and other payables	**949.2**	911.1
Trade and other payables and contract liabilities	**1,711.0**	1,527.5
Non-current liabilities		
Non-current accruals	**4.8**	–
Other creditors	**0.6**	0.9
	5.4	0.9

Included in creditors is £11.4 million (2023: £12.9 million) relating to capital expenditure which has therefore not been included in working capital movements within the cash flow statement.

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

	Contract liabilities £m
31 March 2023	**616.4**
Revenue recognised that was included in the contract liability balance at the beginning of the year	**(540.8)**
Cash advanced	**689.9**
Exchange adjustment	**(3.7)**
31 March 2024	**761.8**
31 March 2022	518.3
Revenue recognised that was included in the contract liability balance at the beginning of the year	(377.5)
Cash advanced	509.8
Disposal of subsidiary undertaking	(31.9)
Exchange adjustment	(2.3)
31 March 2023	616.4

19. Bank and other borrowings

	31 March 2024 £m	31 March 2023 £m
Current liabilities		
Bank loans and overdrafts due within one year or on demand		
Secured	**4.5**	0.3
Unsecured	**15.9**	19.3
	20.4	19.6
Lease obligations*	**44.6**	49.9
	65.0	69.5
Non-current liabilities		
Bank and other borrowings		
Secured	**2.5**	21.0
Unsecured	**744.6**	747.4
	747.1	768.4
Lease obligations*	**185.9**	178.9
	933.0	947.3

* Leases are secured against the assets to which they relate.

The Group's overdraft totalled £18.0 million at 31 March 2024 (2023: £22.2 million).

The Group has £2.8 million (2023: £3.1 million) of secured debt in the Land operating segment that is secured against a property owned by the Group and £4.2 million (2023: £18.2 million) of debt that is secured against contracts with customers, which will cede to the bank in the event of default.

Unsecured bank loans are subject to covenants which are tested six monthly on a rolling basis. Covenants comprise of Net Debt (covenant basis) to EBITDA and Interest Cover. The Net Debt (covenant basis) to EBITDA ratio must be lower than 3.5x at each testing date whilst the Interest Cover must be at least 4.0x at each testing date. There are no breaches in the Group's base case forecasts as prepared for going concern purposes.

Drawn facilities at the period end date primarily comprise the €550 million Eurobond and the £300 million UK bond.

Repayment details

The total borrowings of the Group at 31 March are repayable as follows:

	31 March 2024		31 March 2023	
	Loans and overdrafts £m	Lease obligations £m	Loans and overdrafts £m	Lease obligations £m
Within one year	**20.4**	**44.6**	19.6	49.9
Between one and two years	**0.6**	**38.2**	0.3	40.6
Between two and three years	**296.0**	**33.2**	0.6	34.5
Between three and four years	**449.8**	**24.8**	300.6	23.4
Between four and five years	**0.7**	**19.5**	466.2	19.9
Greater than five years	**–**	**70.2**	0.7	60.5
	767.5	**230.5**	788.0	228.8

19. Bank and other borrowings continued

The Group has entered into interest rate and currency swaps, details of which are included in note 21.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	31 March 2024			31 March 2023		
Currency	**Total £m**	**Floating rate £m**	**Fixed rate £m**	Total £m	Floating rate £m	Fixed rate £m
Sterling	**415.0**	**7.8**	**407.2**	439.0	16.4	422.6
Euro*	**514.4**	**99.1**	**415.3**	515.4	87.2	428.2
US Dollar	**7.3**	**–**	**7.3**	5.9	0.4	5.5
South African Rand	**8.9**	**4.2**	**4.7**	25.1	18.3	6.8
Canadian Dollar	**4.8**	**–**	**4.8**	6.0	–	6.0
Australian Dollar	**44.0**	**–**	**44.0**	22.3	–	22.3
New Zealand Dollar	**1.4**	**–**	**1.4**	1.0	–	1.0
South Korean Won	**0.5**	**–**	**0.5**	0.8	–	0.8
Botswana Pula	**–**	**–**	**–**	0.2	–	0.2
Other	**1.7**	**–**	**1.7**	1.1	0.8	0.3
	998.0	**111.1**	**886.9**	1,016.8	123.1	893.7

* €550 million (2023: €550 million) has been swapped into Sterling, with €140.0 million equivalent (2023: €140.0 million equivalent) into floating rates and €410.0 million equivalent (2023: €410.0 million equivalent) into fixed rates. This is included in the Euro amount above. The split above includes the impact of hedging.

The weighted average interest rate of Sterling fixed rate borrowings is 1.9% (2023: 1.9%). The weighted average period for which these interest rates are fixed is 2.5 years (2023: 3.5 years).

The floating rate for borrowings is linked to SONIA in the case of Sterling, EURIBOR in the case of Euro, the prime rate in the case of South African Rand and the local prime rate for other currencies.

The effective interest rates at the statement of financial position dates, including the impact of hedging, were as follows:

	31 March 2024 %	31 March 2023 %
UK bank overdraft	**6.4**	5.4
8-year Eurobond September 2027– fixed	**2.9**	2.9
8-year Eurobond September 2027 – floating	**6.9**	6.3
£300 million bond 2026	**1.9**	1.9
Other borrowings	**5.6 – 11.1**	5.5 – 9.8
Leases obligations	**2.2 – 11.8**	3.7 – 17.2

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at 31 March:

	31 March 2024 £m	31 March 2023 £m
Expiring in more than one year but not more than five years	**775.0**	1,152.8
	775.0	1,152.8

20. Provisions for other liabilities, including other employee benefits

	Contract/ warranty (a) £m	Employee related and business reorganisation costs (b) £m	Italian anti-trust fine (c) £m	Property (d) £m	Other (e) £m	Total provisions £m
At 1 April 2022	**53.5**	**39.7**	**0.3**	**21.0**	**1.4**	**115.9**
On disposal of subsidiaries (note 27)	**(8.5)**	**(1.2)**	**–**	**(5.8)**	**(0.1)**	**(15.6)**
Reclassification	**(1.0)**	**1.4**	**–**	**(4.3)**	**3.9**	**–**
Charge to income statement	**85.3**	**12.8**	**–**	**8.6**	**1.2**	**107.9**
Release to the income statement	**(9.3)**	**(2.4)**	**–**	**(0.2)**	**(1.8)**	**(13.7)**
Utilised in year	**(20.2)**	**(19.2)**	**(0.3)**	**(4.8)**	**(1.8)**	**(46.3)**
Unwinding of discount	**–**	**0.2**	**–**	**–**	**–**	**0.2**
Foreign exchange	**0.6**	**(0.8)**	**–**	**0.6**	**(0.1)**	**0.3**
At 31 March 2023	**100.4**	**30.5**	**–**	**15.1**	**2.7**	**148.7**
Charge to income statement	**66.4**	**10.3**	**–**	**10.3**	**2.7**	**89.7**
Release to the income statement	**(19.4)**	**(3.6)**	**–**	**(0.5)**	**(0.1)**	**(23.6)**
Utilised in year	**(31.3)**	**(6.2)**	**–**	**(1.4)**	**(0.7)**	**(39.6)**
Reclassified to accruals[1]	**–**	**(18.0)**	**–**	**–**	**–**	**(18.0)**
Unwinding of discount	**2.4**	**0.3**	**–**	**–**	**–**	**2.7**
Foreign exchange	**(0.7)**	**(0.9)**	**–**	**–**	**(0.1)**	**(1.7)**
At 31 March 2024	**117.8**	**12.4**	**–**	**23.5**	**4.5**	**158.2**

a. The contract/warranty provisions relate to onerous contracts and warranty obligations on completed contracts and disposals. Warranty provisions are provided in the normal course of business and are recognised when the underlying products and services are sold. The provision is based on an assessment of future claims with reference to historical warranty data and a weighting of possible outcomes against their associated probabilities. Onerous contracts relate to expected future losses on contracts with customers – notably T31 as outlined in note 1.

b. Employee related and business reorganisation costs relate to business restructuring activities including announced redundancies in addition to employee related provisions other than employee benefits.

c. Italian anti-trust fines pertain to historic court rulings in respect of the Babcock Mission Critical Services Italia SpA subsidiary. The remaining amount of this provision was paid in the prior year.

d. Property and other provisions primarily relate to dilapidation costs and contractual obligations in respect of infrastructure.

e. Other provisions include provisions for insurance claims arising within the Group's captive insurance company, Chepstow Insurance Limited. They relate to specific claims assessed in accordance with the advice of independent actuaries.

[1] Immaterial amounts related to employee benefits have been reclassified from provisions to current and non-current accruals during the period.

Provisions have been analysed between current and non-current as follows:

	31 March 2024 £m	31 March 2023 £m
Current	**79.1**	67.9
Non-current	**79.1**	80.8
	158.2	148.7

Included within provisions is £6.7 million (2023: £6.9 million) expected to be utilised over approximately 10 years. Other than these provisions the Group's non-current provisions are expected to be utilised within two to five years.

21. Financial instruments and fair value measurement

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

31 March 2024 (£m)	Financial assets at fair value	Financial assets at amortised cost	Financial liabilities at fair value	Financial liabilities at amortised cost	Total carrying amount	Fair value
Non-current financial assets						
Loans to joint ventures and associates	–	3.9	–	–	3.9	3.9
Financial assets	–	5.3	–	–	5.3	5.3
Derivatives	2.8	–	–	–	2.8	2.8
Lease receivables	–	22.5	–	–	22.5	22.5
Current financial assets						
Trade and other receivables*	0.9	282.1	–	–	283.0	283.0
Lease receivables	–	13.0	–	–	13.0	13.0
Derivatives	4.4	–	–	–	4.4	4.4
Cash and cash equivalents	–	570.6	–	–	570.6	570.6
Non-current financial liabilities						
Bank and other borrowings	–	–	–	(747.1)	(747.1)	(686.4)
Derivatives	–	–	(51.9)	–	(51.9)	(51.9)
Current financial liabilities						
Bank and other borrowings	–	–	–	(20.4)	(20.4)	(20.4)
Trade and other payables*	–	–	–	(593.7)	(593.7)	(593.7)
Derivatives	–	–	(9.5)	–	(9.5)	(9.5)
Net financial assets / (financial liabilities)	8.1	897.4	(61.4)	(1,361.2)	(517.1)	(456.4)

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

31 March 2023 (£m)	Financial assets at fair value	Financial assets at amortised cost	Financial liabilities at fair value	Financial liabilities at amortised cost	Total carrying amount	Fair value
Non-current financial assets						
Loans to joint ventures and associates	–	9.5	–	–	9.5	9.5
Financial assets	–	7.3	–	–	7.3	7.3
Derivatives	2.6	–	–	–	2.6	2.6
Lease receivables	–	22.2	–	–	22.2	22.2
Current financial assets						
Trade and other receivables*	1.5	345.1	–	–	346.6	346.6
Lease receivables	–	16.4	–	–	16.4	16.4
Derivatives	4.3	–	–	–	4.3	4.3
Cash and cash equivalents	–	451.7	–	–	451.7	451.7
Non-current financial liabilities						
Bank and other borrowings	–	–	–	(768.4)	(768.4)	(670.3)
Derivatives	–	–	(53.3)	–	(53.3)	(53.3)
Current financial liabilities						
Bank and other borrowings			–	(19.6)	(19.6)	(19.6)
Trade and other payables*	–	–	–	(511.1)	(511.1)	(511.1)
Derivatives	–	–	(12.8)	–	(12.8)	(12.8)
Net financial assets / (financial liabilities)	8.4	852.2	(66.1)	(1,299.1)	(504.6)	(406.5)

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

21. Financial instruments and fair value measurement continued

The fair value hierarchy is as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

All of the financial assets and liabilities measured at fair value are classified as Level 2 or Level 3 using the fair value hierarchy. There were no transfers between levels during the period. Additional disclosures in respect of financial assets measured using Level 3 techniques are not provided as such assets are not material.

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

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

Financial assets and liabilities in the Group's Consolidated statement of financial position are either held at fair value or their carrying value approximates to fair value, with the exception of loans, which are held at amortised cost. Amortised cost items whose fair value or carrying value approximate to fair value are at Level 2 in the fair value hierarchy. Due to the variability of the valuation factors, the fair values presented at 31 March may not be indicative of the amounts the Group would expect to realise in the current market environment.

Derivative financial instruments and hedging activities

The Group enters into forward foreign currency contracts and cross-currency interest rate swaps to hedge the currency exposures that arise on sales, purchases, deposits, borrowings and leasing arrangements denominated in foreign currencies as the transactions occur. Where derivatives do not meet the hedge accounting criteria, they are accounted for at fair value through profit or loss. Derivatives not designated in hedge relationships have net fair value liability of £ 6.8 million (2023: £17.2 million), of which £6.7 million (2023: £16.8 million) were economically hedging £2.2 billion (2023: £1.9 billion) denominated in foreign currencies purchases and sales and £0.1 million (2023: £0.4 million) was economically hedging borrowings (see also note 22). The Group's policy regarding classification of derivatives is set out in note 1.

Cash flow hedges

The Group uses cross-currency swap contracts to hedge the foreign currency risk on debt issued by the Group. These are formally designated in cash flow hedge relationships and hedge ineffectiveness is recognised immediately in the income statement. The fair value of cash flow hedges at 31 March 2024 was a net liability of £11.1 million (2023: £8.3 million). Further detail is give in Note 22.

Fair value hedges

The Group maintains cross-currency interest rate swap contracts as fair value hedges of the interest rate and currency risk on fixed-rate debt issued by the Group. These derivative contracts receive a fixed rate of interest and pay a variable rate of interest. These are formally designated in fair value hedging relationships and are used to hedge the exposure to changes in the fair value of debt which has been issued by the Group at fixed rates. The fair value of such hedges at 31 March 2024 was a liability of £36.3 million (2023: £39.1 million). Further detail is give in Note 22.

22. Financial risk management

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates and the Group's cash and cash equivalents.

The Group's risk management objective, policy and performance are as follows:

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 its 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	The Group's interest rate management policy is to monitor the mix of fixed versus floating interest rate debt to ensure that it is compatible with its business requirements and capital structure.
Risk management	The Group manages interest rate risk through the maintenance of a mixture of fixed and floating rate debt and interest rate swaps, each being reviewed on a regular basis to ensure the appropriate mix is maintained.
Performance	As at 31 March 2024, the Group had 89% fixed rate debt (2023: 88%) and 11% floating rate debt (2023: 12%) based on gross debt, including lease liabilities, of £998.0 million (2023: £1,016.8 million).

22. Financial risk management continued

The following balances are exposed to interest rate risk as shown below:

	31 March 2024			31 March 2023		
	Less than one year £m	Between one and two years £m	Greater than two years £m	Less than one year £m	Between one and two years £m	Greater than two years £m
Cash and cash equivalents	**570.6**	**–**	**–**	451.7	–	–
Bank and other borrowings	**65.0**	**38.8**	**894.2**	69.5	40.9	906.4

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Year ended 31 March 2024		Year ended 31 March 2023	
	Change in interest rate	Effect on profit before tax £m	Change in interest rate	Effect on profit before tax £m
GBP	**3.0%**	**3.4**	3.0%	3.1

The effect of fair value hedges on the Group's financial position and performance for the year is as follows:

	Year ended 31 March 2024			Year ended 31 March 2023		
Hedging instruments (£m)	Notional principal amount	Carrying amount of hedging instrument	Change in fair value of hedging instrument used for calculating hedge ineffectiveness	Notional principal amount	Carrying amount of hedging instrument	Change in fair value of hedging instrument used for calculating hedge ineffectiveness
Cross currency interest rate swap[1]	**246.7**	**(37.6)**	**1.1**	246.7	(38.7)	(4.1)

1. The Group has entered into three cross-currency interest rate swaps to convert €275 million of fixed rate (1.375%) debt to GBP debt linked to SONIA. This matures on 13 September 2027. Additionally, as part of the Group's financial risk management response in relation to interest rate risk, the group has entered into further interest rate swaps to fix interest rate on floating rate sterling debt – ie, the aggregated exposure that was created with €140 million fixed rate debt and the cross-currency swaps which receive Euro fixed and pay GBP floating. These new interest rate swaps were not designated in the hedge relationship and therefore they are accounted for at fair value through profit and loss.

	Year ended 31 March 2024				Year ended 31 March 2023			
Hedged item (£m)	Carrying amount of hedged item	Accumulated fair value adjustments	Change in fair value used for calculating ineffectiveness	Amount of ineffectiveness recognised in the income statement	Carrying amount of hedged item	Accumulated fair value adjustments	Change in fair value used for calculating ineffectiveness	Amount of ineffectiveness recognised in the income statement
Debt	**235.1**	**22.3**	**(8.2)**	**(7.1)**	241.7	30.6	7.3	3.2

Ineffectiveness is included in the income statement in finance costs.

22. Financial risk management continued

Liquidity risk

Liquidity risk is the risk that the Group becomes unable to meet payment obligations in a timely manner when they become due.

The Group's risk management objective, policy and performance are as follows:

Objective	The Group's objective with regards to liquidity risk is 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 and commitments and its risk profile.
Policy	The Group's policy is to ensure the business is prudently funded and that sufficient liquidity headroom is maintained on its facilities.
Risk management	Liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining cash and/or availability under committed credit lines. Each of the sectors in the Group provides regular cash forecasts for liquidity planning purposes. These cash forecasts are used to monitor and identify the liquidity requirements of the Group, and to ensure that there is sufficient liquidity to meet operational needs while maintaining sufficient headroom on the Group's committed borrowing facilities. The Group utilises debt factoring in support of the non-UK operations of its Aviation sector as part of its working capital management arrangements.
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. During the prior year the Group repaid a €550 million facility. No new facilities have been entered into.

The contracted cash outflows on bank and other borrowings, derivatives and lease liabilities at the reporting date are shown below, based on contractual undiscounted payments. Interest payments predominantly relate to repayments on the €550m Eurobond and the £300m bond and have been calculated based on the contractual fixed interest rates. Eurobond interest has been translated based on the prevailing exchange rates at the balance sheet date.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 March 2024					
Bank and other borrowings – repayment of overdraft and loan principal	**22.5**	**0.6**	**749.9**	**–**	**773.0**
Bank and other borrowings – interest payments	**12.2**	**12.2**	**36.6**	**–**	**61.0**
Derivatives cash outflows settled gross	**13.2**	**65.1**	**174.7**	**1,963.8**	**2,216.8**
Undiscounted lease payments	**49.3**	**46.1**	**90.7**	**85.3**	**271.4**
At 31 March 2023					
Bank and other borrowings – repayment of overdraft and loan principal (restated[1])	22.6	0.3	772.8	0.7	796.4
Bank and other borrowings – interest payments (restated[1])	14.3	14.3	39.1	0.1	67.8
Derivatives cash outflows settled gross	28.7	145.4	198.8	1,503.3	1,876.2
Undiscounted lease payments	54.6	44.9	80.5	72.2	252.2

[1] 'Bank and other borrowings – repayment of overdraft and loan principal' has been restated to remove lease payments which were duplicated within this line item in the prior period in error. Interest payments were also not included in the prior year table.

The impact of discounting for lease payments is £40.9 million (2023: £23.4 million) resulting in lease liabilities of £230.5 million (2023: £228.8 million). Other financial liabilities not included in the table above such as trade and other payables are all expected to be settled within one year.

22. Financial risk management continued

Currency risk

Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities, when revenue or expense is denominated in a foreign currency, and the Group's net investments in foreign subsidiaries.

The functional currency of Babcock International Group PLC and its UK subsidiaries is GBP. The presentation currency of the Group is GBP. The Group has exposure primarily to EUR, ZAR, AUD and CAD.

The Group's risk management objective, policy and performance are as follows:

Objective	The Group's objective is 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 EUR, ZAR, AUD and CAD.
Policy – Transactional risk	In order to mitigate the currency risk of adverse currency movements on foreign currency denominated transactions, the Group's policy is to hedge all foreign currency transactions greater than £10k, using financial instruments where appropriate. The Group applies IFRS 9 hedge accounting treatment where appropriate.
Policy – Translational risk	The Group is also exposed to adverse foreign currency movements on translation of net assets and income statements of foreign subsidiaries and joint ventures and associates. It is not the Group's policy to hedge through the use of derivatives the translation effect of exchange rate movements on the income statements or statement of financial positions of overseas subsidiaries and joint ventures and associates it regards as long-term investments. However, where the Group has material assets denominated in a foreign currency, it will consider matching the assets with foreign currency denominated debt.
Risk management	Currency risk management includes hedging the underlying foreign currency exposures in the foreign exchange market with approved counterparties. Currency transactions are recorded and monitored in the treasury management system. Each of the sectors in the Group provides a quarterly foreign currency exposure report to monitor the level of currency hedge cover is appropriate.
Performance	All material firm transactional exposures are economically hedged using foreign exchange forward contracts.

The effect of cash flow hedges on the Group's financial position and performance in the year was as follows:

	Year ended 31 March 2024							
Hedging instruments (£m)	Nominal amount	Carrying value	Maturity	Hedged rate	Change in fair value used for calculating hedge effectiveness	Change in fair value recognised in other comprehensive income	Amount reclassified from cash flow hedge reserve to finance cost	Ineffectivenes s recognised in profit and loss (finance cost)
Hedge instrument: Cross currency swap	€275m	(£11.1)	13/09/27	1.152	2.8	2.8	6.6	–
Hedged item: EUR-denominated debt	€275m	N/A	13/09/27	N/A	(6.6)	N/A	N/A	N/A

As outstanding cash flow hedges matured in 2023, the amount previously recognised in the hedging reserve has been reclassified to the income statement. Any new derivatives executed to hedge purchases and sales in foreign currencies have been treated as economic hedges with the fair value changes recognised in the income statement rather than through other comprehensive income and therefore disclosure has not been provided on such items.

22. Financial risk management continued

Hedging instruments (£m)	Nominal amount	Carrying value	Maturity	Hedged rate	Change in fair value used for calculating hedge effectiveness	Change in fair value recognised in other comprehensive income	Amount reclassified from cash flow hedge reserve to finance cost	Ineffectiveness recognised in profit and loss (finance cost)
	Year ended 31 March 2023							
Hedge instrument: Cross currency swap	€275m	(£8.2)	13/09/27	1.152	(9.5)	(9.5)	(10.0)	–
Hedged item: EUR-denominated debt	€275m	£241.7	13/09/27	N/A	10.0	N/A	N/A	N/A

	Year ended 31 March 2024			Year ended 31 March 2023		
	Change in foreign currency rate	Effect on profit before tax £m	Effect on other components of equity £m	Change in foreign currency rate	Effect on profit before tax £m	Effect on other components of equity £m
EUR *	**5%**	**(0.6)**	**(0.6)**	5%	1.5	1.5
ZAR	**5%**	**(1.5)**	**(1.5)**	5%	(2.0)	(2.0)
AUD	**5%**	**(0.5)**	**(0.5)**	5%	(0.4)	(0.4)
CAD	**5%**	**(0.6)**	**(0.6)**	5%	(0.4)	(0.4)

* This sensitivity analysis excludes the impact of the disposal of the Group's Aerial Emergency Services business, as this is a one-off transaction which is not expected to re-occur.

Sensitivity analysis on currency risk has been prepared based on an approximation of reasonably possible changes in foreign exchange rates relative to the Group's functional and reporting currency.

Under the Group's economic hedging policy, the terms of the forward contracts are arranged to align with the expected timing, currency and amounts of the hedged items. The Group typically enters into forward contracts where the hedge ratio is 1:1 on the basis that the notional amount of the designated hedging instruments matches the principal amount of the forecast foreign currency transaction.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations to the Group, which would result in a loss for the Group. Credit risk arises from trade and other receivables, cash and cash equivalents, investments and derivative financial instruments.

The Group's risk management objective, policy and performance are as follows:

Objective	The Group's objective is to ensure that the Group continues to operate with an acceptable level of credit risk, based on management's judgement, associated with its operating activities, such as customer trade receivables, and financial activities, including cash deposits and financial instruments.
Policy	The Group's policy is to manage credit risk by setting and reviewing appropriate credit limits for non-government commercial customers, being the Group's main exposure to credit risk. With regards to financial institutions, credit limits will be set according to the respective financial institution's credit rating. Counterparty bank credit risk is closely monitored on a systematic and ongoing basis.
Risk management	Credit risk management includes performing credit checks on non-government commercial customers and setting and only performing financial transactions with approved investment grade counterparties.
Performance	Expected credit loss on trade receivable portfolio/provisions of £8.5 million (2023: £7.3 million). The carrying amount of the Group's financial assets represents the maximum exposure to credit risk.

Cash and cash equivalents and derivative financial instruments

The Group utilises approved investment-grade counterparties to carry out treasury transactions, including investments of cash and cash equivalents, with counterparty bank credit risk being monitored closely on a systematic and ongoing basis. A credit limit is allocated to each institution taking account of its market capitalisation and credit rating, and as such credit risk on these counterparties is not considered to be material to the financial statements.

The Group's counterparty credit rating is as follows:

	31 March 2024	31 March 2023
AA- or higher	**13.2%**	22.8%
A+ to A-	**76.9%**	67.4%
BBB+ to BB-	**9.9%**	9.8%

22. Financial risk management continued

Trade receivables

The Group's assessment is that credit risk in relation to customers or sub-contractors to governments is limited as their probability of default is considered to be extremely low. The provision for expected credit losses for receivables from governments and sub-contractors to government customers is therefore considered immaterial in the context of the receivables balance. The Group manages credit risk in relation to trade and other receivables for all non-government commercial customers through various mitigating controls including credit checks, credit limits and ongoing monitoring. Expected credit losses are assessed for all non-government customers, however this is not considered to be material to the financial statements.

For trade receivables, the Group measures a provision for expected credit losses at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. For all other assets the loss allowance is measured using 12-months expected credit losses unless there was a significant increase in credit risk since initial recognition. Forward-looking factors are applied to homogenous groups of receivables which share characteristics and are based on an estimate of how corporate failure rates may change relative to historic levels given the current economic environment.

The Group considers that default has occurred when receivables are more than 90 days overdue and recognises a provision of 100% against all such receivables unless there is evidence of recoverability at the individual receivable level. The movement on the provision for expected credit losses is as follows:

	2024 £m	2023 £m
Balance at 1 April	**(7.3)**	(14.6)
Charged to the income statement	**(1.9)**	(1.7)
Unused amounts reversed	**0.4**	2.0
Disposal of businesses	**–**	7.4
Exchange differences	**0.3**	(0.4)
Balance at 31 March	**(8.5)**	(7.3)

The creation and release of provisions for impairment of receivables have been included in operating costs in the income statement.

The Group writes off a receivable when there is evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation. The ageing of trade receivables is detailed below:

	Year ended 31 March 2024			Year ended 31 March 2023		
	Gross £m	Provision £m	Net £m	Gross £m	Provision £m	Net £m
Not past due	**241.5**	**–**	**241.5**	291.3	–	291.3
Up to 90 days overdue	**15.0**	**(0.1)**	**14.9**	3.7	(0.1)	3.6
Past 90 days overdue	**9.9**	**(8.4)**	**1.5**	12.3	(7.2)	5.1
	266.4	**(8.5)**	**257.9**	307.3	(7.3)	300.0

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security other than retention of title clauses issued as part of the ordinary course of business.

For contract assets the expected credit loss provision is immaterial as the probability of default is insignificant. No expected loss provision has been recorded in respect of loans to joint ventures and associates.

22. Financial risk management continued

Offsetting financial assets and liabilities

	Year ended 31 March 2024			Year ended 31 March 2023		
	Balance sheet £m	Amounts not offset[1] £m	Net balances £m	Balance sheet £m	Amounts not offset[1] £m	Net balances £m
Assets						
Cash and cash equivalents	**570.6**	**(18.0)**	**552.6**	451.0	(18.9)	432.1
Derivatives	**7.2**	**(7.2)**	**–**	6.9	(6.9)	–
Liabilities						
Bank and other borrowings	**(18.0)**	**18.0**	**–**	(18.9)	18.9	–
Derivatives	**(61.4)**	**7.2**	**(54.2)**	(66.1)	6.9	(59.2)

1. The Group has the legal right of offset within certain of its banking arrangements, however there is no intention to net settle these balances shortly after the period end and therefore these have been presented gross in accordance with IAS 32. The Group also has derivative assets and liabilities with the same financial institutions which also have offset language to allow for net settlement, however the Group has no intention to net settle and therefore the IAS 32 criteria are not satisfied and the derivative asset and derivative liabilities have been presented gross in the statement of financial position.

Capital risk

Capital risk is the risk that the entity may not be able to continue as a going concern. The capital structure of the Group consists of net debt (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) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests. The Group is not subject to any externally imposed capital requirements.

The Group's risk management objective, policy and performance are as follows:

Objective	The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, and to provide returns for shareholders and other stakeholder benefits.
Policy	The Group's policy is to protect and strengthen the Group statement of financial position through the appropriate balance of debt and equity funding.
Risk management	The Group manages its capital structure and makes adjustments in response to changes to economic conditions and the strategic objectives of the Group. The Group raises finance in the public debt market from financial institutions, using a variety of capital market instruments and borrowing facilities.
Performance	During the prior year, the Group entered into an overdraft facility of £50 million. No other new facilities have been entered into.

23. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2023 and 31 March 2024	**505,596,597**	**303.4**
Allotted, issued and fully paid		
At 1 April 2022 and 31 March 2023	505,596,597	303.4

Potential issues of ordinary shares

The table below shows options and conditional share awards existing over the Company's shares as at 31 March 2024 that are capable of being met on exercise or vesting by the issue of new shares. They represent outstanding awards granted under the Company's executive share plans. The awards were granted directly by the Company and satisfied by the Trustees of the Babcock Employee Share Trust (BEST) – a total of 12,490,853 shares (2023: 10,346,859 shares). The Company decides from time to time whether to satisfy the awards by way of a fresh issue of shares (either to the award holder or to the employee share trust) or by way of financing the employee share trusts to purchase already issued shares in the market. This decision is made according to available headroom within the dilution limits contained in the relevant share plan rules and what the Directors consider to be in the best interest of the Company at the time.

Grant date	Type	Exercise period	2024 Number	2023 Number
13 June 2019	DBP[3]	13/06/2022 – 13/06/2023	**–**	22,971
3 August 2020	DBP[2]	03/08/2022 – 03/08/2023	**–**	44,300
3 August 2020	DBP[3]	03/08/2023 – 03/08/2024	**–**	109,929
13 August 2020	DBP[3]	13/08/2023 – 13/08/2024	**27,026**	192,096
1 December 2020	PSP[1]	01/12/2025 – 01/12/2026	**1,197,393**	1,389,984
1 December 2020	PSP[1]	01/12/2023 – 01/12/2024	**532,695**	1,470,518
24 August 2021	PSP[1]	24/08/2026 – 24/08/2027	**769,165**	769,165
24 September 2021	DBP[3]	24/09/2024 – 24/09/2025	**45,312**	45,312
24 September 2021	PSP[1]	24/09/2024 – 24/09/2025	**1,290,265**	1,368,274
24 September 2021	PSP[1]	24/09/2026 – 24/09/2027	**515,803**	553,389
1 August 2022	DBP[4]	01/08/2023 – 01/08/2024	**–**	551,420
1 August 2022	DBP[3]	01/08/2025 – 01/08/2026	**218,895**	218,895
1 August 2022	PSP[1]	01/08/2025 – 01/08/2026	**2,007,994**	2,191,017
1 August 2022	PSP[1]	01/08/2027 – 01/08/2028	**1,328,136**	1,419,589
1 August 2023	PSP[1]	01/08/2026 – 01/08/2027	**2,353,826**	–
1 August 2023	DBP[3]	01/08/2026 – 01/08/2027	**129,095**	–
1 August 2023	DBP[4]	01/08/2024 – 01/08/2025	**179,247**	–
1 August 2023	PSP[1]	01/08/2028 – 01/08/2029	**694,057**	–
29 September 2023	PSP[1]	29/09/2028 – 29/09/2029	**900,607**	–
15 December 2023	PSP[1]	15/12/2025 – 15/12/2026	**42,077**	–
15 December 2023	PSP[1]	15/12/2026 – 15/12/2027	**127,553**	–
15 December 2023	PSP[1]	15/12/2028 – 15/12/2029	**131,707**	–
			12,490,853	10,346,859

Options granted to Directors are summarised in the Remuneration report on pages 148 to 156 and are included in the outstanding options set out above.

1. 2019 Performance Share Plan ('PSP').
2. DBP – Award issued without matching shares, has two-year vesting period.
3. DBP – Award issued without matching shares, has three-year vesting period.
4. DBP – Award issued without matching shares, has one-year vesting period.

23. Share capital continued

The table below shows shares already held by the trustees of the BEST in order to meet these awards.

	31 March 2024		31 March 2023	
	Shares newly issued by the Company	Shares bought in the market	Shares newly issued by the Company	Shares bought in the market
BEST	–	1,872,433	–	69,517
Total	–	1,872,433	–	69,517

A reconciliation of PSP and DBP movements is shown below:

	31 March 2024 Number '000	31 March 2023 Number '000
Outstanding at 1 April	10,347	9,946
Granted	4,742	4,492
Exercised	(1,947)	(350)
Forfeited/lapsed	(651)	(3,741)
Outstanding at 31 March	12,491	10,347
Exercisable at 31 March	27	67

The weighted average share price for awards exercised during the year was 406.2p per share (2023: 339.1p per share). The weighted average fair value of awards granted in the year was 362.6p per share (2023: 327.1p per share)

During the year 3,721,467 ordinary shares (2023: 21,362 ordinary shares) were acquired or subscribed for through the Babcock Employee Share Trust ('the Trust'). The Trust holds shares to be used towards satisfying awards made under the Company's employee share schemes. During the year ended 31 March 2024, 1,918,551 shares (2023: 349,881 shares) were disposed of by the Trust resulting from options exercised. At 31 March 2024, the Trust held a total of 1,872,433 ordinary shares (2023: 69,517 ordinary shares). Shares held by the trust have a nominal value of £1,123,460 (2023: £41,710) and a total market value of £9,736,652 (2023: £207,717) representing 0.4% (2023: 0.01%) of the issued share capital at that date. The Company did not pay dividends to the Trust during the year. The Company meets the operating expenses of the Trust.

The Trust enables shares In the Company to be held or purchased and made available to employees through the exercise of rights or pursuant to awards made under the Company's employee share scheme. The Trust is a discretionary settlement for the benefit of employees within the Group. The Company is excluded from benefitting under it. It is controlled and managed outside the UK and has a single corporate trustee which is an independent trustee services organisation. The right to remove and appoint the trustees rests ultimately with the Company. The trustee of the Trust is required to waive both voting rights and dividends payable on any share in the Company in excess of 0.001p, unless otherwise directed by the Company.

Own shares held, including treasury shares and shares held by the Trust are recognised as a deduction from retained earnings.

24. Share-based payments

The charge to the income statement has been based on the assumptions below and is based on the application of Black Scholes model or on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions as deemed necessary. The detailed description of the plans below is included within the Remuneration report.

During the year the total charge relating to employee share-based payment plans was £12.4 million (2023: £9.4 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £9.6 million (2023: £7.6 million).

24. Share-based payments continued

The fair value per option granted and the assumptions used in the calculation are as follows:

PSP and DBP[1]

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – non-market conditions %	Fair value per option – TSR Pence	Fair value per option – non-market conditions Pence	Correlation %	Grant or modification date
2023 PSP	1,259,675	371	32.6%	4.0	100.0%	–	334	–	01/08/23
2023 PSP	1,234,901	371	–	4.0	100.0%	–	371	–	01/08/23
2023 PSP	737,280	371	32.6%	6.0	100.0%	–	334	–	01/08/23
2023 PSP	78,571	413	32.0%	6.0	100.0%	–	372	–	29/09/23
2023 PSP	822,036	413	–	6.0	100.0%	–	413	–	29/09/23
2023 PSP	42,077	385	–	3.0	100.0%	–	385	–	15/12/23
2023 PSP	127,553	385	–	4.0	100.0%	–	385	–	15/12/23
2023 PSP	131,707	385	32.0%	6.0	100.0%	–	347	–	15/12/23
2023 DBP	129,095	371	–	4.0	100.0%	–	371	–	01/08/23
2023 DBP	179,247	371	–	2.0	100.0%	–	371	–	01/08/23
2022 PSP	2,302,009	351	19.0%	4.0	100.0%	–	351	–	01/08/22
2022 PSP	613,078	351	19.0%	6.0	100.0%	–	316	–	01/08/22
2022 PSP	806,511	351	19.0%	6.0	100.0%	169	316	55.0%	01/08/22
2022 DBP	218,895	351	19.0%	4.0	100.0%	–	351	–	01/08/22
2022 DBP	551,420	351	19.0%	2.0	100.0%	–	351	–	01/08/22
2021 PSP	769,165	372	19.0%	6.0	100.0%	149	316	55.0%	24/08/21
2021 PSP	626,704	380	19.0%	6.0	100.0%	–	325	–	24/09/21
2021 PSP	1,780,849	380	19.0%	4.0	100.0%	–	380	–	24/09/21
2021 DBP	45,312	380	19.0%	4.0	100.0%	–	380	–	24/09/21
2020 PSP	695,458	350	19.0%	6.0	100.0%	–	305	–	01/12/20
2020 PSP	2,091,247	350	19.0%	4.0	100.0%	–	350	–	01/12/20
2020 PSP	1,341,477	350	19.0%	6.0	100.0%	138	305	55.0%	01/12/20
2020 DBP	118,320	289	19.0%	4.0	100.0%	–	289	–	03/08/20
2020 DBP	192,096	284	19.0%	4.0	100.0%	–	284	–	13/08/20

2. PSP = 2019 Performance Share Plan and DBP = 2022 Deferred Bonus Plan.

The vesting period and the expected life of PSP awards are three years. The vesting period and expected life of DBP awards was one year for awards made in August 2022 and two years for previous, other than for Executives where the vesting period is three years. The holders of all awards receive dividends.

For PSP awards made in December 2020, 2,786,705 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 1,341,477 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

PSP awards made in August 2021 of 769,165 shares include performance criteria weighted to 50% against free cash flow targets and 50% against TSR performance.

PSP awards made in September 2021 of 2,407,553 shares were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached.

For PSP awards made in August 2022, 3,318,343 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 403,255 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

For PSP awards made in August to December 2023, 3,611,764 were made via the use of restricted shares with a three-year to five year vesting period. There are no performance conditions attached. A further 822,036 awards were made where the performance criteria is 30% against free cash flow, 30% underlying operating margin, 25% organic revenue growth and 15% ESG.

There are no performance conditions attached to the DBP.

The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

24. Share-based payments continued

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 116,711 matching shares (2023: 140,340 matching shares) at a cost of £0.4 million (2023: £0.4 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year no matching shares were purchased on the open market (2023: no matching shares) and 2,192 matching shares vested (2023: 1,055 matching shares) leaving a balance of 3,726 matching shares (2023: 5,918 matching shares).

25. Retirement benefits and liabilities

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Defined contribution schemes	**110.7**	94.6

Defined benefit schemes

Statement of financial position assets and liabilities recognised are as follows:

	31 March 2024 £m	31 March 2023 £m
Retirement benefits – funds in surplus	**107.3**	94.8
Retirement benefits – funds in deficit	**(217.0)**	(156.2)
	(109.7)	(61.4)

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 (together, 'the Principal schemes'). Each of these schemes is predominantly a final salary plan in which future pension levels are defined relative to number of years' service and final salary. Retirement age varies by scheme. The nature of these schemes is that the employees only contribute whilst they are active employees of a scheme, with the employer paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the Group with the trustees of each scheme who are advised by independent, qualified actuaries.

In January 2024, the Group commenced a consultation with affected employees and their representatives with regard to a proposal that would close the DRDPS to future accrual with effect from 30 September 2024 and to provide benefits for service from 1 October 2024 onwards through a defined contribution scheme. The consultation process for this proposal ended on 25 March 2024. Following the conclusion of the consultation process, a decision has been taken by Devonport Royal Dockyard Limited to proceed with closure of the DRDPS to future accrual and the Trustee has given in-principle agreement to this decision. There is no impact to the accounting as at 31 March 2024 for this item however there will be a future impact in the subsequent year's consolidated income statement as a result of the curtailment / settlement of the scheme. Due to the options available to the affected employees, we are yet to calculate the impact however through initial assessments we do not expect this to be material.

In March 2024, all employers of employees who are provided benefits in the BIGPS commenced a consultation with the employees and their representatives with regard to a proposal that would close the BIGPS to future accrual with effect from 30 September 2024 and to provide like-for-like benefits for service from 1 October 2024 onwards through alternative schemes. Consultation ended on 7 June 2024 and no decisions have been taken.

The Group also participates in the Babcock Rail Ltd Shared Cost Section of the Railways Pension Scheme ('the Railways scheme'). This scheme is a multi-employer shared cost scheme with the contributions required, the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments all agreed with the trustees who are advised by an independent, qualified actuary. The costs are, in the first instance, shared such that the active employees contribute 40% of the cost of providing the benefits and the employer contributes 60%. However, the assumption is that as the active membership reduces, the liability will ultimately revert to the Group, and as such, it is assumed that the entire cost of the Railways Scheme is met by the Group. The Group's share of the assets and liabilities is separately identified to those of other employers in the scheme and therefore the Group cannot be held liable for the obligations of other entities that participate in the Railways scheme.

25. Retirement benefits and liabilities continued

Defined benefit scheme risks

Through its defined benefit pension schemes, the Group is exposed to a number of risks, the most notable of which are as follows:

Risk	Mitigation
Asset volatility – discount rates (determined with reference to AA corporate bond yields) are used to determine expected returns on plan assets. Asset yields which vary from this expected return will result in an increase or decrease in the overall surplus/deficit.	Pension scheme assets are held in a diversified portfolio of assets in order to minimize risk arising from asset return volatility. Investments are well diversified, such that failure of any singular investment would not have a material impact on the overall level of assets. The asset investment strategy is agreed following consultation between the Group and the plan Trustees. The Group and the plan Trustees monitor the schemes closely – especially during periods of significant turmoil and will maintain a diversified investment strategy intended to minimize asset volatility.
Inflation – the majority of pension scheme obligations are index-linked and therefore exposed to inflation risk. Increasing inflation will lead to higher liabilities. Inflation assumptions as applied to pension obligations are a long-term assessment of inflation over the life of the scheme.	The plan Trustees asset management policy includes investing in inflation hedging assets such as inflation linked bonds to mitigate this risk.
Life expectancy – the majority of obligations are to provide benefits for the life of the member and therefore changes in life expectancy of the scheme participants will impact the liability position.	The Group monitors the risk of increasing life expectancy and will, from time to time, take out longevity swaps to mitigate this risk – the most recent of which was in 2009.
Interest rate – movements in corporate bond yields will result in a change to the plan liabilities. Similarly, movements in gilt yields in isolation will have an impact on the schemes funding positions.	The trustee's asset management policy includes investing in bonds and therefore any impact on change in bond yields on the plan liabilities is partially offset by returns on assets. The asset portfolio invests in assets which increase in value as interest rates decrease and thus the schemes holdings are designed to hedge against interest rate risk for most of the funded liabilities.
Salary increases – changes in long-term salary increases will impact the final salary position on which pension benefits are determined.	In 2019, the Group closed the Babcock International Group Pension Scheme to future accrual for some employees; and, in 2020, closed the Rosyth Royal Dockyard Pension Scheme to future accrual for all employees.

The defined benefit schemes are prudently funded by payments to legally separate trustee-administered funds. The trustees of each scheme are required by law to act in the best interests of each scheme's members. In addition to determining future contribution requirements (with the agreement of the Group), the trustees are responsible for setting the schemes' investment strategy (subject to consultation with the Group). All the schemes have at least one independent trustee and member nominated trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004. The details of the latest formal actuarial valuation of the scheme are as follows (the actuarial valuation of the Devonport Royal Dockyard Scheme as at 31 March 2023 is ongoing, the actuarial valuation of the Babcock Rail Ltd section of the Railways Pension Scheme as at 31 December 2022 has been completed and the actuarial valuation of the Rosyth Royal Dockyard Pension Scheme as at 31 March 2024 has commenced):

25. Retirement benefits and liabilities continued

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
Date of last formal completed actuarial valuation	31/03/2020	31/03/2022	31/03/2021	31/12/2022
Number of active members at above date	1,607	308	–	131
Actuarial valuation method	Projected unit	Projected unit	Projected unit	Attained age
Results of formal actuarial valuation:				
Value of assets	£1,894m	£1,529m	£946m	£262m
Level of funding	90%	105%	86%	98%

The Group also participates in or provides a number of other smaller pension schemes including a number of sections of the local government pension schemes where in most cases the employer contribution rates are fully reimbursed by the administering authorities. It also participates in the Magnox Electric Group Section of the Electricity Supply Pension Scheme and runs the Babcock Naval Services Pension Scheme, which commenced winding up in 2021, and for which the MOD retains liability.

The Group's cash contribution rates payable to the schemes are expected to be as follows:

	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme	Other	Total
Future service contribution rate	17.1%	30.3%	N/A	8.88%	–	–
Future service cash contributions	£9.3m	£3.0m	–	£0.3m	£2.5m	£15.1m
Deficit contributions	£12.7m	–	£12.4m	–	£1.6m	£26.7m
Additional longevity swap payments	£7.3m	–	£4.3m	–	–	£11.6m
Expected employer cash costs for 2024/25	£29.3m	£3.0m	£16.7m	£0.3m	£4.1m	£53.4m
Expected salary sacrifice contributions	£5.9m	£0.4m	–	£0.1m	£0.7m	£7.1m
Expected total employer contributions	£35.2m	£3.4m	£16.7m	£0.4m	£4.8m	£60.5m

Where salary sacrifice arrangements are in place, the Group effectively meets the members' contributions. The above level of funding is expected to continue until the next actuarial valuation of each scheme is completed; valuations are carried out every three years.

The expected payments from the schemes are primarily pension payments and lump sums. Most of the pensions increase at a fixed rate or in line with RPI or CPI inflation when in payment. Benefit payments commence at retirement, death or incapacity and are predominantly calculated with reference to final salary. The levels of deficit contributions reflected above are expected to continue until technical provisions (self-sufficiency for the Babcock International Group Pension Scheme) funding levels are met either through asset performance or funding.

Although the Group anticipates that scheme surpluses will be utilised during the life of the scheme to address member benefits, the Group recognises its retirement benefit surpluses in full in respect of schemes in surplus, on the basis that it is management's judgement that there are no substantive restrictions on the return of residual scheme assets in the event of a winding-up of the scheme after all member obligations have been met. The Group also considers that the trustees do not have the power to unilaterally wind-up the schemes or vary benefits.

Virgin Media Case

The Group is aware of the ongoing 'Virgin Media v NTL Pension Trustees Ltd and others' case and that there is a potential for the outcome of the case to have an impact on the Group's UK pension schemes. The case affects defined benefit schemes that provided contracted-out benefits before 6 April 2016 based on meeting the reference scheme test. Where scheme rules were amended, potentially impacting benefits accrued from 6 April 1997 to 6 April 2016, schemes needed the actuary to confirm that the reference scheme test was still being met by providing written confirmation under Section 37 of the Pension Schemes Act 1993. In the Virgin Media case the judge ruled that alterations to the scheme rules were void and ineffective because of the absence of written actuarial confirmation required under Section 37 of the Pension Schemes Act 1993. The case has been taken to The Court of Appeal, with the hearing having taken place in June 2024. The potential impact on the Group is not yet known and continues to be assessed.

25. Retirement benefits and liabilities continued

The latest full actuarial valuations of the Group's defined benefit pension schemes have been updated to 31 March 2024 by independent qualified actuaries for IAS 19 purposes, on a best estimate basis, using the following assumptions:

March 2024	Devonport Royal Dockyard Scheme	Babcock International Group Scheme	Rosyth Royal Dockyard Scheme	Babcock Rail Ltd section of the Railways Pension Scheme
Rate of increase in pensionable salaries	**2.9%**	**2.9%**	**–**	**0.5%**
Rate of increase in pensions (past service)	**2.7%**	**3.1%**	**3.2%**	**2.8%**
Discount rate	**4.8%**	**4.8%**	**4.8%**	**4.8%**
Inflation rate (RPI) – year 1	**2.5%**	**2.6%**	**2.6%**	**2.6%**
Inflation rate (RPI) – thereafter	**3.1%**	**3.2%**	**3.2%**	**3.2%**
Inflation rate (CPI) – year 1	**1.8%**	**1.8%**	**1.8%**	**1.9%**
Inflation rate (CPI) – thereafter	**2.7%**	**2.7%**	**2.7%**	**2.8%**
Weighted average duration of cash flows (years)	**13**	**11**	**13**	**13**
Total life expectancy for current pensioners aged 65 (years) – male	**85.3**	**86.1**	**84.3**	**84.9**
Total life expectancy for current pensioners aged 65 (years) – female	**87.2**	**88.7**	**86.7**	**87.2**
Total life expectancy for future pensioners currently aged 45 (years) – male	**86.2**	**87.1**	**85.3**	**85.9**
Total life expectancy for future pensioners currently aged 45 (years) – female	**88.4**	**89.9**	**87.9**	**88.4**

March 2023				
Rate of increase in pensionable salaries	3.0%	3.0%	–	0.5%
Rate of increase in pensions (past service)	2.8%	3.2%	3.3%	2.9%
Discount rate	4.8%	4.8%	4.8%	4.8%
Inflation rate (RPI) – year 1	6.9%	6.9%	6.9%	6.9%
Inflation rate (RPI) – thereafter	3.3%	3.3%	3.3%	3.3%
Inflation rate (CPI) – year 1	4.7%	4.7%	4.7%	4.7%
Inflation rate (CPI) – thereafter	2.8%	2.8%	2.8%	2.8%
Weighted average duration of cash flows (years)	13	12	13	13
Total life expectancy for current pensioners aged 65 (years) – male	85.5	86.3	84.4	85.0
Total life expectancy for current pensioners aged 65 (years) – female	87.5	88.9	86.8	87.3
Total life expectancy for future pensioners currently aged 45 (years) – male	86.2	86.8	85.6	86.0
Total life expectancy for future pensioners currently aged 45 (years) – female	88.5	89.4	88.1	88.5

25. Retirement benefits and liabilities continued

The fair value of the assets and the present value of the liabilities of the Group pension schemes at 31 March were as follows:

	2024				2023			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets								
Growth assets								
Equities	**68.7**	**9.8**	**30.6**	**109.1**	(3.1)	10.6	26.6	34.1
Property funds	**251.7**	**0.2**	**4.8**	**256.7**	301.7	0.2	5.9	307.8
High yield bonds/emerging market debt	**–**	**–**	**0.4**	**0.4**	–	–	0.4	0.4
Absolute return and multi-strategy funds	**1.7**	**140.8**	**17.0**	**159.5**	6.0	148.0	17.5	171.5
Low-risk assets								
Bonds	**1,234.4**	**82.8**	**52.3**	**1,369.5**	1,227.7	95.5	45.1	1,368.3
Matching assets*	**1,423.4**	**1.5**	**15.0**	**1,439.9**	1,524.7	1.4	21.7	1,547.8
Longevity swaps and annuities	**(240.9)**	**–**	**(9.9)**	**(250.8)**	(231.8)	–	(10.1)	(241.9)
Fair value of assets	**2,739.0**	**235.1**	**110.2**	**3,084.3**	2,825.2	255.7	107.1	3,188.0
Percentage of assets quoted	**73%**	**100%**	**71%**	**75%**	79%	100%	70%	80%
Percentage of assets unquoted	**27%**	**–**	**29%**	**25%**	21%	–	30%	20%
Present value of defined benefit obligations								
Active members	**436.9**	**30.6**	**26.2**	**493.7**	450.7	45.7	21.7	518.1
Deferred pensioners	**640.5**	**64.7**	**31.3**	**736.5**	686.6	65.3	34.7	786.6
Pensioners	**1,778.8**	**142.1**	**42.9**	**1,963.8**	1,773.6	130.5	40.6	1,944.7
Total defined benefit obligations	**2,856.2**	**237.4**	**100.4**	**3,194.0**	2,910.9	241.5	97.0	3,249.4
Net (liabilities)/assets recognised in the statement of financial position	**(117.2)**	**(2.3)**	**9.8**	**(109.7)**	(85.7)	14.2	10.1	(61.4)

* The matching assets for the Babcock International Group Pension Scheme, Devonport Royal Dockyard Pension Scheme and Rosyth Royal Dockyard Pension Scheme primarily comprise a "Liability Driven Investment" portfolio for each scheme, which invest in gilts, Network Rail bonds, gilt repurchase agreements, interest rate and inflation swaps, asset swaps and cash, on a segregated basis. For the Babcock International Group Pension Scheme and the Devonport Royal Dockyard Pension Scheme, there are also investments in investment grade credit, via both segregated portfolios and pooled investment vehicles. The various segregated portfolios and pooled investment vehicle each utilise derivative contracts. The Trustee has authorised the use of derivatives by the investment managers for efficient portfolio management purposes including to reduce certain investment risks such as interest rate risk and inflation risk. The principal investment in derivatives is gilt repurchase agreements, interest rate and inflation swaps in the matching portfolios; total return swaps in the return seeking portfolios. These derivatives are included within the matching assets and equities classifications. The matching assets category includes gross assets of £2,326 million (2023: £2,580 million) and associated repurchase agreement liabilities of £903 million (2023: £1,055 million). Repurchase agreements are entered into with counterparties to better offset the scheme's exposures to interest and inflation rates, whilst remaining invested in assets of a similar risk profile.

The schemes do not invest directly in assets or shares of the Group.

The longevity swaps have been valued in line with assumptions that are consistent with the requirements of IFRS 13 using Level 3 inputs. The key inputs to the valuation are the discount rate and mortality assumptions.

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

	2024				2023			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Current service cost	**12.7**	**0.8**	**1.9**	**15.4**	21.7	1.3	2.8	25.8
Incurred expenses	**7.8**	**0.4**	**0.3**	**8.5**	6.2	0.5	0.1	6.8
Total included within operating profit	**20.5**	**1.2**	**2.2**	**23.9**	27.9	1.8	2.9	32.6
Net interest cost/(credit)	**2.1**	**(0.7)**	**(0.6)**	**0.8**	(8.5)	1.4	(0.4)	(7.5)
Total included within income statement	**22.6**	**0.5**	**1.6**	**24.7**	19.4	3.2	2.5	25.1

25. Retirement benefits and liabilities continued

Amounts recorded in the Group statement of comprehensive income

	Year ended 31 March 2024				Year ended 31 March 2023			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Actual return less interest on pension scheme assets	**(175.7)**	**(21.6)**	**(3.3)**	**(200.6)**	(1,437.0)	(17.1)	(79.0)	(1,533.1)
Experience (losses)/gains arising on scheme liabilities	**(26.8)**	**0.3**	**(4.3)**	**(30.8)**	(135.6)	(18.0)	(9.3)	(162.9)
Changes in assumptions on scheme liabilities	**69.7**	**3.0**	**3.6**	**76.3**	1,111.2	101.2	81.2	1,293.6
At 31 March	**(132.8)**	**(18.3)**	**(4.0)**	**(155.1)**	(461.4)	66.1	(7.1)	(402.4)

Analysis of movement in the Group statement of financial position

	Year ended 31 March 2024				Year ended 31 March 2023			
	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m	Principal schemes £m	Railways scheme £m	Other schemes £m	Total £m
Fair value of plan assets								
At 1 April	**2,825.2**	**255.7**	**107.1**	**3,188.0**	4,220.3	275.8	237.0	4,733.1
Interest on assets	**134.1**	**12.0**	**5.2**	**151.3**	113.4	7.3	5.4	126.1
Actuarial loss on assets	**(175.7)**	**(21.6)**	**(3.3)**	**(200.6)**	(1,437.0)	(17.1)	(79.0)	(1,533.1)
Employer contributions	**123.9**	**2.3**	**5.3**	**131.5**	167.4	2.5	4.6	174.5
Employee contributions	**0.1**	**–**	**–**	**0.1**	0.1	–	–	0.1
Benefits paid	**(168.6)**	**(13.3)**	**(4.1)**	**(186.0)**	(239.0)	(12.8)	(4.8)	(256.6)
Settlements	**–**	**–**	**–**	**–**	–	–	(56.1)	(56.1)
At 31 March	**2,739.0**	**235.1**	**110.2**	**3,084.3**	2,825.2	255.7	107.1	3,188.0
Present value of benefit obligations								
At 1 April	**2,910.9**	**241.5**	**97.0**	**3,249.4**	3,992.6	327.1	221.8	4,541.5
Service cost	**12.7**	**0.8**	**1.9**	**15.4**	21.7	1.3	2.8	25.8
Incurred expenses	**7.8**	**0.4**	**0.3**	**8.5**	6.2	0.5	0.1	6.8
Interest cost	**136.2**	**11.3**	**4.6**	**152.1**	105.0	8.7	4.9	118.6
Employee contributions	**0.1**	**–**	**–**	**0.1**	0.1	–	–	0.1
Experience loss/(gain)	**26.8**	**(0.3)**	**4.3**	**30.8**	135.6	18.0	9.3	162.9
Actuarial gain – demographics	**(38.6)**	**(0.2)**	**(0.9)**	**(39.7)**	(38.2)	(3.6)	(1.7)	(43.5)
Actuarial gain– financial	**(31.1)**	**(2.8)**	**(2.7)**	**(36.6)**	(1,073.1)	(97.7)	(79.3)	(1,250.1)
Benefits paid	**(168.6)**	**(13.3)**	**(4.1)**	**(186.0)**	(239.0)	(12.8)	(4.8)	(256.6)
Settlements	**–**	**–**	**–**	**–**	–	–	(56.1)	(56.1)
At 31 March	**2,856.2**	**237.4**	**100.4**	**3,194.0**	2,910.9	241.5	97.0	3,249.4
Net (deficit)/surplus at 31 March	**(117.2)**	**(2.3)**	**9.8**	**(109.7)**	(85.7)	14.2	10.1	(61.4)

The movement in net deficits for the year ended 31 March 2024 is as a result of the movement in assets and liabilities shown above.

The disclosures below relate to post-retirement benefit schemes which are accounted for as defined benefit schemes in accordance with IAS 19. The changes to the Group statement of financial position at 31 March 2024 and the changes to the Group income statement for the year to March 2025, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2024 £m	Income statement 2025 £m
Initial assumptions	**3,194.0**	**24.5**
Discount rate assumptions increased by 0.5%	**(182.7)**	**(10.6)**
Discount rate assumptions decreased by 0.5%	**200.3**	**9.7**
Inflation rate assumptions increased by 0.5%	**139.9**	**7.4**
Inflation rate assumptions decreased by 0.5%	**(130.9)**	**(7.0)**
Total life expectancy increased by half a year	**60.6**	**3.0**
Total life expectancy decreased by half a year	**(59.2)**	**(3.0)**
Salary increase assumptions increased by 0.5%	**11.9**	**0.8**
Salary increase assumptions decreased by 0.5%	**(11.5)**	**(0.8)**

25. Retirement benefits and liabilities continued

The figures in the table above have been calculated on an approximate basis, using information about the expected future benefit payments out of the schemes. The analysis above may not be representative of actual changes to the position since changes in assumptions are unlikely to happen in isolation. The change in inflation rates is assumed to affect the assumed rate of RPI inflation, CPI inflation and future pension increases by an equal amount. The fair value of the schemes' assets are assumed not to be affected by any sensitivity changes shown and so the statement of financial position values would increase or decrease by the same amount as the change in the defined benefit obligations. There have been no changes in the methodology for the calculation of the sensitivities since the prior year.

26. Changes in net debt

	31 March 2023 £m	Cash flow £m	Additional leases £m	Other non-cash movement [1] £m	Changes in fair value £m	Exchange movement £m	31 March 2024 £m
Cash and bank balances	**451.7**	**124.6**	–	–	–	**(5.7)**	**570.6**
Bank overdrafts	**(22.2)**	**4.0**	–	–	–	**0.2**	**(18.0)**
Cash, cash equivalents and bank overdrafts	**429.5**	**128.6**	–	–	–	**(5.5)**	**552.6**
Debt	**(765.8)**	**13.1**	–	**(3.0)**	**0.5**	**5.7**	**(749.5)**
Derivatives hedging Group debt	**(8.3)**	–	–	–	**(2.8)**	–	**(11.1)**
Lease liabilities	**(228.8)**	**49.6**	**(55.2)**	–	–	**3.9**	**(230.5)**
Changes in liabilities from financing arrangements	**(1,002.9)**	**62.7**	**(55.2)**	**(3.0)**	**(2.3)**	**9.6**	**(991.1)**
Lease receivables	**38.6**	**(32.0)**	**32.4**	–	–	**(3.5)**	**35.5**
Loans to joint ventures and associates	**9.5**	**(5.4)**	–	**(0.2)**	–	–	**3.9**
Derivatives hedging interest on Group debt	**(39.1)**	–	–	–	**2.8**	–	**(36.3)**
Net debt	**(564.4)**	**153.9**	**(22.8)**	**(3.2)**	**0.5**	**0.6**	**(435.4)**

	31 March 2022 £m	Cash flow £m	Additional leases £m	Other non-cash movement [1] £m	Clarification of net debt definition [2] £m	Changes in fair value £m	Exchange movement £m	31 March 2023 £m
Cash and bank balances	1,146.3	(687.9)	–	–	–	–	(6.7)	451.7
Bank overdrafts	(389.8)	366.6	–	–	–	–	1.0	(22.2)
Cash, cash equivalents and bank overdrafts	756.5	(321.3)	–	–	–	–	(5.7)	429.5
Debt	(1,321.3)	556.2	–	(1.6)	–	37.2	(36.3)	(765.8)
Derivatives hedging Group debt	(29.3)	(0.8)	–	–	–	21.8	–	(8.3)
Lease liabilities	(434.1)	108.5	(117.0)	223.4	–	–	(9.6)	(228.8)
Changes in liabilities from financing arrangements	(1,784.7)	663.9	(117.0)	221.8	–	59.0	(45.9)	(1,002.9)
Lease receivables	47.4	(31.9)	28.5	–	–	–	(5.4)	38.6
Loans to joint ventures and associates	12.1	(2.4)	–	(0.2)	–	–	–	9.5
Derivatives hedging interest on Group debt	–	–	–	–	(36.1)	(3.0)	–	(39.1)
Net debt	(968.7)	308.3	(88.5)	221.6	(36.1)	56.0	(57.0)	(564.4)

1. Other non-cash movements predominantly relate to the disposal of lease liabilities and associated lease receivables as part of the disposal transactions described in note 27.
2. During the prior year the definition of net debt was clarified, resulting in the inclusion of the interest rate swap hedging Group debt, which was excluded in the prior year.

27. Acquisition and disposal of subsidiaries, businesses and joint ventures and associates

Acquisitions

There have been no acquisitions in the year ended 31 March 2024 nor in the prior financial year.

Disposals

There were no disposals in the year ended 31 March 2024. During the period, the Group has settled certain warranty related items and provisions in respect of prior disposals. These have resulted in the release and/or utilisation of warranty related provisions. The cash consideration of prior disposals has also been revised.

27. Acquisition and disposal of subsidiaries, businesses and joint ventures and associates continued

	Year ended 31 March 2024 Total £m
Reduction in disposal proceeds	(1.3)
Adjustment to historic net assets disposed	(2.2)
Loss on disposal	**(3.5)**
Disposal related items – release of provisions	11.7
Business acquisition, merger and divestment related items	**8.2**

Year ended 31 March 2023

On 19 July 2022, the Group announced it had entered into a sale and purchase agreement to dispose of part of its aerial emergency services business in Europe. The disposal group was part of the Aviation sector and provided Aerial Emergency Services, including medical, firefighting and search & rescue to customers and communities, in Italy, Spain, Portugal, Norway, Sweden and Finland. The disposal completed on 28 February 2023. The Group received consideration of £187.1 million.

On 1 September 2022, the Group entered into a sale and purchase agreement to dispose of its Civil Training business. The disposal group was part of the Land sector and the disposal completed on 1 February 2023. The Group received consideration of £5.5 million.

	Year ended 31 March 2023			
	Aerial Emergency Services £m	Civil Training £m	Other £m	Total £m
Goodwill	–	0.6	–	0.6
Investment in joint ventures and associates	1.0	–	–	1.0
Other intangible assets	18.9	–	–	18.9
Property, plant and equipment	236.8	0.1	–	236.9
Right of use assets	182.0	–	–	182.0
Deferred tax assets	20.6	–	–	20.6
Other non-current assets	4.4	–	–	4.4
Inventory	35.4	–	–	35.4
Trade and other receivables	99.5	9.4	–	108.9
Derivatives	4.2	–	–	4.2
Income tax receivable	1.5	–	–	1.5
Cash, cash equivalents and bank overdrafts	10.5	2.6	–	13.1
Other non-current liabilities	(0.2)	–	–	(0.2)
Bank and other borrowings	(1.6)	–	–	(1.6)
Lease liabilities	(218.1)	–	–	(218.1)
Deferred tax liability	(6.3)	–	–	(6.3)
Income tax payable	(0.6)	–	–	(0.6)
Trade and other payables	(128.7)	(4.6)	–	(133.3)
Other current liabilities	–	–	–	–
Provisions	(15.6)	–	–	(15.6)
Net assets disposed	**243.7**	**8.1**	**–**	**251.8**
Cumulative currency translation loss	(1.2)	–	–	(1.2)
Total	**242.5**	**8.1**	**–**	**250.6**
Consideration	187.1	5.5	–	192.6
Disposal costs	(18.1)	(1.3)	–	(19.4)
Net consideration after disposal costs	**169.0**	**4.2**	**–**	**173.2**
Loss on disposal	**(73.5)**	**(3.9)**	**–**	**(77.4)**
Disposal related items	(43.4)	–	3.1	(40.3)
Business acquisition, merger and divestment related items	**(116.9)**	**(3.9)**	**3.1**	**(117.7)**
Sale proceeds	**187.1**	**5.5**	**–**	**192.6**
Sale proceeds less cash disposed of	176.6	2.9	–	179.5
Less non-cash proceeds	–	(1.5)	–	(1.5)
Less transaction costs	(18.1)	(1.3)	–	(19.4)
Net cash inflow	**158.5**	**0.1**	**–**	**158.6**

27. Acquisition and disposal of subsidiaries, businesses and joint ventures and associates continued

Disposal related items in relation to the Aerial Emergency Services disposal include asset impairments for assets not disposed but relating to the Aerial Emergency Services businesses whose carrying value exceeded recoverable amount following the disposal transaction along with provisions for certain warranty related items.

28. Transactions with non-controlling interests

There were no material transactions with non-controlling interests in the current or prior year.

29. Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. The Group does not recognise contingent liabilities. There are a number of contingent liabilities that arise in the normal course of business, including:

a. The nature of the Group's long-term contracts means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, including liabilities that arise on completion of contracts and on conclusion of relationships with joint ventures and associates. The Group takes account of the advice of experts, both internal and external, in making judgements on contractual issues and whether the outcome of negotiations will result in an obligation to the Group. The Directors do not believe that the outcome of these matters will result in any material adverse change in the Group's financial position.

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

c. The Group is subject to corporate and other tax rules in the jurisdictions in which it operates. Changes in tax rates, tax reliefs and tax laws, or interpretation of the law, by the relevant tax authorities may result in financial and reputational damage to the Group. This may affect the Group's financial condition and performance.

d. The Group has given certain indemnities and warranties in the course of disposing of businesses and companies and in completing contracts. The Group believes that any liability in respect of these is unlikely to have a material effect on the Group's financial position.

e. Corporate rules in those jurisdictions may also extend to compensatory trade agreements, or economic offset rules, where we may have to commit to use local content in delivering programmes of work. Delivery of offset is also subject to interpretations of law and agreement with local authorities, which we monitor closely but may give rise to financial and reputational damage to the Group if not undertaken appropriately.

30. Capital and other financial commitments

Capital commitments

	31 March 2024 £m	31 March 2023 £m
Contracts placed for future capital expenditure not provided for in the financial statements	**6.7**	7.8

30. Capital and other financial commitments continued

Subsidiary audit exemptions

The following UK subsidiary undertakings are exempt from the requirements of the Companies Act 2006 (the Act) relating to the audit of individual accounts by virtue of section 479A of the Act.

Legal entity name	Company number	Legal entity name	Company number
Airwork Limited	00322249	Babcock Marine (Rosyth) Limited	SC333105
Appledore Shipbuilders (2004) Limited	02052982	Babcock Marine Limited	02141109
Babcock Airports Limited	03954520	Babcock Marine Shipbuilding Limited	14302509
Babcock Assessments Limited	02881056	Babcock Mission Critical Services Design and Completions Limited	05035651
Babcock Contractors Limited	04540026	Babcock Mission Critical Services Leasing Limited	04635275
Babcock Critical Assets Holdings LLP	OC376675	Babcock Mission Critical Services Limited	08010453
Babcock Defence & Security Holdings LLP	OC376674	Babcock Mission Critical Services Topco Limited	08338012
Babcock Defence and Security Investments Limited	08132272	Babcock Mission Critical Services UK Limited	07527245
Babcock Defence Systems Limited	02999029	Babcock MSS Limited	01996548
Babcock Education & Training Holdings LLP	OC376676	Babcock Nuclear Limited	05265567
Babcock Education and Skills Limited	03494815	Babcock Overseas Investments Limited	02669327
Babcock Education Holdings Limited	08132276	Babcock Project Investments Limited	03463927
Babcock Fire Services Limited	03707192	Babcock Project Services Limited	04539887
Babcock Group (US Investments) Limited	07445425	Babcock Services Group Limited	03939840
Babcock Information Analytics and Security Limited	02275471	Babcock Services Limited	10278084
Babcock Integrated Technology (Korea) Limited	09566389	Babcock Southern Holdings Limited	01915771
Babcock Integration LLP	OC356460	Babcock Support Services (Investments) Limited	04393168
Babcock International Support Services Limited	03335786	Babcock UK Finance	00096730
Babcock Investments (Fire Services) Limited	04380306	Babcock Ukraine Limited	15155796
Babcock Investments (Number Four) Limited	05269128	Babcock US Investments Limited	07422616
Babcock Investments Limited	00165086	Bond Aviation Topco Limited	08493398
Babcock Land Limited	03493110	Flagship Fire Fighting Training Limited	03700728
Babcock Management Limited	00107414	LGE IP Management Company Limited	SC695940
Babcock Marine & Technology Holdings Limited	04539974	Peterhouse Group Limited	01517100
Babcock Marine (Clyde) Limited	SC220243	Vosper Thornycroft (UK) Limited	00070274
Babcock Marine (Devonport) Limited	02959785		

Babcock International Group PLC will guarantee all outstanding liabilities that these subsidiaries are subject to as at the financial year ended 31 March 2024 in accordance with section 479C of the Act, as amended by the Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012.

31. Related party transactions

Related party transactions for the year ended 31 March 2024 are:

2024	2024 Revenue to £m	2024 Purchases from £m	2024 Year-end debtor balance £m	2024 Year-end creditor balance £m
Joint ventures and associates				
First Swietelsky Operation and Maintenance	**9.3**	**–**	**–**	**(0.2)**
Ascent Flight Training (Management) Limited	**5.6**	**–**	**1.4**	**–**
Rotary Wing Training Limited	**4.5**	**–**	**–**	**–**
Fixed Wing Training Limited	**6.4**	**–**	**–**	**–**
Advanced Jet Training Limited	**2.6**	**–**	**–**	**–**
Rear Crew Training Limited	**1.2**	**–**	**0.2**	**–**
AirTanker Services Limited	**15.5**	**–**	**–**	**–**
Alert Communications Limited	**6.7**	**–**	**0.4**	**(0.2)**
Duqm Naval Dockyard SAOC	**–**	**–**	**–**	**–**
Alkali Metal Processing Limited	**0.8**	**(6.5)**	**0.3**	**(1.1)**
	52.6	**(6.5)**	**2.3**	**(1.5)**

2023	2023 Revenue to £m	2023 Purchases from £m	2023 Year-end debtor balance £m	2023 Year-end creditor balance £m
Joint ventures and associates				
First Swietelsky Operation and Maintenance	9.0	–	0.4	(0.4)
Ascent Flight Training (Management) Limited	0.9	–	0.3	–
Ascent Flight Training (Holdings) Limited	–	–	0.2	–
Rotary Wing Training Limited	4.1	–	–	–
Fixed Wing Training Limited	3.1	(0.2)	–	(0.4)
Advanced Jet Training Limited	1.3	–	0.3	–
Rear Crew Training Limited	0.8	–	–	–
AirTanker Services Limited	13.7	–	0.1	–
Alert Communications Limited	7.4	–	0.5	–
Duqm Naval Dockyard SAOC	–	–	0.3	–
	40.3	(0.2)	2.1	(0.8)

a. All transactions noted above arise in the normal course of business and on normal, arm's length commercial terms – typically revenue transactions (including those part of the year-end debtor balance) are non-interest bearing and on standard 30-day payment terms.

b. Defined benefit pension schemes. Please refer to note 25 for transactions with the Group defined benefit pension schemes.

c. Key management compensation is shown in note 6.

d. Transactions in employee benefits trusts are shown in note 25.

32. Events after the reporting period

There were no events after the reporting period which would materially impact the balances reported in this Annual Report.

33. Group entities

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 31 March 2024 is disclosed below. Unless otherwise stated, the Group's interest in the voting share capital is represented by one type of ordinary share and is 100%, the entities are unlisted, the year end is 31 March and the address of the registered office is 33 Wigmore Street, London, W1U 1QX. Babcock (UK) Holdings Limited is the only entity held directly by Babcock International Group PLC. No subsidiary undertakings have been excluded from the consolidation.

Subsidiaries, wholly owned

Airwork Limited

Appledore Shipbuilders (2004) Limited[1]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

Armstrong Technology Associates Limited*

Babcock (Ireland) Treasury Limited
Custom House Plaza, Block 6, IFSC, Dublin, 1, Ireland

Babcock (NZ) Limited
C/O Babcock Central Office, HMNZ Dockyard, Devonport Naval Base, Queens Parade, Devonport, Auckland, 0744, New Zealand

Babcock (UK) Holdings Limited[3]

Babcock Aerospace Limited

Babcock Africa Investments (Pty) Ltd
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Airports Limited

Babcock Assessments Limited

Babcock Australia Holdings Pty Ltd
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Aviation Services (Holdings) Limited[1]

Babcock B.V.
Bezuidenhoutseweg 1, 2594 AB The Hague, The Netherlands

Babcock Canada Inc.
45 O'Connor Street, Suite 1500, Ottawa, Ontario K1P 1A4, Canada

Babcock Communications Cyprus Limited
Spyrou Kyprianou, 47, 1st Floor, Mesa Geitona, 4004 Limassol, Cyprus

Babcock Communications Limited

Babcock Contractors Limited[1]

Babcock Corporate Secretaries Limited*

Babcock Corporate Services Limited

Babcock Critical Assets Holdings LLP

Babcock Critical Services Limited
103 Waterloo Street, Glasgow, Scotland, G2 7BW, United Kingdom

Babcock Defence & Security Holdings LLP

Babcock Defence and Security Investments Limited

Babcock Defence Systems Limited

Babcock Defense (USA) Incorporated
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Babcock Design & Technology Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Babcock DS 2019 Limited*

Babcock Education & Training Holdings LLP

Babcock Education and Skills Limited

Babcock Education Holdings Limited

Babcock Engineering Limited*
Heliporto de Salemas, Lousa, 2670-769, Lisboa, Loures, Portugal

Babcock Europe Finance Limited[1]
Trident Park, Notabile Gardens, No. 2 – Level 3, Mdina Road, Zone 2, Central Business District, Birkirkara CBD 2010, Malta

Babcock Fire Services (SW) Limited

Babcock Fire Services Limited

Babcock Fire Training (Avonmouth) Limited

Babcock Group (US Investments) Limited

Babcock Holdings (USA) Incorporated[7]
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Babcock Holdings Limited[3]

Babcock Information Analytics and Security Holdings Limited*

Babcock Information Analytics and Security Limited[5]

Babcock Integrated Technology (Korea) Limited

Babcock Integrated Technology GmbH
Am Zoppenberg 23, 41366 Schwalmtal, Germany

Babcock Integrated Technology Limited

Babcock Integration LLP

Babcock International France Aviation SAS
Lieu dit le Portaret, 83340, Le Cannet-des-Maures, France

Babcock International France SAS
21 Rue Leblanc 75015, Paris, France

Babcock International France Terre SAS
21 Rue Leblanc 75015, Paris, France

Babcock International Holdings BV
Bezuidenhoutseweg 1, 2594 AB The Hague, The Netherlands

Babcock International Holdings Limited[1]
Trident Park, Notabile Gardens, No. 2 – Level 3, Mdina Road, Zone 2, Central Business District, Birkirkara CBD 2010, Malta

Babcock International Limited[5]

Babcock International Support Services Limited

Babcock International US Inc
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Babcock Investments (Fire Services) Limited

Babcock Investments (Number Four) Limited

Babcock Investments Limited

Babcock IP Management (Number One) Limited

Babcock IP Management (Number Two) Limited

Babcock IP Management (Number Three) Limited

Babcock Ireland Finance Limited
44 Esplanade, St Helier, JE4 9WG, Jersey

Babcock Korea Limited
72-1, Shinsan-ro, Saha-gu, Busan, 49434, South Korea

Babcock Land Defence Limited

Babcock Luxembourg Finance S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg

Babcock Luxembourg Investments I S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg

Babcock Luxembourg Investments S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg

Babcock Luxembourg S.a.r.l.
12F rue Guillaume Kroll, L – 1882 Luxembourg

Babcock M 2019 Limited*

Babcock Malta Limited
44 Esplanade, St Helier, JE4 9WG, Jersey

Babcock Malta (Number Two) Limited
44 Esplanade, St Helier, JE4 9WG, Jersey

Babcock Malta Finance (Number Two) Limited[2]
Trident Park, Notabile Gardens, No. 2 – Level 3, Mdina Road, Zone 2, Central Business District, Birkirkara CBD 2010, Malta

Babcock Malta Finance Limited[2]
Trident Park, Notabile Gardens, No. 2 – Level 3, Mdina Road, Zone 2, Central Business District, Birkirkara CBD 2010, Malta

Babcock Malta Holdings (Number Two) Limited[2]
Trident Park, Notabile Gardens, No. 2 – Level 3, Mdina Road, Zone 2, Central Business District, Birkirkara CBD 2010, Malta

Babcock Malta Holdings Limited[2]
Trident Park, Notabile Gardens, No. 2 – Level 3, Mdina Road, Zone 2, Central Business District, Birkirkara CBD 2010, Malta

Babcock Management 2019 Limited*

Babcock Management Limited

Babcock Marine & Technology Holdings Limited

Babcock Marine (Clyde) Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Babcock Marine (Devonport) Limited[1]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, England

33. Group entities continued

Subsidiaries, wholly owned continued

Babcock Marine (Rosyth) Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Babcock Marine Holdings (UK) Limited[5]

Babcock Marine Limited

Babcock Marine Products Limited*

Babcock Marine Training Limited[1]

Babcock MCS Congo SA
Avenue Charles de Gaulle, PB 5871, Pointe-Noire, PB 5871, The Republic of Congo

Babcock Mission Critical Services Australasia Pty Ltd
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Mission Critical Services Design and Completions Limited

Babcock Mission Critical Services Germany GmbH
Bismarckstraße 100, 41061 Mönchengladbach

Babcock Mission Critical Services Leasing Limited

Babcock Mission Critical Services Ltd

Babcock Mission Critical Services Onshore Limited

Babcock Mission Critical Services Topco Ltd[1]

Babcock Mission Critical Services UK Limited

Babcock MSS Limited

Babcock Nuclear Limited

Babcock Oman LLC
P.O. Box 2315, Ghala, Muscat, 130, Oman

Babcock Overseas Investments Limited

Babcock Project Investments Limited

Babcock Project Services Limited

Babcock Pty Ltd
Level 9, 70 Franklin Street, Adelaide SA 5000, Australia

Babcock Rail Limited

Babcock Services Group Limited

Babcock Services Limited

Babcock Southern Careers Limited*[2]

Babcock Southern Holdings Limited[6]

Babcock Support Services (Investments) Limited

Babcock Support Services GmbH
Bismarckstraße 100, 41061 Mönchengladbach

Babcock Support Services Limited[8]
103 Waterloo Street, Glasgow, Scotland, G2 7BW, United Kingdom

Babcock Support Services s.r.l.
Corso Vercelli, 40, 20145, Milano, Italy

Babcock Training Limited

Babcock UK Finance

Babcock Ukraine Limited

Babcock USA LLC[1]
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Babcock US Investments (Number Two) LLC[1]
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Babcock US Investments Inc.[1]
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Babcock US Investments Limited[5]

Babcock Vehicle Engineering Limited[4]

BNS Pension Trustees Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

BNS Pensions Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Bond Aviation Topco Limited[5]

Brooke Marine Shipbuilders Limited*

Cavendish Nuclear (Overseas) Limited*

Cavendish Nuclear (USA) Incorporated
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Cavendish Nuclear Japan KK
Regus Tokyo, Arca Central – Office 104, Arca Central Building 14F 1-2-1, Kinshi , Sumida-ku, Tokyo, Japan

Cavendish Nuclear Limited[5]

Chepstow Insurance Limited
PO Box 155, Mill Court, La Charroterie, St Peter Port, GY1 4ET, Guernsey

Crucible Training Systems Limited*

Devonport Royal Dockyard Limited[9]
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

Devonport Royal Dockyard Pension Trustees Limited*
Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG, United Kingdom

FBM Babcock Marine Holdings (UK) Limited*

FBM Babcock Marine Limited*

FBM Marine International (UK) Limited*

Flagship Fire Fighting Training Limited

Heli Aviation China Limited*
Rooms 05-15, 13 A/F South Tower, World Finance Centre, Harbour City, 17 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong

INAER Helicopter Chile S.A.*
2880 Americo Vespucio Norte Avenue, Suite 1102, Conchali, Santiago, Chile

INAER Helicopter Peru S.A.C. (In liquidation) 1118 Av. Los Conquistadores, Santa Cruz, San Isidro, Lima, Peru

LGE IP Management Company Ltd
Rosyth Business Park, Rosyth, Dunfermline, Fife, Scotland, KY11 2YD, United Kingdom

Liquid Gas Equipment Limited
Rosyth Business Park, Rosyth, Dunfermline, Fife, Scotland, KY11 2YD, United Kingdom

Liquid Gas Equipment LLC[1]
251 Little Falls Drive, Wilmington, Delaware 19808, United States

Marine Engineering & Fabrications (Holdings) Limited*

Marine Engineering & Fabrications Limited*

Marine Industrial Design Limited
c/o Babcock Central Office, HMNZ Dockyard, Devonport Naval Base, Queens Parade, Devonport, Auckland, 0744, New Zealand

Naval Ship Management (Australia) Pty Ltd
9, 70 Franklin Street, Adelaide, SA 5000, Australia

Peterhouse Group Limited

Peterhouse GmbH
Bismarckstraße 100, 41061 Mönchengladbach

Port Babcock Rosyth Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Rosyth Royal Dockyard Limited[10]
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

Rosyth Royal Dockyard Pension Trustees Limited*
Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD, Scotland

SBRail Limited*

Vosper Thornycroft (UK) Limited

33. Group entities continued

Subsidiaries, partly owned:

Airwork Technical Services & Partners LLC (51.0%)
PO Box 248 (Muaskar Al Murtafa'a (MAM) Garrison), Muscat, 100, Sultanate of Oman

Babcock Africa (Pty) Limited (90.0%)[7]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Holdings (Pty) Ltd (90.0%)[11]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Africa Services (Pty) Ltd (90.0%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Aviation Services Holdings International Limited (49.82%)[11]
52 St Christopher Street, Valletta, VLT 1462, Malta

Babcock Dyncorp Limited[9] (56.0%)

Babcock Education and Training (Pty) Ltd (90.0%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Financial Services (Pty) Ltd (90.0%)
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Learning and Development Partnership LLP (80.1%)

Babcock MCS Ghana Limited (90.0%)
No. 9, Carrot Avenue, Adjacent Lizzy Sport Complex, East Legon, Accra, Ghana

Babcock Mission Critical Services (Ireland) Limited (49.82%)
13-18 City Quay, Dublin 2, Ireland

Babcock Mission Critical Services France SA (49.82%)
Lieu dit le Portaret, 83340, Le Cannet-des-Maures, France

Babcock Moçambique Limitada (90.0%)
Av. Samora Machel 3380/1, Mozambique

Babcock Namibia Services Pty Ltd (90.0%)
Unit 3 Ground Floor, Dr Agostinho Neto Road, Ausspann Plaza, Ausspanplatz, Windhoek, Namibia

Babcock Ntuthuko Aviation (Pty) Limited (66.78%)*
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Engineering (Pty) Limited (46.37%)[9]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock Ntuthuko Powerlines (Pty) Limited (46.81%)*
Unit G3 Victoria House, Plot 132 Independence Avenue, Gaborone, Botswana

Babcock Plant Services (Pty) Ltd (64.82%)[5]
Riley Road Office Park, 15E Riley Road, Bedfordview, Gauteng, 2007, South Africa

Babcock TCM Plant (Proprietary) Limited (90.0%)[7]
Unit G3 Victoria House, Plot 132 Independence Avenue, Gaborone, Botswana

Babcock Zambia Limited (90.0%)
16 Arusha, Town Centre, Ndola, Copper Belt, Zambia

Cognac Formation Aero (90.0%)
Base Aérienne 709 Cognac 16100 Châteaubernard, France

National Training Institute LLC (70.0%)
PO Box 267, MadinatQaboos, Sultanate of Oman, 115 Oman

Joint ventures and associates (equity accounted):

ABC Electrification Ltd (33.3%)[9]
8th Floor, The Place, High Holborn, London, WC1V 7AA

AirTanker Services Limited (23.5%)[12]
AirTanker Hub RAF Brize Norton, Carterton, Oxfordshire, England, OX18 3LX, United Kingdom

Alert Communications Group Holdings Limited (20.0%)

Alkali Metal Processing Limited (50.0%)

Ascent Flight Training (Holdings) Limited (50.0%)

Cavendish Boccard Nuclear Limited (51.0%)

Cavendish Dounreay Partnership Limited (50.0%)[9]

Cavendish Fluor Partnership Limited (65.0%)

Debut Services (South West) Limited (50.0%)
20 Triton Street, Regent's Place, London, NW1 3BF, United Kingdom

Duqm Naval Dockyard SAOC (49.0%)
The Special Economic Zone at Duqm, Al-Duqm, Al-Wusta'a, 3972 112, Oman

FSP (2004) Limited (50.0%)[1]
8 Stephenson Place, Hamilton International Technology Park, Blantyre, G72 0LH, Scotland

Okeanus Vermogensverwaltungs GmbH & Co. KG (50.0%)
Vorsetzen 54, 20459, Hamburg, Germany

Wholly owned subsidiaries with registered office at 55 Baker Street, London, W1U 7EU, United Kingdom, in Members Voluntary Liquidation:

Babcock Civil Infrastructure Limited; Bond Aviation Leasing Limited.

Wholly owned subsidiaries with registered office at 5 Temple Square, Temple Street, Liverpool, L2 5RH, in Members Voluntary Liquidation:

Babcock Infrastructure Holdings LLP.

Skills2Learn Limited

Joint venture, with registered office at 18-22 Lloyd Street, Manchester, M2 5WA United Kingdom, in Members Voluntary Liquidation:

ALC (Superholdco) Limited (50.0%)[13]

Notes

* Dormant entity.

1. Holding of two types of ordinary shares.
2. Holding of three types of ordinary shares.
3. Holding of four types of ordinary shares.
4. Holding of six types of ordinary shares.
5. Holding of ordinary and preference shares.
6. Holding of ordinary and deferred shares.
7. Holding of ordinary and redeemable preference shares.
8. Holding of ordinary and five types of preference shares.
9. Holding of one type of ordinary share only, where more than one type of share is authorised or in issue.
10. Holding of two types of ordinary shares, where more than two types of share are authorised or in issue.
11. Holding of one type of ordinary share and one type of preference share, where more than two types of share are authorised or in issue.
12. Year end 31 December.
13. Year end 30 June.

Company statement of financial position

As at 31 March

	Note	31 March 2024 £m	31 March 2023 £m
Non-current assets			
Investment in subsidiaries	5	**3,450.7**	3,449.5
Trade and other receivables	6	**463.4**	2,585.5
		3,914.1	6,035.0
Current assets			
Trade and other receivables	6	**165.1**	236.7
Other financial assets		**1.1**	–
Cash and cash equivalents		**–**	150.4
		166.2	387.1
Total assets		**4,080.3**	6,422.1
Non-current liabilities			
Bank and other borrowings	7	**742.5**	744.4
Other financial liabilities	8	**48.6**	47.4
		791.1	791.8
Current liabilities			
Trade and other payables	9	**518.2**	2,893.5
		518.2	2,893.5
Total liabilities		**1,309.3**	3,685.3
Net assets		**2,771.0**	2,736.8
Equity			
Called up share capital	10	**303.4**	303.4
Share premium account		**873.0**	873.0
Capital redemption reserve		**30.6**	30.6
Other reserve		**768.8**	768.8
Retained earnings		**795.2**	761.0
Total equity		**2,771.0**	2,736.8

The accompanying notes are an integral part of this Company statement of financial position. Company number 02342138.

The Company has taken advantage of the exemption granted by Section 408 of the Companies Act 2006 whereby no individual income statement of the Company is disclosed. The Company's profit (2023: loss) for the financial year was £35.5 million (2023: £4.3 million).

The financial statements on pages 247 to 255 were approved by the Board of Directors on 25 July 2024 and are signed on its behalf by:

David Lockwood OBE
Director

David Mellors
Director

Company statement of changes in equity

	Share capital £m	Share premium £m	Other reserve £m	Capital redemption £m	Retained earnings £m	Total equity £m
At 31 March 2022 (restated)	303.4	873.0	768.8	30.6	757.0	2,732.8
Loss for the year	–	–	–	–	(4.3)	(4.3)
Other comprehensive income(1)	–	–	–	–	(1.5)	(1.5)
Total comprehensive income	–	–	–	–	(5.8)	(5.8)
Share-based payments	–	–	–	–	9.4	9.4
Tax on share-based payments	–	–	–	–	0.4	0.4
Net movement in equity	–	–	–	–	4.0	4.0
At 31 March 2023	303.4	873.0	768.8	30.6	761.0	2,736.8
Profit for the year	**–**	**–**	**–**	**–**	**35.5**	**35.5**
Other comprehensive income(1)	**–**	**–**	**–**	**–**	**2.8**	**2.8**
Total comprehensive income	**–**	**–**	**–**	**–**	**38.3**	**38.3**
Dividends	**–**	**–**	**–**	**–**	**(8.5)**	**(8.5)**
Share-based payments	**–**	**–**	**–**	**–**	**12.4**	**12.4**
Tax on share-based payments	**–**	**–**	**–**	**–**	**4.5**	**4.5**
Purchase of own shares	**–**	**–**	**–**	**–**	**(12.5)**	**(12.5)**
Net movement in equity	**–**	**–**	**–**	**–**	**34.2**	**34.2**
At 31 March 2024	**303.4**	**873.0**	**768.8**	**30.6**	**795.2**	**2,771.0**

1. Other comprehensive income relates to hedge reserve movements net of deferred tax of £2.8 million (2023: £1.5 million).

The other reserve relates to the rights issue of new ordinary shares on 7 May 2014 and the capital redemption reserve relates to the issue and redemption of redeemable 'B' preference shares in 2001.

The retained earnings account includes £289.3 million (2023: £286.5 million), the distribution of which is limited by statutory or other restrictions.

Notes to the Company financial statements

1. General information

Babcock International Group PLC ('the Company') is incorporated and domiciled in England, UK. The address of the registered office is 33 Wigmore Street, London, W1U 1QX. The Company has no ultimate controlling party. The principal activity of the Company is that of a holding company. The Company also arranges certain borrowing facilities on behalf of the wider Group.

2. Material accounting policy information

The material accounting policy information adopted in the preparation of these financial statements is set out below. Material accounting policies have been consistently applied to all the years presented.

Basis of accounting

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payments'
- IFRS 7, 'Financial instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
  - paragraph 79(a) (iv) of IAS 1, 'Share capital and reserves';
  - paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
  - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the year).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), 10(f), 16, 38A-38D, 40A-40D, 111, and 134-136.
- IAS 7, 'Statement of cash flows'
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors'
- Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

The financial statements have been prepared on a going concern basis using the historical cost convention, as modified by the revaluation of certain financial instruments. The financial statements are prepared in Sterling which is the functional currency of the Company and rounded to the nearest £0.1 million.

There were no changes to accounting standards that had a material impact on these Financial Statements. New accounting standards, amendments and interpretations not yet adopted are also not anticipated to have a material impact on future periods.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

After making enquiries, the Directors, at the time of approving the financial statements, have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

Investments

Investments are stated at cost less provision for impairment in value.

Investments are reviewed for impairment at least annually. The recoverable amount is measured as the higher of fair value less costs of disposal, and value-in-use. In assessing value in use, the estimated future cash flows of the underlying investment are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

When the recoverable amount is less than the carrying amount, an impairment loss is recognised immediately in the Company income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised in prior years.

2. Material accounting policy information continued

Taxation

Current income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Finance costs

Finance costs are recognised as an expense in the year in which they are incurred.

Employee benefits

(a) Share-based compensation

The Company operates equity-settled, share-based compensation plans which are either recharged to the relevant subsidiaries or recognised as capital contributions in the associated investments. Full details of the share-based compensation plans are disclosed in note 24 to the Group financial statements.

(b) Pension arrangements

The Company operates a multi-employer defined benefit pension scheme, however all assets and liabilities are recognised in the relevant subsidiary in which the employee operates. See note 25 to the Group financial statements for further details.

Financial instruments

(a) Financial assets and liabilities at amortised cost

Amounts due from subsidiary undertakings are classified as financial assets held at amortised cost. Amounts due to subsidiary undertakings and bank loans and overdrafts are classified as financial liabilities held at amortised cost. These balances are initially recognised at fair value and then held at amortised cost using the effective interest rate method.

The Company assesses on a forward-looking basis the expected credit losses associated with financial assets held at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(b) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Company designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair value is recognised in profit or loss immediately.

Financial risk management

All treasury transactions are carried out only with investment grade counterparties as are investments of cash and cash equivalents.

2. Material accounting policy information continued

Company guarantees
The Company has guaranteed or has joint and several liability for bank facilities with £8.3 million utilisation at 31 March 2024 (2023: £18.9 million) provided to certain Group companies. The Company has reviewed and concluded that these arrangements constitute financial guarantee contracts. IFRS 17 allows an accounting policy choice to account for such contracts under either IFRS 9 or IFRS 17. This policy choice can vary from contract to contract however the choice for each contract is irrevocable. The Company has elected to apply IFRS 9 (rather than IFRS 17) to such arrangements. These guarantees are measured initially at their fair values, and subsequently measured at the higher of the expected credit loss and the amount initially recognised less cumulative amortisation.

The Company has guaranteed the performance of certain contracts by subsidiaries with their customers. The Company has reviewed and concluded that some of these performance guarantee contracts also meet the definition of financial guarantee contracts (thereby granting a policy choice between IFRS 9 and IFRS 17), whilst others do not meet the definition of a financial guarantee contract (thereby requiring accounting under IFRS 17). In all instances, the Company has elected to apply IFRS 17 (rather than IFRS 9) to performance guarantee contracts in issue as at 31 March 2024.

The probability of losses on performance guarantees has been assessed and it has been determined that the probability is remote after consideration of both historical and forward-looking triggers. As such the estimated liability is immaterial. As a result, no transition accounting entries were required as at 1 April 2023.

Dividends
Dividends are recognised in the Company's financial statements in the year in which they are approved and in the case of interim dividends, when paid.

Critical accounting estimates and judgements
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. We have not identified any key sources of estimation uncertainty impacting the reporting period. Other estimates that are not key sources of estimation uncertainty are discussed below.

Estimates which are not key sources of estimation uncertainty
The carrying value of investment in subsidiaries is tested annually for impairment, in accordance with IAS 36. The impairment assessment is based on assumptions in relation to the cash flows expected to be generated by the subsidiaries, together with appropriate discounting of the cash flows.

In the prior year, the carrying value of investments in subsidiaries was identified as a critical accounting estimate given the significance of the remaining carrying value, the headroom within the base case and the inherent level of estimation uncertainty required to undertake impairment testing.

In the current year, we have not identified the carrying value of investments in subsidiaries as a critical accounting estimate as the headroom in the base case has increased such that no reasonably possible changes in assumptions could result in the complete elimination of the headroom.

Critical accounting judgements
There are not considered to be any critical accounting judgements in respect of the Company for the current period.

3. Company profit
The Company has no employees other than the Directors.

The Company has taken advantage of the exemption granted by section 408 of the Companies Act 2006 whereby no individual profit and loss account of the Company is disclosed. The Company's profit for the financial year was £35.5 million (2023: loss of £4.3 million).

Fees payable to the parent auditor and its associates in respect of the audit of the Company's financial statements were £1.8 million (2023: £1.9 million).

4. Directors' emoluments
Under Schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 5), total Directors' emoluments, excluding Company pension contributions, were £4.9 million (2023: £3.1 million); these amounts are calculated on a different basis from emoluments in the Remuneration report which are calculated under Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Schedule 8 (2013)). These emoluments were paid for the Directors' services on behalf of Babcock International Group. No emoluments relate specifically to their work for the Company. Under Schedule 5, the aggregate gain made by Directors from the exercise of Long Term Incentive Plans in 2024 as at the date of exercise was £1.0 million (2023: £nil) and the net aggregate value of assets received by Directors in the year ended 31 March 2024 from Long Term Incentive Plans as calculated at the date of vesting was £1.1 million (2023: £nil); these amounts are calculated on a different basis from the valuation of share plan benefits under Schedule 8 (2013) in the Remuneration report.

5. Investment in subsidiary undertakings

	31 March 2024 £m	31 March 2023 £m
Cost at 1 April	**3,449.5**	2,466.5
Additions	**1.2**	983.0
Cost at 31 March	**3,450.7**	3,449.5

Investment additions in the prior year relate wholly to the conversion of preference shares in subsidiary undertakings, which matured by mutual agreement of both parties on 31 March 2023.

Investment additions in the current year relate to the capitalisation of share-based payments charges not recharged to the associated Group undertaking.

At 31 March 2024, the carrying amount of the Company's net assets of £2,771.0 million exceeded the Group's market capitalisation of £2.6 billion (2023: £1.5 billion). As a result, management performed an impairment test of the Company's investments in line with the requirements of IAS 36 *'Impairment of assets'*.

Results of the impairment test for the year ended 31 March 2024

This impairment test for the year ended 31 March 2024 did not result in an impairment.

Impairment methodology

Cash-generating units

The CGU for the purpose of this analysis is the Group as a whole, as the Company has an investment in a single holding company through which it indirectly owns the rest of the Group. The recoverable amount of the CGU is the higher of its value-in-use and its fair value less costs of disposal.

Calculation of recoverable amount

The recoverable amount of the Company's investment in subsidiary undertakings was assessed by reference to value-in-use calculations. Note 10 of the Group financial statements sets out further details in relation to how the value-in-use calculations are determined.

Key assumptions

The key assumptions to which the recoverable amount of the Company's investment in subsidiary undertakings is most sensitive are future cash flows, long-term growth rates and discount rates. Further details on how these inputs are determined are set out in Note 10 of the Group financial statements.

The discount rates and long-term growth rates used to determine the recoverable amount of the Company's investment in subsidiary undertakings are set out below.

	31 March 2024				31 March 2023			
	Aviation	Land	Marine	Nuclear	Aviation	Land	Marine	Nuclear
Pre-tax discount rate	**13.2**	**12.2**	**12.2**	**12.6**	13.1	13.1	13.1	12.4
Post-tax discount rate	**9.8**	**9.0**	**9.0**	**9.3**	9.8	9.8	9.8	9.3
Long-term growth rate	**2.0**	**2.2**	**2.1**	**2.0**	2.1	2.1	2.0	1.9

Sensitivity

The Directors carried out sensitivity analyses on the reasonably possible changes in key assumptions used to determine the recoverable value of the Company's investment in subsidiary undertakings. No reasonably possible changes in estimates led to any potential impairment being identified with headroom remaining under these reasonably possible sensitivities.

6. Trade and other receivables

	31 March 2024 £m	31 March 2023 £m
Non-current		
Amounts due from subsidiary undertakings	**454.8**	2,581.7
Deferred tax	**8.6**	3.8
Total non-current trade and other receivables	**463.4**	2,585.5
Current		
Amounts due from subsidiary undertakings	**164.8**	236.6
Prepayments	**0.3**	0.1
Total current trade and other receivables	**165.1**	236.7

Amounts due from subsidiary undertakings that do not carry interest are repayable on demand.

Amounts due from subsidiary undertakings are held at amortised cost less expected credit losses. The Company's profit for the year includes a reversal of expected credit losses of £69.9 million (2023: charge of £117.4 million). As at 31 March 2024, the amount due from subsidiary undertakings is stated net of an expected credit loss provision of £47.5 million (2023: £117.4 million).

The amounts recorded in the prior year were impacted by a change in assessed credit risk following the disposal of the Aerial Emergency Services business. Reversals recorded in the current year have resulted following the settlement of a number of balances during the year.

Interest rates on amounts owed by subsidiary operations:

	Non-current		Current	
	31 March 2024 £m	31 March 2023 £m	31 March 2024 £m	31 March 2023 £m
EURIBOR + 4.0%	–	24.4	–	152.7
EURIBOR + 2.0%	–	13.1	–	–
EURIBOR + 1.5%	–	–	–	5.4
EURIBOR + 0.0%	–	–	–	0.8
SONIA + 1.5%	**93.0**	–	–	–
SONIA + 4.0%	**29.2**	89.7	–	–
USD LIBOR + 4.0%	–	5.8	–	–
STIBOR + 4%	–	–	–	6.8
BBSW + 1.5%	–	23.9	–	–
NIBOR + 4.0%	–	–	–	6.7
4.5%	**100.8**	–	–	–
Interest-free	**231.8**	2,424.8	**164.8**	64.2
	454.8	2,581.7	**164.8**	236.6

7. Bank and other borrowings

	31 March 2024 £m	31 March 2023 £m
Non-current		
Bank loans and other borrowings	**742.5**	744.4

The Company has £1,517.5 million (2023: £1,968.0 million) of committed borrowing facilities, of which £742.5 million (2023: £768.4 million) was drawn at the year end. The effective interest rates applying to bank loans and other borrowings were as follows:

	31 March 2024 %	31 March 2023 %
UK bank overdraft	**6.4**	5.4
8-year Eurobond September 2027 – fixed	**2.9**	2.9
8-year Eurobond September 2027 – floating	**6.9**	6.3
£300 million bond 2026	**1.9**	1.9

8. Other financial liabilities

	31 March 2024 £m	31 March 2023 £m
Non-current		
Other financial liabilities – currency and interest rate swaps	**48.6**	47.4

Disclosures in respect of the fair value of other financial assets and liabilities are provided in note 21 to the Group accounts.

9. Trade and other payables

	31 March 2024 £m	31 March 2023 £m
Current		
Amounts due to subsidiary undertakings	**512.4**	2,887.6
Accruals and deferred income	**5.8**	5.9
	518.2	2,893.5

The amounts due to subsidiary undertakings are repayable on demand and £512.4 million (2023: £2,887.6 million) is interest-free.

10. Share capital

	Ordinary shares of 60p Number	Total £m
Allotted, issued and fully paid		
At 1 April 2023 and 31 March 2024	**505,596,597**	**303.4**
Allotted, issued and fully paid		
At 1 April 2022 and 31 March 2023	505,596,597	303.4

11. Contingent liabilities, financial guarantee contracts and performance guarantee contracts

(a) The Company has guaranteed or has joint and several liability for bank overdraft facilities that are shared across multiple Group companies with overdrawn balances of £8.3 million at 31 March 2024 (2023: £18.9 million).

(b) Throughout the Group, guarantees exist in respect of performance bonds and indemnities issued on behalf of Group companies by banks and insurance companies in the ordinary course of business. At 31 March 2024 these amounted to £277.5 million (2023: £257.8 million), of which the Company had counter-indemnified £236.5 million (2023: £249.2 million). The liability recognised in respect of these guarantees in the balance sheet as at both 31 March 2024 and 31 March 2023 is immaterial.

(c) The Company has given guarantees on behalf of Group companies in connection with the completion of contracts within specification. The liability recognised in respect of these guarantees in the balance sheet as at both 31 March 2024 and 31 March 2023 is immaterial.

12. Group entities

See note 33 of the Group financial statements for further details.

13. Events after the reporting period

See note 32 of the Group financial statements for further details.

Shareholder information

Financial calendar

Financial year end	31 March 2024
2023/24 full-year audited results announced	26 July 2024
Annual General Meeting	19 September 2024
Final dividend payment date (record date 23 August 2024)	30 September 2024

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Shareholdings can be managed by registering for the Share Portal at www.babcock-shares.com. Alternatively, shareholder enquiries relating to shareholding, dividend payments, change of address, loss of share certificate etc, can be addressed to Link using their postal or email addresses given above.

Tel: +44 (0)37 1664 0300
(Calls are charged at standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.)
www.babcock-shares.com

ShareGift

If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations.

Further information about ShareGift may be obtained on 020 7930 3737 or from www.ShareGift.org

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