

# Our business today

## Creating a safe and secure world, together

Babcock is an international defence company operating in our focus countries of the **UK, Australasia, Canada, France** and **South Africa**, with exports to additional markets with potential to become focus countries.

Our work supports our public sector and blue chip customers on complex long-term programmes and critical services. We provide through-life technical and engineering support, specialist training, asset management and the design and manufacture of a range of defence and specialist equipment. We meet our customers' key requirements of value for money, increased availability, modernisation and flexibility.

### WHAT WE DO

We provide engineering, support and systems and deliver critical services to defence and civil markets.

#### Deliver complex programmes and critical services

We provide through-life technical and engineering support for our customers' assets, delivering improvements in the performance, availability and programme cost. We also deliver critical services to our defence and civil customers, including engineering support to land defence and air base operations, specialist training and asset management, equipment supply and maintenance to the resources sector, and engineering support to the nuclear power industry.

#### Design, manufacture and integrate

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.

### REVENUE PROFILE

By location



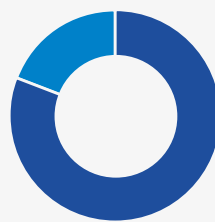
■ 63% UK  
■ 37% International

By market



■ 55% Defence  
■ 45% Civil

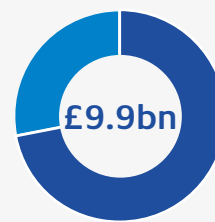
By customer



■ 81% Public  
■ 19% Private

### BACKLOG PROFILE

By market



■ 72% Defence  
■ 28% Civil

## DELIVERED ACROSS OUR FOUR SECTORS



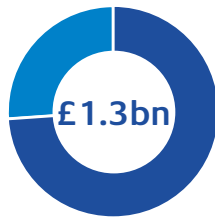
### Marine

31% of FY22 revenue

- UK and international warship through-life support: design, build, assemble, maintain, upgrade
- International submarine through-life support
- Global naval exports: ship design, military equipment and engineering support
- Energy and marine equipment and support

→ See page 42

FY22 revenue



74% Defence  
26% Civil



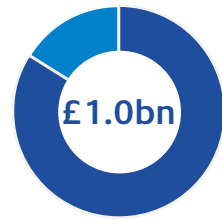
### Nuclear

24% of FY22 revenue

- Support all UK nuclear submarines and infrastructure
- Own or manage key infrastructure and naval bases
- Nuclear submarine dismantling
- UK civil nuclear new build, generation support and decommissioning projects
- UK and international nuclear services

→ See page 44

FY22 revenue



84% Defence  
16% Civil



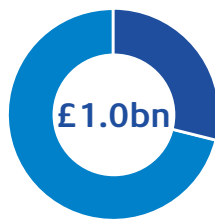
### Land

25% of FY22 revenue

- Asset management and engineering support for British Army vehicles
- Technical training and support for the British Army
- Emergency services technical training and fleet management
- South Africa engineering and equipment businesses

→ See page 46

FY22 revenue



29% Defence  
71% Civil



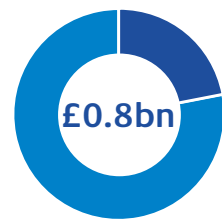
### Aviation

20% of FY22 revenue

- UK and French pilot training and support
- Military aircraft engineering and airbase support
- Military and emergency services aircraft maintenance, repair and overhaul
- Air ambulance, search and rescue and firefighting services

→ See page 48

FY22 revenue



22% Defence  
78% Civil

## FURTHER INFORMATION ON

Strategy and business model

→ See page 6-9

Markets

→ See page 10

Culture change

→ See page 18

ESG strategy

→ See page 54

# Our strategy

Our Purpose, *to create a safe and secure world, together*, defines our strategy. We support and enhance our customers' defence capabilities and critical assets through a range of product and service solutions. We meet our customers' requirements of increased availability, affordability and capability.

In last year's report, we said our strategy had three elements: the UK naval business; UK value-add services and International. As we have developed and shaped the business over the first year of our turnaround, we have determined that our international presence is an inherent part of our overall strategy and so should not be considered separately. Our strategy focuses on naval engineering, support and systems, and on critical services in our core defence and civil markets. In this section we share our thinking and outline our strategic priorities.



## Naval engineering, support and systems

- To deliver high-value, technical and engineering support for ships and submarines to UK and other navies
- To own, maintain and develop critical naval infrastructure
- To design, build and export world class naval platforms and equipment
- To deliver affordable digital support and solutions which enhance our customers' capabilities

### Drivers

- Global threat environment and geopolitics
- Rising global defence spending
- Infrastructure and equipment modernisation trends
- UK National Shipbuilding Strategy
- Digitalisation of defence and security environment
- Requirement for integrated, technology-driven solutions

### Babcock Sectors

- Marine
- Nuclear (naval)



## Critical services: defence and civil

- To provide high-value engineering and support services in land and aviation defence, civil nuclear and other critical sectors
- To deliver technical training services in defence and security sectors
- To maintain and provide complex assets and equipment
- To provide integrated solutions to our customers by bringing together the right technology and suppliers

### Drivers

- Increased asset complexity across all defence domains and public service sectors
- Nuclear energy is a key component of the UK Government's decarbonising strategy
- Tight budgets driving need for innovative asset management solutions and outsourced services
- Outsourcing specialist equipment services

### Babcock Sectors

- Nuclear (civil)
- Land
- Aviation

## Delivering

Availability

Affordability

Capability

[→ We report through four operating sectors, read more about them in our operational reviews on page 42](#)

Find out more about our Arrowhead 140 export programme by scanning this code.



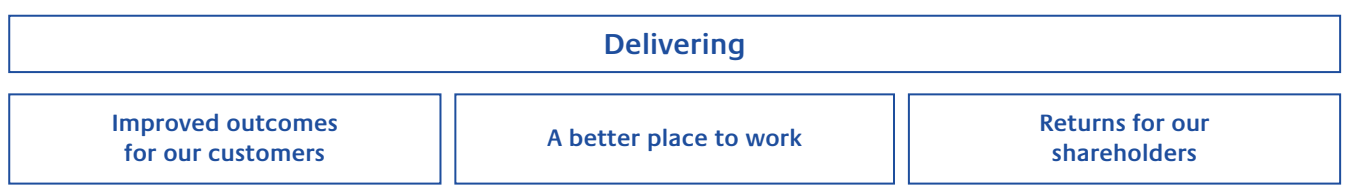
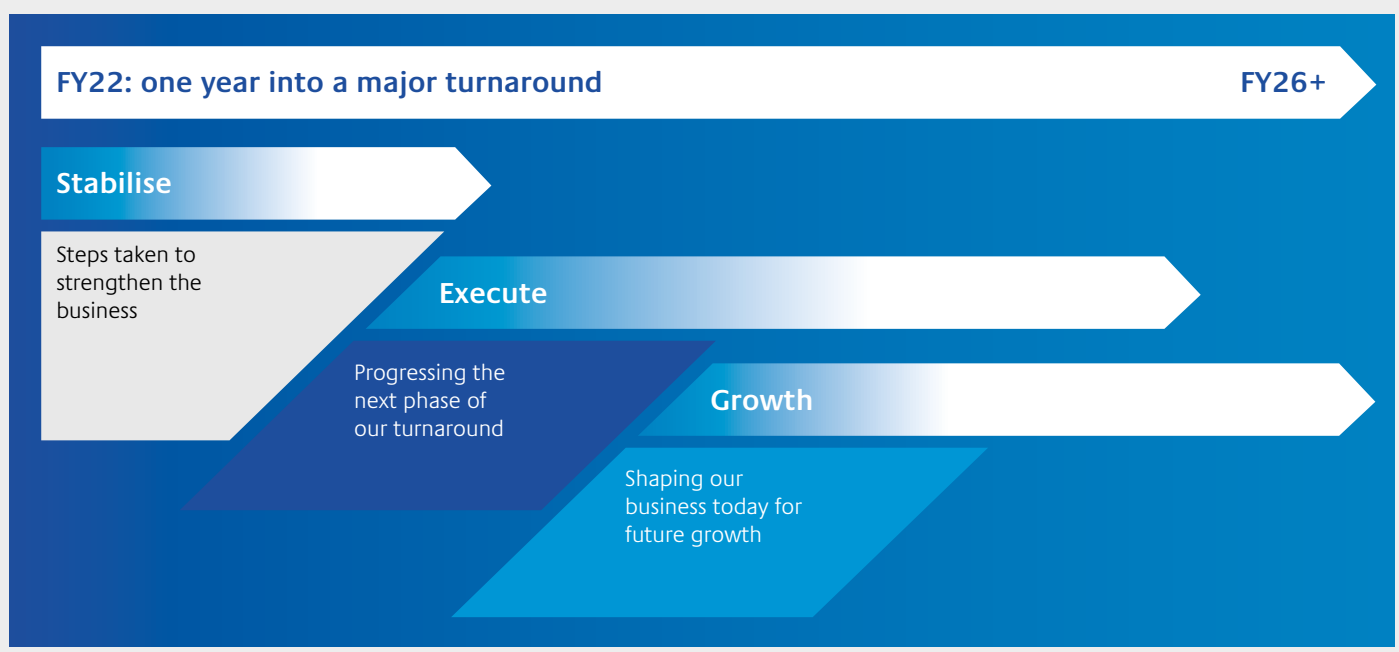
## Good progress on FY22 priorities

During the year, we delivered the strategic actions, set out below, required to strengthen the Group, creating a stable platform to execute our strategy.

- |  |  |  |  |  |
|--|--|--|--|--|
| <p><b>Portfolio</b></p> <ul style="list-style-type: none"> <li>• Gross proceeds of £447 million</li> <li>• Net debt/EBITDA reduced to 1.8x</li> <li>• Strategic acquisition of the remaining 50% interest in our Australian Naval Ship Management (NSM) joint venture</li> </ul> | <p><b>Operating model</b></p> <ul style="list-style-type: none"> <li>• New operating model established</li> <li>• Managed COVID-19 challenges</li> <li>• Achieved target in-year operating model savings</li> <li>• Operating margin 5.8% (from 5.5%)</li> </ul> | <p><b>People</b></p> <ul style="list-style-type: none"> <li>• Established our Purpose and Principles</li> <li>• Created a flatter management structure</li> <li>• Harmonised policies and processes</li> <li>• Managed senior leadership changes and restructuring</li> <li>• Focused on sharing best practice and innovation</li> </ul> | <p><b>ESG</b></p> <ul style="list-style-type: none"> <li>• Matured integration of ESG into programmes</li> <li>• Developed sector sustainability programmes</li> <li>• Expanded our ESG commitments</li> <li>• Committed to set ambitious science-based targets</li> </ul> | <p><b>Growth</b></p> <ul style="list-style-type: none"> <li>• Contract backlog £9.9 billion</li> <li>• Global AH140 exports</li> <li>• Significant new defence communications business globally</li> <li>• Launched iSupport for naval operations</li> </ul> |
|--|--|--|--|--|

[Read more about our strategic progress in our CEO Review on page 13](#)

## Our turnaround strategy continues



[Read more about our priorities for FY23 and beyond in our CEO Review on page 13](#)

# Our business model

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 experiences and skills, to deliver for our customers and solve challenges every day. We aim to better support and empower our workforce of over 28,000.



[See our People Strategy on page 19](#)

### 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 in the UK including the Rosyth and Devonport Royal dockyards. We also operate a range of customer-owned critical assets, for example, naval and air force bases and company-owned assets including 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.

## What we do



### Deliver complex programmes and critical services

We provide through-life technical and engineering support for our customers' assets, delivering improvements in the performance, availability and programme cost. We also deliver critical services to our defence and civil customers, including engineering support to land defence and air base operations, specialist training and asset management, equipment supply and maintenance to the resources sector, and engineering support to the nuclear power industry.



### Design, manufacture and integrate

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.

## How we do it

### 1 Foundations

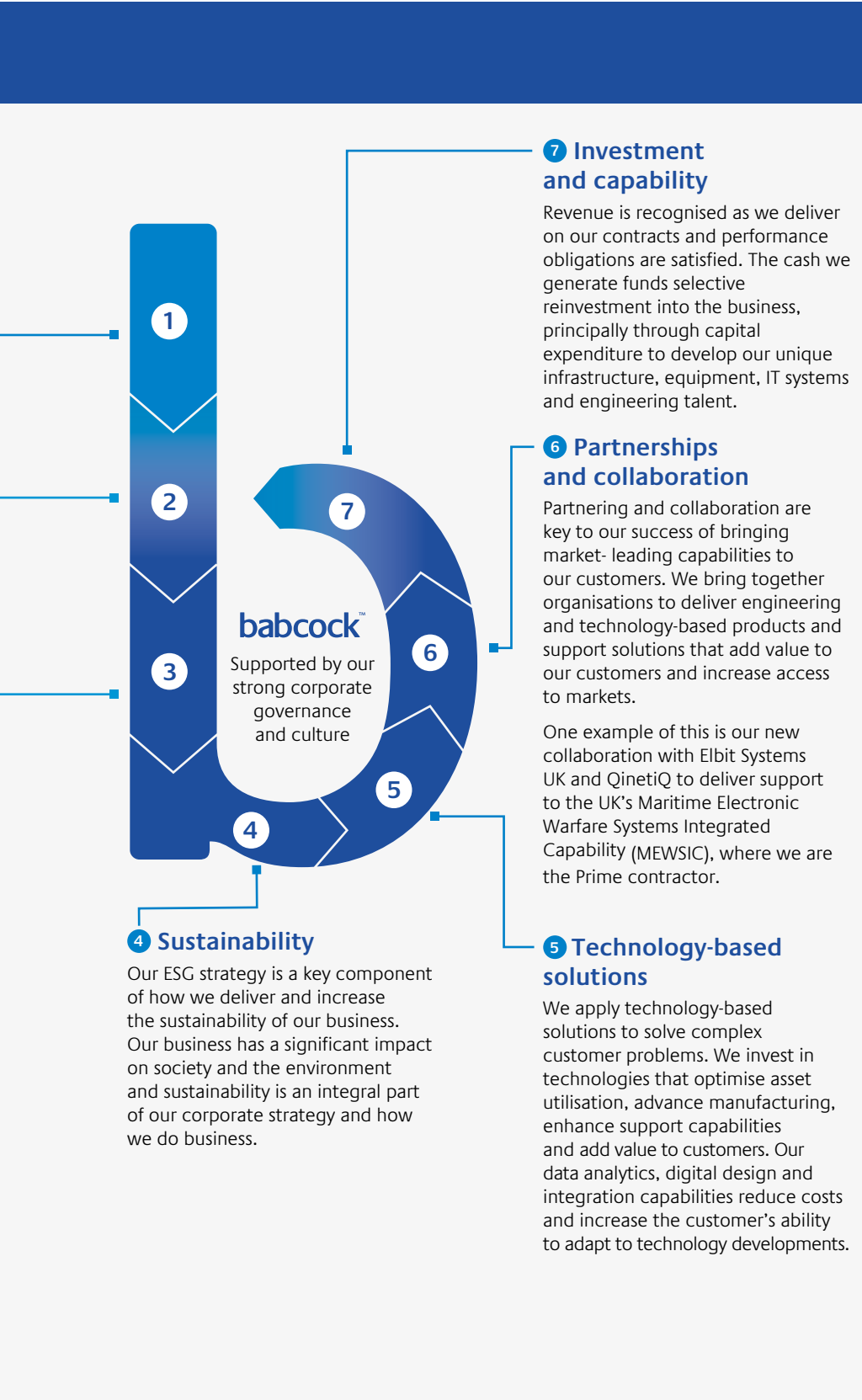
We work collaboratively with government departments, public bodies, highly regulated industries and blue chip companies, and are embedded on crucial long-term programmes. We focus on markets and customers with outsourcing models that require value-add engineering-based support and product development. 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 backlog of £9.9 billion of contracted work provides a base level of revenue for the years ahead, supplemented by new business wins, framework call-offs, 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.



**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 52 for details on how we engage with stakeholders