2023 financial highlights

Revenue

£4,439m

2022: £4,102m

Statutory operating profit

£46m

2022: £227m

Underlying operating profit*

£178m

2022: £238m

Statutory cash generated from operations

£349m

2022: £42m

Underlying free cash flow*

£75m

2022: £(191)m

Net debt/EBITDA (covenant basis)*

1.5x

2022: 1.8x

* Underlying operating profit, underlying free cash flow and net debt/EBITDA (covenant basis) are defined as Alternative Performance Measures, please see below.

2023 strategic highlights

Completed portfolio realignment programme, Group revenues now over two thirds defence

Further investment in improving the control environment and project risk management

Progressed delivery of our ESG strategy and commitments

Integrated ESG into our long-term planning process and performance framework

Published capital allocation policy with a commitment to reinstate a dividend in FY24

Confidence in achievements to date and our future has enabled us to set medium term guidance

Adjustments between statutory and underlying

The Group provides alternative performance measures, including underlying operating profit, underlying free cash flow and net debt to EBITDA, to enable users to better understand 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 has defined and outlined the purpose of its alternative performance measures (APMs) in the Financial Glossary on page 38.

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 2022, with the addition of excluding the Type 31 loss.

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.

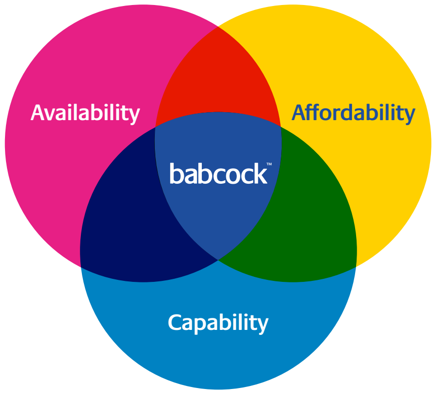
Our business today

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. We meet our customers' key requirements of **affordability, availability, and capability**.

What we do

We provide frontline and equipment support, training, product design, manufacture and integration, and technology and systems to defence, security and civil markets.



Support

We provide through-life technical and engineering support for our customers' assets, delivering improvements in performance, availability and programme cost. We deliver complex programme support to defence and civil customers, including frontline support, equipment support and technical training for naval, land, air and nuclear sectors.

Product

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

We deliver effective and adaptable solutions that optimise capability, availability and affordability through our four sectors, Marine, Nuclear, Land and Aviation.

Where we operate

FY23 global revenue profile*

£4.0bn
FY23 revenue*

68%
Defence*

>26,000
Employees

£9.5bn
Contract backlog

* We present FY23 revenue and splits excluding divested businesses (c.£420 million) to better reflect the Group today.

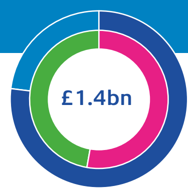
Delivered across our four sectors

Marine

36% of FY23 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
- Digital defence, communication and mission systems

FY23 revenue profile



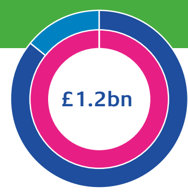
77% Defence	53% UK
23% Civil	47% International

Nuclear

29% of FY23 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

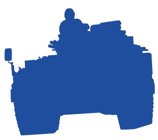
FY23 revenue profile



86% Defence	100% UK
14% Civil	0% International

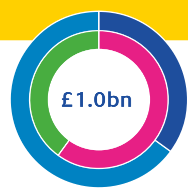
Land

25% of FY23 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
- Digital defence communications

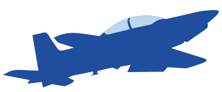
FY23 revenue profile*



35% Defence	60% UK
65% Civil	40% International

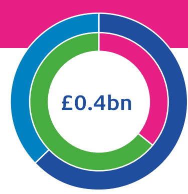
Aviation

10% of FY23 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 in our focus countries

FY23 revenue profile*



63% Defence	36% UK
37% Civil	64% International

Strategy and business model
► See pages 6 and 20

Market review
► See page 18

Our ways of working
► See page 4

ESG strategy
► See page 58

* We present FY23 revenue and splits excluding divested businesses (c.£420 million) to better reflect the Group today.

Driving operational excellence

Enhanced internal controls

Introduction of 'Blueprint of Control Improvements' covering over 500 improvement actions.

Appointment of new Group Director of Internal Audit, Risk Assurance & Insurance.

Establishment of new Risk Committee to provide executive leadership and oversight of risk management.

Completion of a global banking services transition, including reduction in number of bank accounts.

Upgrade in Treasury and Tax capability and strengthening of the Finance function.

See pages 87, 88, 89 and 125

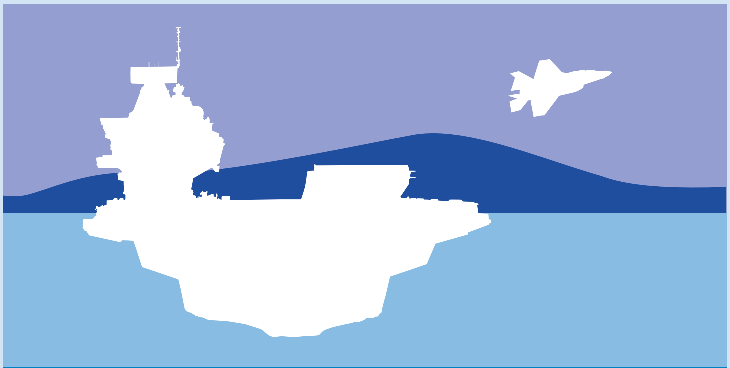
Completed portfolio realignment to simplify and focus on core defence business and adjacent markets

Strengthened balance sheet with a reduction in net debt of c.£400 million.

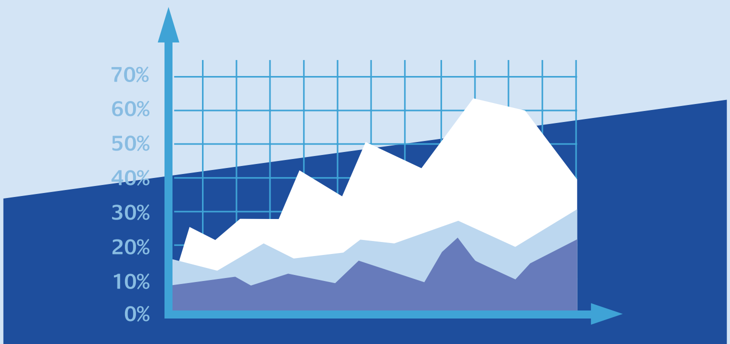
Embedded Group-wide operating model, including global functions.

Implemented global procurement risk management process, including robust category management and tool to assess risk on delivery and cost.

See page 12



Focused business



Standardised processes

Launched a global Business Management System to standardise processes across the Group

Global project management framework launched, defining and standardising categorisation.

New Babcock role framework, providing standardisation and clear job progression pathways.

Agile working framework and new Delegation of Authority matrix embedded across Group.

See pages 13, 78 and 107

In FY23 we invested in controls and process improvements to realise efficiencies, increase resilience, and improve delivery and risk management

Strengthened corporate culture

Clear 'tone from the top' driven by our Purpose and Principles

Conducted first global people survey for over a decade.

Consistent people plans in place at Group, Sector, Country and business unit level.

Launched programme to define leadership expectations, piloted frontline leader module.

Developed reward benchmarking toolkit.

► See pages 75, 78 and 82

Enhanced reporting on progress against targets to Board.

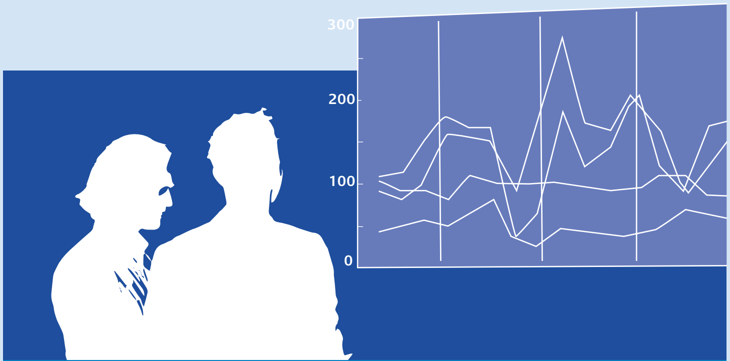
Drive to achieving Net Zero by 2040 across our estates and operations underway.

Introduced new Employee Assistance Programme provider.

Launched new Sponsorship and Employee Volunteering policies.

Climate-related risk assessment integrated into five-year plan

► See page 58, 60, 68, 80 and 107



Focus on ESG

More responsive contract management

New commercial function with a focus on optimising commercial risk management.

Standardisation of commercial and operational reviews, including financial and accounting impacts and 12-monthly rolling forecast.

Deep dive / assurance reviews on significant contracts.

Regular engagement with customers and supply chain, including via Strategic Partnering Programme.

► See pages 13, 56, 88 and 93

Our strategy

Strategic framework

Purpose

To create a safe and secure world, together.

Strategy

Our growth strategy is focused on three key areas:

Leverage our technical capability in growth areas of defence and security

- Grow internationally, both in our focus markets and through export opportunities
- Grow our UK business through increased scope and market share

Build strategic partnerships with our key customers

- Work with our customers to deliver critical solutions
- Develop innovative solutions to solve complex challenges faced by our customers

Deliver our ESG objectives

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

How we deliver

We deliver our strategy through the provision of a range of support and product solutions

Support

Deliver technical support and critical services to our defence and civil customers

- Frontline support
- Equipment support
- Training

Product

Design, manufacture and integrate specialist systems

- Design, develop and manufacture
- Technology and systems integration

Through our four sectors

Our capabilities span four key markets, with around 70% of our business in defence

Marine
See page 40

Nuclear
See page 44

Land
See page 48

Aviation
See page 52

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

Strategic progress

Two years into our turnaround – building momentum FY26+

Stabilise

Portfolio alignment complete
FY23 Net debt to EBITDA
1.5x

Execute

Driving operational improvement
FY23 cash conversion*
110%

Grow

Pursuing growth opportunities
FY23 organic revenue growth
10%

*Excluding the Type 31 loss

Strategic near-term priorities

Pursue growth opportunities
- International land & aviation support
- Global naval strategies incl. AUKUS
- Defence digital & systems integration

Drive operational improvements
- Improve programme execution
- Enhance processes and controls
- Improve profitability

Focus on cash flow
- Optimise cash flow in bids
- Improve cash efficiency in portfolio
- Deliver consistent cash conversion

Linked to our medium term guidance and KPIs

Organic revenue growth | **Underlying operating margin** | **Underlying free cash flow**

Our strategy in action in FY23

- Ukraine MRO & France aviation support
- Poland MIECZNIK & AUKUS positioning
- UK Skynet & Australia defence comms

- DSG improved contract performance
- Project management framework launch
- Culture focus through employee survey

- Australian defence comms cash profile
- Normalised working capital
- 110% cash conversion (excl. Type 31 loss)

Technology-led solutions

The environment in which we work is increasingly digital, which brings both challenges and opportunities. It's a landscape Babcock understands, allowing us to plan, compete and work in partnership with our customers for our joint success.

As a Group we will continue to focus on growing and developing our data and digital solutions, building on the progress made in areas including Advanced and Additive Manufacturing, synthetics and simulation technology and our Autonomous Systems programmes. It isn't just about the technology. Over the past year we have worked hard to create a better culture around our digitally engaged workforce. After all, it is our people using the technology who will make the difference.

Data & Digital

We will continue to invest in digital and data solutions to maximise the information advantage these technologies can bring. They will help us meet the complex engineering challenges our customers face, whether it is digitising or even retrofitting digital twins onto legacy assets or managing satellites in space.

Alongside our deep engineering experience, digital and data technologies will allow us to better understand, predict and enhance the performance of the assets we manage, make better engineering decisions, reduce risk and improve service delivery. We are already delivering this for our customers across contracts such as the Future Maritime Support Programme and DSG.

Digital Facility

This year we completed the first phase of our digital advanced manufacturing facility at Rosyth, a major project milestone. This will give Babcock a world-class digital shipbuilding facility, but our vision is for this to grow and become a blueprint for how we adapt our other sites around the world.

Improvements we have made include shop floor digitisation and digitally integrating a complete IT infrastructure network. This will significantly improve operational efficiencies, again driving costs down for our customer, and reducing our carbon footprint.

We have introduced mobile devices linked to enterprise resource planning (ERP) and Product Data Model data so we can provide real-time quality assurance and completions management, putting our people at the centre of our technology journey. Getting the right data into the right hands is critical for businesses like ours. The digital facility allows our operators to have information at the point of use, driving a much more efficient solution for our customers.

We have introduced a state-of-the-art digitally enabled panel line, including robotic welding and vision scanning systems. The panel line is fully connected to the design 3D model and single planning tool to optimise the operation of the individual production units in the panel line, driving increased throughput and lower waste volumes whilst delivering engineering excellence.

We have also invested in a T-Beam machine at Rosyth that can robotically weld a 3.7 tonne beam in 20 minutes, resulting in a 300% productivity increase. Investing in digital technology this way also provides a safer working environment for our people who can now operate the technology remotely.

Over the next year we will look to invest in specialist co-bot technology to further develop our automation welding processes, whilst retaining the deep engineering skillset of our people.

Advanced analytics to adaptive learning

We believe a major area of future growth is in our training business where data management, analysis and collaboration are becoming an increasingly critical factor.

Not only is the battlespace landscape evolving, the roles of people manning submarines, on the frontline or piloting fighter jets are also evolving. This is an exciting area which brings together the latest R&D and cutting-edge technologies, such as sensors on soldiers and AI to adapt learning to the individual. Combining the advanced analytics from the sensors with the technology skills of our people means we can begin to analyse and understand human performance. Having the ability to understand and translate this type of data allows the possibility of responding in real-time to critical human conditions such as fatigue and stress.

The opportunities are significant; not just in our delivery of existing contracts such as our support of the London Fire Brigade, but in positioning us for future ones such as becoming the UK Ministry of Defence's Collective Training Transformation Partner.

Future

Given the scale and complexity of the contracts and assets we manage, data exploitation, integration and intelligence will be a key part of our journey along with human performance. We have recently invested in a data integration platform which will allow us to deliver a vast array of digital services and solutions to drive increased efficiencies in time and money.

In line with our customer's strategic goals we are transitioning to a cloud-based system where our businesses can self-deliver data-driven solutions. This is expected to reduce the time and cost spent managing and integrating data from previous systems. The foundations we are laying today will position Babcock as a technology-led data-driven business backed by a strong digital culture and a digitally engaged workforce.

Benefits

- Delivery of data insights more cost effectively and at pace, as we realise the benefits more quickly for ourselves and our customers
- Increased opportunities for our employees, as we create highly skilled jobs and a digitally enabled workforce
- Increased data intelligence, enabling us to increase platform and system availability

Advanced Manufacturing

In addition to the digital facility at our site in Rosyth, we continue to build on the successes of the past year. In January we became the Ministry of Defence's first supplier of 3D metal printed parts used to sustain vehicles in the British Army's active armoured fleet. This was a major milestone for Babcock and the customer in tackling the growing challenges of technical and commercial obsolescence. As a result, we have established a new Materiel Availability Services team in our Land sector, striving to ensure more materiel is in the right place at the right time.

Digital solutions such as advanced and additive manufacturing are becoming increasingly significant for Babcock in the management of complex, critical, legacy, and low-volume assets. Printing parts in this way supports our sustainability journey as we realise the benefits of reduced inventory holding and energy consumption.

In February, we enhanced our relationship with Additure to further develop our digital manufacturing capability. This venture allows us to focus on increasing platform availability, collaborate on new digital solutions and better manage the challenges around complex, critical, low-volume parts.

Future

Our work in this area is part of a longer-term global advanced manufacturing investment programme. Our vision is to develop a capability that will enable the printing of components anywhere as the need arises, whether onboard vessels at sea or at military sites abroad, giving those on the frontline the ability to print on demand.

Benefits

- Increased materiel availability in legacy & low-volume supply chains
- Reduced need to hold physical inventory for low-volume use items
- Safeguard against the challenges of technical and commercial obsolescence

Autonomous Systems & automation

We are excited about the future of Autonomous Systems as we explore the development of new types of uncrewed vehicles. Over the coming year we will work closely with industry and academic partners to develop intellectual property (IP) alongside new and disruptive technology applications, where we are seeing significant demand both in the UK and overseas.

We were the first major defence company to be invited to host an event at the UK MOD's new flagship technology and innovation hub, The Defence 'BattleLab', bringing together SMEs for a live autonomous vehicle demonstration and demonstrating our commitment to innovate in this area. This marked a milestone in autonomy, heralding the first live demonstration of an autonomous multi-vehicle convoy across an array of SME-designed technology and showcasing our commitment to innovate with others.

In May 2023, we responded to a customer requirement to develop, build and flight-test a novel jet powered Unmanned Aircraft System solution. Collaborating with SMEs and academia, we delivered a rapid prototype to first successful flight in just 19 days.

Future

We have already shown that unmanned vehicles can carry out a multitude of tasks simultaneously, while being safely controlled at a distance. We will continue to advance our SME relationships and develop IP for autonomous technology, whilst seeking opportunities to work with our customers to accelerate growth across all technology focus areas.

Benefits

- Enhanced capability: increased range and endurance means more coverage of battlespace surveillance, intelligence, reconnaissance and weapons systems
- Ability to perform complex tasks and operate equipment at a safe distance from dangerous environments
- Increased cost effectiveness: cheaper and quicker to manufacture than traditional solutions

A stronger, more resilient, more disciplined Babcock

Ruth Cairnie
Chair

Read Ruth's biography on page 108

"

I am delighted to confirm that our work to stabilise the business is complete; we are now a stronger, more resilient, and more disciplined company. Our focus now increasingly turns to execution and growth as we look to the future with confidence."

Ruth Cairnie
Chair

Last year I told you of the steps we were taking to address the historic underperformance of the Group. This year I am delighted to confirm that having successfully completed our portfolio alignment programme, our work to stabilise the Group's balance sheet is complete.

We made strong progress against our goals in the year, particularly through the introduction of enhanced systems and processes to reduce risk across the business and capture the opportunities emerging from a positive market for defence.

Babcock is now starting to run as it should; the work we have undertaken over the last two years has made us a stronger, more resilient, and more disciplined company, able to look to the future with confidence. As a result, the Board expects to reinstate a dividend in FY24.

Our second full year of turnaround has seen us deliver double-digit organic growth and a strong cash performance against a backdrop of global change (see page 12). Our focus is now increasingly turning to execution and growth, centred on our core market of defence, and adjacent markets which need our specialist skills and unparalleled experience of supporting the armed forces.

Now more than ever, what we do matters

Given the geopolitical changes experienced over the last year, national security has never been more important. As global tensions escalate, and as the conflict in Ukraine continues, military spending is rising. Even allowing for inflation, last year saw the steepest year-on-year increase in Europe in at least 30 years, according to the Stockholm International Peace Research Institute.

Our defence customers have increasingly complex requirements, driven by a world of evolving threats, the requirement to deliver value for money and the need to develop new and enhanced capability at ever greater pace. Guided by our Purpose, to create a safe and secure world, together, Babcock is well placed to provide the affordability, capability and availability our customers demand in today's uncertain times. Now more than ever, what we do matters.

Our strategy looks to leverage our capability to deliver technical support and critical services to our defence and civil customers and to design, manufacture and integrate specialist equipment. This is underpinned by the progress we have made in our turnaround journey.

From submarines below the waves, to armoured vehicles on the ground, to satellites in space, we are well-positioned to take advantage of the opportunities afforded by our customers' evolving defence requirements.

In March 2023, the US, UK and Australia unveiled plans for a new 'AUKUS' pact, including the supply of nuclear-powered submarine technology to Australia. Babcock plays a critical role in all three countries' submarine programmes today. Our long experience of nuclear infrastructure, workforce upskilling and regulatory and safety stewardship means we are ideally placed to help deliver a nuclear-powered submarine capability for the Royal Australian Navy under the AUKUS agreement.

In the land domain, as we announced in July 2023, we are honoured to stand with the Ukrainian and UK Governments by providing critical operational support to the military vehicles provided by the UK to Ukraine. This sustainment agreement strengthens our existing relationship with Ukraine and builds on the tripartite Memorandum of Implementation signed by Babcock and the two governments in June 2021.

And we are safeguarding secure communications in space, an increasingly critical domain in the defence of nations. In February 2023, we, with our partners, were awarded the contract to manage and operate Skynet, the UK Ministry of Defence's military satellite communication system. Babcock is a world leader in secure communications for the military, having been awarded a major multi-year programme to upgrade the Australian Defence Force's Defence High Frequency Communication System in October 2022.

Control environment

Over the last year we have enhanced the Group's control environment, fostering a consistent risk approach. We aim for predictability and optimisation of performance through continued investment in systems, in internal controls, and, through our far-reaching culture change programme, in our people (see page 4 for our Ways of Working).

This discipline will enable us to improve delivery on existing projects, as we have in our DSG contract for the maintenance, repair and overhaul of military land vehicles and equipment in the UK, and capture efficiencies. With more structure around the management of financial and commercial risk, we are enhancing our ability to deliver sustainable, profitable growth. Wherever I look, I see signs of progress.

We are also actively managing our exposure to historically onerous contracts, which we expect to replace over time with higher quality work. Our strong operating cash performance, together with the proceeds of divestments, has enabled us to accelerate pension payments and reduce our net debt, so that we could remain within our target gearing range of 1x – 2x net debt to EBITDA despite the impact of the Type 31 loss on our FY23 reported profit. Excluding the loss, our gearing ratio (on a covenant basis) would have been 1.1x (see page 31). We are now a business which can withstand such unforeseen events.

We also continue to build our positive relationship with our UK defence customers, working closely with them to deliver their goals in both the UK and on the international stage. As a strategic supplier to the UK Government, we play a critical role in maintaining national security – as indeed we do with our customers outside the UK. We are currently in discussions with the UK's Submarine Delivery Agency and the Royal Navy regarding a long-term strategic partnership to ensure the stable, effective and efficient delivery of deep and base maintenance of submarines.

We continue to focus on driving continuous improvement as we build upon our established corporate safety standards, supported by the introduction of a Group-wide 'Safety starts with me' programme. I am also encouraged by how our increased focus on ESG has been welcomed across the Group and by our customers and is being embedded into 'business as usual' at all stages, from bid design to programme delivery. Our approach to sustainability is, and will continue to be, integral to our strategy.

None of this progress would be possible without our dedicated people. Whenever I visit our operations, I am inspired by how much our people care about what they do – they are collaborative, committed and able to work flexibly and at pace to get the job done. Whether it's applying engineering excellence or the latest technology, they have embraced the challenge of striving for excellence in service of a safe and secure world.

Ruth Cairnie
Chair

CEO statement

David Lockwood
Chief Executive Officer

Read David's biography on page 108

"When we started our transformation, my first goal was to stabilise and strengthen the balance sheet and I'm delighted to say that work is complete. Babcock is now a higher-quality, lower-risk and more predictable business, with a clear focus on execution.

David Lockwood
Chief Executive Officer

Introduction

Our transformation is delivering results. In FY23, we successfully delivered double-digit organic revenue growth, underlying margin(1)(2) expansion and a significantly better than expected cash performance against a backdrop of economic turbulence.

Following completion of the portfolio alignment programme, over two-thirds of the Group's revenue is now concentrated on defence, with this percentage expected to increase over time. We have significantly strengthened the balance sheet and enhanced risk management systems, underpinned by our work to embed a new corporate culture focused on execution and growth, aligned with our ESG strategy. While we have further to go, Babcock is now more stable, more resilient, and better able to capture the many growth opportunities before us.

As a result, the Board expects to reinstate a dividend in FY24 after a three-and-a-half-year hiatus. Over the medium term we are targeting average annual organic revenue growth(3) in the mid-single digits, an underlying operating margin(1)(2)(3) of at least 8% and underlying operating cash conversion(1)(3) of at least 80%.

Strong underlying FY23 results

Our second full year of turnaround delivered strong underlying performance excluding the £100 million loss on the UK Ministry of Defence (MOD) Type 31 programme, where we have entered a Dispute Resolution Process (DRP). We have delivered organic revenue growth of 10%[(1)(2)], a 50 basis point increase in underlying operating margin[(1)(2)], underlying operating cash conversion[(1)(2)] of 110%, and underlying free cash flow[(1)] of £75 million, significantly ahead of expectations, despite ongoing macroeconomic headwinds.

Due to our strong cash performance, we accelerated pension deficit payments by an additional £35 million and reduced our net debt excluding operating leases by £211 million. At 1.5x, our net debt to EBITDA[(1)] gearing ratio remains within our target range of 1.0x to 2.0x (on a covenant basis) (FY22: 1.8x). Excluding the Type 31 loss our gearing ratio would have been 1.1x.

Our contract backlog of £9.5 billion, grew organically by 7%, reflecting the demand for our specialist capabilities in our core defence and security markets and underpinning our confidence in the future.

A better Babcock

In the last two years since we began our turnaround programme, we have made excellent progress across our three pillars of Stabilise, Execute and Grow.

Stabilise: balance sheet strengthened

The sale of the European Aerial Emergency Services business (AES) to Ancala Partners in February 2023 completed a two-year portfolio alignment programme to strengthen the balance sheet and focus on the Group's chosen markets.

The programme realised total cash proceeds of c.£640 million, well exceeding our initial target of above £400 million, and reduced lease liabilities by c.£340 million. As a result of this and a better-than-expected operating cash performance, net debt at 31 March 2023 was £564 million, representing an aggregate reduction of £789 million over two years. Over the same period, our net debt to EBITDA[(1)(2)] gearing ratio (on a covenant basis) reduced from 2.5x at March 2021 to 1.5x at March 2023. During the period we have also fully paid off c.£400 million of deferred creditors and supply chain financing arrangements.

A focused and differentiated portfolio

Our portfolio is now aligned with our strategy to leverage our capabilities in growth areas of defence and security. On a proforma basis[(3)], 68% of FY23 revenue is derived from the defence market, which we expect to steadily increase over time.

We are predominately focused on services, with most of our business providing complex programme support to UK and international customers in support of their requirements of capability, affordability and availability. The balance of our operations comprises the design, manufacturing and integration of specialist equipment and technologies for our defence and civil customers.

With Stabilisation complete, our strategy is now firmly focused on delivering value through continual operational improvement and sustainable growth.

Execute: ongoing operational improvement

We have made further progress in operational delivery across the Group, underpinned by a strengthened corporate culture which drives better outcomes for all our stakeholders. Our work to drive cultural change centres on our people. In October 2022, we concluded the first Group-wide survey of employees for more than 10 years. This achieved a response rate of 79%, demonstrating a high level of engagement. The survey results have driven the development and implementation of action plans as part of our overarching People Strategy. Examples include the launch of a Babcock Role Framework to transform the employee experience, defining and standardising role categorisation and opening professional development pathways and career opportunities.

We are fostering a consistent Group-wide risk-based control approach, aiming for predictability and optimisation of performance through investment in systems, controls and the expertise of our people. While there is still much to do, operational improvement will continue to be a key driver of margin expansion, cash generation and higher returns over the coming years.

Enhanced control environment

During the year we launched a number of Group-wide process and control initiatives and functional changes developed to improve efficiency, enhance our control environment, and fundamentally reduce risk in the business. We designed and implemented a Global Project Management Framework to standardise and professionalise project management across the Group. This framework includes our Integrated Project Controls processes which enhance our ability to make data-driven decisions, which is key to improved delivery and mitigation of risk in our major projects.

We have also introduced a new centre-led commercial function tasked with optimising commercial risk management and have implemented 15 key 'Blueprint' fundamental management review controls which mitigate significant contract management, commercial and financial reporting risks. We also launched a Group-wide Global Business Management System which will drive commonality and best practice across the business.

Enhanced delivery

We are proactively managing exposure to historically onerous long-term contracts and focusing on replacing them with higher quality orders with improved terms and/or a lower execution risk profile. At the beginning of the turnaround, we identified a small group of higher risk legacy contracts that generated zero margin. Associated revenue from these contracts continues to reduce from over £400 million in FY22 to less than £300 million expected in FY24, through a combination of contract completion and delivery, such as the Vanguard life extension (LIFEX), and efficiency improvements, such as DSG, both described below.

We recently concluded the Devonport elements of the highly complex – and first of its kind – LIFEX of a Vanguard Class submarine, with the first vessel returned to the UK Royal Navy in May 2023 after seven years. This was one of the largest and most complex submarine engineering projects undertaken in the UK, with HMS Vanguard being the first of her class to receive an extensive life-extension and upgrade package – essentially a rebuild rather than a traditional refit. We have learned many lessons in how to scope contracts, mobilise and deliver such a complex project. The novel and significant risk associated with this unique project is now behind us. Mobilisation for the next submarine in the programme, HMS Victorious, is now underway, on contract terms that allow us to manage programme risk more effectively and improve delivery.

A successful example of the turnaround improving programme delivery is the 10-year DSG contract awarded in 2015 for the maintenance, repair and overhaul (MRO) of British Army land vehicles and equipment. Following a radical overhaul of the operation to raise productivity, we have markedly improved operating performance and delivery for our UK MOD customer, who has formally notified us of their intention to exercise up to five option years with modifications that will contribute to better outcomes for the customer and for Babcock. We continue to evolve complex vehicle support and maintenance solutions that could lead to future opportunities in the UK and internationally.

Earlier this month we were awarded an initial one-year, c.£50 million contract, with options to extend, by the UK MOD to support urgent operational requirements for Ukraine's military land assets as part of the UK's support for the country.

Further advancing our ESG strategy

Over the year, we have made progress in the delivery of our ESG strategy and corporate commitments, while increasing disclosure on key sustainability interests. In April 2023, we submitted our interim and Net Zero carbon reduction targets to the Science Based Targets initiative (SBTi) and we conducted a strategic climate-related risk assessment as input to our five-year planning process.

We are also continuing to integrate our five ESG priorities, which provide a comprehensive framework for integrating sustainability into the business:

1. Reduce emissions and set Net Zero 2040 targets
2. Integrate environmental sustainability into programmes
3. Ensure the safety and well-being of our people
4. Improve communities, and provide high-quality jobs
5. Be a collaborative, trusted partner across the supply chain

In addition, we have further embedded ESG into our performance framework with remuneration linked to our Net Zero emissions target and diversity and inclusion targets, measured through our KPIs.

More broadly, we have a critical role in global defence and national security in the countries in which we operate. As global instability and political turmoil increases, we support the view that democracies need to be able to defend themselves from aggressors. Without the stability provided by strong defence, it is challenging for governments to progress environmental or social improvement measures.

Nuclear power, and in some instances nuclear deterrent, form a crucial part of the resiliency framework developed by many democratically elected Governments. Babcock has been supporting the UK's commitment to its Continuous-At-Sea Deterrent for over 50 years, while also delivering critical civil nuclear engineering. We will continue to support our customers, both with their defence agenda and their commitment to generate low emission power from nuclear energy.

Financial risks being better managed

Inflation: The macro-economic environment remains volatile, although there are signs that the extreme inflationary pressures experienced over the last year are beginning to recede, albeit slowly. Approximately two-thirds of our revenue base has some measure of protection for inflation. The remainder are, "firm", fixed-price contracts which retain some inflation risk. Many are relatively short term (one to two years), giving us the opportunity to replace them with improved terms.

The Group's largest exposure to inflation is rising labour costs (approximately 50% of the cost base of the fixed-price contracts), particularly within the UK. The Group addressed labour cost in the UK for FY23 with a pay deal that targeted all but the higher paid employees to assist in the cost-of-living increases. This pay deal resulted in a c.£25 million FY23 cost increase over and above costs that could be recovered through extant contracts, which we have offset through other efficiencies. The FY24 pay cycle has commenced and we continue to expect to offset unrecoverable increases through targeted efficiencies.

Grow – building momentum

Our portfolio is now aligned with our growth strategy. This will leverage our technical capability to grow our defence and services business, both internationally and in the UK. The defence market backdrop remains supportive, driven by geopolitical instability and a heightened threat environment, although global financial pressures do also remain acute.

Whether it be through engineering support such as maintaining or extending the life of complex assets, through the design and manufacture of specialist equipment, or through the integration of new technologies into innovative and cost-effective solutions, we see significant opportunities in our defence and adjacent markets.

Growth drivers

It is becoming clear that the events in Eastern Europe and growing tension in the Asia-Pacific region are driving planned increases in global defence expenditure. Whilst some additional funding will go to new equipment, there is a realisation that increasing the availability and capability of current military assets is crucial. As we are largely platform-agnostic, we partner with delivery agencies – in some cases as a Design or Technical Authority – to support them as they make critical decisions to modernise and life-extend ageing assets and platforms.

As defence operations modernise, so too will the support required to deliver campaigns. The outsourcing of frontline support and services that require skilled, engineering-based capabilities will continue to grow, as will the need for specialist training.

The rapid pace of technology and ever-changing threat environment is driving the need to deliver military capability with agility and at pace. Our technology and systems integration expertise, including capability insertion and equipment modernisation, continue to drive growth.

Evidenced through our sectors

Marine – increasing naval support and technology opportunities in the UK and internationally

As a leading provider of naval ship and submarine support and maintenance to UK, Canadian, Australian, US and New Zealand navies, we see opportunities emerging in the short term as a result of the increased operational tempo and, over the longer term, through life-extension and naval fleet modernisation strategies. In the UK, our ability to deliver complex, cost-effective support has allowed us to secure several new naval support contracts in the year, including a critical 10-year docking contract for the Queen Elizabeth Class aircraft carriers and a contract to support the UK Government's research vessel fleet.

In Australia, following our appointment as the Regional Maintenance Provider with responsibility for managing the support of Royal Australian Navy (RAN) vessels in Western Australia, further opportunities are emerging as the RAN re-organises its ship support model. Elsewhere we are seeing opportunities to support our international customers, for example, following our recent programme to regenerate ex-UK Royal Navy Sandown Class mine countermeasures vessels for Ukraine.

We are continuing to experience international interest for the proven Arrowhead 140 naval ship design used on the UK Type 31 frigate programme, both in our focus countries and other export markets, driven by demand for affordable naval power.

The investments we have made in our advanced manufacturing facility in Rosyth are not only allowing us to deliver new performance standards in UK warship build but are drawing interest from other domestic and international customers who value our flexible, scalable advanced and modular manufacturing capabilities. A key part of that capability is the delivery of missile tube assemblies for the UK Dreadnought and US Columbia Class submarine programmes where Rosyth is the programme centre of excellence for tube manufacture as a result of investments in advanced robotic solutions.

Demand for our Liquid Gas Engineering (LGE) products and innovative technologies for the processing, handling and storage of liquefied gas remains strong as our customers look to satisfy the growing global demand for cleaner energy solutions to replace traditional fossil fuels such as coal. We continue to innovate in this area, seeking commercially scalable technologies for the transport and management of gas and liquid fuels that can help to reduce the industry's carbon emission burden.

We command a strong position in the defence digital market. In the year, we were awarded a six-year c.£400 million contract to manage and operate Skynet, the UK's military satellite communications system, part of the MOD's c.£6 billion Skynet 6 programme, marking a significant opportunity in the space domain.

Nuclear – growth across defence and civil nuclear markets

Babcock sustains the entirety of the UK Royal Navy's nuclear-powered submarine fleet. The major programme to modernise submarine infrastructure across Devonport continues to grow as the UK progresses a multi-year phase of class transition, which will lead to concurrent support of four classes of nuclear-powered submarine – Trafalgar, Vanguard, Astute and, ultimately, Dreadnought. Our upgraded facilities will support and maintain the UK's critical subsea and nuclear deterrent capability for decades to come.

During the year, we launched the Submarine Availability Partnership with the UK MOD and Submarine Delivery Agency (SDA) to improve submarine availability over the long term. We are currently in discussions with the SDA and the Royal Navy with the intention of finalising a long-term strategic partnership to ensure the stable, safe, effective and efficient delivery of deep and base maintenance of submarines.

We welcome the announcement from the Australian, UK, and US Governments (AUKUS) regarding the decision for acquisition of nuclear-powered submarines. We play a critical role in all three countries' submarine programmes today. Our experience of nuclear infrastructure, workforce upskilling, and regulatory and safety stewardship, combined with our unique expertise in nuclear submarine design and through-life support, positions us ideally to help to deliver a nuclear-powered submarine capability for the RAN.

In civil nuclear, we recently secured a contract with the Japan Atomic Energy Agency (JAEA) to provide specialist capability in support of the decommissioning of the Monju Prototype Fast Reactor (PFR) in Fukui Prefecture. In the UK, through our specialist nuclear capabilities and our advanced manufacturing experience, we are well positioned for opportunities to support the build of the new fleet of advanced or small modular reactors to be developed.

Land – MRO and training contract wins underpin growth

Demand for our specialist land equipment MRO and fleet management capabilities is strong. Our work to deliver urgent operational requirements to revalidate and modernise land assets and gifted equipment in support of operations in eastern Ukraine has recently led to the award of an initial one-year contract to support Ukraine's military land equipment, including maintenance of critical military vehicles, training of Ukrainian personnel, and management of supply chains and spares.

Our global reputation for asset support is allowing us to expand our operational role in France. We are pursuing a number of emerging opportunities following the award of our first land support contract in France, a 10-year contract to support air transit and aircraft operations equipment across 26 military bases.

Training personnel is a critical component to support new defence equipment and asset modernisation programmes. We see significant opportunities for partnership and growth. In the UK, we are collaborating with training partners for the British Army's £1.3 billion Collective Training Transformation programme.

Through our relationship with the UK's Supacat, we are delivering 70 High Mobility Transporters for the British Army, with a potential total requirement of up to 240 of these light armoured vehicles, through a new dedicated production line, providing an operationally capable and cost-effective protected mobility vehicle. There is international interest in this platform with the opportunity to develop an export sales pipeline. We are also supporting the UK MOD and British Army's shift to electric vehicles (EV) from 2030 through a new contract for EV conversion and trials of Land Rover vehicles, to help the Army to understand the applications and constraints of electric propulsion.

Aviation – opportunities in all our disciplines (training, MRO, aerial emergency services and aviation technologies)

We see potential to materially grow our Canadian aviation business. Initially, through the recent award of a c.£200 million, 10-year helicopter emergency medical services contract commencing in 2025. Also, through our bid with joint venture partner Leonardo in response to Canada's Future Aircrew Training (FAcT) programme for military pilot training over 25 years. If successful, this would further strengthen our international aviation training capabilities and result in the Group delivering both new platforms and new capabilities to the Royal Canadian Air Force. The outcome is expected to be declared later in 2023.

In the UK, we are partnering with the UK Royal Air Force's Rapid Capability Office to progress a range of sustainable aviation technologies that could minimise the environmental impact of light aircraft flying training, for example sustainable aviation fuel.

Trading in the first quarter of FY24

Trading in the first quarter ended 30 June 2023 was in line with expectations.

Outlook(4)

FY24 outlook: Our expectations for FY24 profitability and cash flow are unchanged, although operating cash flow may be weighted to the second half given the FY23 over-performance. With c.£2.8 billion of revenue under contract at 1 April 2023 and around £700 million of framework orders expected to be delivered in FY24, we are confident of another year of organic revenue growth and further underlying margin expansion. We also expect to reinstate a dividend in FY24, as indicated in the April trading update.

Medium term guidance

Looking ahead, having successfully stabilised the Group and through the ongoing execution of operational improvements to enhance the risk profile of the business, over the next three-to-five years, we believe we can:

- Deliver underlying operating cash conversion of at least 80%
- Achieve underlying operating margins of at least 8%
- Deliver average annual revenue growth in the mid-single digits

Year to year, there are a number of factors that could influence the pace of achieving these targets, for example mobilisation of large new programmes and phasing of lower capital intensity work, such as Nuclear infrastructure, that could accelerate revenue but slow margin expansion. We will continue to enter into new contracts giving due consideration in each case to all relevant factors to maximise shareholder value, and in particular to growth, risk and capital intensity criteria.

David Lockwood OBE
Chief Executive

1. A defined Alternative Performance Measure (APM) as set out in the Financial Glossary on page 38
2. Excludes Type 31 loss of £100.1 million as described in Note 1 of the financial statements
3. Pro forma – excluding the revenue from disposed businesses of £421.6 million: UK civil training of £35.1 million and European AES of £386.5 million, both sold in February 2023
4. Our FY24 outlook and medium-term guidance is based on FY23 results excluding the impact of disposals, the Type 31 loss and a £11.6 million one-off credit in Land. Excluding these items, FY23 revenue was c.£4 billion, underlying operating profit was c.£265 million, and underlying operating margin was 6.6%

Capital allocation

Our refreshed capital allocation framework is underpinned by a commitment to maintain strong balance sheet and investment-grade credit rating, with a target leverage of 1.0x to 2.0x net debt to EBITDA.

The framework is aligned with our strategy to maximise value for our shareholders while balancing near-term performance and long-term growth objectives.

Any further capital could be applied to the following three areas, prioritised according to the prevailing circumstances at the time that is assessed by the Board to maximise shareholder value:

- Bolt on M&A – Opportunities that have a strong fit with the Group
- Pensions – Acceleration of our pension scheme obligations
- Returns – Further returns to shareholders of surplus capital

Capital allocation framework

Priorities	*FY23 progress*	*Further capital options*
1 *Organic investment* Organic investment to strengthen and grow the business	*Ongoing investment in business improvement*	*M&A* Bolt on opportunities with a strong fit
2 *Financial strength* Maintain strong balance sheet and investment grade credit rating	*Leverage reduced to 1.5x, S&P credit rating upgraded to BBB (Stable)*	*Pensions* Acceleration of our pension scheme obligations
3 *Ordinary dividend* Pay an ordinary dividend	*Commitment to reinstate a dividend in FY24*	*Shareholder returns* Further returns to our shareholders of surplus capital

Supports growth and shareholder returns

Other information

Dividend

No ordinary dividends have been paid or declared for the year ended 31 March 2023. We expect to reinstate a dividend in FY24.

Board changes

Two Non-Executive Directors retired in the period. In July 2022, Russ Houlden retired after two years of service and Kjersti Wiklund retired in September 2022, after four years of service. Kjersti was succeeded as Remuneration Committee Chair by Carl-Peter Forster.

In December 2022, we welcomed Jane Moriarty as Non-Executive Director. In May 2023, the Board announced the appointment of Sir Kevin Smith as Non-Executive Director with effect from 1 June 2023.

Our defence and nuclear markets

Defence remains our largest market.

We have a critical role in global defence and security with operations in 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. Our defence customers all have increasingly complex requirements within 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
- Budget constraints during high inflation
- The need to develop and apply enhanced technology to counter new threats
- Disruption to supply chains
- Customer ESG requirements

Babcock's strategy (on page 6) aims to deliver an attractive offering for our customers: 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 support or product solutions.

The continuation of the Russian invasion of Ukraine has led to a strong response from defence markets. Defence budgets have, and are planned to continue to increase, boosting capability and availability of equipment, land assets, personnel and training, and to replace donations to Ukraine. European countries continue to adapt their defence budgets and alter their defence posture to increase force readiness. NATO has agreed to enhance the size of the battle groups in Eastern Europe while Finland and Sweden intend to join. The crisis has also led to increased defence spending across the Indo-Pacific, as assessments of Chinese intentions are updated, and the Middle East.

During the year, the collaboration between Australian, UK and US governments (AUKUS) announced the selection of a design variant alongside a phased approach to deliver conventionally armed, nuclear-powered submarines to Australia at the earliest possible date. The collaboration also covers electronic warfare, information sharing, defence innovation, autonomous systems, artificial intelligence, and undersea capabilities.

UK and targeted international defence markets continue to offer significant resilience and growth, alongside increased short, medium and long-term potential, both through increased spend in our existing markets and expansion into new markets.

Investor ESG concerns around defence companies have also been challenged as commitment to defence is shown to be necessary to preserving the liberal democratic order which is a prerequisite for addressing the ESG agenda.

UK defence

54% of FY23 revenue*

Market position – Our primary defence market is the UK, where we provide critical support to all the UK's armed forces. We remain the UK's second largest defence supplier with around 8% of total MOD procurement spend and, 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.

UK defence spending rose to £46 billion in 2022, £3.6 billion higher than 2021, an increase of around 9%, adjusted for inflation, with an estimated c.£26 billion spent on MOD equipment, support and infrastructure.

In March 2023, alongside the launch of the Integrated Review Refresh, the Prime Minister announced an additional £5 billion for the MOD over the next two years, to help replenish and bolster vital ammunition stocks, modernise the UK's nuclear enterprise and fund the next phase of the AUKUS submarine programme. This included an ambition to increase defence spending to 2.5% of GDP in the longer term.

Opportunities – In the Government's Defence Equipment Plan, £242 billion is intended to be spent on equipment procurement and support over the next 10 years, which presents opportunities through: the Defence Nuclear Enterprise (£68 billion including Submarines and AWE), Defence Digital (£28 billion including defence IT systems and services), Ships (£22 billion including T31 and T32) and Land Equipment (£17 billion including Morpheus).

The War in Ukraine and growing global volatility is driving a need for the MOD to: increase availability and resilience of in-service military platforms and systems; develop new technology to sustain competitive advantage; and integrate efforts with industry partners as well as strengthen and increase the resilience of the industrial supply base, with a particular focus on export success. All of these present opportunities for Babcock.

Risks – In FY23, £2.3 billion of our revenue came from direct MOD spend, an increase of 7%. Increased spending from the MOD is spread across major critical programmes such as Type 31, investment in naval nuclear infrastructure and the Future Maritime Support Programme (FMSP).

As the UK's second largest defence supplier, we recognise that this represents a significant reliance on the UK MOD. We routinely review reputational and execution risk on the volume of critical programmes in which we are involved (see our Group principle risks, page 87).

The continually evolving international geopolitical and threat environment may see reprioritisation of budgets away from traditional large, complex platforms to smaller, uncrewed platforms and cyber.

* Pro forma FY23 revenue excludes c.£422m revenue from divested businesses

Australia and New Zealand defence

7% of FY23 revenue*

Market position – Babcock supports the armed forces of both Australia and New Zealand. We are a strategic maritime sustainment partner to both the Royal Australian Navy and the Royal New Zealand Navy. In Australia we provide support to both Collins Class submarines and surface ships including ANZAC class frigates, Canberra Class Landing Helicopter Docks (LHD) and LHD landing craft. We strengthened this position with the contract awards and extensions. In New Zealand we provide asset management services, including engineering, project management, production and operational support to the entire Royal New Zealand Navy fleet, from frigates through to small boats.

We have also been awarded a contract to upgrade and sustain the Australian Defence High Frequency Communication system (DHFC). This builds on our proven DHFC experience in the UK and New Zealand and reinforces our core capabilities in delivering technology-led, cutting-edge solutions to support complex electronic defence programmes.

Opportunities – We are well positioned to take advantage of growing opportunities in Australia. In April 2023, the Government announced and accepted all recommendations from its Defence Strategic Review (DSR), which concluded that the Australian Defence Force is not fit for purpose, due to significant changes in strategic circumstances, and identified six new priority areas. The DSR strongly supports acquisition of nuclear-powered submarines including immediate infrastructure development. It also recommends a continuous naval shipbuilding programme, to ensure an optimal mix of tier 1 and 2 surface combatants, consistent with a strategy of a larger number of smaller ships.

The Government also announced immediate reforms to enable better defence partnership with industry. The May 2023 budget reinforced commitment to the DSR and AUKUS with $19 billion to implement immediate priorities, including AUKUS and innovation.

Risks – Competition is strong, but we are developing our in-country capability and credibility. We are now the regional leader in warship sustainment and high frequency communications. Naval capability upgrades however may be reduced while the fleet review is conducted.

AUKUS – the future submarine will be based on the UK's Astute replacement programme, incorporating technology from all three nations. Australia and the UK will both operate AUKUS Class submarines and will begin to build in domestic shipyards within the late 2020s.

From 2023, Australian military and civilian personnel will embed with the UK and US Navies and submarine industrial bases. The US will also increase port visits to Australia to accelerate training and development. From the early 2030s, Australia intends to purchase three Virginia Class submarines from the US with an option to buy two more.

The UK intends to deliver its first AUKUS Class submarine to the Royal Navy in the late 2030s while Australia will deliver their first domestically built submarine to the Royal Australian Navy in the early 2040s.

Babcock's expertise and technical capabilities mean we are well placed for opportunities in designing, building, and supporting the AUKUS Class as well as development of nuclear submarine infrastructure, skills and regulatory frameworks.

Canada defence

3% of FY23 revenue*

Market position – Babcock delivers Victoria In Service Support Contract (VISSC) to sustain the Royal Canadian Navy's (RCN) Victoria Class submarines. Working with the RCN, Babcock has transferred the skills and expertise required to provide through-life support and maintenance to submarines from the UK to Canada.

Opportunities – We continue to target large military aviation training opportunities in Canada. The evolving geopolitical landscape is driving Canada to re-assess its Defence Policy – with greater focus expected on Continental Defence and Indo-Pacific Operations. This may offer opportunities for Babcock, particularly in ship and submarine build and sustainment, military training and mission systems.

Risks – A preference for well-established native competition could limit Babcock's exposure to further opportunities given our relatively modest footprint in the country. Our current work is based around naval engineering. This is highlighted as one of the Group's principal risks, see page 87.

France defence

4% of FY23 revenue*

Market position – We have an established position in military aviation training for fast jet pilot training and strengthened our position in the military rotary wing maintenance, repair and overhaul (MRO) market, including the provision of search and rescue aircraft and services for the French Navy. We have now moved into land support in France.

Opportunities – Defence spending in France continues to grow with clear opportunities in military aviation training and MRO, and armoured vehicle MRO.

There may also be some opportunity for the in-service support of non-complex naval vessels and equipment, and for our mission systems business in maritime autonomy. French and UK bilateral relations, are reinforcing the relationship, announcing deeper cooperation on Ukraine and renewed commitments to ensure that their military equipment is interoperable.

Risks – Similarly to Canada, France has well established domestic defence suppliers, often with some element of state ownership. As a British company with limited infrastructure, we may struggle to compete for some opportunities.

UK civil nuclear

4% of FY23 revenue*

Market position – Babcock is the only major UK-owned nuclear services partner for Government and is unique in covering both the defence and civil sectors. We provide complex services across civil nuclear new build, operations and decommissioning in the UK, and provide more limited services internationally.

Opportunities – Nuclear power is a key part of both the UK's Net Zero strategy and its energy security post-Ukraine. The Government's Energy Security Strategy published on 6 April 2022 announced a new body called Great British Nuclear (GBN).

By 2050 this body aims to bolster the UK's nuclear capacity to up to 24 GW of electricity, or 25% of projected demand, through up to eight new reactors, with one being approved each year until 2030.

GBN also launched the new £120 million Future Nuclear Enabling Fund (as part of a total £2.3 billion commitment) to provide targeted support towards further nuclear projects. In November 2022, the Government confirmed a £700 million investment in the new Sizewell C nuclear power station. Subject to technology readiness, Small and Advanced Modular Reactors (SMR/AMR) will form a key part of the nuclear project pipeline. We are well positioned to take advantage of opportunities in these areas.

Babcock has signed a Memorandum of Understanding (MoU) with US nuclear reactor and fuel design engineering company X-energy to act as its deployment partner for AMRs in the UK.

Risks – The UK decommissioning market continues to be challenging suffering from programme procurement delays. In addition, historically it has been hard to secure the necessary commitments to make new nuclear power a reality.

* Pro forma FY23 revenue excludes c.£422m revenue from divested businesses

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 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.

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.

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 contract backlog of £9.5 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 87 for our principal risks.

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 17 for our capital allocation framework.

6 *Partnerships and collaboration*

Partnering and collaboration are key to our success of 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.

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.

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 58 for our ESG review.

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 56 for details on how we engage with stakeholders.

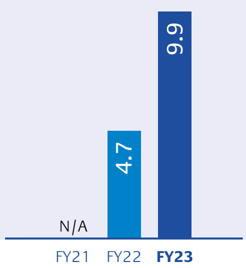
How we measure our progress

We have six financial and three non-financial key performance indicators (KPIs). The six financial metrics are alternative performance measures, which we use to monitor the underlying performance, 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 alternative performance measures in the Financial Glossary starting on page 38.

2023 Results

Organic revenue growth (%)

9.9%



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 was 10%, driven by an increase across all sectors, see our Operational reviews on page 40.

Link to glossary

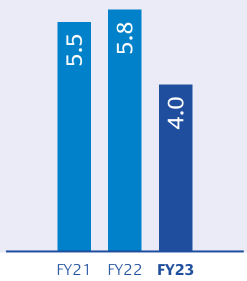
Organic revenue growth

Link to medium term guidance

Organic revenue growth

Underlying operating margin (%)

4.0%



Definition

Underlying operating profit, expressed as a percentage of revenue. See page 26 for a reconciliation of statutory to underlying operating profit.

Commentary

Group margin was lower year on year driven by the Type 31 loss impacting profit. Excluding this, underlying margin increased 50 basis points to 6.3%, see our commentary on page 26.

Link to glossary

Underlying operating margin

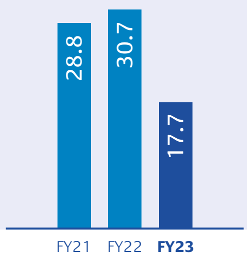
Underlying operating profit

Link to medium term guidance

Underlying operating margin

Underlying EPS (p)

17.7p



Definition

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

Commentary

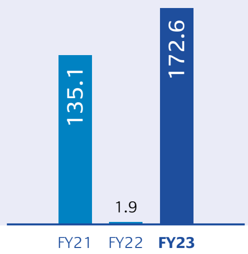
Underlying earnings per share decreased to 17.7 pence in the year due to the Type 31 loss. Excluding this, EPS was up 10% to 33.8 pence, see a reconciliation on page 27.

Link to glossary

Underlying basic earnings per share

Underlying operating cash conversion (%)

173%



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 173% reflects reduced working capital and lower than expected capital expenditure and underlying operating profit was lower due to the Type 31 loss. Excluding the Type 31 loss, cash conversion was 110%.

Link to glossary

Underlying operating cash conversion

Underlying operating profit

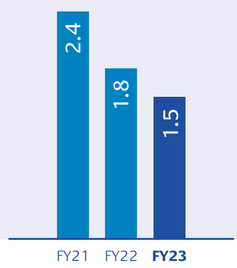
Underlying operating cash flow

Link to medium term guidance

Underlying operating cash conversion

Net debt/EBITDA (covenant basis)

1.5x



Definition

Net debt to EBITDA as measured in our banking covenants. This uses net debt (excluding operating 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 31 for a reconciliation.

Commentary

Our net debt to EBITDA (covenant basis) decreased to 1.5 times. The decrease was driven by lower net debt (as a result of disposals), which was predominantly greater than the reduction in EBITDA, which was impacted the Type 31 loss. Excluding the Type 31 loss, net debt to EBITDA was 1.1 times.

Link to glossary

EBITDA

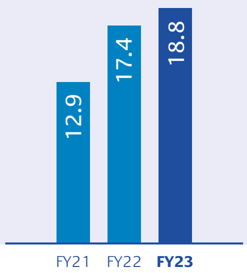
Net debt/EBITDA (covenant basis)

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, and 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.

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

18.8%



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 the reduction in invested capital, namely net debt and operating leases (due to disposals) and shareholder funds, which was proportionally greater than the reduction in underlying operating profit due to the Type 31 loss, see page 32.

Link to glossary

Underlying return on invested capital

Non-Financial

Total injuries rate

0.73

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 investigations may result in a restatement of prior year figures.

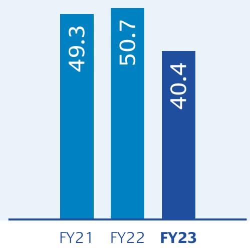
Commentary

In April 2021, we moved to OSHA, an internationally recognised accident categorisation method in order to be able to conduct bench-marking.

Whilst there had been reductions in TRIR during FY22 it has remained broadly static in FY23. See page 74 for more details.

CO_2e emissions (tCO_2e/£m)

40.4



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 (01 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.

Commentary

During the reporting period estate rationalisation, strategic divestments, 'low-hanging fruit' energy conservation measures and improvements to our energy management practices have resulted in a reduction of both our carbon baseline and FY23 operational emissions. (See page 63 for more details).

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/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 76).

Commentary

Gender representation at the senior management level is 23% which is in line with last year. See page 76 for more details on gender diversity statistics.

Link to management remuneration

Our remuneration policy, as detailed on pages 136 to 141, includes reference to underlying profit before tax, underlying operating cash flow and non-financial measures.

Operational performance measures

In the operational reviews on pages 40 to 55, we use our first two KPIs (organic revenue growth, underlying operating profit and underlying operating margin) to measure sector performance. Please see our Financial Glossary on page 38.

Financial review

David Mellors
Chief Financial Officer

Read David's biography on page 108

> *We've made excellent progress this year, with better-than-expected cash generation, margin expansion and double-digit revenue growth."*

David Mellors
Chief Financial Officer

Statutory to underlying

As described in the Financial Glossary on page 38, the Group provides alternative performance measures (APMs), including underlying operating profit, underlying margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, and net debt to EBITDA, to enable users to better understand the performance and earnings trends of the Group. These measures are considered to provide a consistent measure of business performance from year to year. The reconciliation from the IFRS statutory income statement to underlying income statement is shown on the next page.

Income statement

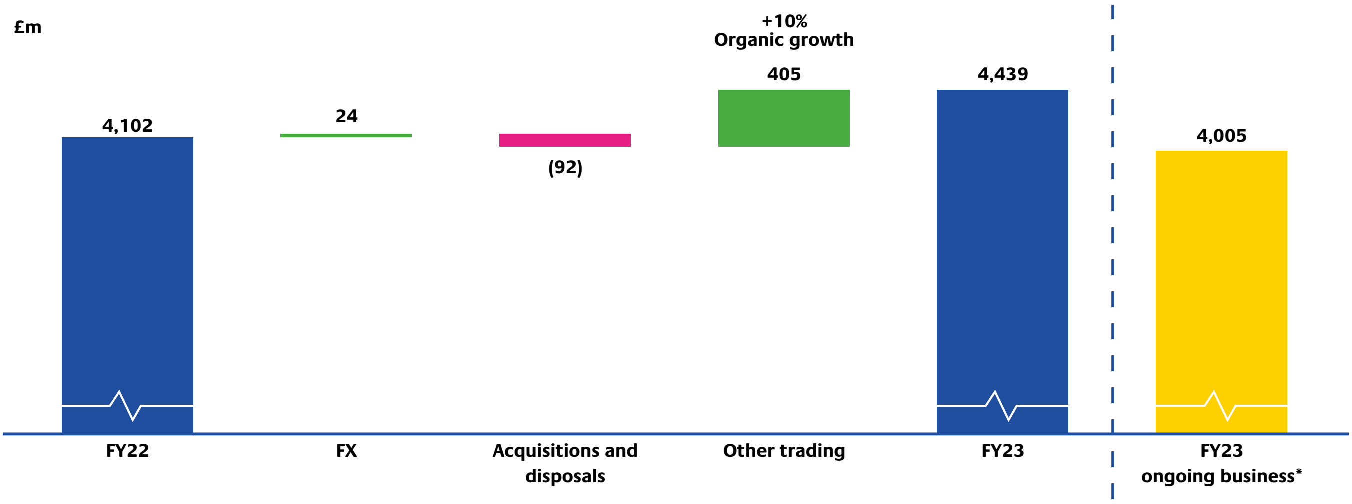
	31 March 2023 Underlying £m	31 March 2023 Specific adjusting items £m	31 March 2023 Statutory £m	31 March 2022 Underlying £m	31 March 2022 Specific adjusting items £m	31 March 2022 Statutory £m
Revenue	4,438.6	–	4,438.6	4,101.8	–	4,101.8
Operating profit/(loss)	177.9	(132.4)	45.5	237.7	(10.9)	226.8
Other income	–	–	–	6.2	–	6.2
Share of results of joint ventures and associates	9.3	–	9.3	20.1	–	20.1
Net finance costs	(58.3)	9.7	(48.6)	(61.2)	(9.6)	(70.8)
Profit/(loss) before tax	128.9	(122.7)	6.2	202.8	(20.5)	182.3
Income tax (expense)/benefit	(37.7)	(1.8)	(39.5)	(43.9)	29.5	(14.4)
Profit/(loss) after tax for the year	91.2	(124.5)	(33.3)	158.9	9.0	167.9
Basic EPS	17.7p		(6.9)p	30.7p		32.5p
Diluted EPS	17.4p		(6.9)p	30.4p		32.1p

Type 31 loss	100.1
Underlying operating profit excl. Type 31 loss	278.0
Underlying basic EPS excl. Type 31 loss	33.8p

A full statutory income statement can be found on page 175.

Type 31 loss: As described in the CEO review and in Note 1 in the financial statements, the Marine sector incurred a £100.1 million loss in FY23, which is due to additional forecast costs that were not foreseen at contract inception. Following the commencement of a dispute resolution process (DRP) in April 2023 over responsibility for these incremental costs, we have reassessed the contract outturn on the basis that these are not recovered. This has resulted in the recording of a £100.1 million loss in the year, representing a £42.6 million reversal of revenue, £1.6 million asset impairment and the recognition of a £55.9 million onerous contract loss. The DRP is ongoing.

Revenue bridge



* Ongoing business excludes c.£422m revenue from divested businesses (AES & Civil training) and the c.£12m one-off credit in Land (revenue and profit)

Revenue increased by 8% to £4,438.6 million comprising 10% organic growth and a 2% reduction due to the net impact of acquisitions and disposals. The organic increase was delivered across all four sectors (see sector performance tables on page 37).

Statutory operating profit decreased to £45.5 million (FY22: £226.8 million). The key drivers in FY23 were the £100.1 million loss on the Type 31 programme and £117.7 million loss on disposals and related items, mainly European AES, which more than offset a strong operating performance, led by Land.

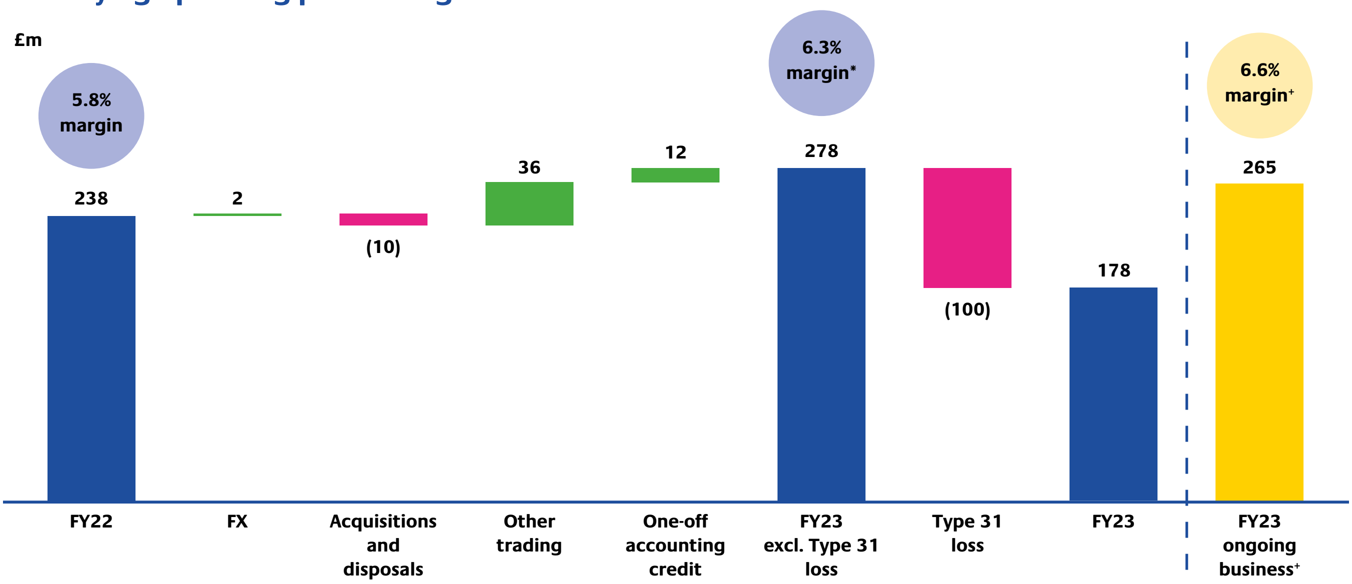
FY22 statutory operating profit included £163.1 million profit on disposal, £118.8 million exceptional charges, of which £123.6 million related to impairment of tangible and intangible assets, and £33.8 million restructuring costs. There were no exceptional items recorded in FY23. See Note 2 in the financial statements for more detail.

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 in the financial statements.

Reconciliation of statutory to underlying operating profit

	31 March 2023 £m	31 March 2022 £m
Operating profit	**45.5**	226.8
Amortisation of acquired intangibles	**15.8**	21.4
Business acquisition, merger and divestment related items	**117.7**	(163.1)
Restructuring costs	**–**	33.8
Exceptional items	**–**	118.8
Fair value movement on derivatives	**(1.1)**	–
Specific adjusting items impacting operating profit	**132.4**	10.9
Underlying operating profit	**177.9**	237.7
Type 31 loss	**100.1**	–
Underlying operating profit excluding Type 31 loss	**278.0**	237.7

Underlying operating profit bridge



* Excluding Type 31 loss
\+ Ongoing business excludes the Type 31 loss, £1m from divested businesses (AES & Civil training) and the £12m one-off credit in Land

Underlying operating profit: Underlying operating profit decreased by 25% to £177.9 million, due to the Type 31 loss, a 4% reduction from the net impact of acquisitions and disposals, and further costs of implementing a stronger control environment, which more than offset the strong operational performance.

Excluding the Type 31 loss, underlying operating profit increased to £278.0 million, driven by improved performance in Land, enhanced by a £12 million one-off accounting credit, and good growth in Marine and Aviation. Underlying operating profit in Nuclear was in line with the prior year (see sector performance tables on page 37).

Underlying operating margin decreased to 4.0% (FY22: 5.8%) due to the Type 31 loss. Excluding this, underlying operating margin increased by 50 basis points to 6.3%.

Further analysis of our revenue and underlying operating profit performance is included in our sector operational reviews on page 40 to 55.

Other income of £6.2 million in FY22 related to pre-completion guarantee fees received in relation to the disposal of the Aviation Oil and Gas business (in October 2021).

Joint ventures and associates: The Group's share of results of joint ventures and associates reduced from the prior year to a profit after tax of £9.3 million (FY22: £20.1 million) due to the disposal of our 15.4% stake in AirTanker Holdings in February 2022 and reclassification of Naval Support Group (NSM), which was fully consolidated from March 2022.

Net finance costs decreased to £58.3 million on an underlying basis (FY22: £61.2 million), driven by lower net interest costs on reduced debt and higher cash balances, and a £7.5 million pension interest credit, partly offset by a £12 million charge associated with financing of defence contract receivables (described below). Reported net finance costs of £48.6 million included a £9.7 million non-cash credit due to fair value movements in derivatives and related items.

Our Mentor military aviation contract in France is for the provision of Pilatus PC-21 aircraft to the Direction générale de l'armement (DGA), followed by maintenance support until 2027. The aircraft have been delivered to and accepted by DGA in the year, with no remaining performance risk for Babcock. As payment for the aircraft is not due from DGA until 2027 under the contract terms, we have sold the receivables for these aircraft in the year for €122 million on a non-recourse basis, incurring a one-off finance cost of €14 million (£12 million). The net overall impact on FY23 operating cash flow is broadly neutral after cash paid to purchase the aircraft in the year.

Taxation: The Group tax charge was £39.5 million. Tax on underlying profits was £37.7 million representing an effective underlying tax rate of 32%. Excluding the impact of the Type 31 loss the effective tax rate was 26% (FY22: 24%), slightly higher than expected due to the geographical mix of profits and unrelieved losses in the European AES business. The underlying effective tax rate is 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 rate of tax for this financial year will be dependent on country profit mix. The current assumption is around 26%.

Earnings per share: Basic earnings per share, on a statutory basis, declined to a 6.9 pence loss (FY22: 32.5 pence) reflecting lower profit before tax and a higher UK tax rate. Underlying earnings per share declined to 17.7 pence (FY22: 30.7 pence) primarily due to the Type 31 loss. Excluding this, underlying earnings per share increased by 10% to 33.8 pence.

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

	31 March 2023		31 March 2022	
	£m	Basic EPS	£m	Basic EPS
(Loss)/profit after tax for the year	**(33.3)**	**(6.9)p**	167.9	32.5p
Specific adjusting items, net of tax	**124.5**	**24.6p**	(9.0)	(1.8)p
Underlying profit after tax for the year	**91.2**	**17.7p**	158.9	30.7p
Type 31 loss, net of tax	**81.1**	**16.1p**	–	–
Underlying profit after tax for the year excl. Type 31 loss	**172.3**	**33.8p**	158.9	30.7p

Exchange rates

The translation impact of foreign currency movements resulted in an increase in revenue of £23.5 million and an increase in underlying operating profit of £1.6 million. The main currencies that have impacted our results are the Canadian Dollar, South African Rand, Euro and Australian Dollar. Following disposal of the European AES businesses, 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 £30 million and underlying operating profit by around £4 million per annum
- A 10% movement in the Australian Dollar against Sterling would affect revenue by around £25 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 £15 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.

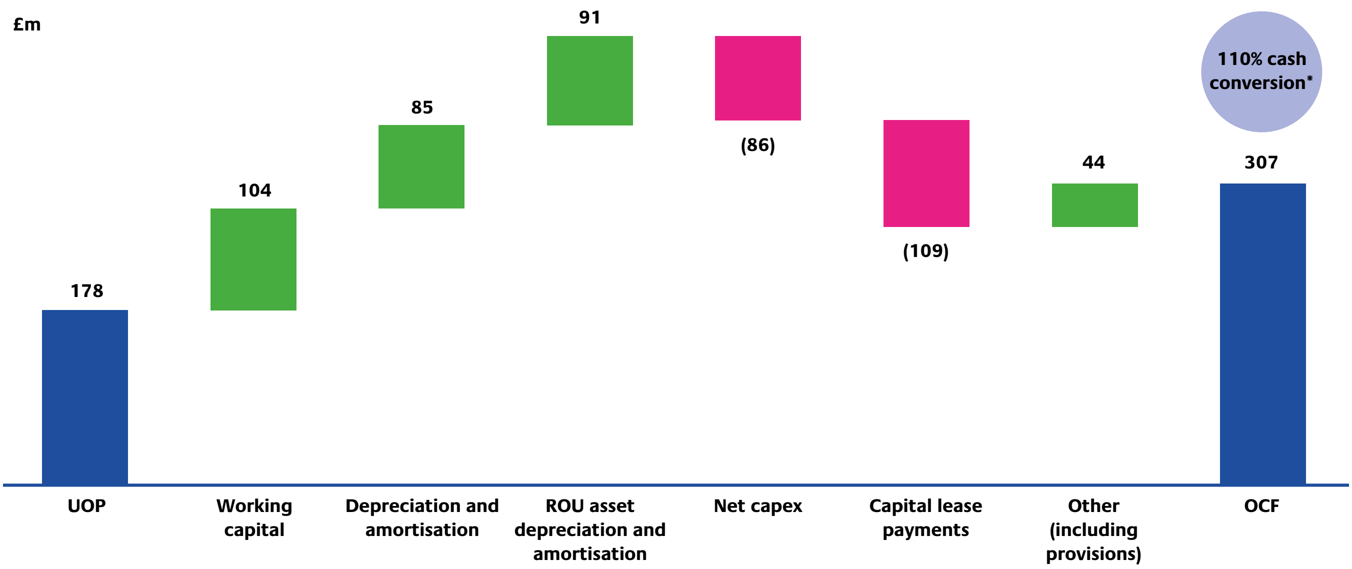
	31 March 2023 £m	31 March 2022 £m
Operating profit	**45.5**	226.8
Add back: specific adjusting items	**132.4**	10.9
Underlying operating profit	**177.9**	237.7
Right of use asset depreciation	**91.3**	123.1
Other depreciation & amortisation	**84.9**	74.4
Non-cash items	**6.9**	0.6
Working capital movements	**103.5**	(173.9)
Provisions	**37.2**	(9.3)
Net capital expenditure	**(86.2)**	(135.2)
Lease principal payments	**(108.5)**	(113.0)
Underlying operating cash flow	**307.0**	4.4
Cash conversion %	**173%**	2%
Pension contributions in excess of income statement	**(141.9)**	(151.7)
Interest paid (net)	**(62.2)**	(45.0)
Tax paid	**(25.4)**	10.0
Dividends from joint ventures and associates	**8.7**	41.6
Cash flows related to exceptional items	**(10.9)**	(50.6)
Underlying free cash flow	**75.3**	(191.3)
Net acquisitions and disposals of subsidiaries	**158.6**	417.2
Acquisitions/investments in joint ventures and associates	**–**	(18.1)
Dividends paid (including non-controlling interests)	**(2.2)**	(1.1)
Lease principal payments	**108.5**	113.0
Net new lease arrangements	**(115.1)**	(71.2)
Leases disposed of/(acquired) with subsidiaries	**218.1**	136.6
Other non-cash debt movements	**(1.8)**	(2.4)
Clarification of net debt definition	**(36.1)**	–
Fair value movement in debt and related derivatives	**56.0**	(11.8)
Exchange movements	**(57.0)**	12.8
Movement in net debt	**404.3**	383.7
Opening net debt	**(968.7)**	(1,352.4)
Closing net debt	**(564.4)**	(968.7)
Add back: operating leases	**218.2**	412.0
Closing net debt excluding operating leases	**(346.2)**	(556.7)

A full statutory cash flow statement can be found on page 178 and a reconciliation to net debt on page 30.

Reconciliation of underlying operating cash flow to statutory net cash flow from operations

	31 March 2023 £m	31 March 2022 £m
Underlying operating cash flow	**307.0**	4.4
Add: net capex	**86.2**	135.2
Add: capital element of lease payments	**108.5**	113.0
Less: pension contributions in excess of income statement	**(141.9)**	(151.7)
Non-operating cash items (excluded from underlying cash flow)	**(10.9)**	(59.1)
Cash generated from operations (statutory)	**348.9**	41.8
Tax (paid)/received	**(25.4)**	10.0
Less: net interest paid	**(62.2)**	(45.0)
Net cash flow from operating activities (statutory)	**261.3**	6.8

Underlying operating profit to operating cashflow bridge



* Excluding the Type 31 loss

Underlying operating cash flow

Underlying operating cash flow after capital expenditure increased to £307.0 million (FY22: £4.4 million), a conversion ratio to underlying operating profit of 173% (FY22: 2%). Excluding the Type 31 loss, underlying operating cash conversion was 110%. The higher conversion ratio reflects reduced working capital and lower than expected capital expenditure.

- **Working capital:** An inflow of £103.5 million compared to an outflow of £173.9 million last year. This reflects a strong focus on cash flow as a performance measure coupled with cash flow phasing on programmes and customer receipts of c.£70 million received earlier than expected. The outflow in FY22 included payments associated with the unwind of the past practice of period-end management of working capital (withholding of creditors). We have sold receivables relating to the provision of aircraft on our Mentor contract in France for €122m in the year. This is to match receipts and payments for the aircraft in the period, such that the net impact on operating cash flow is broadly neutral. The factoring is on a non-recourse basis and there is no remaining performance risk for Babcock.
- **Capital expenditure:** Net capital expenditure decreased to £86.2 million (FY22: £135.2 million). This was a result of gross capex of £125.1 million (FY22: £203.2 million) being lower than expected due to project phasing, which more than offset a c.£30 million reduction in proceeds from asset disposals primarily relating to the timing of aircraft sales in our Aviation sector. We expect FY24 gross capital expenditure to be approximately £120-£150 million depending on phasing, reflecting continued investment in our submarine infrastructure in Devonport and roll-out of enterprise resource planning (ERP).
- **Lease principal payments,** representing the capital element of payments on lease obligations, reduced slightly to £108.5 million (FY22: £113.0 million), following divestments in our Aviation business. This is reversed out below underlying free cash flow as the payment reduces our lease liability (i.e. no net effect on net debt).

Underlying free cash flow

Underlying free cash inflow of £75.3 million compares to an outflow of £191.3 million in the prior year, primarily reflecting higher underlying operating cash flow.

- **Pension** cash outflow in excess of the income statement charge of £141.9 million (FY22: £151.7 million) was higher than previous guidance of c.£100 million due to acceleration of £35 million of future years scheduled payments at the year end. As a result, we expect the pension cash outflow in excess of the income statement charge to reduce to around £65 million in FY24.
- **Interest:** Net interest paid, excluding that paid by JVs and associates, increased to £62.2 million (FY22: £45.0 million) primarily due to the €14 million (£12 million) finance charge associated with the financing of a French defence contract receivable described above.
- **Taxation:** Tax paid in the year was £25.4 million. The £10.0 million cash tax receipt in FY22 was a result of the settlement of several open years' tax computations with the authorities. We expect a cash tax outflow in the current financial year of approximately £35 million.
- **Dividends** received from joint ventures and associates decreased to £8.7 million as expected (FY22: £41.6 million) reflecting the disposal of our stake in AirTanker Holdings, the acquisition and subsequent consolidation of NSM, and the non-repeat of close out dividends on the termination of JV's in the prior year. We expect dividends from JVs and associates to be broadly stable in FY24.
- **Exceptional cash flows:** The £10.9 million (FY22: £50.6 million) exceptional cash outflow in the year was the conclusion of the large prior year restructuring programme.

Acquisitions and disposals

The net cash inflow from disposals in the year, after costs, was £158.6 million. This included gross proceeds (net of cash disposed) of £176.6 million from the sale of the European AES business in February 2023, which included around £60 million net completion adjustments, and £2.9 million from the sale of Civil Training, also in February 2023, less transaction costs.

The net cash inflow from acquisitions and disposals in FY22 was £417.2 million, including gross proceeds (net of cash disposed) from the sale of Oil & Gas (£10.0 million). Frazer Nash Consultancy (£286.8 million), UK Power (£45.8 million) and our 15.4% shareholding in AirTanker Holdings Limited (£95.6 million), less £15.5 million net consideration paid for the acquisition of the remaining 50% of NSM and transaction costs.

New lease arrangements

In addition to net capital expenditure, and not included in underlying free cash flow, £117.0 million (FY22: £93.8 million) of additional leases were entered into in the period. These represent new lease obligations and so are included in our main net debt figure but do not involve any cash outflows at inception.

Net debt

Net debt at 31 March 2023 was £564.4 million, representing a reduction of £404.3 million compared to the beginning of the year. This reduction was driven by underlying free cash flow, proceeds from disposals and £218.1 million of operating leases that were transferred with the European AES disposal. The reconciliation of net cash flow to net debt is shown in the table below.

Excluding operating leases, net debt was £346.2 million, representing a reduction of £210.5 million compared to the beginning of the year.

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

	31 March 2023 £m	31 March 2022 £m
Net cash flow from operating activities (statutory)	**261.3**	6.8
Net cash flow from investing activities (statutory)	**83.5**	338.6
Net cash flow from financing activities (statutory)	**(666.1)**	(122.7)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts (statutory)	**(321.3)**	222.7
Cash flow from the (increase)/decrease in debt	**629.6**	55.1
Change in net funds resulting from cash flows	**308.3**	277.8
Additional lease obligations	**(117.0)**	(93.8)
New leases granted	**28.5**	41.9
Debt held by disposed subsidiaries	**219.7**	137.1
Other non-cash movements and changes in fair value	**57.9**	7.9
Clarification of net debt definition	**(36.1)**	–
Foreign currency translation differences	**(57.0)**	12.8
Movement in net debt in the year	**404.3**	383.7
Opening net debt	**(968.7)**	(1,352.4)
Closing net debt	**(564.4)**	(968.7)

Funding and liquidity

As of 31 March 2023, the Group had access to a total of £1.9 billion of borrowings and facilities of mostly long-term maturities. These comprised:

- £300 million revolving cash facility (RCF) maturing 20 May 2024
- £775 million RCF, with £45 million maturing 28 August 2025 and £730 million extended to 28 August 2026
- £300 million bond maturing 5 October 2026
- €550 million bond, hedged at £493 million, maturing 13 September 2027
- Two committed overdraft facilities totalling £100 million

At 31 March 2023, the Group's net cash balance was £430 million. This combined with the undrawn amounts under our committed RCFs and overdraft facilities, gave us liquidity headroom of around £1.6 billion.

Capital structure

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. Due to strong underlying operating cash flow, the net debt/EBITDA gearing ratio at 31 March 2023 of 1.5x is lower than at the start of the year despite the £100 million Type 31 loss recognised within EBITDA in the year. This is still within our medium-term target of between 1.0x and 2.0x. Excluding the Type 31 loss, the net debt/EBITDA gearing ratio at 31 March 2023 would have been 1.1x.

Net debt to EBITDA (covenant basis)

This measure is used in the covenant in our RCF facilities and includes several adjustments from reported net debt and EBITDA. The covenant level is 3.5 times. As set out below, our net debt to EBITDA (covenant basis) decreased to 1.5 times for FY23 despite the impact of the Type 31 loss on underlying operating profit.

	31 March 2023 £m Last twelve months	31 March 2022 £m Last twelve months
Underlying operating profit	**177.9**	237.7
Depreciation and amortisation	**84.9**	74.4
Covenant adjustments[1]	**(8.4)**	(12.9)
EBITDA	**254.4**	299.1
JV and associate dividends	**8.7**	41.6
EBITDA + JV and associate dividends (covenant basis)	**263.1**	340.8
Net debt	**(346.2)**	(556.7)
Covenant adjustments[2]	**(49.3)**	(60.0)
Net debt (covenant basis)	**(395.5)**	(616.7)
Net debt/EBITDA	**1.5x**	1.8x

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.

Interest cover (covenant basis)

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

	31 March 2023 £m Last twelve months	31 March 2022 £m Last twelve months
EBITDA (covenant basis) + JV and associate dividends	**263.1**	340.8
Net finance costs	**(48.6)**	(70.8)
Covenant adjustments[3]	**7.1**	18.7
Net Group finance costs	**(41.5)**	(52.1)
Interest cover	**6.3x**	6.5x

3. 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 2023 £m Last twelve months	31 March 2022 £m Last twelve months
Underlying operating profit	**177.9**	237.7
Share of results of joint ventures and associates	**9.3**	20.1
Underlying operating profit plus share of JV PAT	**187.2**	257.8
Net debt excluding operating leases	**346.2**	556.7
Operating leases	**218.2**	412.0
Shareholder funds	**370.9**	701.5
Retirement deficit/(surplus)	**61.4**	(191.6)
Invested capital	**996.7**	1,478.7
ROIC	**18.8%**	17.4%

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, the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme. The nature of these schemes is that the employees contribute to the schemes 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.

The Group's balance sheet includes the assets and liabilities of the pension schemes calculated on an IAS 19 basis. At 31 March 2023, the net position was a deficit of £61.4 million compared to a net surplus of £191.6 million at 31 March 2022. These valuations are based on discounting using corporate bond yields.

The fair value of the assets and the present value of the liabilities of the Group pension schemes at 31 March 2023 were as follows:

	FY23				FY22			
	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	**(3.1)**	**10.6**	**26.6**	**34.1**	31.6	14.3	30.6	76.5
Property funds	**301.7**	**0.2**	**5.9**	**307.8**	364.0	0.1	5.1	369.2
High yield bonds/emerging market debt	**–**	**–**	**0.4**	**0.4**	44.1	–	0.4	44.5
Absolute return and multi-strategy funds	**6.0**	**148.0**	**17.5**	**171.5**	46.0	182.9	31.8	260.7
Low-risk assets								
Bonds	**1,227.7**	**95.5**	**45.1**	**1,368.3**	1,924.1	77.2	77.5	2,078.8
Matching assets*	**1,524.7**	**1.4**	**21.7**	**1,547.8**	2,094.0	1.3	101.8	2,197.1
Longevity swaps	**(231.8)**	**–**	**(10.1)**	**(241.9)**	(283.5)	–	(10.2)	(293.7)
Fair value of assets	**2,825.2**	**255.7**	**107.1**	**3,188.0**	4,220.3	275.8	237.0	4,733.1
Percentage of assets quoted	**79%**	**100%**	**70%**	**80%**	84%	100%	46%	82%
Percentage of assets unquoted	**21%**	**–**	**30%**	**20%**	16%	–	54%	18%
Present value of defined benefit obligations								
Active members	**450.7**	**45.7**	**21.7**	**518.1**	756.0	65.7	35.8	857.5
Deferred pensioners	**686.6**	**65.3**	**34.7**	**786.6**	1,066.2	93.5	132.7	1,292.4
Pensioners	**1,773.6**	**130.5**	**40.6**	**1,944.7**	2,170.4	167.9	53.3	2,391.6
Total defined benefit obligations	**2,910.9**	**241.5**	**97.0**	**3,249.4**	3,992.6	327.1	221.8	4,541.5
Net (liabilities)/assets recognised in the statement of financial position	**(85.7)**	**14.2**	**10.1**	**(61.4)**	227.7	(51.3)	15.2	191.6

* The matching assets aim to hedge the liabilities and consist of gilts, repos, cash and swaps. They are shown net of repurchase obligations of £1,055 million (FY22: £1,872 million)

Analysis of movement of pensions in the Group statement of financial position

The movement in net deficits for the year ending FY23 is as a result of the movement in assets and liabilities shown below.

	FY23				FY22			
	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 (including reimbursement rights)								
At 1 April	**4,220.3**	**275.8**	**237.0**	**4,733.1**	4,123.7	265.6	234.3	4,623.6
Interest on assets	**113.4**	**7.3**	**5.4**	**126.1**	82.3	5.2	4.7	92.2
Actuarial gain on assets	**(1,437.0)**	**(17.1)**	**(79.0)**	**(1,533.1)**	77.0	13.1	(1.7)	88.4
Employer contributions	**167.4**	**2.5**	**4.6**	**174.5**	182.5	2.6	5.1	190.2
Employee contributions	**0.1**	**–**	**–**	**0.1**	0.2	–	–	0.2
Benefits paid	**(239.0)**	**(12.8)**	**(4.8)**	**(256.6)**	(245.4)	(10.7)	(5.4)	(261.5)
Settlements	**–**	**–**	**(56.1)**	**(56.1)**	–	–	–	–
At 31 March	**2,825.2**	**255.7**	**107.1**	**3,188.0**	4,220.3	275.8	237.0	4,733.1
Present value of benefit obligations								
At 1 April	**3,992.6**	**327.1**	**221.8**	**4,541.5**	4,290.0	369.6	242.9	4,902.5
Service cost	**21.7**	**1.3**	**2.8**	**25.8**	25.6	2.0	3.5	31.1
Incurred expenses	**6.2**	**0.5**	**0.1**	**6.8**	6.6	0.5	0.3	7.4
Interest cost	**105.0**	**8.7**	**4.9**	**118.6**	83.8	7.3	4.8	95.9
Employee contributions	**0.1**	**–**	**–**	**0.1**	0.2	–	–	0.2
Experience (gain)/loss	**135.6**	**18.0**	**9.3**	**162.9**	70.6	(14.2)	(2.4)	54.0
Actuarial loss/(gain) – demographics	**(38.2)**	**(3.6)**	**(1.7)**	**(43.5)**	(11.5)	(3.5)	–	(15.0)
Actuarial (gain)/loss – financial	**(1,073.1)**	**(97.7)**	**(79.3)**	**(1,250.1)**	(227.3)	(23.9)	(21.9)	(273.1)
Benefits paid	**(239.0)**	**(12.8)**	**(4.8)**	**(256.6)**	(245.4)	(10.7)	(5.4)	(261.5)
Past service costs	**–**	**–**	**–**	**–**	–	–	–	–
Settlement	**–**	**–**	**(56.1)**	**(56.1)**	–	–	–	–
At 31 March	**2,910.9**	**241.5**	**97.0**	**3,249.4**	3,992.6	327.1	221.8	4,541.5
Net surplus/(deficit) at 31 March	**(85.7)**	**14.2**	**10.1**	**(61.4)**	227.7	(51.3)	15.2	191.6

Accounting valuations

At 31 March 2023, the IAS 19 valuation for accounting purposes was a net deficit of £61.4 million (FY22: a surplus of £191.6 million). The move to a net accounting deficit is a result of a greater reduction in the fair value of plan assets (by £1,545.1 million to £3,188.0 million, net of £241.9 million longevity swaps), compared to the reduction in present value of pension benefit obligations (by £1,292.1 million to £3,249.4 million). The reduction in fair value of plan assets was driven by negative net asset returns coupled with the impact on the assets held from the UK market volatility experienced by pension schemes in September 2022, partly offset by scheme contributions. The reduction in pension liabilities was primarily a result of higher discount rates. The fair value of the assets and liabilities of the Group pension schemes at 31 March 2023 and the key assumptions used in the IAS 19 valuation of our schemes are set out in Note 26 of the financial statements.

	Devonport		Babcock		Rosyth	
	FY23	FY22	**FY23**	FY22	**FY23**	FY22
Discount rate %	**4.8**	2.7	**4.8**	2.7	**4.8**	2.7
Inflation rate (RPI)	**3.3**	3.7	**3.3**	3.7	**3.3**	3.7
Inflation rate (CPI)	**2.8**	3.2	**2.8**	3.2	**2.8**	3.2
Rate of increase in pensions in payment %	**2.8**	3.2	**3.2**	3.5	**3.3**	3.7
Life expectancy of male currently aged 65 years	**20.5**	20.9	**21.3**	21.8	**19.4**	20.0

Cash contributions

An estimate of the actuarial deficits of the Group's defined benefit pension schemes, including all longevity swap funding gaps, calculated using each Scheme's respective technical provisions basis, as at FY23 was approximately £400 million (FY22: c.£350 million). Such valuations use discount rates based on UK gilts – which differs from the corporate bond approach of IAS 19. This technical provision estimate is based on the assumptions used within the latest agreed valuation prior to 31 March 2023 for each of the three main schemes.

Governance

The Group believes that the complexity of defined benefit schemes requires effective governance and supports an increasingly professional approach. Each of the largest schemes have independent trustees and professional trustees with specialist investment expertise.

Pensions management

The Group continues to review its options to reduce the risks inherent in its schemes. It has employees earning benefits in the Babcock International Group Pension Scheme, the Devonport Royal Dockyard Pension Scheme, the Babcock Rail Ltd Shared Cost Section of the Railways Pension Scheme, the Cavendish Nuclear section of the Magnox Group section of the Electricity Supply Pension Scheme and the Babcock Clyde Section of the Citrus Pension Plan, as well as employees in local and central government schemes. All the occupational defined benefit pension schemes have been closed to new members for some years.

The Group also provides an occupational defined contribution pension scheme used to comply with the automatic enrolment legislation across the Group for all new employees and for those not in a defined benefit pension scheme. Over 75% of its UK employees are members of the defined contribution pension scheme. The Group pays contributions to this scheme based on a percentage of employees' pay. It has no legal obligations to pay any additional contributions. All investment risk in the defined contribution pension scheme is borne by the employees.

Investment strategy

In recent years, the Group has agreed investment strategies with the trustees of the Babcock International Group Pension Scheme and the Rosyth Royal Dockyard Pension Scheme designed to target these schemes being self-sufficient by 2026, and with the trustees of the Devonport Royal Dockyard Pension Scheme designed to target self-sufficiency for this scheme by 2030. The schemes also operate within agreed risk budgets to ensure the level of risk taken is appropriate. To implement the investment strategies, each of the three largest schemes' Investment Committees has divided its scheme's assets into growth assets, low risk assets and matching assets, with the proportion of assets held in each category differing by scheme reflecting the schemes' different characteristics and funding strategies. The matching assets are used to hedge against falls in interest rates or rises in expected inflation. The level of hedging is steadily increased as the funding level on the self sufficiency measure increases, such that as at 31 March 2023 approximately 90% of the schemes' liabilities (as measured on a self-sufficiency basis) across the three largest schemes are protected against adverse changes in interest rates and inflation.

Actuarial valuations

Actuarial valuations are carried out every three years in order 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, in order to spread the financial impact of market conditions. The valuation of the Rosyth Royal Dockyard Pension Scheme as at 31 March 2021 was completed in the last financial year, the valuation of the Babcock International Group Pension Scheme as at 31 March 2022 has been completed since year end, and work has commenced on the valuation of the Devonport Royal Dockyard Pension Scheme at 31 March 2023.

	31 March 2024e £m	**31 March 2023 £m**	31 March 2022 £m
Future service contributions	18.0	**20.0**	21.1
Deficit recovery	47.8	**123.5**	135.2
Longevity swap	15.2	**15.6**	16.8
Total cash contributions — employer	81.0	**159.1**	173.1

Cash contributions made by the Group into the defined benefit pension schemes, excluding expenses and salary sacrifice contributions, during the last financial year are set out in the table above.

Income statement charge

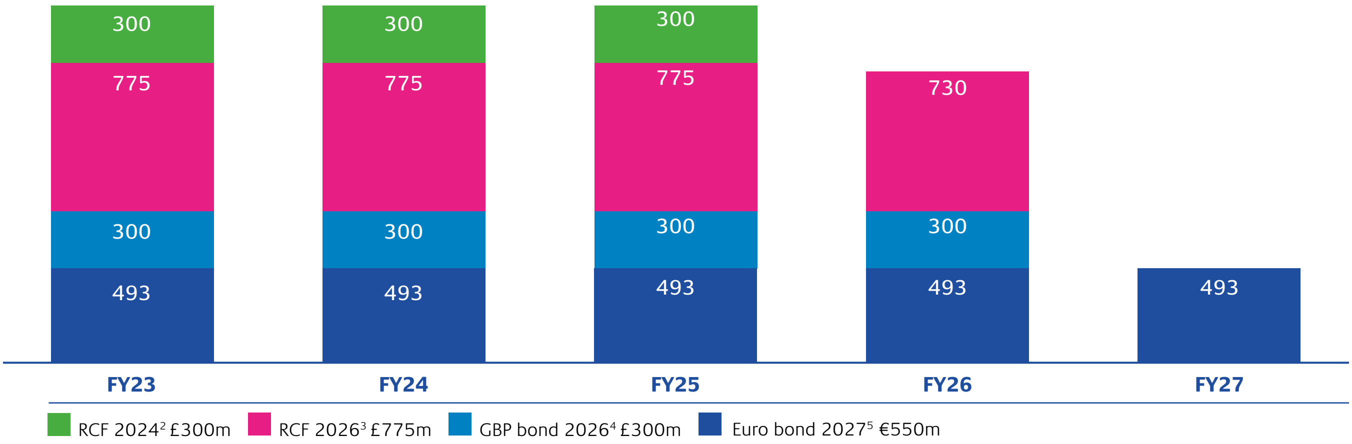
The charge included within underlying operating profit in FY23 was £32.6 million (FY22: £38.5 million), of which £25.8 million (FY22: £31.1 million) related to service costs and £6.8 million (FY22: £7.4 million) related to expenses. In addition to this, there was an interest credit of £7.5 million (FY22: charge of £3.7 million).

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.

Liquidity and debt maturity profile

Debt maturity profile[1] (£m)



1. Chart shows notional value of the debt
2. RCF 2024 £300m, matures 20 May 2024
3. £730m of £775m RCF extended to 2026, matures 28 August 2026
4. GBP bond 2026 £300m, matures 5 October 2026
5. Euro bond 2027 €550m, hedged at £493m, matures 13 September 2027

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 the prior year the Group signed a new three-year Revolving Credit Facility (RCF) of £300 million, which expires in May 2024, in addition to the Group's existing £775 million RCF. At the same time, the Group clarified the definition of underlying results used in the RCF covenant calculations to ensure that any one-off impacts from the Group's contract profitability and balance sheet review ('CPBS') did not impact the calculation and agreed with lenders a temporary amendment to the net debt to EBITDA ratio covenant permitted level to 4.5 times for the measurement periods ending 30 September 2021 and 31 March 2022 after which the permitted level returned to the original 3.5 times. The Group also extended the maturity of £730 million of its existing £775 million RCF to 2026.

The Group's main corporate debt comprises a £300 million Sterling bond, maturing October 2026 and a €550 million bond, maturing September 2027. Taken together, these provide the Group with a total of around £1.8 billion of available committed facilities and bonds.

In October 2022 the Group repaid a €550m bond which matured using cash generated from operations and disposals.

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 2023, the Group had 83% fixed rate debt (31 March 2022: 66%) and 17% floating rate debt (31 March 2022: 34%) based on gross debt, including lease liabilities of £1,061.1 million (31 March 2022: £2,290.1 million).

Liquidity

Objective

i. To maintain adequate undrawn committed borrowing facilities
ii. To monitor and manage bank credit risk, and credit capacity utilisation
iii. 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 sectors aims to regularly forecast cash 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 short durations, 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. As noted above in the prior year, the Group signed a new £300 million RCF and extended the maturity of £730 million of its existing RCF to 2026. 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 used to either repay outstanding RCF drawings or 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 loss of £12.7 million in the income statement for the year ending 31 March 2023 (31 March 20221: £10.5 million loss).

Segmental analysis

The Group reports its performance through four reporting sectors.

31 March 2023	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
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%
Contract backlog	2,580.7	2,453.8	2,809.8	1,633.0	9,477.3
Type 31 loss	100.1				100.1
Underlying operating profit	112.8				278.0
Underlying operating margin	7.8%				6.3%

31 March 2022	Marine £m	Nuclear £m	Land £m	Aviation £m	Total £m
Revenue	1,259.3	1,009.7	1,015.5	817.3	4,101.8
Operating profit	309.7	56.9	36.2	(176.0)	226.8
Operating profit margin	24.6%	5.6%	3.6%	(21.5)%	5.5%
Underlying operating profit	98.0	62.4	58.8	18.5	237.7
Underlying operating margin	7.8%	6.2%	5.8%	2.3%	5.8%
Contract backlog	2,491.8	2,788.8	2,309.0	2,293.6	9,883.2

Financial Glossary – Alternative Performance Measures

The Group provides Alternative Performance Measures (APMs), including underlying operating profit, underlying margin, underlying earnings per share, underlying operating cash flow, underlying free cash flow, and net debt to EBITDA 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 2022 with the addition of measures excluding the Type 31 loss. Further information on the Group's specific adjusting items, which is a critical accounting judgement, can be found in Note 2.

Measure	Closest equivalent IFRS measure	Definition and purpose	Adjustments to reconcile to IFRS measure (and reference to reconciliation)
Revenue measures			
Organic revenue growth	Revenue growth year-on-year	Growth excluding the impact of foreign exchange (FX), and contribution from acquisitions and disposals over the prior and current year • Used to measure the year-on-year movement in Group revenue • It is a good indicator of business growth • Group KPI	FX, contribution of acquisitions and disposals in the current and prior period
Contract backlog	Transaction price under IFRS 15 on customer contracts allocated to unsatisfied / partially satisfied performance obligations	Contracted revenue excluding variable revenue, expected contract renewals, expected revenue from framework agreements and impact of termination for convenience clauses • Used to measure revenue under contract as a good indicator of revenue visibility	Contract backlog is based on the full contract term whereas the IFRS measure may be based on shorter periods where the customer has the ability to exit contracts early
Framework agreements	No direct equivalent	Funded and unfunded unexecuted customer contracts. Unfunded orders include the elements of contracts for which funding has not been authorised by the customer	
Profit measures			
Underlying operating profit	Operating profit	Operating profit before the impact of specific adjusting items[1] • Underlying operating profit is the headline measure of the Group's performance	Specific adjusting items[1] See table on page 10 See Note 2
Underlying operating margin	No direct equivalent	Underlying operating profit as a percentage of revenue • To provide a measure of operating profitability, excluding one-off items • Operating margin is an important indicator of operating efficiency across the Group • Group KPI	Ratio – N/A
Underlying net finance costs	Net finance costs	Net finance costs excluding specific adjusting items[1] • To provide an alternative measure of finance costs excluding items such as fair value measurements which can fluctuate significantly on inputs outside of management's control	Specific adjusting items[1] See table on page 10
Underlying profit before tax	Profit before tax	Profit before tax adjusted for • The summation of the impact of all specific adjusting items on profit before tax	Specific adjusting items[1] See table on page 10
Underlying effective tax rate	Effective tax rate	Tax expense excluding the tax impact of specific adjusting items[1], as a percentage of underlying profit before tax (being the summation of the impact of all adjusting items on profit before tax) excluding the share of post-tax income from joint ventures and associates • To provide an indication of the ongoing tax rate across the Group, excluding one-off items	Specific adjusting items[1] See table on page 10
Underlying basic earnings per share	Basic earnings per share	Based on the Group's underlying profit before tax and underlying effective tax rate	Specific adjusting items[1] See table on page 10
Underlying operating profit excluding the Type 31 loss	Operating profit	Operating profit, excluding the Type 31 loss, before the impact of specific adjusting items[1] • Eliminates the Type 31 loss for a better measure of the Group's underlying operating profit performance, given the one-off nature of the loss	Specific adjusting items[1] See table on page 10 See Note 2
Underlying operating margin excluding the Type 31 loss	No direct equivalent	Underlying operating profit, excluding the Type 31 loss, divided by revenue • Eliminates the Type 31 loss for a better measure of the Group's underling operating margin performance, given the one-off nature of the loss	Ratio – N/A

Measure	Closest equivalent IFRS measure	Definition and purpose	Adjustments to reconcile to IFRS measure (and reference to reconciliation)
Profit measures continued			
Underlying basic earnings per share excluding the Type 31 loss	Basic earnings per share	Based on the Group's underlying profit before tax, excluding the Type 31 loss, and underlying effective tax rate. • Eliminates the Type 31 loss for a better measure of the Group's basic earnings per share performance, given the one-off nature of the loss	Specific adjusting items[1] See table on page 12
EBITDA	Operating profit	Underlying operating profit, plus depreciation and amortisation, and various covenant adjustments linked to the Revolving Credit Facility including the treatment of leases within operating profit and pension costs • Used as the basis to derive the gearing ratio net debt/EBITDA, which is a key measure of balance sheet strength and the basis of our debt covenant calculations	Specific adjusting items[1] Depreciation and amortisation Covenant adjustments See table on page 16
Balance sheet			
Net debt	No direct equivalent	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 • Used as a general measure of the progress in generating cash and strengthening of the Group's balance sheet position	See table on page 15
Net debt (excluding operating leases)	No direct equivalent	Net debt (defined above) excluding operating lease liabilities as previously defined by IAS 17. • Used by management to monitor the strength of the Group's balance sheet position and to ensure the Group's capital structure is appropriate • Used by credit agencies	See table on page 16
Net debt (covenant basis)	No direct equivalent	Net debt (excluding operating leases), excluding loans to joint ventures and associates and finance lease receivables • Used for covenants over Revolving Credit Facility • Used by credit agencies	See table on page 16
Net debt/EBITDA (covenant basis)	No direct equivalent	Net debt (covenant basis) divided by EBITDA • A measure of the Group's ability to meet its payment obligations • Used by analysts and credit agencies • Group KPI	Ratio – N/A See table on page 16
Net debt/EBITDA excluding Type 31	No direct equivalent	Net debt (covenant basis) divided by EBITDA, excluding the Type 31 loss • Eliminates the Type 31 EBITDA loss for a better measure of the Group's balance sheet, given the one-off nature of the loss	Ratio - N / A
Return on invested capital (pre-tax) (ROIC)	No direct equivalent	Underlying operating profit plus share of JV PAT, divided by the sum of net debt (excluding operating leases), shareholders' funds and retirement benefit deficit (surplus) • Used as a measure of profit earned by the Group generated by the debt and equity capital invested, to indicate the efficiency at which capital is allocated • Group KPI	Ratio – N/A See table on page 16
Cash flow measures			
Net capital expenditure	No direct equivalent	Property, plant and equipment and intangible assets, less proceeds on disposal of property, plant and equipment • Included in underlying operating cash flow to calculate underlying operating cash conversion	
Underlying operating cash conversion	No direct equivalent	Underlying operating cash flow after capital expenditure as a percentage of underlying operating profit • Used as a measure of the Group's efficiency in converting profits into cash	Ratio – N/A
Underlying free cash flow	No direct equivalent	Underlying free cash flow includes cash flows from exceptional items and the capital element of lease payment cash flows (rather than net new lease commitments, which are reflected as a debt movement) • Provides a measure of cash generated by the Group's operations after servicing debt and tax obligations, available for use in line with the Group's capital allocation policy	See page 13

1. Refer to Note 2 in the financial statements

Marine

Marine – at a glance

Revenue

£1.4bn

Percentage of Group revenue*

36%

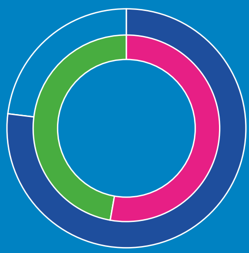
Contract backlog

£2.6bn

Number of employees

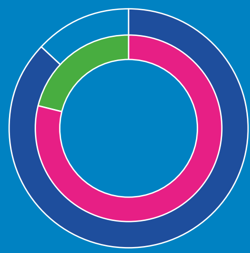
5,200

Revenue profile



77% Defence	53% UK
23% Civil	47% International

Contract backlog profile



87% Defence	79% UK
13% Civil	21% International

* Excluding divested businesses in FY23, Group revenue was c.£4.0 billion

What we do

UK and international warship through-life support: design, build, assemble, maintain, upgrade

International submarine through-life support

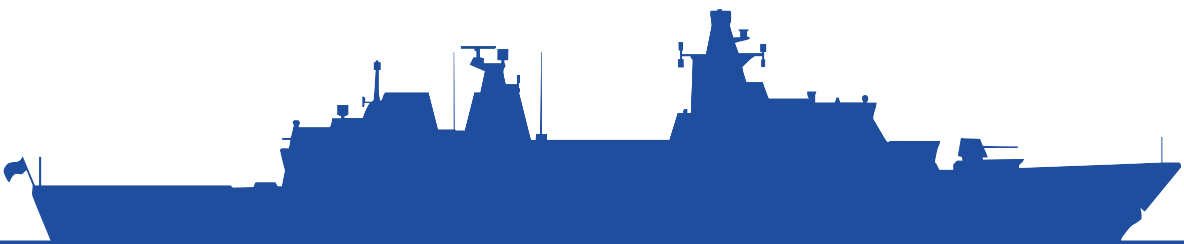
Global naval exports: ship design, military equipment and engineering support

Digital defence communications

Energy and marine equipment and support

Operational highlights

- Secured two further contracts on the Polish Miecznik (Swordfish) frigate programme
- Awarded a six-year c.£400 million contract to manage and operate Skynet, the UK's military satellite communications system
- Awarded 10-year contract for the UK Royal Navy's Queen Elizabeth Class, aircraft carrier docking periods
- Awarded a contract to maintain the UK's fleet of scientific Royal Research Ships
- Awarded the Regional Maintenance Provider (RMP) West contract to deliver ship support to the Royal Australian Navy
- Awarded a six-year contract to deliver, install and provide in-service support for the maritime Communications Electronic Support Measures (CESM) capability on UK Type 23 frigates
- Won 55 Liquid Gas Engineering (LGE) system orders worth over £250 million for LPG, Ethane, and LNG technologies
- The Naval Ship Management (NSM) business, fully acquired last year, has now been integrated into our Australian business



Marine continued

Financial review

	31 March 2022 £m	FX impact £m	Acquisitions & disposals £m	Other trading £m	31 March 2023 £m
Contract backlog*	**2,491.8**				**2,580.7**
Revenue	**1,259.3**	12.3	72.4	95.6	**1,439.6**
Underlying operating profit*	**98.0**	1.0	(0.2)	(86.1)	**12.7**
Underlying margin*	**7.8%**				**0.9%**
Type 31 loss					**100.1**
Underlying operating profit excl. Type 31 loss*					**112.8**
Underlying margin excl. Type 31 loss*					**7.8%**

* Alternative Performance Measures are defined in the Financial Glossary on page 38

In an otherwise promising year, Marine results were significantly impacted by a £100.1 million loss on the Type 31 contract, representing a £42.6 million reversal of revenue, £1.6 million asset impairment and the recognition of a £55.9 million onerous contract loss. The programme has been impacted by additional forecast costs that were not foreseen at contract inception. In April 2023, following discussions with the customer, we entered a Dispute Resolution Process regarding the responsibility for these costs.

Revenue increased by 14% to £1,439.6 million, comprising organic growth of 8% and the net impact from the acquisition of NSM in March 2022 and disposal of Frazer Nash Consultancy in October 2021. Organic growth was broad based, driven by continued strong demand for our LGE products, higher activity in warship support and on the South Korean (SK) submarine programme, as well as ramp up of several new contracts through the second half, such as the Queen Elizabeth Class aircraft carrier support and the early enabling contracts for the Poland frigate programme.

Underlying operating profit decreased to £12.7 million as a result of the Type 31 loss, representing an underlying operating margin of 0.9% (FY22: 7.8%). Excluding this, underlying operating profit increased to £112.8 million, representing an underlying operating margin of 7.8%. The increase was driven by revenue growth in ship support and South Korea submarine work and a c.£9 million benefit from a contract settlement. The prior year margin was supported by international license fees on AH140.

Contract backlog was up 4% in the year to £2,581 million (FY22: £2,492 million). Positive order momentum through the second half, including the c.£400 million Skynet award, more than offset trading revenue on long-term contracts. At 1 April 2023, Marine had around £900 million of FY24 expected revenue under contract and an additional c.£350 million under framework agreements, a similar position to FY22.

Operational review

UK defence

Despite the ongoing Dispute Resolution Process, we continued to deliver on the Type 31 Inspiration Class frigate programme. Keel laying took place for the first ship – HMS Venturer – in April 2022, and whole ship assembly and outfitting progressed as planned. Ship two – HMS Active – steel cutting took place in January 2023.

Warship support advanced in the year as we secured a 10-year contract to provide dry-dock maintenance for the Royal Navy's Queen Elizabeth Class aircraft carriers, including contingency dockings where routine maintenance and repairs cannot be carried out afloat. In Devonport, the Type 23 frigate life-extension (LIFEX) programme continues at pace while the LIFEX and fleet time support to the amphibious assault ships is making good progress. In readiness for the first Type 26 Frigate base-ported at Devonport later this decade, we have established the Type 26 Class Output Management system to prepare for the through-life sustainment of the platforms as they enter service.

Through our global sustainment and support arrangements, we marked four years of delivering support to Type 23 Class ship HMS Montrose during her forward deployment in the Middle East, enabling the vessel to achieve more operational days at sea than any other frigate since 2019. In the period, the mine countermeasure vessel team in Rosyth has delivered four simultaneous ship regenerations for onward sale from the Royal Navy to new international customers. All four vessels are former Sandown Class mine hunters which are all undergoing work packages to provide modern warships, tailored to the new clients' requirements while providing future support opportunities.

In Mission Systems, we were awarded a contract to manage and operate Skynet, the UK's military satellite communications system. The six-year contract, which commenced in March 2023, forms part of the MOD's c.£6 billion Skynet 6 programme and is sustaining more than 400 jobs in the south-west of the UK.

Additionally, a six-year contract was awarded to deliver, install and provide in-service support for Ardent Wolf, the maritime Communications Electronic Support Measures (CESM) capability for the Royal Navy's Type 23 frigates.

We signed a Memorandum of Understanding (MoU) with Rafael Advanced Defence Systems to deliver capability into the UK MOD's wider Land Ground Based Air Defence (GBAD) programme and signed a further MoU with Israel Aerospace Industries' (IAI) Group and Subsidiary ELTA Systems to offer a deep-find radar solution for the UK MODs SERPENS programme for a next generation weapons locating system.

At our Bristol Mission Systems site, the opening of a new build hall has boosted efficiency, enabling us to deliver major system modules for Boat 2 of the Dreadnought Class submarine, a significant milestone on the programme, ahead of schedule.

Deployment of advanced manufacturing technology continues to underpin our market leading role in submarine missile tube assembly, with installation of robotics and additional machining capability at our Rosyth facility. The missile tube programme continues successfully, supporting both the UK Dreadnought and US Columbia submarine programmes.

RSS Sir David Attenborough. We were awarded a contract to maintain the UK's fleet of scientific Royal Research Ships.

International defence

We support international defence markets from our UK operations and from our businesses in Canada, Australia, New Zealand, Oman and South Korea.

In Poland, building on our selection as Design & Technology Partner to PGZ (the Polish prime contractor), we secured two further contracts on the MIECZNIK (Swordfish) frigate programme, which is based on the proven Arrowhead 140 naval ship design used on the UK Type 31. The Class Design Contract and the Transfer of Knowledge & Technology framework agreement further support the development of the programme and shipbuilding capability in Poland. Working in collaboration with the PGZ-MIECZNIK Consortium, we have also agreed an extension to oversee the programme.

In Ukraine, having signed the tripartite agreement with the UK and Ukrainian Governments as lead industry partner on the Ukrainian Naval Capabilities Enhancement Programme, we continue to support our Ukrainian customer with their requirements, such as the mine counter measure vessels, which were formally handed over to the Ukrainian Navy in the year.

In Oman, we delivered several maintenance, repair and overhaul activities for the US Navy. The Duqm Naval Dockyard JV continues to bid for work with the US and Royal Navy of Oman, while we continue to deliver deployed support for the UK Royal Navy.

In Brazil, we established an in-country project team to deliver through-life support to the Marinha do Brasil's (Brazilian Navy) flagship vessel, NAM Atlantico, formerly the UK Royal Navy aircraft carrier platform HMS Ocean, and continue to explore future opportunities with the Marinha do Brasil and other international navies as part of our global support and export programmes.

In Canada, Babcock continues to deliver the Victoria Class In-Service Support (VISSC) contract which was extended to 2027.

In South Korea, our weapon handling and launch team successfully completed the final milestone on the Korean Navy's Jang-Bogo III Class submarine – with all 122 Category A milestones delivered on time or ahead of schedule over the 10-year period. We continue to deliver the equipment systems for boats four and five. In September 2022, we received a first maintenance contract from Daewoo Shipbuilding and Marine Engineering (DSME) to support the Jang Bogo III Class – Boat 1 systems, with a second phase of this work secured in October.

In Australia, we completed the integration of the Naval Ship Management (NSM) business following acquisition of the remainder of the business in March 2022. NSM strengthens Babcock's support to the Royal Australian Navy's (RAN) future maritime support model, Plan Galileo. Babcock is now the premier warship sustainment organisation in Australasia.

In October 2022, Babcock was announced as the preferred tenderer for the Regional Maintenance Provider (RMP) West, to manage the sustainment of RAN ships in Western Australia over the next five years.

In February 2023, Babcock signed a contract with BAE Systems to provide the air weapons handling system for the first batch of Hunter Class frigates for the RAN. The scope includes the design, build, testing and installation support of air weapons handling based on a modified Type 26 design.

In New Zealand, the new Maritime Fleet Sustainment Services (MFSS) contract with New Zealand Defence Force formally began.

Energy and Marine

Our Liquid Gas Engineering business (LGE) continues to support its customers on transition to Net Zero carbon with LPG and Ethane fuel gas supply systems for ships' main engine supply, replacing fuel oil. Our ecoFGSS-FLEX® ammonia/LPG fuel gas system will enable the use of zero carbon fuels, whilst our ecoCO2 – liquefied CO2 cargo handling – system will enable the transportation and storage of CO2 from current emitters.

In the period, LGE furthered the development of aftermarket services to provide enhanced through-life support for ship-owners.

During the year, our Rosyth dockyard was awarded c.£45 million to maintain the UK's fleet of scientific research vessels – RRS Sir David Attenborough, RRS Discovery and RRS James Cook. The three vessels are involved in some of the most pressing research across the globe, visiting polar regions and depths of tropical oceans. This year RRS Discovery and the RRS Sir David Attenborough will have planned maintenance periods.

Nuclear

Nuclear – at a glance

Revenue

£1.2bn

Percentage of Group revenue*

29%

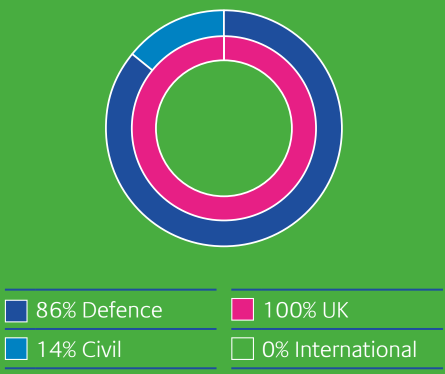
Contract backlog

£2.5bn

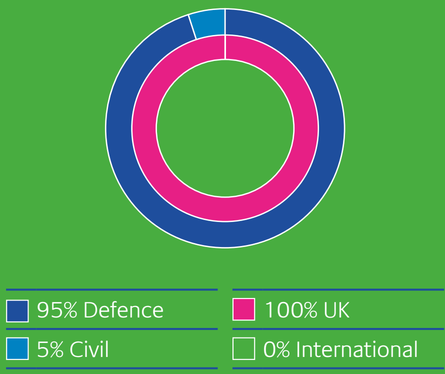
Number of employees

8,000

Revenue profile



Contract backlog profile



* Excluding divested businesses in FY23, Group revenue was c.£4.0 billion

What we do

Support all UK nuclear submarines and infrastructure

Own or manage key infrastructure and naval bases

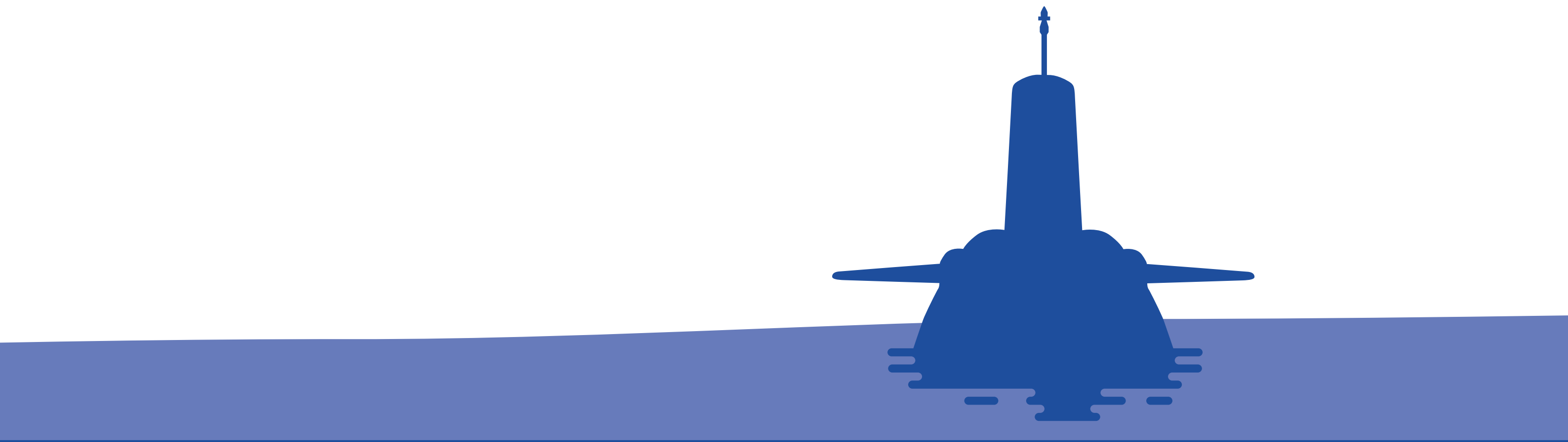
Nuclear submarine dismantling

UK civil nuclear new build, generation support and decommissioning projects

UK and international nuclear services

Operational highlights

- Significant ramp up on the Major Infrastructure Programme continuing across Devonport Dockyard
- Concluded first Vanguard Class life-extension with the first vessel returned to the UK Royal Navy post year end, and an initial contract and mobilisation phase for the next submarine, HMS Victorious, is now underway
- Launched the Submarine Availability Partnership with the UK MOD and Submarine Delivery Agency to progress availability
- First Astute Class submarine arrived at Devonport Dockyard ready for a Base Maintenance Period (BMP)
- Awarded a framework agreement with the Japan Atomic Energy Agency to deliver the Monju sodium treatment project



Nuclear continued

Financial review

	31 March 2022 £m	FX impact £m	Acquisitions & disposals £m	Other trading £m	31 March 2023 £m
Contract backlog*	**2,788.8**				**2,453.8**
Revenue	**1,009.7**	–	–	169.5	**1,179.2**
Underlying operating profit*	**62.4**	–	–	1.1	**63.5**
Underlying margin*	**6.2%**				**5.4%**

* Alternative Performance Measures are defined in the Financial Glossary on page 38

Revenue grew by 17%, driven principally by the further strong ramp up of the Major Infrastructure Programme (MIP) at Devonport dockyard, as well as increased Future Maritime Support Programme (FMSP) submarine support activity at Faslane naval base and new defence contracts in our civil nuclear business. MIP revenue doubled in the year to £267 million (FY22: £134 million).

Underlying operating profit increased by 2% to £63.5 million. Profit from MIP growth and a lower programme write-off compared to FY22, more than offset the impact of future inflation assumptions on programmes and further investment in strengthening the control environment. The programme write-off in FY23, resulting from a final assessment of completion costs, was £16 million (FY22: £22 million). This contract is expected to complete soon. Operating margin declined to 5.4%, reflecting the impact of future inflation and higher MIP revenue, which is lower margin.

Contract backlog decreased 12% in the year to £2,454 million (FY22: £2,789 million) due to the trading of long-term contracts, specifically FMSP, although it was flat in the second half due to strong order intake. At 1 April 2023, Nuclear had around £1 billion of FY24 expected revenue under contract, and an additional c.£150 million under framework agreements, both above the position in the previous year.

Operational review

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. Good progress has been made in the year in meeting the current and future requirements of the MOD.

We are working closely with the MOD to jointly develop long-term strategies for people, infrastructure and transformation, to meet the evolving requirements for the future of the Royal Navy.

At Devonport, the MIP has ramped up significantly over the year. The programme is designed to deliver substantial upgrades to existing infrastructure over the next ten years, to ensure the future capability requirements of the Royal Navy and the submarine enterprise are met for decades to come from state-of-the-art facilities. The programme will enable the dockyard to deliver base maintenance periods (BMP) and deep maintenance periods (DMP) for new classes of submarine, including nuclear defuel and refuel of current and future classes, and life-extension programmes (LIFEX), crucial to the UK submarine programme. During the year, key MIP delivery dates have been agreed with the customer to meet continued and future submarine docking, through-life support and fleet availability.

The concept design phase for 10 Dock is now complete and construction is underway to transform a large dry dock, traditionally used for large ship refit, into a seismically qualified dock in alignment with strict nuclear regulation, capable of enabling delivery of the first DMP of an Astute Class submarine. Currently, planning permission has been granted with customer approval for the development of the facility which is starting with demolition of ageing assets to create space for new facilities.

Work on the MIP at 9 Dock continues where we are upgrading, improving and life-extending the facility which will enable us to continue delivering the Vanguard Class submarines LIFEX programme, including defuel and refuel while planning for future class support.

Two of our graduates working on the Major Infrastructure Programme at Devonport.

An Astute Class submarine arriving at Devonport for its Base Maintenance Period.

Since the start of the FMSP contract, productivity during maintenance projects has continually increased and this has been further supported by the introduction of round the clock working patterns for engineering support staff and greater collaboration with the Royal Navy and Submarine Delivery Agency. The Devonport elements of the first Vanguard Class LIFEX DMP concluded during the year, and HMS Vanguard was handed back to the Royal Navy in May 2023. The mobilisation phase for the next DMP (HMS Victorious) is now underway following initial contract award on a full cost recovery basis.

Additionally, we have welcomed the first Astute Class submarine ready for the start of a BMP and we successfully completed a Revalidation Assisted Maintenance Period (RAMP) programme for a Trafalgar Class submarine.

At Clyde, we have delivered strong performance on several support programmes for our customer. This has included several Vanguard Class BMPs, which were completed ahead of schedule. Engineering support to Astute Class submarines has also been delivered at the naval base and abroad, supporting the global operational needs of the Royal Navy. At Rosyth, delivery of the submarine dismantling and disposal programme has continued in line with schedule.

Civil Nuclear

In decommissioning, we have been selected as the preferred bidder for the Magnox Hinkley Point A Vault Retrievals Phase 2 project. This project builds upon our strong relationship with Magnox and our history of delivering retrievals projects on Magnox sites. The five-year contract is to provide the design and delivery of an automated solution to safely retrieve, process and package waste from vaults within Magnox's Hinkley Point A site, ready for safe storage.

In Japan, we are continuing our growth plans for nuclear decommissioning services and in April 2023, we signed a framework agreement with the Japan Atomic Energy Agency (JAEA) to deliver the Monju sodium treatment project over five years, starting in 2024.

In nuclear support, we worked in collaboration with our EDF customer, to successfully complete the Dungeness B Power Station pre-defueling outage. We have also secured an extension to the Lifetime Enterprise Agreement.

During the year, the new Process, Plant and Equipment (PP&E) contract commenced in the UK. Our role is to lead the design, installation and commissioning of complex plant and equipment engineering, enabling the customer to safely process and deliver their production line. We expect to see the framework contract continue to ramp up in FY24 while the programme remains a key enabler for further opportunities across the wider facility as they develop.

Our Cavendish Nuclear business continues to focus on several growth opportunities in the UK and internationally. In the clean energy space, we are continuing to support X-energy as their UK deployment partner. The partnership complements our civil nuclear business' support to all three nuclear streams of the UK Government's Energy Security Strategy: Large Gigawatt Reactors, Small Modular Reactors, and Advanced Modular Reactors, such as High Temperature Gas-Cooled Reactors with the capability to focus on industrial heat and hydrogen.

In the US, Cavendish Nuclear partnered with Amentum and Fluor, has successfully secured the Portsmouth Gaseous Diffusion Plant Decontamination and Decommissioning Contract in Ohio, USA.

Fusion energy is at a transition point moving from science to engineering deployment, and through Cavendish Nuclear we are seeking to become an early member of this developing industry, including positioning for a role on the whole plant partner procurement with the UKAEA on their Spherical Tokamak for Energy Production programme.

Land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Land – at a glance

Revenue*

£1.0bn

Percentage of Group revenue*

25%

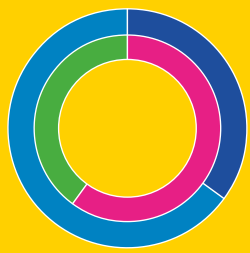
Contract backlog

£2.8bn

Number of employees

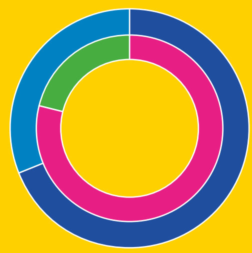
6,600

Revenue profile*



35% Defence	60% UK
65% Civil	40% International

Contract backlog profile



69% Defence	79% UK
31% Civil	21% International

* Excluding divested businesses in FY23, Group revenue was c.£4.0 billion

What we do

Asset management and engineering support for British Army vehicles

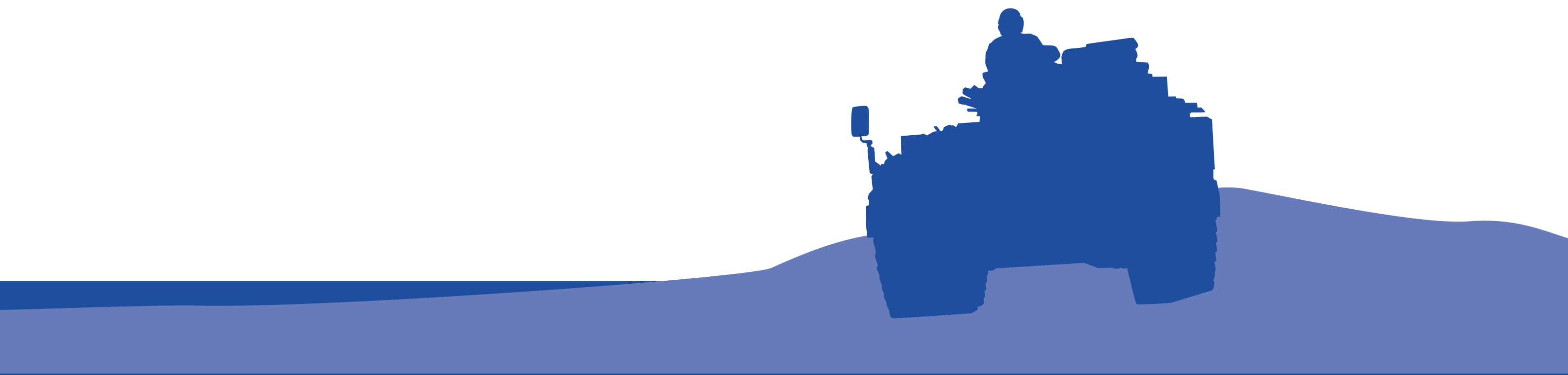
Technical training and support for the British Army

Emergency services technical training and fleet management

South Africa engineering and equipment businesses

Operational highlights

- Awarded Australian Defence High Frequency Comms contract for c.£500 million over 10 years
- In discussions with UK MOD for five option years on the DSG contract to 2030
- Awarded initial UK MOD contract to build 'Jackal' vehicles with Supacat in Devonport
- Awarded initial c.£50 million one-year contract by the UK MOD to support UK Gifted platforms to Ukraine
- Awarded contract to help the British Army improve operational performance and extend the life of its Land Rover fleet
- Secured first Land win in France to deliver ground support equipment support to the French Navy, Army and Air Force
- Completed the sale of our non-core Civil Training business



Land continued

Financial review

	31 March 2022 £m	FX impact £m	Acquisitions & disposals £m	One-off credit £m	Other trading £m	31 March 2023 £m
Contract backlog *	**2,309.0**					**2,809.8**
Revenue	**1,015.5**	1.8	(67.1)	11.6	55.3	**1,017.1**
Underlying operating profit*	**58.8**	0.0	(2.5)	11.6	18.0	**85.9**
Underlying margin*	**5.8%**					**8.4%**

* Alternative Performance Measures are defined in the Financial Glossary on page 38

Revenue was in line with the prior year with organic growth of 5% offset by the impact of disposals (UK Power in December 2021 and Civil Training in February 2023). Growth was driven by ramp up of the Australian Defence High Frequency Communication (DHFC) system, continued strong demand for mining equipment and aftermarket sales in South Africa and higher volumes in Rail and Emergency Services training, which more than offset the end of the Eskom contract in South Africa in March 2022.

Underlying operating profit grew to £85.9 million, representing an underlying operating margin of 8.4%. The increase was driven by the ramp up of the Australian DHFC system contract, higher volumes in our South Africa business and Emergency Services training, and a £12 million one-off credit. Excluding the one-off credit, margin would have been 7.4%.

Contract backlog increased 24% organically to £2,810 million (FY22: £2,309 million) driven by the Australian DHFC system and good order momentum in the second half of the year. At 1 April 2023, Land had around £640 million of FY24 expected revenue under contract, and an additional c.£180 million under framework agreements, both above the position in the previous year.

A new collaboration between Babcock and Supacat will see the production of a new 'Jackal' vehicle for the British Army.

Operational review

Defence

Performance in defence equipment activity improved in the period, including our DSG contract where we maintain, repair, overhaul and upgrade the British Army's armoured vehicles and tanks. Following a successful transformation programme, we continue to support our British Army customer as they plan for the future of their equipment and support. We are now in detailed discussions regarding execution of the five option years with modifications that will contribute to better outcomes for the customer and for the Group. In addition, we successfully extended our Phoenix II contract which delivers the UK MOD's 'white fleet' service for a further two years with strong performance.

In February, we announced that we will be working in collaboration with Devon-based Supacat, to deliver an order of 70 High Mobility Transporters (HMT 400 series) from the MOD. With this initial order, the contract award could lead to the production of as many as 240 of the light armoured vehicles, should operational requirements demand. The contract is to be delivered from our Devonport site in Plymouth, where we will create 90 new jobs.

We have been awarded a one-year contract by the MOD to help the British Army improve operational performance and extend the life of its Land Rover fleet. Partnering with Electric Vehicles experts, Electrogenic, we will convert four in-service military Land Rovers, two protected vehicles and two general service vehicles, from diesel-fueled to electric using a drop-in kit and modified battery system.

This year we established our Advanced Manufacturing business in response to growing obsolescence and commercial strains in the supply chain. We fitted our first additively manufactured metal parts onto a military vehicle having established an approval and safety case process in collaboration with the MOD and the British Army. We have signed a partnership agreement with a specialist advanced manufacturing business, Additure, and are now scaling this capability working with our British Army customer and across the Group.

Through our existing contracts, we contributed to the British Army's support to Ukraine's Armed Forces, refurbishing and regenerating equipment that has been gifted in kind by the UK Government and supporting the training of Ukrainian nationals in a range of domains. We were recently awarded an initial 12-month contract to support the equipment, including the supply of spares and technical support.

We were proud to support HM Queen Elizabeth II's funeral with over 500 hours of vehicle maintenance for the Met Police and London Fire Brigade.

Our defence training business performed well across all contracts and continued to offer operational benefits for our customers. We have been working closely with the British Army throughout the year to support their Mobilise campaign and successfully delivered training to partnering nations. We continue to invest and develop innovative training and have recently submitted our proposal around threat identification.

We have successfully delivered Exercise Cerberus 22, the British Army's largest and most ambitious field army exercise in Europe for a decade. Following a successful campaign in 2022, we participated in the British Army's 2023 Army Warfighting Experiment where we showcased our Human Insight Performance System.

In France, we secured our first major Land contract in this focus country for the Group. We will support around 5,000 ground support equipment assets across the French Army, Navy and Air Force through a 10-year contract. The contract represents the first outsourcing for the provision of maintenance, repair and overhaul; supply chain and logistics; technical and obsolescence management; as well as asset renewal. The contract will see the Group investing in key systems, infrastructure, and people across France, supported by capability transfer from our UK businesses, which will reinforce our in-country growth strategy.

In Australia, in October 2022, we signed a contract with the Government to upgrade and sustain the Defence High Frequency Communication System to support the Australian armed forces over the next 10 years. The c.£500 million contract starting in October 2023, will see Babcock lead the operation and support of the customer's existing capability, while delivering a comprehensive technology upgrade programme. The new system will provide Australian and allied armed forces with the ability to securely communicate using voice and other data from almost any location across the globe.

We continue to deliver and pursue Land defence opportunities in Australia. The Group is one of four short-listed tenderers for the LAND-125 Phase 4 – Integrated Soldier System programme, to integrate a wide range of connected technologies including uncrewed ground and aerial systems and self-learning machines for Australian soldiers.

Emergency Services

We have seen good performance in our London Fire Brigade (LFB) contract, with recognition for our support during the summer 2022 heatwave, which saw the busiest operational period for the LFB since World War Two. Delivery of our Metropolitan Police (MPS) contract has been stable through a challenging period that included a significant surge in demand during the funeral of HM Queen Elizabeth II. The MPS fleet management contract will end in October 2023.

Our LFB and MPS training contracts also performed well in the period, with significant demand in volumes as both customers seek to meet recruitment targets. Our new MPS training programme is now well established and performing well.

South Africa

Performance for the South African business was better than expected driven by high demand in the equipment business as a result of a strong market in the mining sector. This more than offset the ending of the Eskom engineering contract. Work continues on ongoing improvements through operational excellence initiatives throughout the business.

Other civil markets

Our Rail business had strong performance during the year with further work in our Translink framework. We continue to focus on delivery in our two key regions of Scotland and Northern Ireland.

In February 2023, we completed the sale of our civil training business to Inspirit Capital.

Aviation

Aviation – at a glance

Revenue*

£0.4bn

Percentage of Group revenue*

10%

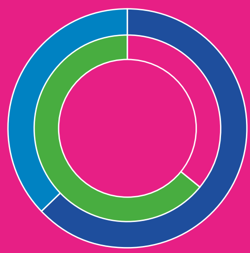
Contract backlog

£1.6bn

Number of employees

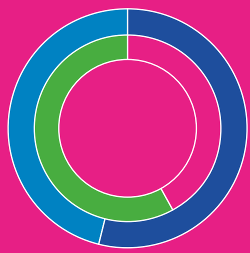
5,000

Revenue profile*



63% Defence	36% UK
37% Civil	64% International

Backlog profile



54% Defence	42% UK
46% Civil	58% International

* Excluding divested businesses in FY23, Group revenue was c.£4.0 billion

What we do

UK and French pilot training and support

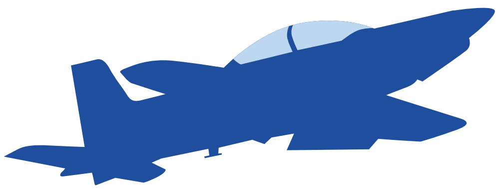
Military aircraft engineering and airbase support

Military and emergency services aircraft maintenance, repair and overhaul

Air ambulance, search and rescue and firefighting services in our focus countries

Operational highlights

- First two of six H160 helicopters modified and delivered to the French Navy as part of a 10-year contract
- Completed delivery of nine PC21 aircraft and commenced operational flights on the French Mentor contract
- Secured an 11-year extension to support the UK Hawk TMk1 and TMk2 aircraft and the Red Arrows
- Secured extensions from the UK MOD to operate the Light Aircraft Flying Task (LAFT2) and RAF base support contract, Hades
- Awarded R&D funding from the UK MOD to explore technologies that minimise the environmental impact of light, fixed wing training aircraft
- Awarded Queensland Health contract in Australia for helicopter emergency medical services (HEMS) for 12 years
- Awarded a HEMS contract in Canada for c.£200 million, starting in FY25



Aviation continued

Financial review

	31 March 2022 £m	FX impact £m	Acquisitions & disposals £m	Other trading £m	31 March 2023 £m
Contract backlog*	**2,293.6**				**1,633.0**
Revenue	**817.3**	9.4	(97.6)	73.6	**802.7**
Underlying operating profit*	**18.5**	0.6	(6.6)	3.3	**15.8**
Underlying margin*	**2.3%**				**2.0%**

* Alternative Performance Measures are defined in the Financial Glossary on page 38

Revenue decreased 2% in the year. Organic growth of 9% was driven by phasing in our French defence contracts, in particular Mentor, which included aircraft sales to the customer. This was offset by the impact of disposals (Oil and Gas in September 2021 and European Aerial Emergency Services (AES) on 28 February 2023). The divested European AES contributed revenue of £386 million during the 11 months of ownership in FY23 (FY22: £405 million).

Underlying operating profit decreased to £15.8 million, driven by the impact of disposals, primarily European AES, which contributed a loss of £1.1 million in the 11 months of ownership compared to a profit of £3.3 million in FY22, due to higher fuel costs. Underlying operating margin declined by 30 basis points to 2.0%, primarily due to weaker performance of the disposed European AES businesses.

The retained business within Aviation generated revenue of £416 million (FY22: £337 million), up by 24%, and underlying operating profit of £17 million (FY22: £14 million), representing an operating margin of 4.1% (FY22: 4.1%). Growth was driven by our French defence contracts, as described above, with associated profit offset by continued high bid costs on a large contract tender that has recently been submitted.

Contract backlog decreased to £1,633 million (FY22: £2,294 million), mainly due to the impact of the AES disposal (c.£975 million). The retained business contract backlog grew by 24%, driven by new contracts (Australia and Canada HEMS) and renewal/extension of long-term contracts (UK Hawk and LAFT2 – Light Aircraft flying Task). At 1 April 2023, Aviation had around c.£240 million of FY24 expected revenue under contract, lower than the prior year position on a like-for-like basis, due to high FY23 military aircraft deliveries in France.

Operational review

Defence

Across UK defence, activity has continued at a steady pace. Our military business secured an 11-year contract extension with BAE Systems to support the Hawk TMk1 and TMk2 aircraft at Royal Air Force (RAF) Valley and won a new contract to support the RAF Aerobatics Team (Red Arrows) with line and depth maintenance at RAF Waddington. Extensions were also secured on our RAF Hades support and Light Aircraft Flying Task contracts with performance remaining strong. Progress continues to be made on the Tutor programme with 80 aircraft available to the customer. Our UK Military Flying Training System contract saw good progress in the year.

The PC-21 aircraft used to deliver fast jet training to the French Air Force.

During the year we delivered the first two Airbus H160 helicopters to the French Navy as part of our contract with the French MOD.

We are continuing to develop our partnership with the Airbus H175M Task Force – a UK-based industry team created to supply and support the British-produced H175M helicopter for the UK's new medium helicopter requirement.

During the year, we were awarded two years of research and development funding from the RAF's Rapid Capability Office. Project Monet is designed to explore and progress the application of a range of sustainable aviation technologies, including the potential for synthetic fuelled internal combustion engines, hydrogen cell, and hybrid.

In France, activity continues to ramp up on the Mentor contract, with the delivery of nine PC21 aircraft and the start of operational flights. Availability continues to remain good, further enhancing the training delivery. On the FOMEDEC contract, we delivered circa 35,000 flight hours and 23,000 simulator hours to the customer.

During the year the first two Airbus H160 helicopters were delivered to and accepted by the French Navy as part of our contract with the French MOD. In partnership with Airbus and Safran, we'll provide a total of six modified H160 aircraft and through-life support for 10 years. The aircraft will be used by the French Navy on demanding search and rescue missions. The customer pays for the aircraft over 10 years after acceptance. We will discount the customer receivables for all 6 aircraft in FY24 on a non-recourse basis once the aircraft are delivered and accepted.

Through Babcock's joint venture with Leonardo Canada, Babcock Leonardo Canadian Aircrew Training has submitted a bid to deliver Canada's Future Aircrew Training (FAcT) opportunity, with an award decision expected in late 2023.

Aerial emergency services

On 28 February 2023, we completed the sale of certain of our European (Spanish, Italian, Portuguese and Scandinavian) Aerial Emergency Services (AES) businesses to Ancala Partners for a gross consideration of €136.2 million (c.£120 million), with an additional c.£60 million of completion adjustments.

Babcock has retained its AES businesses in its focus countries of the UK, France, Canada and Australia, where the Group also operates defence businesses.

Our operations in the UK secured several successful extensions, with Hampshire and Isle of Wight Air Ambulance, Great Western Air Ambulance, and Northwest Air Ambulance.

In Australia, Babcock was awarded a contract with Queensland Health for the Torres Strait and Northern Cape York Peninsula Emergency Helicopter Service in December 2022. Operating from Horn Island, Babcock will provide 24/7 services across the region including aeromedical retrieval and search and rescue. The aircraft will also be available to support taskings from other government departments including Queensland Fire and Emergency Services and Queensland Police. The 12-year contract continues a 15-year relationship between Queensland Health and Babcock in the Torres Strait and will represent a significant uplift in capability to the region.

In France, we've continued to develop our service offering extending operations to 24 hours coverage. We also delivered four EC135 helicopters to our French Customs customer, including initial maintenance and inspection of the assets delivered as part of the contract to support the French Customs and Gendarmerie Nationale's helicopter fleet.

In Canada, Babcock is continuing to deliver air ambulance and wildfire suppression services in the Province of Manitoba, helping to protect citizens, communities, and natural resources. In 2022 alone, Babcock dropped over 18 million litres of water on the wildfires in Manitoba and completed over 268 aerial firefighting missions.

During the year, we were selected as the in-service support provider for British Columbia's new fleet of AW169 aircraft. The 10-year contract is worth around £200 million and will start in FY25.

Creating a safe and secure world, together

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*.

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 an active IR and Treasury team.

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 Investor Relations team
- Treasury team engagement with banks, noteholders and credit rating agencies
- Dedicated investor section on Babcock website
- Investor roadshows with management and IR team
- Chair & NED engagement with top shareholders
- Consultation with large shareholders on remuneration policy
- Investor site visits
- Stock exchange announcements and press releases

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, workshops and 'lunch and learns'
- 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

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.

Employees

Why they matter to us

Our success is led by our employees. We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. We focus 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
- The Group's aims, goals, priorities and reputation
- Regular engagement with leaders
- Health, safety and wellbeing
- An empowering culture
- Inclusion and diversity
- Our ESG agenda
- Employee networks

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
- A dedicated onboarding app
- Regular safety stand downs and annual safety summit
- Apprentice and Graduate programmes
- 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

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 is a key aspect 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 and economic contribution
- Health, safety and wellbeing
- Engagement in local education and STEM activities
- Sustainability and the local environment
- Support for indigenous people
- Support for armed forces community
- Community engagement

How Babcock engages

- Sponsorship and donations, with new policy created in FY23
- Commissioned an independent report to analyse our contribution to the UK economy
- Created a new employee volunteering framework
- University partnerships
- STEM Ambassadors
- Significant employer of service leavers, veterans and reserves
- Engagement with 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 106 and on pages 112 to 115, which form part of this Statement. Further information on how the Board addressed the different matters set out in s172(1) in performing their duties during the year can be found as follows:

S172 factor	Relevant disclosures
a. the likely consequences of any decision in the long term	Our strategy (page 6) Business model (page 20) ESG strategy (page 58)
b. the interests of the Company's employees	Ensuring the safety and wellbeing of our people (pages 74 to 78)
c. the need to foster the Company's business relationships with suppliers, customers and others	Being a collaborative, trusted partner across the supply chain (pages 83 to 85) Innovation and technology (pages 8 and 9)
d. the impact of the Company's operations on the community and environment	Making a positive impact on the communities in which we operate (pages 78 to 82) Environmental (pages 63 to 73)
e. the desirability of the Company maintaining a reputation for high standards of business conduct	ESG Strategy: Governance (page 83 to 85)
f. the need to act fairly between members of the Company	Investors (page 56)

ESG strategy

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

Over the last year we have progressed our corporate Environment, Social and Governance (ESG) strategy and ensured progress towards our commitments and our five ESG priorities; these provide a framework for integrating sustainability into the business and ensure that we play our part in minimising risk, reducing our environmental footprint, contributing to our communities and transitioning to a more sustainable future for all.

Our ESG priorities

- We will reduce emissions and set science-based targets to get to Net Zero across our estate, assets and operations by 2040
  See page 63
- We will integrate environmental sustainability into programme design to minimise waste and optimise resources
  See page 66
- We will ensure the safety and wellbeing of all our people
  See page 74
- 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
  See page 78
- We will be a collaborative, trusted partner across the supply chain, helping to tackle common challenges
  See page 83

Recognising our key stakeholders' focus on ESG, we extended our materiality assessment to capture the views of some of our key customers and suppliers. We also captured feedback on ESG issues in our annual employee survey and ensured that our internal communications included examples from across the business of where and how we are taking action on material topics.

The Executive Committee, with the support from the Corporate ESG Committee continue to guide and govern Group-wide sustainability initiatives, ensure alignment behind the Group ESG strategy and progress towards sustainability targets.

Further to the decision in FY22 to build specific ESG objectives and measures in the FY23 annual bonus, the Remuneration Committee has set ESG related targets relating to reduction in carbon emission and senior management diversity for the 2023 PSP grant. See page 133 Remuneration Committee Report.

We continue to develop our approach to ESG reporting: we completed the Dow Jones Sustainability Index (DJSI) submission in December 2022, we are now compliant with 9 of the 11 TCFD disclosure requirements as per Listing Rule LR9.8.6R and we have disclosed in line with the new 2021 Global Reporting Index (GRI) framework. We work proactively with ratings agencies to enhance, where possible, the level of transparency and provide further insight into a range of economic, social and governance topics. We are appropriately represented on trade bodies and collaborate to raise ESG standards and demonstrate the positive impact of the Defence sector to our stakeholders.

Progress against our ESG priorities

Reducing emissions and setting science-based targets to get to Net Zero

- We are working collaboratively with our customers and suppliers to take action to combat climate change and its catastrophic impacts by decarbonising our business and its value chain
- Following industry best practice, we committed to an interim Science Based Target in line with a 1.5-degree pathway in April 2023 which requires a 4.2% annual carbon reduction against our 2019 baseline and sets us on a course for decarbonising our estate, assets and operations to reach our overarching goal of Net Zero emissions by 2040
- We conducted a quantitative strategic climate-related risk assessment with the support of a third-party (KPMG) to assess the financial impact of material risk themes and this has been considered by the business as an input to the five-year strategic planning process and FY24 budgeting process

Integrating environmental sustainability into programme design

- We are working to embed low carbon principles into the design, planning and operational delivery of our products and services with the use of Life Cycle Assessment tools and Circular Economy principle
- Over the past year we invested significant efforts to further our understanding of our nature-related impacts, risks and opportunities. We are exploring new legislative requirements to disclose nature-related risks and impacts, in line with the Taskforce on Nature-related Financial Disclosures (TNFD). A key area of focus for Babcock is engagement with our stakeholders and experts in the nature arena to understand opportunities to collaborate, knowledge share and partner. Babcock has become a member of the UK Business and Biodiversity Forum
- We have developed a new Group e-training package 'Curious about Climate' to help us learn more about what climate change is and the actions we can take individually and collectively to reduce our impact

Ensuring the safety and wellbeing of our people

- We continue to focus on making Babcock a more efficient, agile, inclusive and people-focused business
- Ensuring the safety, health and wellbeing of all our people and those affected by our activities is our priority
- We continue to collaborate and learn, across the enterprise, to ensure our products and services achieve the quality and safety standards required of our customers and regulators. Our Engaged Safety Culture framework forms the foundations of the safety behaviours being developed across Babcock
- Our updated approach to Inclusion and Diversity (I&D) has enabled us to create the right foundations to deliver gender balance and greater diversity more broadly through our organisation
- Our female population has reduced in this reporting year due both to divestments and natural attrition but we are actively focused on attracting talent to grow our pipeline for the future and deliver equal representation
- Our work to reduce inequalities between male and female employees has resulted in year-on-year progress since we started reporting in 2017. This year we are pleased to report that the median pay gap has continued to reduce narrowing from 11.8% to 9.6%

Making a positive impact on the communities in which we operate

- We are making a positive difference to the communities in which we operate by promoting sustained, inclusive and quality jobs. This is evidenced by the independent report carried out by Oxford Economics highlighting amongst other things, how we support levelling up across the UK, our focus on wellbeing and environmental initiatives we are progressing
- With a global presence, Babcock recognises the importance of engaging and supporting indigenous people in the countries in which we operate
- Our charitable sponsorship and community investment approach allows sectors and regions to manage their respective donations and sponsorship, which means that our support goes where it can serve the greatest need. This includes Veterans with dogs in the UK, Yalari in Australia and Laus Deo Primary School in South Africa

Being a collaborative, trusted partner across the supply chain

- As an organisation we aim to be a collaborative and trusted partner and we believe that a culture of respect for, and promotion of, human rights is embedded throughout our business and can be demonstrated by our commitment to ethical conduct in everything we do
- One of our governance initiatives was for Babcock to launch its first global and Company-wide Shadow Executive Committee inviting applications from non-executive employees from across the business, in order to provide a varied perspective to key decision-making, by offering fresh ideas and viewpoints on strategic initiatives as well as being an opportunity to expand the diversity of thought in our business
- We have launched a new Group Sustainability policy which outlines the corporate strategy and governance for sustainability across Babcock Group and applies to all employees. The policy was shared with the Corporate ESG Committee, launched on the Group Sustainability pages and uploaded to the Global Business Management system
- We ensure that our value chain is effective and engage its support to deliver our ESG strategy. This year Procurement have adopted a spend-based calculation methodology for mapping our upstream value chain emissions to provide a baseline for further developing Babcock's carbon strategy

Our focus for FY24 is to…

- Scale the development of Carbon Reduction Plans and implement renewable energy initiatives
- Work to develop Babcock's Climate Transition Plan in line with requirements of the Transition Plan Taskforce
- Work with our partners to investigate, assess and deliver low carbon opportunities
- Broaden our inclusion strategy and improve employee engagement
- Evaluate and improve our procurement practices in alignment with ISO20400

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 continued to develop and enhance our decarbonisation strategy to ensure delivery of our carbon reduction targets. During 2022 we reduced our emissions by 8.6%, and we have reduced our absolute footprint by 12.9% against our adjusted baseline. To date we have delivered a range of initiatives such as estate rationalisation, energy efficiency improvements, awareness raising and training, EV vehicle roll-out and energy management improvements
Preparing waste management plans across all significant sites by 2024	We have identified 'significant' sites based on multiple selection criteria associated with waste types and quantity generated. We are working to develop waste management plans across the significant sites by 2024
Zero controlled waste to landfill by 2025	We are investigating a range of initiatives and working with our partners to identify opportunities to reduce our waste to landfill by 2025
Eliminate the use of avoidable single-use plastic by 2027	Within our developing waste management plans, we are working to identify initiatives and map the transition away from single-use plastics by 2027
Prepare water management plans across all significant sites by 2024	We have identified 'significant' sites across our operations based on multiple selection criteria associated with location, water consumption and water extraction/discharges. We are working to develop water management plans across the significant sites by 2024
Maintaining and enhancing biodiverse ecosystems	
Conduct biodiversity assessments across all significant sites by 2024	We have identified 15 sites across the organisation where our interaction with and impact on local ecosystems has been considered to potentially be significant and are working to conduct biodiversity assessments across all these sites and are on track to complete this by 2024
Deliver a 10% biodiversity increase across the estate by 2030	The biodiversity assessments will allow Babcock to understand our baseline, against which we can develop the initiatives and roadmaps to achieve our medium-term objective of 10% biodiversity increase across our estate
TCFD metrics and targets	
Develop a baseline for Scope 1 and 2 emissions by the end 2023	During FY23, we developed ten 'Pathfinder' carbon reduction plans which capture 75% of Babcock's estate related Scope 1and 2 emissions. We are now working to scale the carbon reduction plans across our remaining estate and assets by the end of 2023
Submit science-based targets for Scope 3 by Apr-23	In April we submitted our interim and Net Zero carbon reduction plans to the Science Based Targets initiative (SBTi) and are currently awaiting verification of our plans
Complete an assessment of climate-related risk of all critical Babcock infrastructure by Dec-24	During 2022 we conducted high-level risk assessments across our operations. We are now working to conduct detailed climate-related risk assessments across our critical infrastructure by the end of 2024
Complete a review of climate-related changes to working conditions covering all employees who are exposed at geographical locations by April 2023	Completed
Climate-related impacts to be considered in all business bid/no bid decisions and associated contract negotiations/KPIs	Completed
100% of electricity for Babcock facilities to be sourced from renewable supplies by 2030	In 2022 approximately 32% of Babcock's electricity was from renewable energy sources, this is an increase from 26% in 2021
Complete an assessment of all our critical suppliers' climate-related risks and associated impact by Sept 2022	Completed
Creating a people-centred business where everyone is included	
30% women within senior leadership teams by 2025	We have seen an improvement of female representation within our senior leadership team from 21% to 23%.
30% female representation at all levels by 2030	Our female population has reduced by 1pt to 18% this year due to divestments and natural attrition but we remain committed to reaching our gender balance target
Set clear metrics for disability and ethnicity (in addition to gender) to focus our effort, measure our performance and progress and create accountability across the Group	We are designing an Inclusion Roadmap which will help us to further develop our approach on ethnicity and disability
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; refreshed recruitment processes and supporting leadership development programmes amongst others
Underpinned by conducting business with honesty, transparency and integrity	

Materiality assessment

Our Purpose: to create a safe and secure world, together

Material issues	Environment	Social	Governance
	Biodiversity and ecological impact	Community engagement	Business ethics and integrity
	Climate change	Health, safety and wellbeing	Data and cyber security
	Waste	Talent and development	Governance, accountability and culture
	Water consumption	Local economic contribution	Sustainable supply chains
		Employee inclusion and diversity	Innovation and technology
			Collaboration

In FY22 we based our materiality assessment on feedback from employees and investors. For FY23 we have updated our assessment in relation to these stakeholders and also expanded our assessment to include the views of some of our key customers and suppliers. This process ensures we are addressing and managing the material issues that matter most to our stakeholders via our Group sustainability strategy.

Following this year's strategic climate risk assessment, the Executive Committee has categorised Climate as a principal risk see page 101.

For customers we captured topics that were most commonly raised in key customer meetings and views from customer engagement surveys. The top three material topics cited by customers were:

- Climate change: We are facing a global climate crisis and we need to work collaboratively with our customers to play our part in averting this
- Employee inclusion and increased diversity: We need to play our part in supporting levelling up by investing and supporting employment in the most deprived areas. We also need to help tackle economic inequality and improve equality of opportunity. We need jointly recognised definitions, measures and metrics in place and data to drive action and decision
- Governance, accountability and culture: To achieve our sustainability ambitions we need to be true to our purpose, culture and strategy demonstrating the benefits from the new operating model and fully integrate ESG in the business

To capture views of the topics of most concern to our suppliers, we captured views from our key suppliers. The top three material topics they cited were:

- Health safety and wellbeing: High health and safety standards are a fundamental condition and responsibility we must meet to protect the wellbeing of all who interact with Babcock and ensure everyone gets home safely every day
- Climate change: We are facing a global climate crisis which has the potential to cause catastrophic impacts. We understand the risks posed by climate change and are committed to play our part in addressing the global crisis
- Collaboration: Collaboration is required to achieve a shared goal, foster innovation and create lasting relationships for sustainable long-term business success

From investor engagement, the following three topics were highlighted as being of most interest in relation to ESG:

- Governance, accountability and culture: These are key to optimise operational performance and fully integrate ESG in the business to achieve our sustainability ambitions
- Employee inclusion and increased diversity: By accessing the broad range of talent and experiences within our workforce, we will achieve greater employee satisfaction and improved delivery for our customers
- Talent and development: Babcock requires skilled employees. Our workforce is ageing and there is concern that we could struggle to deliver planned growth or take advantage of emerging opportunities. We are creating an employment structure that supports development and progression opportunities across the Group

This year's Group-wide employee survey indicated that views of employees have not changed markedly from last year.

- Climate action: We are facing a global climate crisis and our people recognise we need to play our part in averting this
- Health and safety: Our employees recognise we must protect the wellbeing of all who interact with Babcock
- Waste: Our employees believe we need to reduce the amount of waste generated, be more efficient and adopt circular economy principles

We have ensured that action plans are in place to address the sustainability-related issues highlighted and we plan to include more detailed questions on sustainability in forthcoming surveys.

ESG and our shareholders

Over the year we have progressed our ESG strategy and ensured progress on our corporate commitments 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 economic, social and environmental impacts.

In April 2023, we submitted our interim Net Zero carbon reduction plans to SBTi and we conducted a strategic climate-related risk assessment for our five-year planning process. We're also continuing to integrate environmental sustainability into programme design to optimise resources. Our emissions target is also linked to our KPIs and remuneration. Read more on page 133.

The health, safety and wellbeing of our employees, customers and the community comes first. The independent report carried out by Oxford Economics shows how we have made a positive difference to the communities in which we operate by promoting sustained, inclusive and quality jobs. Senior management diversity has also now been added to remuneration targets. See pages 131 to 133.

Governance starts at the top. We have continued to support the Company's turnaround by making improvements to the governance of the Group at Board level, which is covered in our Chair's report (page 106) and our Audit Committee Chair's report (page 124). Our approach to risk management is discussed on page 87.

Defence and nuclear

Following the completion of the portfolio alignment programme, the Group today is over two thirds defence focused. We recognise that our business is therefore of increasing relevance to investors investigating 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 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 instability and political turmoil increases, we support the view that democracies need to be able to defend themselves from aggressors to ensure democracy.

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. 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 controversial weapons activities. To enable compliance with their requirements, we disclose key ESG metrics to measure our exposure to these activities as percentage of revenue.

Below we describe our involvement in these areas. As we have concluded our portfolio alignment programme, we compare our exposure against FY23 revenue excluding divested businesses (pro forma) to provide a fairer, ongoing baseline.

- We do not design, manufacture, or sell nuclear weapons or controversial weapons or their components.
- We deliver support, decommissioning and infrastructure projects for our Atomic Weapons Establishment customer in support of their programmes, representing 0.4% of FY23 pro forma revenue.
- We provide in-service and through-life support for the UK Royal Navy's ballistic nuclear submarines (SSBNs), the Continuous At Sea Deterrent. Submarine support is part of our wider FMSP contract to deliver all dockside and fleet time support, base maintenance and deep maintenance periods for both classes of non-nuclear armed (SSN) and SSBN submarines, including naval base management. We estimate the split of SSBN related support work to be around 2% of FY23 pro forma revenue.
- We design and manufacture the non-nuclear weapons handling systems for the future Dreadnought Class SSBNs and manufacture the missile tube assemblies for the joint US/UK common missile compartment for integration into the future US and UK SSBNs. This work represents less than c.2% of FY23 pro forma 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 FY23 pro forma revenue.

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 economic, social and governance topics.

ESG disclosure and external ratings

GRI/SASB coverage	Reporting with reference to GRI Standards 2021 and SASB Standards for the period April 2022 to March 2023. See external website for further details
TCFD disclosure vs Listing Rule LR9.8.6R	We are now compliant with 9 of the 11 TCFD disclosure requirements with limited disclosures on Metrics and Targets A and B. For further details see TCFD section, page 67-73
DJSI Score FY22	Completed DJSI submission in December 2022 and achieved score of 47, which was 1 point lower than last year
FTSE Russell	Submitted in February 2023 and achieved ESG rating of 3.0 in line with prior year
MSCI Rating	ESG rating is A in line with prior year
ISS Rating	ESG rating is C- in line with prior year

Environment

► Reducing emissions and setting science-based targets to get to Net Zero

At Babcock we understand our responsibilities to the environment. We have set ambitious targets and are taking action to reduce our impacts. Since the launch of Plan Zero 40 in 2021, we have committed significant resources to address our environmental risks and unlock opportunities, and we are working to influence our wider value chain. Over the past year we have made significant progress on our journey. The following are a few of our highlights:

- Submission of Interim and Net Zero carbon reduction targets to the Science Based Targets initiative (SBTi)
- Gained accreditation to the Carbon Trust's new Route to Net Zero Standard - Taking Action
- Prepared detailed Carbon Reduction Plans across ten pathfinder sites and commenced the roll out across remaining global operations
- Development of low-carbon product and service capabilities
- Supported our customers on their journeys to Net Zero
- Launched Group-wide environmental minimum standards

Babcock Group energy consumption and emissions

		Dec-19	Dec-20	Dec-21	Dec-22
UK					
Scope 1: Direct emissions from owned/controlled operations	tCO_2e	37,847	29,316	38,804	27,611
Scope 2: Indirect emissions from the use of electricity and steam	tCO_2e	58,445	46,458	43,818	42,448
Scope 3: Emissions – business travel, electric transmission and distribution	tCO_2e	11,231	5,484	5,806	5,754
Total emissions	**tCO_2e**	**107,522**	**81,258**	**88,428**	**75,813**
Underlying energy consumption used to calculate emissions	**kWh**	**422,144,618**	**351,936,201**	**396,229,990**	**343,074,206**
Global (excluding UK)					
Scope 1: Direct emissions from owned/controlled operations	tCO_2e	91,357	103,416	102,748	99,556
Scope 2: Indirect emissions from the use of electricity and steam	tCO_2e	6,364	4,724	4,747	3,666
Scope 3: Emissions – business travel, electric transmission and distribution	tCO_2e	351	168	126	126
Total emissions	**tCO_2e**	**98,072**	**108,307**	**107,622**	**103,348**
Underlying energy consumption used to calculate emissions	**kWh**	**383,872,012**	**433,823,941**	**429,298,199**	**408,269,655**
Babcock Group total (UK and global)					
Scope 1: Direct emissions from owned/controlled operations	tCO_2e	129,203	132,732	141,552	127,167
Scope 2: Indirect emissions from the use of electricity and steam	tCO_2e	64,809	51,182	48,565	46,114
Scope 3: Emissions – business travel, electric transmission and distribution	tCO_2e	11,582	5,652	5,932	5,880
Total emissions	**tCO_2e**	**205,594**	**189,566**	**196,050**	**179,161**
Underlying energy consumption used to calculate emissions	**kWh**	**806,016,629**	**785,760,142**	**825,528,188**	**751,343,861**
Underlying energy consumption	**GJ**	**2,901,660**	**2,828,737**	**2,971,901**	**2,704,838**
Revenue (adjusted in line with emissions baseline)*	**£m**	**4,042.5**	**3,842.7**	**3,867.8**	**4,438.6**
Intensity ratio**	**tCO_2e/£1m Revenue**	**50.9**	**49.3**	**50.7**	**40.4**

Our emissions data is reported in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard under the 'Operational Control' approach. Our reporting is in line with the requirements of the Streamlined Energy and Carbon Reporting (SECR) requirements. The reporting period for our energy consumption and carbon emissions is the calendar year (01 January to 31 December). Figures for UK operations follow conversion factors published by BEIS. 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. Scope 1, 2 and 3 sources have been divided by the annual revenue to provide the intensity ratio (tCO_2e per £m). Recent organisational changes have cumulatively exceeded our materiality threshold (5% emission variance) and accordingly we have assessed and revised our carbon baseline. Emissions data for prior years have been adjusted in line with the organisational changes and to include data unavailable last year. Emission figures for this year include an element of estimated data and 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 Oman, South Korea and USA). Metering and monitoring improvements are being implemented to capture these data streams. During the reporting period a range of initiatives and activities resulted in a year-on-year reduction in carbon emissions, including estate rationalisation, strategic divestments, 'low-hanging fruit' energy conservation measures, reduced use of diesel, reduced aviation operations and improvements to our energy management practices. We do not have the data maturity to report quantitative reductions generated through energy efficiency measures for the current or previous years. We are progressing well on our journey to Net Zero and aim to accelerate our carbon reduction over the coming years. * The revenue figures detailed are for the corresponding fiscal year and have been adjusted so as to align with the adjusted emissions baseline. ** The Intensity Ratio is based on the adjusted emissions baseline and the adjusted revenue.

Plan Zero 40 pathway and implementation plan

Plan Zero 40

In 2021 we launched our decarbonisation strategy, Plan Zero 40, where we committed to delivering Net Zero across our own operations (Scope 1 and 2) by 2040 and the delivery of a 2030 Science Based Target in line with a 1.5-degree pathway. During FY23, we have continued to build upon the progress made in FY22 and progressed on our journey to Net Zero. In April 2023 we submitted our Interim and Net Zero carbon reduction targets to the Science Based Targets initiative (SBTi) and are currently awaiting verification of our plans.

Under Plan Zero 40 we have segmented our investigations and delivery of decarbonisation initiatives into four strands: Estate and Assets, Transport, Products and Services, and Value Chain.

Estate and assets

Babcock's estate is vast and complex, and we operate in a variety of regions across the globe, which means we do not have a one-size-fits-all approach to decarbonisation. To address the complexity and variance, we have opted for a comprehensive approach and are working to prepare specific Carbon Reduction Plans across all our global operations. Within the Carbon Reduction Plans we are firstly ensuring there is an accurate and complete GHG inventory, secondly conducting hotspot analysis, desktop assessments and site energy audits, before finally preparing a techno-economic analysis which models and analyses the economic and carbon performance of a range of low carbon technologies (solar PV panels, wind turbines, ground source heat pump, district heating etc) so as to assess the most effective pathway to deliver Net Zero.

The plans are supported by robust business cases and are developed in line with our estate strategies and business plans to ensure full alignment and integration into our business as usual. During FY23, we developed ten 'Pathfinder' Carbon Reduction Plans, which captures c.75% of Babcock's estate related Scope 1 and 2 emissions.

Whilst resource intensive, this comprehensive approach is giving us great insight and allowing us to understand true cost and impact of Net Zero on our estate and assets, which enables us to effectively plan our journey to Net Zero. We are on track to meet our commitment to have developed Carbon Reduction Plans across our operations by 2024.

Over the past year we have continued investigations to unlock renewable energy generation opportunities across the estate.

We currently have several renewable energy projects with cumulative installed capacity in excess of 25MW which are progressing through the stages of development. At a local level, we are assessing our energy performance as part of our planned maintenance and specifying low carbon products into asset life cycle replacements. We remain committed to delivering high-quality development within our construction and refurbishment programmes. Our development at Bristol Technology Centre recently reached practical completion and achieved a BREEAM excellent rating.

Transport

Decarbonisation of our transport, as detailed within our developing Sustainable Transport Strategy, is being addressed under four pillars: fleet, business travel, employee commuting and transportation and distribution (upstream and downstream). Under Plan Zero 40 we have committed to transition to 100% Ultra Low Emission Vehicles by 2030, and we are progressing well towards this target, roughly 15% of our fleet are ULEV and the majority of our new vehicle orders are ULEV. In June 2022, we announced the launch of Babcock's EV Salary Sacrifice scheme, which has been positively received with large interest and uptake from across our workforce. Over the coming year we are working to develop Workplace Travel Plans across key sites and reviewing business travel to unlock and promote sustainable travel options for our employees and visitors. We are also working with our partners to reduce our logistics emissions.

Products and services

We have been working to unlock the low carbon opportunities presented by the low carbon economy and aim to become a leader in low carbon enablement. In creating a safe and secure world, we strive to support our customers on their journeys to Net Zero and have been working with a variety of customers across our operations to identify decarbonisation opportunities. Recently we supported several customers to seek funding from the UK Government's Low Carbon Skills Fund. Our Training and Technology and Innovation teams are investigating a range of innovative low carbon opportunities, and we are working to ensure we have the right capabilities to deliver. Over the last 12 months, we have also been working to develop our own climate e-training package, Curious about Climate, which will support to raise awareness of climate-related risks and opportunities.

Utilising a hybrid spend and revenue-based approach, we have commenced work to calculate our Scope 3 downstream footprint. Based on the work to date, we understand that emissions from Use of Sold Products, Category 11 is one of the largest contributors to our footprint. Due to the early stages of our investigations and the limitations to the methodology utilised, we have not reported our full Scope 3 footprint within our annual figures whilst we refine the calculation methodology. We recognise the importance of the Scope 3 footprint on our own footprint, but also that of our customers.

To reduce the impacts of our Products and Services, across our operations we are working to embed low carbon principles into the design, planning and operational delivery of our products and services with the use of Life Cycle Assessment tools and Circular Economy principles. Over the coming 18 months we have committed to conducting detailed carbon assessments of our products and services and developing Net Zero roadmaps.

Our Net Zero journey

2020
Baseline

Group 'Top Down' carbon strategy

2021
'Bottom-Up' carbon strategies
• strategy planning
• baseline assessment

2023
Strategy delivery

2024
All new buildings to be Net Zero operational emissions

2025
Full Scope 3 mapping to be complete

2030
Science-based targets, ultra low-emissions vehicles

2032
All Babcock estate to be Net Zero in operation

2035
All buildings to be Net Zero embodied carbon

2040
Net Zero Target (Scope 1 and 2)

Value chain

We understand our responsibility to lead by example, to encourage and influence the supply chain to transition to the low carbon economy. Babcock has a strong sustainable procurement policy to underpin and ensure we deliver our operations in a sustainable manner. Utilising the Environmentally Extended Input Output (EEIO) approach, we are working to calculate our Scope 3 upstream emissions. We recognise the limitations of the EEIO approach, and we are working collaboratively with our partners and participating in a range of industry working groups to mature the approach to emission calculations. Our teams continue to work with our partners to investigate, assess and deliver low carbon opportunities, such as our recent transition to Hydrotreated Vegetable Oil (HVO) fuel.

Further information

Find out more about our Net Zero journey by scanning this QR code

Climate management instruments

We acknowledge that the delivery of our Net Zero targets will be challenging and requires immediate action. To support, influence and encourage the delivery of our ambitious targets, we are working to investigate and implement a range of climate management instruments. Executive Remuneration linked to the carbon performance of the organisation, and Internal Carbon Pricing are two instruments being reviewed for implementation in FY24. Alongside this, the performance of our Sectors and Direct Reporting Countries (DRCs) are being assessed against a range of non-financial metrics and targets.

Priorities for the year ahead

For the year ahead we will be building on the existing processes, procedures and programmes established to deliver Plan Zero 40. We have also commenced work to develop Babcock's Climate Transition Plan in line with requirements of the Transition Plan Taskforce, which we aim to prepare over the coming18 months. We will also continue to scale the development of Carbon Reduction Plans and implement renewable energy initiatives.

Tree planting at Wembury Barton Farm

A team from Devonport's safety engineering group used their volunteering day to plant trees at Wembury Barton Farm. The new woodland will be part of the Plymouth and South Devon Community Forest where there will be a mix of native species planted, including sessile oak, fruit trees, and hazel.

► Integrating environmental sustainability into programme design

Natural environment

Throughout our global operations we interact with a range of complex natural ecosystems. Maintaining and enhancing the biodiversity of these ecosystems is a priority as we strive to protect and enhance the environment and adapt to the impacts of Climate Change. Over the past year we invested significant efforts to further our understanding of our nature-related impacts, risks and opportunities. We have identified fifteen sites across the organisation where our interaction with and impact on local ecosystems has been considered to be potentially significant. We are now working to conduct biodiversity assessments across all these sites and are on track to complete this work by the end of 2023. The bio-diversity assessments will allow Babcock to understand our baseline, against which we can develop the initiatives and roadmaps to achieve our medium-term objective of 10% biodiversity increase across our estate. Our approach is establishing a solid foundation for our broader natural environment programme which will be launched over 2024.

Babcock has also become a member of the UK Business and Biodiversity Forum and we are working to explore new legislative requirements emerging from COP15 to disclose nature-related risks and impacts, in line with the Taskforce on Nature-related Financial Disclosures (TNFD). Over the coming year we are working to conduct a pilot TNFD assessment, setting the pathway for integration of nature considerations in our business as usual.

Taking action on our commitments

Consumption of materials and resources is a significant contributor to Babcock's environmental footprint and we understand our responsibility to minimise the impacts of our operations. Last year we announced a range of additional commitments (over and above those stated within Plan Zero 40 and our TCFD disclosures):

- Prepare Carbon Reduction Plans across all operations by 2024
- Prepare Water Management Plans across all significant sites by 2024
- Prepare Waste Management Plans across all significant sites by 2024
- Conduct biodiversity assessments across all significant sites by 2024
- All operations to be captured within an Environmental Management System by 2024
- Zero controlled waste to landfill by 2025
- Eliminate the use of avoidable single-use plastics by 2027
- Deliver 10% biodiversity increase across the estate by 2030

In line with our 'Top-down, Bottom-up' approach, our Sectors and DRCs have identified significant sites and are working hard to develop 'Bottom-up' plans and programmes to deliver on our commitments. Significant sites have been identified based on area, consumption and emissions. Whilst there is a significant amount of work still to do, we are on track to meet our commitments.

Following a detailed review of Babcock's position and performance relating to environmental protection, during 2022 we developed and launched an enhanced suite of Group-wide Environmental Minimum Standards. The new minimum standards will further ensure the impacts of our operations are minimised and the highest standards of environmental protection are upheld.

Data management

Data is a key enabler to our environmental strategy and is used across the organisation to inform our decisions. Whilst access to accurate and complete data is still considered one of our key challenges, over the past 12 months we have continued to improve our data sets. We have conducted a review of our operating procedures and governance structures and are working to implement a range of improvements. We have enhanced our capacity and capability with our dedicated team of data specialists, who have implemented rigorous internal audit processes, and we have matured our investigations into the development of our Group-wide Environmental Data Management System, which we aim to implement throughout 2023. We have developed a clear data improvement roadmap which will ensure compliance with the increasing regulatory reporting requirements.

Awareness raising and engagement

We understand the importance of awareness raising and engagement in embedding sustainability into our culture and 'business as usual'. As part of our engagement and communications strategy, every year we deliver a number of environmental campaigns to raise awareness and engage with our workforce and wider value chain. During June 2022, we held 'Environmental Action Month', where local environmental working groups from across the organisation coordinated environmental engagement and volunteering activities within their regions, such as beach litter picks, river cleans by kayaks, tree planting and environmental coffee mornings. Continuing from our COP26 campaign, in October 2022, supported by public figure climate change advocates and industry experts, we delivered a successful COP27 engagement campaign. Over the coming year we are planning to continue the great work with further campaigns.

Task Force on Climate-related Financial Disclosures

Building on last year's qualitative assessment, we have been working towards full disclosure to the Task Force on Climate-related Financial Disclosures (TCFD) requirements, as per Listing Rule LR9.8.6R. We are now consistent with 9 of the 11 TCFD requirements, with limited disclosures on Metrics and Targets A and B having not yet set an internal carbon price, nor fully embedded cross-industry climate-related metric categories into our targets, nor reported our full scope 3 emissions across the full value chain due to the early stages of our investigations and the limitations to the methodology utilised. Over the coming 18 months we have committed to conducting detailed carbon assessments of our products and services and developing Net Zero roadmaps.

Last year, we set governance with respect to climate change, integrated risk management and scenario planning in our strategic planning cycles and had set some initial targets. This year, we conducted a strategic climate-related risk assessment to assess the financial impact of the key risk themes on the organisation's business strategy and financial planning. In line with TCFD recommendations, we have made the following disclosures:

- Governance (all recommended disclosures)
- Strategy (all recommended disclosures)
- Risk management (all recommended disclosures)
- Metrics and targets (limited disclosures for A and B)

We are committed to achieving Net Zero and our Plan Zero 40 and climate strategy workstreams are aligned. We intend to develop one holistic transition plan, which includes Plan Zero 40 workstreams and climate-related risks in line with final recommendations of the Transition Plan Taskforce.

For further details see FY24 priority table, pages 72-73. Additional climate-related disclosures can be found in the Risk Management 101 and Governance sections 133.

Governance

Board oversight of climate-related risks and opportunities

Our Board ensures oversight on climate-related issues and discusses Group-wide ESG matters as an integral part of Board strategic discussions. In FY23, the Board requested two progress reviews on Group-led sustainability workstreams including implementation of Plan Zero 40 and TCFD through updates from the Group Director of Sustainability and the Group Head of Environment.

At the September 2022 and February 2023 Board meetings, the Board noted the progress vs objectives, including baselining, development of Pathfinder carbon reduction plans, indicative capital profile to deliver Net Zero target, and noted that carbon reduction plans need to be strategically integrated into business plans. They also noted the intention to submit carbon reduction targets to the Science Based Targets Initiative (SBTi), insights from the climate-related risk assessment and the plan to develop a climate transition plan in line with the TPT recommendations. The Board also discussed plans to set ESG targets relating to emissions reduction through the remuneration committee as part of the FY24 long-term incentive plan.

See page 110 for further details on our governance framework.

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

The executive with responsibility for TCFD reporting is the Chief Corporate Affairs Officer. TCFD workstreams are championed by the Group Director of Sustainability and activities are overseen by the Corporate ESG Committee, which meets quarterly and includes representatives from the Executive Committee.

Progress on TCFD activities was reported to this Committee quarterly, and any actions/activities required to further climate-related risk management activities were agreed by the Committee.

Executive Committee members who are members of the Corporate ESG Committee are indicated on page 110.

Climate-related risks and opportunities have been reported to the Executive Committee on a six-monthly basis. Our newly formed Risk Committee, which sits as a direct management committee into our Group Executive, will provide executive leadership and oversight of the Group's risk management framework, which includes climate-related risks under the categorisation of Principal Risk and Uncertainty.

In September 2022, the Chief Financial Officer agreed to appoint KPMG to undertake quantified scenario analysis to model exposure to physical and transition risks and help inform our strategic direction and financial impacts, inform strategy and planning decisions. The core project team was led by the Group Director of Sustainability, supported by the Group Head of Environment, Group Head of Reporting & Financial Control and included sector and regional contacts who had the seniority and authority and best understood the risks within their respective sectors and regions.

Interviews with sector and regional contacts were a key input to the scenario analysis and provided the wider business context behind identified risks and opportunities.

A Steering Group was set up, which included the Chief Financial Officer and Director of Group Finance, to ensure governance and oversight of the engagement.

The Group Director of Sustainability and KPMG reported the insights from the climate-related risk assessment with sector and regional Financial Directors and presented to both the December 2022 Executive Committee and the February 2023 Board.

Plan Zero 40 is led by the Group Head of Environment, with sectors and regions accountable for developing their bottom-up carbon reduction plans.

For further details on decarbonisation, see page 63.

Strategy

Building on our climate-related risk management process from last year, which considered the following time horizons: short (present to 2030), medium (2030 to 2040), and long-term horizons (2040 to 2100), sectors and regions considered the insight and recommendations from the KPMG climate-related risk assessment report and identified the immediate actions required in their five-year strategic plans to support corporate commitments including Net Zero, wider environmental targets, and to address key climate-related risks and opportunities.

Approach to scenario analysis

Advancing our climate maturity, we have undertaken quantified scenario analysis of our shortlisted climate-related risks and opportunities to assess our organisational resilience. Two potential future climate scenarios were selected which use economic constraints associated with the International Panel on Climate Change's (IPCC) Shared Socioeconomic Pathway 2 (SSP2) 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. These align with TCFD recommendations.

The baseline scenario considers how the global economy could look in the absence of new climate policies beyond those in place today. The 1.5°C counterfactual simulates a potential future pathway of the world economy assuming a successful introduction of climate policies. The 4°C baseline, utilised and agreed by climate modelling experts within the UN IPCC Change, 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.

A desktop analysis of physical risk exposure considering asset location, insured value, machinery and contents, and stock was undertaken for 15 key sites.

These sites represent centres of operations, significant revenues, large asset values, and wide coverage of geographies in which we operate, therefore capturing physical risk across the Group.

Physical risk was assessed against eight climate hazards. Acute physical risks were considered, which are event-driven, including increased frequency and severity of extreme weather events:

- Riverine flooding
- Forest fire
- Extreme wind
- Soil subsidence
- Surface water flooding
- Freeze thaw

Two chronic physical risks were also considered which refer to longer-term shifts in climate patterns: extreme heat and coastal inundation.

Babcock operates assets with long life; therefore, we consider long-term risks up to 2100.

We have undertaken quantified scenario analysis of our shortlisted climate-related risks and opportunities to assess our organisational resilience. Based on the results of this initial analysis, the impact of climate change on the Group's financial performance and position is not expected to be material, after considering the potential risk management and mitigation strategies available to the Group.

An economic analysis was used to assess transition risks. The global economic model analysed the potential carbon emissions of economic activities and the consequential impact on macroeconomics of constraining these emissions, in order to achieve the target global-mean temperature at 2100. The economic model disaggregated 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.

The model achieves the scenario's emissions constraints through carbon pricing. Trajectories for GDP of countries, output of industry sectors and global carbon intensity of industry sectors are used as inputs to the model among others.

For further details see the scenario table on page 71.

Risks

Third-party analysis has calculated the potential revenue and business interruption impact of shortlisted risks up to 2050 and critically identified the short-term (<5 years) and long-term (5 years+) actions that should be taken now and in the future by our business. These have been considered in our five-year strategic planning.

In last year's report, we had identified dockyard disruption due to coastal flooding as the most significant risk. This year's quantification analysis suggested that coastal inundation could still pose a risk after 2050 due to sea level rise being a lagging impact of climate change, however with respect to lost revenue and asset value, the risk of dockyard disruption has been assessed as less likely than expected. Site-specific physical risk assessments are now taking place to consider local characteristics and to verify this finding. The impact of future possible risk scenarios related to climate for 2030 and 2040 is also being factoring into periodic reviews at Devonport and is informing the design work of major infrastructure projects at our sites.

This year, we have identified a risk to Bristol Ashton Vale site in the 4°C scenario due to its location on a flood plain. Our Environmental, Health and Safety leads at Ashton have arranged for this risk to be considered within future business continuity planning. For three additional sites based outside the UK, we have identified extreme heat and forest fire as the key risks. For all of these sites, Group Occupational Health has completed preliminary assessments of the mitigations which are in place to manage these potential scenarios.

For transition risk, the most significant is labour cost, which is expected to rise under both scenarios, but significantly in the 1.5°C scenario. However, this is likely to materialise in the medium and long term and affect UK operations the most. We also recognise the need to keep pace with decarbonisation related technological change as a measure to mitigate risk. Details of all climate-related physical and transition risks, proximity, impact, and control measures introduced can be seen in the table on page 72-73.

Climate mitigation strategies

Plan Zero 40 is our chief mitigation mechanism to combat transition risk, which is highest in countries with a strong Net Zero policy, such as the UK. For further details of carbon emissions reporting and mitigations, see the Environment section on page 63.

Opportunities

We also recognise there will be opportunities in the transition towards a greener economy. Through our Liquid Gas Equipment (LGE) business, we aim to continue to develop our ecoFGSS-FLEX® ammonia fuel gas supply system with an aim of bringing this to market in FY23/24. LGE also see an increasing demand for the bulk marine transportation of hydrogen, in the form of ammonia (rather than pure liquid hydrogen) and are supporting several opportunities for dedicated ammonia-carrying ships based on existing technologies. LGE continues to see a growing demand for the capture, transportation, and storage of CO_2 from current emitters and are working closely with several project developers, shipyards and shipowners to develop the end-to-end solution for liquefied CO_2 carriers.

The quantitative results suggest that Liquid Natural Gas (LNG) demand could rise in a 4°C scenario, presenting an opportunity if the world does not rapidly transition. But in the 1.5°C scenario with an increasing impact of carbon prices, LNG demand could fall. Through expanding our LGE business to handle other liquefied gasses, we are increasing our resilience against potential falling LNG demand. Conversely, demand for civil nuclear services could fall in the 4°C scenario in favour of cheaper fossil fuels, whereas demand could increase in the 1.5°C scenario as nuclear becomes attractive over competing energy sources that are carbon taxed. We expect revenue for our civil nuclear services to initially fall in the 1.5°C, due to the decommissioning of existing UK fleet, before increasing again with renewed nuclear power demand and the opportunity for growth.

Within Marine, we have commenced planning consultations for installation of renewable energy at Rosyth. The initial phase is expected to be operational in FY25.

We are continuing to develop Marine R&D programmes to capitalise on potential new markets, especially green propulsion. Focused on Fuel Cell – Battery Hybrid-Ship, we are prioritising challenges in hydrogen production and supply volumes and safe integration and storage on-board. We have undertaken virtual fuel cell testing to identify the most effective power-energy management profile for storage solution and have also undertaken physical fuel cell testing, evaluating the technology under a range of conditions. Other R&D projects include electrical systems, catalytic reduction systems, waste heat recovery, energy management systems, alternative or dual fuels, and others. We are an active member of MarRI-UK and benefit from Innovate UK and other funding sources.

In Land's PHOENIX II contract, we manage in excess of 15,000 White Fleet vehicles and worked with the customer to deliver the UK Government's 2022 'Road to Zero' target that requires 25% of the M1 Classified Fleet (predominantly cars) to be ULEV. In parallel with the procurement of c. 400 ULEVs, we developed a model which utilises telematics data to assist the MoD in identifying suitable locations and required quantities for the ULEVs.

The team are now working to achieve the 2027 milestone which requires the entire car and van fleet to be zero emission. Whilst the majority of these vehicles are likely to be Battery Electric Vehicles (BEVs), Babcock in collaboration with the customer and original equipment manufacturers, is also exploring other technologies such as hydrogen fuel cells and synthetic fuels.

We've produced the first battery-powered pumping appliance in partnership with London Fire Brigade (LFB), which is known as the Zero Emission Pumping Appliance (ZEPA) and it can be used with any UK-based Fire and Rescue Service (FRS). This was put on the frontline during FY23 at one of LFB's busiest stations. They are designed to meet all demanding operational requirements but are capable of zero emissions. In future, we plan to introduce 10 appliances by 2025/26 with the ZEPA2 project phase and then repower all LFB's heavy fleet by 2030 with ZEPA3.

For Aviation, Babcock has been selected by the RAF's Rapid Capability Office to lead a consortium of UK-based SMEs to explore emerging technologies which could minimise the environmental impact of light aircraft flying training. R&D funding from the customer will facilitate the delivery of a net carbon zero solution through development of new, synthetic fuel, as well as reducing overall emissions from an improved efficiency engine with the possibility of an electric hybrid drive. The project will also assess recycling techniques for carbon fibre structures. This year our UK Onshore entity has proposed customer options for initial Sustainable Aviation Fuel (SAF) trials and continues to explore more permanent sustainable fuel options with key suppliers including transition targets anticipated for 2027 and 2030.

At Babcock sites leased through our customers, such as Bovington, the Land sector this year went through upskilling programmes to assist with Net-Zero baselining activity and have also generated infrastructure improvement plans that would allow the sites to meet the Group decarbonisation plan (2040). Customer engagement on this site has recently supported improvements including LED lighting upgrades and has provided the future opportunity to install available photovoltaic (PV) roof panelling if required. Our team has also engaged with the Ministry of Defence on the Babcock-led application for SALIX funding to further decarbonise public and private operations at Bovington.

Financial impact

Given the level of maturity of our analysis, we have not included full climate-related financial disclosures within this TCFD statement.

We have included the potential climate impact and resilience within our goodwill impairment assessment as a sensitivity to the Group's Five-Year plan, noting that any impairment is recorded first against tangible assets before goodwill. No impairment has been recorded to any of the Group's assets as a result of this assessment

Risk management

Aligning with our quantitative scenario analysis, we updated our risk management framework during FY23 to consider the two scenarios (1.5°C and 4°C) for climate-related risks.

As last year, in our risk register, the horizons against which the climate-related risks are assessed are as follows:

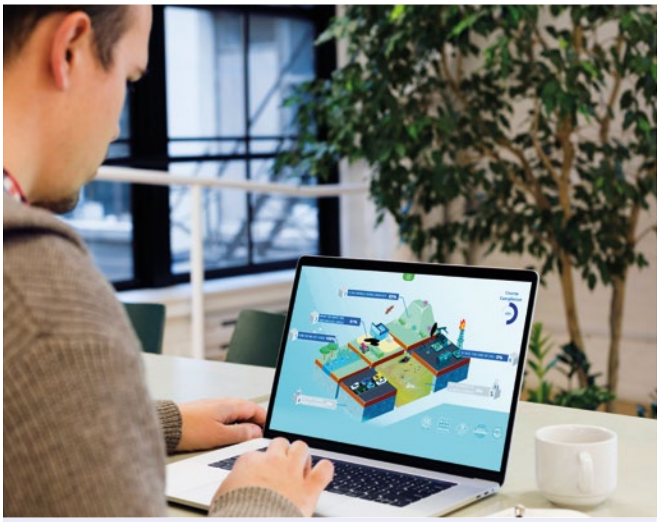
- Short term (present to 2030)
- Medium term (2030 to 2040)
- Long term (2040 to 2100)

Individual owners from each Sector and DRC have been delegated a climate-related risk register by our TCFD sponsors. Quarterly reviews are completed by reviewing the risks with these individual owners to consider current control measures, proposed control measures, date for completion, and monitoring systems of check. Sectors and DCR also identify and document all risks and opportunities on their risk register.

On an annual basis, owners are required to reassess the initial risk rating of each item, and therefore the effectiveness of their control measures. Target ratings are then set where further control improvements are required, so there is consistency in process.

Climate has been defined as a principal risk at the February Executive Committee. See Principal Risk section page 101.

Our risk management hierarchy ensures management at the most appropriate level in the organisation. Climate risks are integrated into the Babcock Enterprise Risk Management Framework for reporting, escalation and corporate oversight.



Curious about Climate

We've developed a new tool to help us better understand how we can reduce our impact on the environment and play our part in tackling climate crisis, together.

It includes animations, games, and quizzes and can be shared with family and friends – the more people we get involved, the bigger difference we can make.

Along with the top 10 items for Group review and action from each Sector and DRC, climate risks are reviewed quarterly by the Risk Committee and Executive Committee, as well as being reported into the Audit Committee quarterly and the Board annually.

Metrics and targets

Last year, Babcock developed metrics, with associated targets and timescales, to measure our progress towards reducing our exposure to climate-related risk. This year, we have been focused on completing the initial targets we set in AR22:

- We established baseline and submitted carbon reduction targets to the Science Based Targets initiative in April 2023
- Given the maturity of our Scope 3 calculations across our value chain, we are not reporting the figures within our emissions table, however we are working to investigate and calculate our Scope 3 footprint using a range of methodologies such as EEIO. Based on our hotspot analysis investigations to date, we understand that categories 1 and 11 are the two largest contributors to our footprint. For further details, see Environment Section, page 63
- We completed a desktop analysis of our top 15 sites. An assessment of climate-related risk of all critical Babcock infrastructure will be completed by December 2024
- Group Occupational Health has led a review of climate-related risk to physical working conditions for four sites to identify mitigation and control measures
- Climate-related impacts are considered in new business bid/no bid decisions and associated contract negotiations/KPIs
- In 2022, approximately 32% of Babcock's electricity was from renewable energy sources, this is an increase from 26% in 2021. We are working to identify opportunities to transition the organisation to 100% renewable electricity, where feasible, by 2030
- Employing a climate change, scenario-based methodology, in 2022 we completed an analysis across over 300 of Babcock's critical suppliers which mapped the possible trajectories of six key physical hazards and socioeconomic risks. With no immediate significant impact identified in this analysis, in 2023 and further on, this Representative Concentration Pathway (RCP) analysis will be extended to the wider supply base, identifying new risks which have emerged since the 2022 report, embedding further sustainable procurement practices across our Group-wide supply chains, and validating our future adaption techniques and buying decisions
- We have also commenced work to develop Babcock's Climate Transition Plan in line with requirements of the Transition Plan Taskforce, which we aim to prepare over the coming 18 months
- We have not yet embedded cross-industry climate related metric categories into our targets. Nor have we set an internal carbon price; however this is under consideration, and we are aiming to do so by 2025

In addition to our published metrics and targets, we are reviewing a range of climate management instruments including internal carbon prices and Executive Remuneration linked to ESG performance. Over the coming year, our Sectors and DRCs will also be working to develop Climate Transition Plans in line with the requirements of the Transition Plan Taskforce.

Please see our emissions table on page 63 for additional information.

TCFD progress vs priorities

	FY23 progress	FY24 priorities
Governance	• ESG updates to the Board included climate action • The Remuneration Committee set ESG related targets relating to reduction in carbon emissions for the 2023 PSP grant. See page 133 Remuneration Committee Report	• Board to continue the discussion on the topic of sustainability • Board to ensure progress on Plan Zero 40
Strategy	• Completed quantitative scenario analysis to assess organisational resilience • Aligned ESG workstreams and financial planning process to understand FY24 Sector priorities and actions in support of climate-related risks and opportunities • Defined financial implications of climate-related risks and opportunities and included mitigation steps in strategic planning • Included climate-related impacts in all material new business decisions and associated contract negotiations/KPIs	• Align Plan Zero 40 and Climate strategy workstreams to create a Babcock climate transition plan aligned with TPT requirements
Risk management	• Risk management policy and climate-related risk registers updated to accommodate updated climate scenarios • Completed a review of climate-related changes to working conditions for four sites with the most significant occupational risks • Assessment and report delivery for all of our critical suppliers' climate-related risks and associated impact on Babcock in Autumn 2022	• Assess progression of climate-related risk registers and ongoing management • Complete physical inspection across all sites by end of 2024 • Climate risk to be scheduled annually for Risk Committee review • Embed sustainable procurement checkpoints, inclusive of climate-related onboarding requirements for new suppliers and sub-contractors
Metrics and targets	• We established baseline and submitted carbon reduction targets to the Science Based Targets initiative in April 2023	• Progress against SBTi emissions reduction target of 4.2% year on year • Progress on Plan Zero 40 by scaling across the rest of the organisation by December 2023 • Delivery of energy efficiency and renewable energy projects

Scenario details	1.5ºC warning	4ºC warning
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

Climate-related risks and opportunities

Climate Risk	Description	Affected Sectors & Regions	Scenario with Greatest Financial Impact: Horizon[2]	1.5°C	4°C	Impact Type & Quantification Methodology
People welfare (Physical Risk) Disruption to operations due to working conditions	Disruption to staff and operations due to weather conditions with difficult/unsafe working conditions	All (Global)	<5 years			**Business Interruption** Difference between the current and future potential financial loss (1.5°C used due to greater impact)
			5 years+	●		
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)	<5 years			**Costs** Difference between 4°C and 1.5°C
			5 years+	●		
Business delivery & continuity (Physical Risk) Dockyard disruptions due to sea level rises	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 Nuclear (UK & Australasia)	<5 years			**Business Interruption and Damage**[1] Difference between the current and future potential financial loss (4°C used due to greater impact)
			5 years+		●	
Future services (Transition Risk) Demand for LGE and Civil Nuclear services	Demand impact to LGE and Civil Nuclear services due to carbon prices	Marine Nuclear (UK)	<5 years			**Revenue** Difference between 4°C and 1.5°C
			5 years+	●		
Demand for low carbon solutions for aircraft	Regulatory pressures and low carbon requirements could cause changes to customer contracts and business models, leading to demand reduction for Babcock services and existing technology unable to meet requirements	Aviation (UK, France, Canada & Australasia)	<5 years			**Lost Market Share** Difference between 4°C and 1.5°C
			5 years+	●		
Shifting energy generation markets (Africa)	Shifting energy generation markets result in disruption to customer base and demand for Babcock SA services Customers change business models because of regulatory/physical impacts on operations and demand reduces for Babcock services/product	Africa	<5 years			**Revenue** Difference between 4°C and 1.5°C
			5 years+	●		
Technology adaptation	Babcock may need to increase its spend on R&D and new technology activities to adapt to climate change	Marine (Global)	<5 years			**Lost Market Share** Difference between 4°C and 1.5°C
			5 years+	●		
Failure to decarbonise Devonport	Shift from Scope 1 combustion to Scope 2 electrical activities will require abatement technology to deliver Net Zero targets Opportunity to assist neighbouring Energy from Waste plant (our source of electricity until at least 2040) in their transition to new technologies when the plant reaches end of life	Marine Nuclear (UK)	<5 years			**Costs** Difference between 4°C and 1.5°C
			<5 years	●		

1. Business interruption does not consider penalty costs from customers or clients that may be incurred because of down time following a physical hazard event
2. Time horizon of < 5 years and > 5 years considers the potential future impact of climate-related risks and opportunities in line with our five-year strategic planning process

Impact

Insignificant Moderate Major Severe

Analysis Findings	Control Measures
Site disruptions due to physical risks are dominated by flooding at Bristol Ashton Vale and forest fires in Manitoba. The likelihood of extreme heat increases at other sites, but the disruption is not financially material. Although physical hazards represent a greater percentage of revenue in the 4°C scenario, we could experience greater overall growth in the 1.5°C scenario. Therefore, physical hazards could still result in high levels of lost revenue in both scenarios.	At our three sites exposed to 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. These sites comply with and adhere to climate-related, public instruction and guidance, with Bristol currently reviewing local instruction for flooding through business continuity planning process.
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 as well as greater growth overall. Supply chain disruption because of the transition to a Net Zero economy is therefore considered a significant risk.	To manage climate change risks, our future supplier selection criteria will assess carbon footprint and the profundity of transparent carbon reduction plans, conduct annual supply chain mapping to identify vulnerabilities, collaborate with suppliers and perform regular risk assessments through due diligence, performance management and audits. These measures will enable us to proactively manage climate change risks and contribute to our sustainability goals.
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 desktop assessment does not consider all aspects of dockyard construction and further on-site analysis for key sites is recommended. Similar to the dynamics of People Welfare, sea level rise is greater in the 4°C scenario. However, potential greater demand for services in the 1.5°C scenario could result in higher levels of lost revenue from a coastal inundation event. Therefore, in both scenarios coastal inundation could cause similar levels of financial impact.	Natural external hazards assessments at our sites consider the impact of low probability risks, such as extreme weather events. Devonport mandates these assessments onsite 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 local authority to conduct DREAM assessments and BAT 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. Demand for civil nuclear could fall in the 4°C scenario and grow in 1.5°C because of changes to the competitiveness of nuclear power. 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.	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.
Under both scenarios the air transport sector may grow, albeit at different rates. Falling carbon intensity of the air transport sector occurs under both scenarios with the greatest decarbonisation in the 1.5°C. Failure to decarbonise in line with the increased rate and extent of decarbonisation within the aviation sector in the 1.5°C scenario could result in greater lost market share when compared with the 4°C scenario.	Investment and regulatory compliance within new sustainable fuel and platform contracts, such as Project MONET, currently mobilised to investigate synthetic fuel application within Defence, specifically light aircraft for elementary flight training. Babcock Aviation is 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.
In Africa, electricity generating technologies may vary between the 1.5°C and 4°C scenarios. Babcock's established support services with steam-based energy generators is seen to be constrained in the 1.5°C scenario. The potential shift from thermal electrical generation to renewables in the 1.5°C scenario may result in reduced revenues for Babcock's South Africa engineering services when compared with the 4°C scenario.	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 eg conversion of Fossil Fuel boilers to 'Clean Coal Technologies' over the next 10–20 years, re-purposing of current coal fired stations, and the next steps to evaluate the nuclear energy market regarding our entry levels and required qualifications.
Under both scenarios the water transport sector may grow. However, growth will be greater under a 4°C scenario. Nonetheless, decarbonisation occurs under both scenarios with greater decarbonisation in the 1.5°C. Failure to decarbonise in line with the increased rate and extent of decarbonisation across the economy in the 1.5°C scenario could result in greater lost market share when compared with the 4°C scenario.	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 skill, with LGE and the Nuclear expertise provides Babcock the opportunity of being at the forefront on the green technology race with potential capitalisation in IP and skills.
The Devonport site 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 to Babcock when compared with the 4°C scenario.	Commitments across Nuclear to Plan Zero 40 this year has allowed this sector to reduce our risk probability ranking from very likely to possible.

Social

► Ensuring the safety and wellbeing of our people

Safety, Health and Environmental Protection is core to everything that we do at Babcock and we are committed to ensure our workers, customers and stakeholders go home safe every day. We are committed to creating an inclusive and supportive workplace where individuals can flourish and contribute to the shared success of the business.

This year we have strengthened the foundations of our health and safety management as well as integrated through collaboration with functions across Babcock to build an engaged safety culture across the globe.

Governance and engagement

As we build upon our established corporate safety standards and move to a Global Business Management System, collaboration across the Sectors and Direct Reporting Countries, as well as across the Functions, has been key. We have formed specialist groups of operators and safety professionals to develop procedures across Babcock enabling them to share lessons and consider the use of technology to mitigate our risks, including addressing working at height and lifting operations. In addition, we continue to collaborate and learn, across the business, to ensure our products and services achieve the quality and safety standards required by our customers and regulators.

Procedures and documents have their place in managing safety, but it is people that make the biggest difference, so we have focused on making safety personal through our 'Safety starts with me' programme. We have delivered safety leadership training to our senior and frontline leaders to enable them to plan and control work more safely. We have also grown the competency across the health and safety function through structured continuous professional development.

We established an Engaged Safety Culture framework with building blocks of reporting, learning, questioning, just & fair and flexible that align to our principles. These formed the foundations of the safety behaviours being developed across Babcock. The annual Safety Conference was replaced by the Safety Summit, an interactive workshop conducted at 14 sites in six countries and additional virtual sessions. The annual Safety Stand-down followed shortly afterwards and facilitated discussions in the workplace about the hazards in that area. More than 500 team pledges were made to improve their local risk controls addressing topics from office safety and welding in confined spaces to tackling mental health. In addition to these two wide-spread events, we have also introduced a global CEO Safety Forum and a Trade Union Safety Committee to provide channels for engagement on health and safety within the organisation.

Performance and Improvements

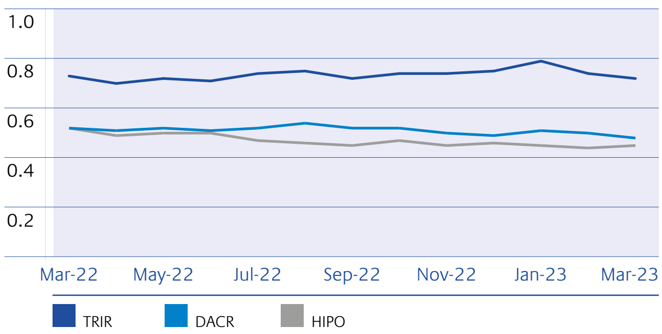
We have implemented consistent investigation training across Babcock using TOPSET methodology to improve our ability to identify the root causes of issues and build as a learning organisation. Identifying and addressing a number of the underlying and root causes has led to a reduction in serious accidents that lead to days away from work and a reduction in the number of High Potential Occurrences where a serious accident may have occurred. However, conducting challenging activities in difficult conditions do present safety risks and unfortunately there was a fatal aircraft accident during a fire-fighting mission in Italy in October 2022 and sadly both crew members lost their lives.

We have continued to expand the use of Synergi Life as the Safety, Health and Environmental Protection information management system across Babcock and introduced additional capability to enable reporting of events and safety observations by our whole workforce. We have made it easier to raise reports on the system and our ongoing communications campaign reiterated the benefits of learning from very minor events or near miss reports. This has improved our reporting culture with an increase in the number of proactive reports that provide opportunities to learn and correct the situation before someone is seriously harmed.

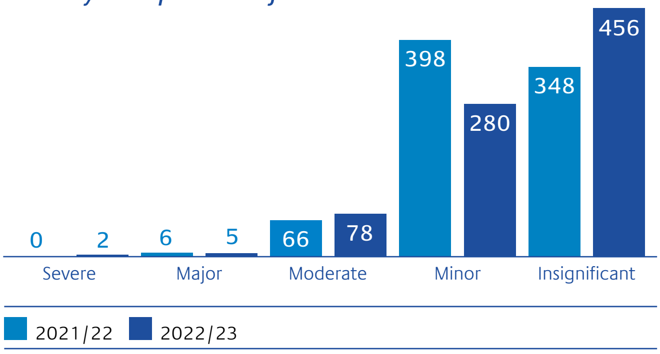
The Total Recordable Injury Rate (TRIR) relates to injuries that required medical treatment beyond first aid and whilst we saw a significant reduction from 2021, the rate overall has remained broadly static across the year; whereas we have seen a decrease in our Days Away Case Rate (DACR[1]) and High Potential Occurrence Rate (HIPO[2]) indicating that fewer serious events have occurred during the year. The post-COVID return to the workplace combined with the increase in proportion of heavy industrial activities across our dockyards globally have resulted in reported workplace injuries with the vast majority of these minor. We continue to work hard to tackle the causes of accidents and are determined to ensure that our personnel go home safe every day, notwithstanding the challenging aspects of heavy industry.

1. DACR – A Days Away from Work Case (DAWC) is a situation in which an employee suffers an accident at the workplace and, as a result of the injuries sustained, must stay at home for one day or more. The count of days away from work begins on the day after the day that the injury was sustained. Rate is per 200,000 worked hours.
2. HIPO – A High Potential Occurrence is an occurrence that has the potential to cause harm to people; damage to assets; or damage to the environment where the loss potential is assessed to be high regardless of the level of actual impact that occurred. Rate is per 200,000 worked hours.

TRIR, DACR and HIPO Rates



Severity of reported injuries



The Babcock Safety Improvement Plan has focused on consolidating the foundations for continuous improvement of safety performance with global and local initiatives across the organisation. We have developed our safety leadership training for our frontline leaders and increased the awareness of the hazards within our workplaces to improve the controls in place that mitigate the health and safety risks. We have responded to identification of areas for improvement by sharing good practices across our dockyards, our workshops and between our aviation and nuclear businesses. Building upon these foundations we will continue our global and local improvement initiatives through development of people, processes and tools to ensure that our people work in a safe environment, with the right tools and standardised processes to enable us to create a safe and secure world, together.

Deepening inclusion, increasing diversity

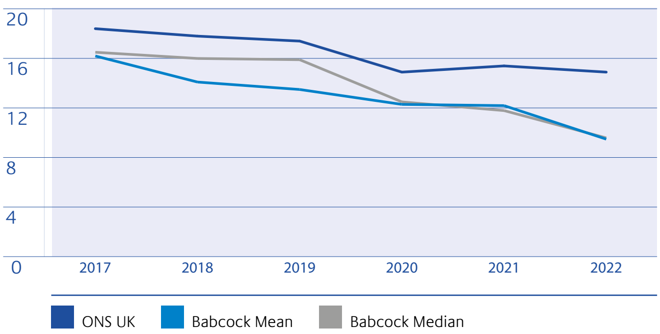
At Babcock we are guided by our Purpose: creating a safe and secure world together — and a clear set of Principles that are central to everything we do. We are committed to creating and maintaining a working environment that is inclusive, diverse and supportive, which provides opportunities for all our colleagues.

As a defence company, we operate in a sector that continues to be male dominated and our challenge remains primarily an issue of representation. For us, having more women across the Group, and particularly in senior leadership roles, is key to our long-term strategy.

Our work to improve our gender representation has seen us reduce our gender pay gap each year since we started reporting in 2017. This year we are pleased to report that the median pay gap has come down once again, from 11.8% to 9.6%.

This means that we are trending at 5.3 percentage points less than the UK average pay gap of 14.9%. Whilst this is positive, we recognise there is still more to do.

Gender pay gap (2017–2022)



FY23 Gender split

Our workforce in Babcock is representative of the Defence Sector with females making up 18% of the workforce in FY23, with a higher proportion in entry level roles. We recognise the reduction in our female population in this reporting year, this is due to both divestments during the last year but also to natural attrition. In response we have put several interventions in place to understand more about why this has happened. This includes targeted data and modelling as part of our gender balance action plan and undertaking 1-1 interviews with women leaving the business with less than 3 years' service to understand where we could target actions to retain.

Our ambitions are bold as we drive to have a minimum 30% women in the business by 2030. To accelerate progress we have looked again at our strategic approach to inclusion and diversity and are taking a number of actions including: rolling out new policies and ways of working, refreshed recruitment processes, improved leadership development, enhanced mentoring programmes and career returners schemes along with training.

Agile, effective and inclusive

We remain committed to reaching our gender balance targets with our renewed focus on understanding and enhancing our people data. Through enhanced data collection, we will be in a strong position to monitor our progress in both gender balance and diversity more broadly.

Building on historic activity across Babcock International Group, we adopted a new strategic and evidence led approach to inclusion and diversity in 2022. Captured within this we have deepened relationships with internal and external stakeholders, including our Gender Balance network, to help drive our programme of culture change and embed positive actions that inspire and support women.

An important aspect of this approach is feedback from our people. During our 2022 Global People Survey, over 73% of our people indicated that they 'felt part of a team' and inclusion was very important to them. Following the survey, leaders from across the business have reviewed their survey results and set themselves (and their teams) positive actions to deepen inclusion within teams and identify actions that can support this.

Our Global Inclusion and Diversity strategy aligns with our Global People Strategy and embeds local people plans to deliver a collaborative, pragmatic approach.

Developing and evolving in 2023 and beyond

As an award-winning signatory to the Women in Defence Charter we have met all our commitments, including:

- Setting and publishing targets
- Appointing an Executive Committee member to be accountable for gender balance and I&D
- Linking executive objectives to the achievement of gender diversity targets from FY24

Gender balance Action Plan

Central to our focus on creating greater gender balance, and in embedding a culture where women can progress their careers and develop into senior roles, we launched our Gender balance Action Plan (GAP). This acts as the blueprint for Inclusion and Diversity, informed by data and insight, and is supported by our Senior I&D ExCo Sponsor.

Our GAP focuses on the employee life cycle working across the Group to create a coherent and consistent approach to attraction, recruitment, progression, and retention. The key elements of the GAP include:

- redefining our ways of working to support Babcock women
- designing interventions and policies to enable women to thrive at Babcock and
- a coordinated education and communications programme to engage our people

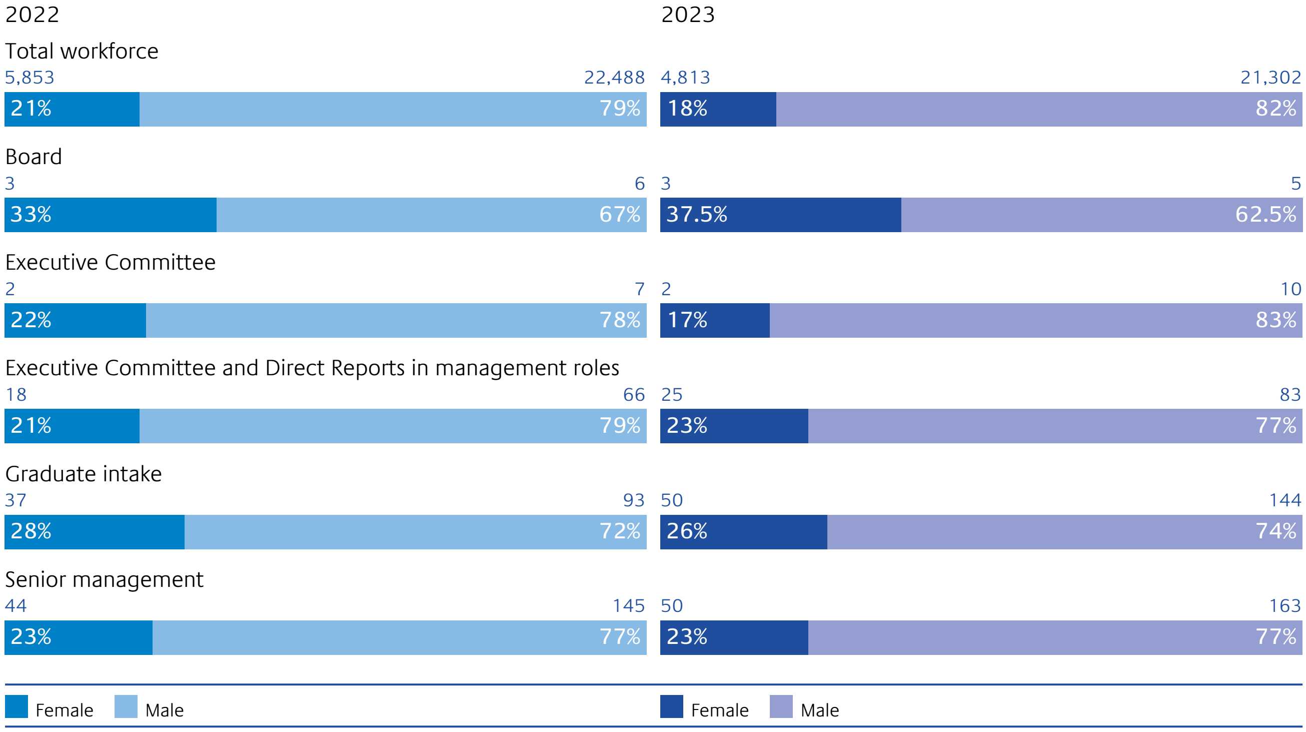
Driving business-led change, creating success

We are continuing to develop our Employee Networks and Peer Support Group model, as they play a key role in achieving a more inclusive business. In 2023, we will establish three new networks focused on carers, disability and veterans which will sit alongside our current networks for ethnicity, faith, gender balance, LGBTQ+ and Neurodiversity.

Developing our global network groups will support the drive for greater diversity across the Group at a working level and support a robust, dynamic, and inclusive workplace. Our Board and Executive team are championing this move to a more inclusive business and are committed to creating a great place to work, which is agile, effective and inclusive.

Please see Governance section page 118 to see our Board and Executive Committee diversity table

Gender diversity



1. Our total workforce is 26,480 which includes 21,302 men, 4,813 women,10 individuals identifying as non-binary, 290 who 'did not specify' and 65 who chose 'prefer not to say'.
2. Executive Committee total is 12. This figure excludes Executive Committee members on the Board.
3. Executive Committee and direct reports in management roles totals at 108. 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 213.
6. Graduate intake is 194 (154 UK, 40 Australasia).

Broadening our inclusion strategy

To become a more inclusive and diverse organisation, we need to set clear and measurable objectives that:

1. Act as the catalyst for driving our longer-term disability, ethnicity and gender balance goals
2. Help to prioritise activity that attracts, develops, and retains diverse talent
3. Increase our social impact through social inclusion activity

It is critical this is both business-led and fit for purpose across Group. To do so we need to be courageous, agreeing a clear evidence-based and action-oriented roadmap to achieve relevant and realistic targets.

Bringing it back to the business

Adopting global stated commitments to inclusion, we are designing our Inclusion Roadmap across three distinct areas:

1. Insight and awareness – embedding an enhanced evidence-led inclusion approach
2. Customised action planning – collaborating across Group we will design and implement bespoke inclusion action plans
3. Changing the face of Babcock – transforming our inclusion narrative internally and externally to attract and retain more diverse talent

To support delivery of our Inclusion Roadmap we will work with our Global Inclusion Steering Committee and Action Groups to:

- Undertake research into barriers to inclusion across Group
- Develop our internal learning across all DRCs to identify and adopt ways of working that drive change
- Maximise our membership of 'The Valuable 500' and in-country opportunities on disability including the 'UK Disability Confident' scheme
- Develop our approach on ethnicity including being a 'Race at Work Charter' signatory

About Me campaign

In March, we launched a pilot 'About Me' campaign in the UK to collect information on the profiles of our workforce so we can:

- give a clearer picture of our workforce as a key government supplier and UK publicly listed company, meeting our legal and good governance obligations
- retain and win new business by demonstrating our social value and economic impact in bid submissions and contract reviews
- improve our people experience by better understanding who our people are, their diversity and local needs, so we can design, plan and invest in the right level of support

The campaign had a total disclosure rate of 21% and our disability figure increased to10%. The data also indicted that we have 456 disabled people working in the business and 1,456 with caring responsibilities.

Building a Babcock for the future

We want to be an agile, people-centred business, where everyone is included, supported, and empowered to develop their talents to the full. We have simplified our structure so we can share capability, talent and best practice coupled with embedding diversity, collaboration, and innovation globally.

Our plans, driven initially by our Gender Action Plan, aim to create greater inclusivity and to support our long-term strategy to deliver equal representation. They are based around three key themes:

1. Enabling employees to fulfil their potential within Babcock

- Flexible working: We have embedded our Agile Working Framework to encourage work-life balance, support family commitments, and improve health and wellbeing. This has been well received by our workforce and our Global People Survey confirmed that having an agile approach does enable our people to balance their work and home lives that promotes inclusion
- Culture change: As part of an ongoing cultural change programme, we have reinforced our zero-tolerance position to any form of discrimination, and we are working to ensure all policies and processes reflect our approach to inclusion and diversity

2. Growing new talent pipeline for the long term

- STEM Hubs have been formed in Bristol and Scotland with the objective of raising awareness, engagement, and aspiration in STEM related subjects
- By 2024 we aim to have introduced more 'Teacher Insight Sessions' along with more STEM work experience programmes to raise awareness of STEM careers in Babcock
- Returners: By FY24 we will increase the pool of female talent by establishing a UK pilot to hire women back into a career in STEM and Defence

3. Attracting the best female talent

- Lifecycle analytics: We continue to collect and monitor recruitment data to identify if bias is occurring. Additionally, we have introduced exit interviews with women leaving the business to understand their experiences and identify any emerging themes
- Charters and memberships: We are proud stakeholders in the Women in Defence Charter, Women in Aviation Charter, and Women in Nuclear UK. We are also members of the Armed Forces Covenant
- Our Global Networks, supported by Peer Support Groups specific to their membership, play a key role in supporting inclusion across Babcock to drive changes that will create a better place to work

We are proud of our work on gender diversity, which is a key business priority, and we recognise there is still much to do to deliver gender balance through attraction and retention of female talent.

We are committed to closing the gender pay gap, growing our talent pipeline for the long term, developing our processes to attract female talent, and enabling employees to flourish and shape their own future within Babcock.

Our Global People Survey

During 2022, we established a global engagement platform and in October 2022 we concluded the first Group-wide survey of employees for more than 10 years across the business to get an informed view of how our employees feel about working here.

The survey created a consistent approach to understanding and measuring engagement allowing us take action to drive meaningful change so we could measure improvement over time.

Over 79% (18,548) of employees participated globally in the survey, leaving 105,895 comments which has given us rich insight into what is important to our people about working in Babcock and how engaged they are feeling in their roles. The survey told us our people have a clear understanding of their role and responsibilities and what it takes to be successful. Our people believe we are truly committed to health and safety and they know our Purpose and Principles and believe their managers care about their wellbeing.

The survey also helped us identify areas where we could improve and confirmed that whilst employees know and believe in our Principles, they do not think we demonstrate them all on a day-to-day basis. As a business our people thought we need to 'be courageous' and do not feel that the right people are fairly rewarded, recognised and compensated at Babcock. The survey also highlighted that we have work to do to improve confidence in our 'Senior Leadership' and make sure that we continue to demonstrate action following the survey that puts people at the centre of everything we do.

These are critical areas we are already targeting in the coming year through the roll out of the Babcock Role Framework and training for our leaders.

Outside of the survey, we continue to engage in two-way communications with employees across the business. On a global level, employees are encouraged to use 'Ask David' as a direct channel to the CEO to share ideas, suggestions and comments, alongside the weekly vlogs that continue to be a popular way to connect with the CEO. More locally, we conduct focus groups, in-depth interviews and face to face engagement sessions on a range of topics which provide dynamic and targeted employee feedback, helping us to better understand and take action on the things which matter most to our people.

► Making a positive impact on the communities in which we operate

We support our local communities through STEM outreach programmes, providing early careers routes into work, specific bursary opportunities and indigenous programmes in South Africa, Canada and Australasia. Our open recruitment practices and Armed Forces Covenant help us to reach a broader social mix and support ex services personnel. Our charitable outreach activities are demonstrated through our Group-wide policies for donations, sponsorship and volunteering.

Oxford Economics assessment

Oxford Economics independent assessment highlights how we are supporting levelling up across the UK by investing and supporting employment in the most deprived areas, actions we are taking to tackle economic inequality and improve equality of opportunity, our focus on wellbeing and environmental initiatives we are progressing to reduce emissions and support the fight against climate change.

Oxford Economics Impact Assessment
Published in November 2022

Scan here to find out more about the Oxford Economics report

THE CONTRIBUTION OF BABCOCK TO THE UK ECONOMY

ECONOMIC IMPACT

Direct | Indirect | Induced

£3.3bn
Total UK GDP contribution
£1.1bn | £1.0bn | £1.2bn

56,800
Total UK jobs supported
22,000 | 18,100 | 16,700

£770m
Total UK tax revenues
£210m | £220m | £340m

BUSINESS AREA ECONOMIC IMPACT

Naval engineering, support and systems

£2bn contribution to GDP

35,200 jobs supported

Critical services: defence and civil

£1.3bn contribution to GDP

21,600 jobs supported

IMPACT IN SOUTH WEST ENGLAND AND SCOTLAND

Scotland

£370m total contribution to GDP

6,300 jobs supported

South West England

£1.1bn total contribution to GDP

19,400 jobs supported

SOCIO-ECONOMIC IMPACT

264 graduates and **985** apprentices in training schemes.

30,000 students engaged through STEM outreach activities.

£337m spent with **2,220** SME suppliers.

£290m spent with suppliers in areas classified as a "high priority" for the government's Levelling Up Fund.

1,660 people directly employed and **£230m** spent with **1,070** suppliers in the 20% most deprived local authority areas in the UK.

Results relate to the 2022 financial year which ran from 1 April 2021 to 31 March 2022.

Indigenous peoples

With a global presence, Babcock recognises the importance of engaging and supporting indigenous people in the countries in which we operate.

In Canada, Babcock transitioned from Phase II to Phase III of the Canadian Council for Aboriginal Business' (CCAB) Progressive Aboriginal Relations (PAR) programme. Phase III centres around ensuring that indigenous employment and business partnership targets are in place, and strategies for meeting those targets have buy-in across the organisation.

As well, we continue to engage indigenous communities and businesses on an ongoing basis to provide information about Babcock's operations across Canada. From the Songhees Nation and the Métis Nation of Greater Victoria in British Columbia, the Métis Nation – Saskatchewan and the First Nations of the Fort Qu'Appelle Tribal Council in Saskatchewan, to the Manitoba Métis Federation and the Southern Chief's Organization in Manitoba, Babcock's investment in relationship building leads to discussions centred around meaningful, value-added business partnerships. Babcock Canada also added several indigenous businesses to its supply chain this year, including Mobile Resources Group, Abitibi River Logistics, Dreamcatcher Promotions, and Northern Lights Petroleum.

Finally, Babcock Canada laid the groundwork for significant, multi-year investments in indigenous skills development and training-to-employment, which will see employment 'pipelines' established beginning with engaging Indigenous youth on STEM and Babcock career awareness, to investing in bursaries and summer co-op terms for high achieving students, to internships and apprenticeships on graduation.

In Australia, we partner with Supply Nation 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 and commitment to Māori and Pasifika owned businesses in New Zealand.

Babcock continues to actively support First Nation students to increase their career opportunities. A partnership is in place with a Māori organisation for identification of interns and graduates. Through sponsorship to Engineering Aid and Yalari in Australia, encouraging curiosity about STEM subjects in younger children in New Zealand and through employee volunteering at local schools Babcock continues to actively support indigenous students to increase their career opportunities. Babcock Sponsors the Excellence in Māori & Pasifika Advancement Award and Women in Technology Award at the Auckland University of Technology.

Volunteering

Volunteering is a rewarding and meaningful experience that supports communities and brings personal reward for our employees, enabling them to develop new skills and personal wellbeing. We want to make a genuine difference to our communities and help them to thrive.

In December 2022, we launched our first global volunteering policy called 'Be Kind Day'. Be Kind Day gives Babcock employees one day (or equivalent hours) each year to play an active part in helping others to thrive.

Many of our employees already volunteer for various charities and community groups globally in their own time. These include:

- Carrying out renovations at Bokantsho Primary School in Viljoensdrift, Free State, South Africa
- Volunteering at Goatacre Animal Sanctuary, UK
- Supporting native tree planning in New Zealand
- Helping Bude Surf Veterans charity deliver surf experiences to Blesma, The Limbless Veterans in the UK
- Volunteering at Foodbank South Australia & Central Australia in Pooraka to help sort through donated fruit and vegetables

Charities

We are committed to supporting the communities in which we operate and the broader interests of the customers we serve. Through charity and sponsorship we want to make a genuine difference in these areas. To that end, and aligning with our corporate Purpose 'to create and safe and secure world, together', our criteria are based on supporting military charities and events whilst also protecting communities around the world by focusing on local charities where we have our sites or attract our employees from.

A selection of the charities we have donated to or sponsored over the last year includes:

- Veterans with dogs – a UK charity that supports veterans with PTSD with provision of a mental health support dog
- Yalari – an organisation that provides support to young Indigenous Australians engaged in secondary school education
- Laus Deo Primary School – a school in South Africa where we sponsored the installation of a water bore hole reticulation system

STEM

The STEM Teams continued to develop our offering and build presence within communities across the UK. The impact of their delivery has seen an increase in engagement to 885 schools: 534 primary schools, 231 secondary schools, 39 further education and 81 other events. Guided by our commitment to reach diverse communities, our engagement demographics demonstrate that 25% of our engagement was with females, 80% were under 35 and 7% with ethnic minority.

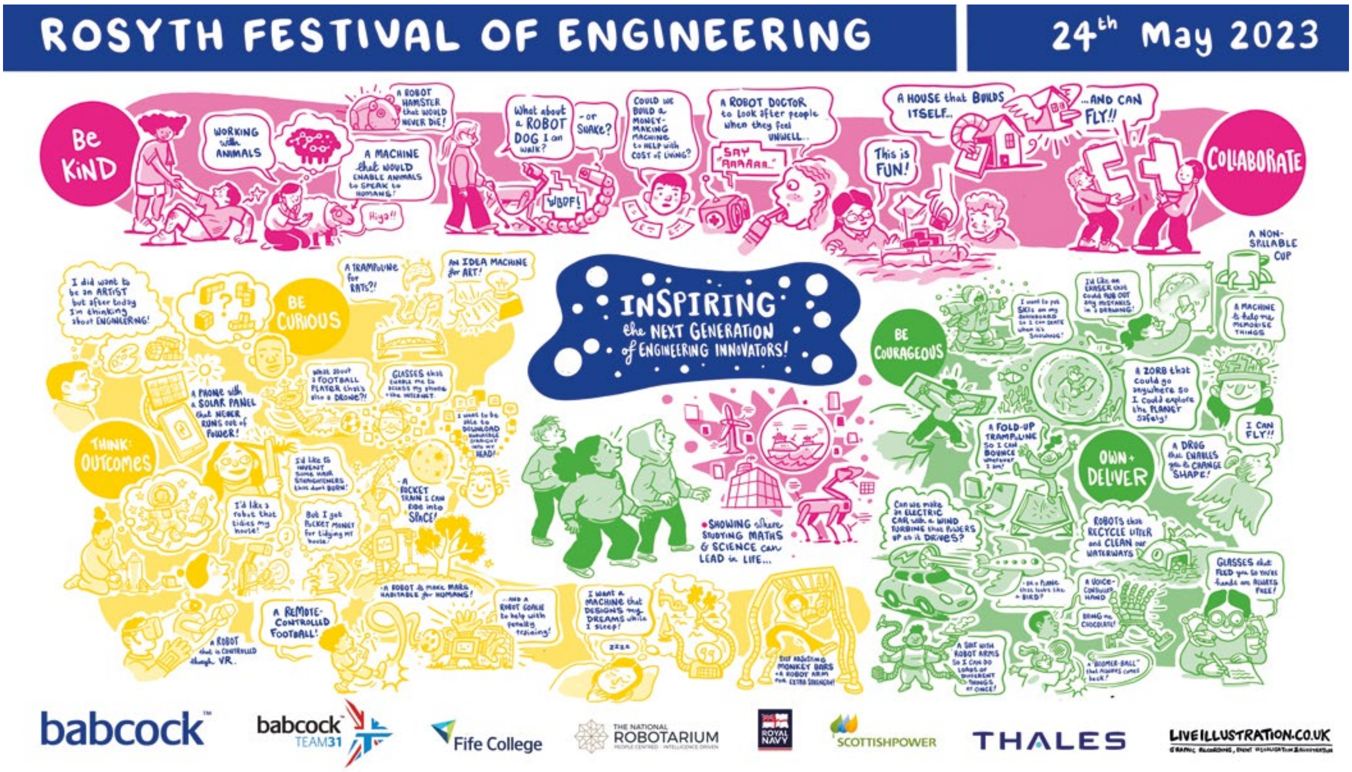
Throughout 2022 our delivery shifted from a virtual offering to more face to face as we increased our presence by hosting and supporting more in-person events. This approach worked exceptionally well and helped us to meet one of our strategic objectives of raising awareness and increasing engagement of STEM to young people.

The team delivered several events and activities including working with secondary schools to deliver 'Babcock's STEM In a Box of Fun' which provides schools with a STEM resource that they could teach pupils without the need of a STEM ambassador being present. The Team also supported students with mock assessment centres and interviews as well as developing and promoting STEM competitions.

Internally, development continued with building our Bristol STEM Hub which is made up of volunteer STEM Ambassadors who are based across Bristol and who work within different Babcock sectors.

The STEM Teams supported the virtual Neuro Diverse Work Experience Programme at Devonport for a second year. Focus has remained on raising awareness of STEM subjects and our early careers development programmes. Alongside this, the STEM Teams supported the wider Early Careers Team with the delivery of the accredited Industrial Cadets virtual work experience weeks which took place across the UK.

The Devonport STEM Coordination team were also proud winners of both the 2022 Regional STEM Hub Inspirational STEM Employer award and the 2022 National STEM Employer Award.



In May, we welcomed more than 300 local school children to the Festival of Engineering at our Rosyth facility. Over two days, alongside our partners, customers and colleagues, we inspired the next generation with various exciting STEM-based activities as we explored the hi-tech world of engineering, eco-friendly green shipbuilding, robotics, virtual reality, chocolate welding and mini boat building using recycled materials. As one of the largest employers in the area we want to make a difference. That is why it is important to us that we support our local communities. This Festival was a great way for us to engage the next generation in STEM-based activities and encourage more young people to consider a career in engineering.

Support for Armed Forces, veterans and reserves in the UK

Babcock is committed to honouring and supporting the Armed Forces Covenant and the Armed Forces community. We recognise the value of serving personnel, both regular and reservists, veterans and military families who contribute to our business and country.

We signed the Armed Forces Covenant in 2013 and have reached a 10-year milestone of our commitment to the Total Support Force concept, helping our Armed Forces to deliver flexible solutions around the world.

As part of our continued commitment to the Armed Forces Covenant, Babcock supports membership of the Reserve Forces and references our support in recruitment activity. We also support the employment of service leavers, veterans, and members of the Volunteer Forces by providing a guaranteed job interview where applicants meet the minimum requirements of a role.

We are a major employer of service leavers and reservists through our active recruitment approach and because of this we have held the Gold Award in the MOD's Armed Forces Covenant Employer Recognition Scheme since 2015. The scheme recognises employers who actively support Defence while encouraging other organisations to adopt the same behaviours in their workplace.

Members of the Armed Forces community and their families can rely on our support. We offer a degree of flexibility in granting leave for service personnel spouses and partners before, during and after a partner's deployment, and will offer special paid leave for employees who have been bereaved or whose spouse or partner has been injured.

We work closely with the Career Transition Partnership, to ensure our employment opportunities are made available to service leavers and veterans, and we participate in careers fairs for those leaving the Armed Forces. We understand that Armed Forces spouses need flexibility when their service partner is posted to a new location, and we do our best to find alternative employment within the business if our employees need to move to accompany their partner to a new posting.

We are proud to currently employ high volumes of service leavers, veterans, reservists and uniformed cadet instructors. We support the UK's Armed Forces and reservists and continue to actively back our reservist employees. We provide a minimum of 10 days' special paid leave per year.

The reserve service is actively promoted to everyone in the Group, including our new graduates and apprentices.

As we widen our inclusion focus in support of all Babcock people, we are establishing three new network groups in 2023.
These include carers, disability and a Forces Community Network (FCN) which will provide support to all our people who have served in any capacity (past or present) as well as their families and allies.

Talent and development

Attracting top talent remains a critical objective for our organisation, as we strive to maintain our position as a leader in our market. We recognise that attracting and retaining the best minds is essential for driving innovation, meeting customer expectations, and ensuring long-term growth.

In an increasingly competitive landscape, we are developing a comprehensive talent attraction and retention strategy focused on our culture and the opportunities we offer to make it as straightforward as possible for candidates to join Babcock.

We have cultivated a company culture that promotes inclusivity, collaboration, and continuous learning. By fostering an environment where diverse perspectives are valued, we have created an atmosphere conducive to innovation and excellence. By bringing to life our commitment to cutting-edge technology, ethical practices, and employee development, we look to promote our attractiveness as an employer in the communities where we live and work.

Through targeted recruitment campaigns, participation in industry events, and strategic partnerships with academic institutions, we have amplified our presence and attracted top talent from as broad a talent pool as possible. Additionally, we have implemented robust talent acquisition processes that focus on identifying individuals who possess not only the necessary technical skills but also the passion, drive, and adaptability required to thrive in our dynamic industry.

Our talent acquisition team continuously explores innovative approaches, leveraging technology and data-driven insights to identify and engage with potential candidates efficiently.

Leadership

To address the depth and breadth of challenges our leaders face globally we have built on the work undertaken in 2022 to develop a global leadership framework.

The framework enables leaders of all levels to address their personal needs by developing learning pathways to suit their level of experience, business needs and our organisational drivers.

During 2022–23 we have successfully piloted a number of learning interventions and workshops aimed at offline and online leaders. Each intervention addresses our unique challenges, is under-pinned by our Principles, and monitored for business impact.

Babcock's leaders continue to inspire, motivate and empower their teams. Delivering on our contractual and operational commitments through our investment in identifying, developing and supporting our leaders will ensure that together we build a stronger and more sustainable Babcock. Through 2023–24 we will continue to focus on developing the capability of our leaders, with targeted programmes aimed at our most Senior Leaders that will be cascaded through the organisation based on responding to the comments raised in the Global People survey.

Early careers

Our early careers programme continued to grow through 2022 with 1,509 apprentices and graduates currently on programmes across the Group. We also expanded our apprenticeship offer and introduced our first L2 Industrial Coatings Apprenticeship in Devonport along with piloting our first ever T-Levels in Digital, Design and Production in Bristol and introducing Graduate Apprenticeships in Scotland.

We launched our UK-wide Apprentice Behavioural Development programme which helped our apprentices focus on their health and wellbeing. This is the first time we have delivered a UK Group-wide behavioural programme and it's been very well received.

A Production Support Operative (PSO) Programme was established at Rosyth to address the challenges of availability within skilled tradespersons (e.g., welders). It supports capability development as well as acting as an alternative recruitment pipeline, mitigating the types of roles we require by thinking differently in the 'way we do'. The PSO role is purposefully skilled in nature (trained in the specific skills we need them to have), allowing flexibility for both the employee and the business. In April 2022, the first of three cohorts of PSOs began at Rosyth (41), with multiple stakeholders ensuring its success. As a result, additional cohorts began in October 2022, with regular intakes planned throughout 2023, with the need to recruit approximately 250 PSO positions by December 2023.

Our early careers programme has continued to see external accolades and recognition over the year which included: 2022 Apprenticeship Development of the Year and 'Best Integrated Marketing Campaign' for our Graduate programme at 'The Firm Awards 2022'.

Our Principles

Our Principles were launched in 2022 and express what is most important to us and how we expect our people to show up across the business. They act as a guide for how we do things; how we make decisions, how we treat each other and how we behave. Our Principles are for everyone in Babcock, whatever their role, wherever they are in their career. To be successful at Babcock, we all need to demonstrate them.

Taking on board the feedback from our people, we need to consistently demonstrate our Principles and embed them by using them to guide how we operate every day. We therefore reviewed and simplified the language of each Principle, evolved them into 'leadership expectations' to help employees at all levels understand what is expected. Over the coming year we will continue to identify ways in which we can embed these principles into all our people processes, policies and use them as a guide to support capability development programmes, communications, and every aspect of the employment lifecycle from recruitment, onboarding and performance management through to talent and succession.

Governance

► Being a collaborative, trusted partner across the supply chain

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 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.

Code of Business Conduct and Ethics policy

To protect the Company and reduce risks, we have established a policy on how we should conduct business which is summarised in the form of the Babcock Code of Business Conduct.

Compliance with this policy is compulsory for our employees, business advisors and business partners (or, in the case of business advisors and partners, they must have equivalent standards and procedures in their own businesses). The policy is kept under review by the Group Company Secretary and General Counsel and the Board undertakes an annual ethics review, seeking assurance that the Group's Ethics policy is complied with.

Our Ethics policy comprises a detailed manual, available to employees on the Group's intranet and also available on our website, which contains guidelines, authorisation mechanisms and other procedures aimed at identifying and reducing ethical risks. It supports extensive policies around anti-bribery and competition law that clearly show our zero tolerance for any form of bribery or anti-competitive behaviour.

These controls form an integral part of our risk management arrangements, which also include training our employees and undertaking regular risk assessments throughout the business. We implement appropriate training and procedures designed to ensure that we, and others working for us, understand what our Code of Business Conduct and our Suppliers' Code of Business Conduct (see also page 85) mean for them in practice. This training includes mandatory completion of courses on an annual basis in all our geographies, translated where applicable, such as anti-bribery and corruption, security and data protection. Completion of these courses is monitored.

Cyber Security Awareness Training	93%
Acceptable Use Policy	93%
Data Protection Training	95%
Anti-Bribery Training	95%
Trade Controls Awareness	97%

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.

Diverse and robust supply chain

The Babcock Procurement and Supply Chain organisation are committed to creating a world-class supply chain that prioritises responsible sourcing, sustainability, and supply chain governance. We achieve this by acknowledging the importance of minimising supply chain disruptions, lowering costs, and improving our social and environmental impact.

To accomplish our goals, we work collaboratively with our suppliers, customers, and internal stakeholders to establish a culture of transparency, trust, and continuous improvement. We believe that this approach helps us to build a resilient, sustainable, and world-class supply chain that delivers value to all parties involved. We hold ourselves to the highest standards of honesty, transparency, and integrity in all our business dealings. We believe that a diverse and robust supply chain is essential to provide quality and timely delivery of products and services to our customers.

To achieve this, we work with a portfolio of 12,000 suppliers, ranging from large multinational OEMs to small and mid-size enterprises (SMEs). Of these suppliers, approximately 1,100 are key in our ability to deliver continuous improvement and innovative quality outputs. Building strong relationships with our suppliers is essential to achieving our sustainability goals. By working collaboratively, we can identify opportunities for innovation, create value for all parties involved, and promote responsible business practices throughout our supply chain.

We understand the critical role that supply chain risk management plays in creating a resilient and sustainable business. As such, we conduct annual due diligence on our business-critical suppliers to ensure compliance, identify any risks in their supply chain, and ensure that our key suppliers are reputable, responsible, and competitive. Our AI risk resilience solution maps our supply chain ecosystem (over 300,000 suppliers through our sub-tier ecosystem), monitors activities, and receives alerts when hidden risks are exposed in our sub-tier supply chain. We have reviewed and assessed a significant number of incidents, allowing us to mitigate risk to Babcock's supply chain while enabling us to continuously improve our risk management processes and ensure the sustainability of our operations.

The success of our business relies heavily on the strength of our relationships with our suppliers. To this end, we have implemented a more collaborative approach to procurement by improving upfront supply chain involvement in bid processes. By engaging with potential suppliers earlier in the process, we create an environment where our suppliers can actively support both the design and implementation stages of our work with innovative solutions.

This approach has resulted in enhanced productivity and increased quality in the goods and services that we deliver to our customers. We recognise that sustainability is critical, and we have taken steps to prioritise it. We have expanded our Category Management teams and processes throughout the organisation to provide strategic focus on sustainability topics. This investment is aimed at delivering a higher performing supply chain in this area, which aligns with our commitment to responsible and sustainable business practices.

Our risk solution also allows us to proactively assess the risk of all potential new suppliers immediately. We consider reputational and operational risks, supply chain transparency, financial position, and ESG risk to build a more resilient and sustainable supply chain that benefits everyone involved.

We recognise the critical importance of having a strong and effective procurement and supply chain strategy. As we advance execution of our Group Procurement & Supply Chain strategy, we remain committed to our sustainability goals and our cost saving objectives. However, we also recognise the importance of cost avoidance and reallocating resources to high-priority supplier and category management activities, which will aid in mitigating the impact of inflation while still advancing towards our sustainability objectives.

We have made significant progress in this area, particularly with the implementation of our Group Procurement and Supply Chain operating model and the standardisation of our key business processes.

Our overarching goal is to create a unified and integrated procurement and supply chain team that is fully aligned with our business strategy and objectives. By doing so, we aim to achieve consistent, long-term value creation for all our stakeholders by continually enhancing our supply chain to deliver best-in-class and sustainable products, goods and services.

Sustainable sourcing

In today's global economy, responsible sourcing and sustainability are key considerations for creating an ethical, transparent, and resilient supply chain. At Babcock, we are committed to maintaining strong and sustainable supply chains, which requires collaboration with our suppliers and sub-tier suppliers to adopt sustainable practices. Our goal is to reduce the environmental footprint of our supply chain while meeting our business objectives and benefiting society.

To demonstrate our commitment to sustainability and responsible business practices, we have published our Sustainable Procurement Policy and Supplier Guide. These documents encourage our suppliers to adopt sustainable practices in their operations, reducing the environmental impact of the supply chain, promoting social responsibility, and supporting the development of more sustainable products and services. By promoting good labour practices, reducing carbon emissions, and conserving natural resources, we strive to create long-term value for our stakeholders. We are committed to aligning our Procurement and Supply Chain processes and standards with ISO20400 by the end of 2023. We have developed a strategic roadmap that provides the framework required to integrate sustainability into our procurement and supply chain activities, enabling us to deliver sustainable outcomes through our supply chain.

Scope 3 carbon emissions mapping

To better understand and reduce our carbon footprint, we have adopted a spend-based calculation methodology for mapping our upstream value chain emissions. These findings will serve as a baseline for further developing Babcock's carbon strategy, allowing us to continually identify opportunities for emissions reduction enabling targeted action plans to achieve our sustainability goals. By taking a proactive approach to measuring and reducing our carbon emissions, we are demonstrating our commitment to sustainability and taking responsibility for our impact on the environment.

Working with SMEs

Babcock Procurement and Supply Chain recognise that small and medium enterprises (SMEs) are essential in building a sustainable and resilient supply chain in the UK, playing a vital role in the country's economy as a key source of innovation, employment, and economic growth. As part of our commitment to supporting SMEs, we ensure that a significant portion of our procurement spend is allocated to SMEs, with 24% of our total spend in FY23 being with SMEs.

As part of our sustainable procurement strategy and business processes, we are committed to enabling the growth of our SME supplier population. We monitor our percentage of spend with SMEs and take necessary actions to support the growth of our SME supplier population. Furthermore, we actively engage with smaller and local suppliers, especially those that help inclusion of under-represented groups, to contribute to economic prosperity and societal integration.

Our SME supplier base is continuously monitored using our risk resilience tool for any key risk factors, including cyber security threats, human rights, and financial health alerts. By prioritising our SME suppliers and supporting their growth, we aim to build a more sustainable and inclusive supply chain, benefitting both our business and the broader economy.

Payment to suppliers

At Babcock, we prioritise prompt payment to our suppliers and believe it is crucial to building strong and sustainable relationships with them. We adhere to the payment practices and performance regulations and are committed to the prompt payment code. Furthermore, we encourage our suppliers to adopt this code and promote its adoption throughout their own supply chains.

In FY23, we achieved an average payment term of 21.4 days to our suppliers versus 24.6 days in the six months preceding March 2022. We recognise that predictable and timely payments are essential for maintaining strong supplier relationships and helping our suppliers to manage their cash flow. As such, we are committed to continuously improving our payment processes to ensure that we pay our suppliers on time and in accordance with agreed-upon terms.

Human rights

Babcock respects all international treaties including the United Nations Declaration on Human Rights. In the UK, we expect our suppliers and extended supply base to adhere to the Modern Slavery Act 2015, as we do ourselves. We expect all our overseas suppliers to understand and comply with the intent of the Act. We believe that by working together with our suppliers, we can create a more ethical and sustainable supply chain that benefits everyone.

To this end, we have developed a supplier code of conduct that sets out the human rights standards and expectations that our suppliers must meet to do business with us. This includes:

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

Our suppliers and their extended supply chain are required to share our commitment to respecting, protecting, and promoting human rights and support our efforts to achieve transparency for higher risk supply chains and take responsibility for the issues we uncover.

The human rights risk assessment process is embedded into our core processes including supplier onboarding, audits, assessments, and performance management. We conduct regular audits and assessments to monitor compliance and identify any areas for improvement. Where issues are identified, we work collaboratively with our suppliers to address them and provide support for remediation.

The supplier audit programme is currently under review and will be updated to ensure the inclusion of human rights issues in the standard audit content. These changes are set to be implemented by the end of 2023 in conjunction with extending the supplier quality and development audit program to encompass a wider section of our supply chain. To ensure consistency, audit checklists will be standardised across all business units, enabling us to verify the presence of sufficient human rights controls demonstrated by the supplier during the audit process. Additionally, our audit process also includes formal actions to address any identified risks proactively.

The introduction and rollout of our strategic Risk Resilience tool allows us to track human rights risks through live monitoring within our extended supply chain. Visible indicators include compensation and employee satisfaction; diversity and workforce rights; training, safety, and morale; prohibiting child or compulsory labour; fair treatment of people throughout the supply chain and ensuring fair and equitable treatment of local communities affected by operations. This approach uncovers hidden risk and serves as an early warning system should events or changes occur in our supply chain with live alerts being communicated to the Procurement & Supply Chain team.

Modern slavery

At Babcock, we are dedicated to upholding human rights and preventing modern slavery in all of our operations and supply chains. We firmly believe in the importance of conducting all business with integrity and support the elimination of modern slavery in all its forms. Our publicly available Group modern slavery transparency statement outlines our commitment to responsible sourcing and supply chain transparency, including our due diligence processes, supplier engagement approach, training and initiatives to promote responsible sourcing. Our due diligence processes, including supplier onboarding, supplier audits, and technology solutions, monitor any potential modern slavery risks in our supply chain.

We recognise that preventing modern slavery requires collaboration from all stakeholders, and we expect our suppliers and extended supply base to share our commitment to responsible sourcing and supply chain transparency.

More details are available in our Modern Slavery Transparency Statement which is available on our website.

Fair operating practices

As part of our supplier selection process, we conduct thorough assessments to ensure 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 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.

To enhance the security and protection of our customers' information and physical assets, we have developed exacting security compliance standards for certain types of supply. We also place a strong emphasis on maintaining high standards of commercial confidentiality.

Our commitment to ethical and responsible business practices is underpinned by our supplier's 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.

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 works hard to mitigate such risks and holds an Information Security Committee which meets quarterly to provide governance, direction and assurance that the Babcock security posture is appropriate and effective.

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 ISO27001 (Information Security) and ISO22301 (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 seek to ensure the defence supply chain understand the cyber threat and is appropriately protected against attack. Babcock is represented on all the working groups and the DCPP Executive committee.

Babcock continues to invest in cyber resilience and provides cyber security education and training to raise cyber awareness across the workforce.

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. We are committed to providing greater transparency about our policies, standards and governance approach through the global reporting frameworks and insight in the ESG strategy report.

Reporting requirement	Policies and standards	Additional information	Page
Sustainability	Group Sustainability policy	ESG strategy	59
Environmental matters	Safety, Health and Environmental Protection policy*	Environmental section	63
	Energy policy*	Environmental section	63
	Sustainable P&SC policy**	Sustainable sourcing	84
Employees	Code of Conduct**	Commercial integrity	83
	Safety, Health and Environmental Protection policy*	Social Section	74
		TCFD disclosure	67
	Agile Working framework*	Employee inclusion and diversity	75
	Charity and Sponsorship High-Level guidelines*	Group-wide sponsorship	80
	Be Kind Day - Global Volunteering Policy	Building relationships	80
Human rights	Code of Conduct**	Code of Business Conduct and Ethics	83
	Supplier Code of Conduct**	Fair operating practices	85
	Modern Slavery Transparency Statement**	Commercial integrity	83
Social matters	Anti-bribery and Corruption/Ethics policy**	Code of Business Conduct and Ethics	83
	Code of Conduct**	Code of Business Conduct and Ethics	83
	Canada Indigenous Peoples policy*	Indigenous peoples	80
Anti-bribery and corruption	Anti-Bribery and Corruption/Ethics policy**	Code of Business Conduct and Ethics	83
	Whistleblowing policy**	Principal risks and management controls	87
	Supplier Code of Conduct**	Fair operating practices	85
Description of principal risks and impact on business activity	Group Risk Management policy*	Principal risks and management control	87
Business model		Our business today	2
Non-financial KPIs		Our strategy	6

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

Further information: Read our Modern Slavery Transparency Statements by scanning this QR code

Our principal risks and management controls

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Our continued investment in monitoring, managing and mitigating our principal risks will foster a consistent risk control approach, aiming for predictability and optimisation of our performance."

David Lockwood
Chief Executive Officer

Risk enhancement highlights in the year

- Continued investigations into climate-related risks
- Implementation of Risk Committee
- Recruiting of specialist Enterprise Risk Management Team
- Group Executive Committee externally facilitated Risk Management Training
- Risk Conversations embedded, and themes published
- Building our framework to support the assessment of ESG risks
- Key control enhancements as part of the 'Blueprint for Control Improvement'

Forging resilience and strengthening risk control

We have a risk management and internal control framework to manage the risks that come with our strategy. Risk management is at the core of Babcock management practice and is an integral part of all our activities, helping us to deliver our commitments to customers, colleagues, and communities. We have continued to build on improvements made throughout FY22/23 and will pursue our path of continuous improvement in FY23/24.

FY22/23 saw material investment in Enterprise Risk Management (ERM) capability within the Group through the recruitment of specialist ERM professionals, both at Director and Head of Department levels. There has also been robust resilience building around operational risk management for resource capability, particularly in the areas of project management, procurement, supply chain and commercial. Effective risk management starts with the right conversations to enable us to deliver 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.

This year we have seen a continued focus around our internal controls and the maintenance and management of principal risks, which are now individually considered by the newly formed Risk Committee, a sub-committee of the Group Executive Committee.

Risk is considered regularly at Board level. The Board reviews risk, both current and emerging, as part of its business planning and annual strategy review process.

Preparation for UK Government's stated aim to reform corporate governance

We expect that the nature and scope of disclosure requirements will continue to expand. Enhancing of internal controls through the Babcock Blueprint deliverable has continued to ensure that we are well placed to deal with future corporate governance reforms and new reporting requirements.

A cross functional working party has been established to consider likely implementation timelines, regulatory developments and how these are best aligned to our finance governance. We will continue to monitor the preparatory activities during FY24.

Our Risk Management framework

Our Risk Management framework, (below) is used consistently across the Group, clarifying ownership and the differing levels of assurance. Our risk framework now includes a Risk Committee where all Principal Risks & Uncertainties (PRUs) will be comprehensively challenged throughout the year. We have continued to refine the Risk Management Policy in conjunction with our risk leads network.

The Board sets the Group's strategy (Page 6). 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 a bi-annual basis to ensure alignment with the Group's strategy. It makes this determination using a risk-rating matrix, which assesses the probability and the impact of each risk occurring. The Board makes this assessment after taking into consideration the controls and mitigations that the Group has in place.

Drawn together by our network of risk leads, we build our risk-rating matrix by bringing together the risk registers of our sectors and overseas operations. These risk registers include both principal and emerging strategic and operational risks. The sectors compile their risk registers by using a common Group risk management framework. The framework requires the sectors to describe their risks along with the measures in place to control or manage each risk and to rate their effectiveness. The Group risk function consolidates the sector risk registers and then produces the risk-rating matrix. The risk-rating matrix is split into two separate five-by-five matrices: one showing the current rating of each risk; and the other showing the target rating. Each matrix measures each risk for likelihood and impact, with each box on the five-by-five matrix representing a combination of a particular level of likelihood and impact. Please see graphic below for definitions.

Likelihood	**Very likely** (more than 90% chance)	**Impact**	**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 quarterly, providing guidance to the sectors and ensuring a common approach as to how to measure probability and impact. We have included the current rating for each principal risk alongside its description (page 92).

On a bi-annual basis, the Risk Committee reviews the 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 consideration of risk description, as well as our controls and mitigations and our risk appetite against each PRU. In addition to the review of the risk-rating matrix, the Board also undertakes 'deep dives' on specific risks at regular intervals in the year.

Our Internal Control Environment

In FY23, 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 and accounting policies.

During the year, key control enhancements as part of the 'Blueprint for Control Improvements' have been made to risk areas including project management, bids together with pension, tax, treasury and consolidation financial reporting controls. These include:

- Strengthening our third line of internal control defence by appointing a Group Director of Internal Audit, Risk Assurance & Insurance with a mandate to insource the Internal Audit function. We have also established a new Risk Committee, a sub-committee of the Group Executive Committee, to provide oversight of the Group's management of risk.
- Standardising commercial and operational reviews including the implementation of quarterly Group Watchlist reviews for the Group's key contracts.
- Providing challenge against revenue recognition judgement, by implementing Group level review of accounting judgement papers for Group Watchlist contracts; this also ensures that our conclusions are robust and supportable.
- Completing a global banking services transition to BNP, including virtual cross currency cash pool, zero based daily cash sweeps, and a significant reduction in numbers of bank accounts.
- Establishing a new pension scheme engagement process following the liability driven investment crisis in October 2022.
- Launching a Finance Business Services Team to deliver standard processes and controls, delivering an overhaul in our Accounting and Finance Manual to include all the best practices seen across the business. We have also made key appointments to build on our in-house accounting technical knowledge in response to lessons learned from FY22 closure.
- Engaging independent review of the completeness of our Document of Control, implemented in FY22 to set of minimum expectation of controls, with updates and controls added to mitigate highlighted gaps.

The Group has developed a roadmap for the future enhancement of internal controls, with the objective of achieving best-in-class standards in controls including upgrades envisioned by the UK Government on Corporate Governance Reform.

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 process to assess its effectiveness. After last year's review, the committee acknowledged that there remained ongoing scope for further control improvements in FY23 including lessons learnt from FY22 closing. The Committee concluded the company has implemented several control improvements and had a structured plan to implement further ongoing control enhancements covering lessons learnt from FY23 closing. The Board concluded the risk management process within the Group provides effective management of the principal, emerging and underlying risks, allowing the Board to monitor and review the effectiveness of these processes in adherence to the UK Corporate Governance Code.

Risk Committee

The Committee provides executive management leadership and oversight of the Group's risk management framework acting as an interface between the Audit Committee (the 'AC') and the business. The committee has as its principal deliverable the review and challenge of the mitigation and control of the 'Principal Risks and Uncertainties' (PRUs), as summarised on page 92. All PRUs have an allocated owner. Each PRU is presented to the Risk Committee by the owner on a rolling annual programme through evaluation of the status of the PRU and the effectiveness of its mitigation.

The committee also commissions 'deep dives' in relation to the businesses' risk registers submitted within the Group's Quarterly Reviews and commissions externally focused emerging risk reports (produced by Group Risk) and reviews the Group's approach to high impact, low probability, black swan and grey rhino events.

A 'black swan' event refers to an unforseen and unlikely occurrence that typically has extreme consequences. A 'grey rhino' 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 – FY24

- Further analysis of Risk Recording Tools.
- Enhancement of our Fraud Risk Assessment processes.
- Enhancements to the Babcock Corporate Risk Register including the addition of key risk indicators.
- Heightened understanding of corporate governance reforms and preparedness requirements.

Our risk management framework and our internal control environment

External audit

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

Please see page 159 for the independent auditor's report

Board

Overall responsibility for the Group's strategy and risk management

Reviews the Group's risk-rating matrix and determines the Group's principal risks

Reviews and approves the Group's risk register

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 aspects of the Group's risk management and internal control environment

Reviews and monitors the adequacy and effectiveness of the Group's risk management framework and internal control environment

Approves the annual audit plan for the external and internal audits

Group Executive Committee

Reviews quarterly a consolidated report prepared by the Group risk function, which summarises the Group's principal and emerging risks

Committee members sponsor and own the principal risks

Group Risk Committee

The Committee provides executive management leadership and oversight of the Group's risk management framework acting as an interface between the Audit Committee (the 'AC') and the business, keeping the management of each PRU alive throughout the year

Internal audit

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

For more information, please see page 129

Sectors

Identify the risks, including emerging risks, along with the controls and assurance to mitigate those risks

Functions

Provide oversight and management of certain specialised risk areas that benefit from central coordination (for example, tax, treasury, IT, procurement etc)

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 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 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 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 an insurance programme. The Group Risk and Insurance Manager reports to the Board annually on the strategic approach to that programme.

Third line of defence – independent assurance

The internal audit, 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.

Babcock (ERM) Enterprise Risk Management

The primary role of the Babcock ERM framework is to ensure we have a framework to manage risk and uncertainty consistently and effectively. ERM supports the integration of risk management into the Group's significant activities and aligns risk management with our objectives, strategy, and culture.

Our principal and emerging risks

The risk management framework is described above. Using this framework, the Board has identified on pages 93 to 103 the 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.

Emerging risk	Description and management
Geopolitical tensions	As a leading defence company operating with international Government customers, we are acutely sensitive to geopolitical issues. We generally operate in 'safe' countries – stable peaceful democracies, militarily allied to the UK through NATO or the 5 Eyes agreement. Nevertheless, we conduct ongoing geopolitical due diligence. For new territories, this includes country risk reports and a formal approval process – requiring Board-level authorisation in certain cases. In the short to medium term, the ongoing conflict in Ukraine will continue to create volatility within domestic and global markets, which could increase global commodity prices and could result in increased cyber threats from state actors.
Information security	The risk of data exfiltration from foreign state actors is heightened due to the industry and markets in which we operate. There are several layers of protection in place including network monitoring, robust technical controls and data segregation. We remain alert and active in regularly validating the efficacy of our business continuity and cyber resilience protocols as described in the principal IT and Cyber Security risk.
Resourcing – attraction and retention of suitable talent	Our ability to attract and retain talent to undertake our activities is a key requirement of our business. The talent marketplace has been evolving rapidly in recent years with changes in working patterns, working locations and the skills we need in our workforce. Post pandemic this has become more pronounced candidate scarcity, global mobility and demographic shifts all contributing to an acceleration in the need to be able to not only attract, but also to retain skills. We closely monitor the capability that exists in our current workforce ensuring that we have the appropriate skills at the right time to be able to deliver on existing and future contracts.
ESG Risk Emerging risk: Sustainability and business continuity	As noted above, some of the Group's infrastructure could be exposed to physical risks arising from climate change (such as floods, storms etc) and this risk could have an impact on contract delivery in the medium and longer term. Onsite physical inspection is required at critical sites, both Babcock owned and jointly owned by customers, to understand the level of potential exposure under future climatic scenarios and mitigating actions required to ensure long-term resilience.

Inflation – Continuing risk

Inflation impacts across, and is considered within, a number of our Principal Risks, for example supply chain, people, existing markets, rather than being a separate standalone risk.

As the global economy recovers from the pandemic and the effects of the conflict in Ukraine, it is experiencing increasing inflationary pressure, both in terms of supplier costs, such as products, commodities, energy and freight, and labour rates. Due to the nature of the Group's activities we have a number of long-term contracts, which may include fixed-price elements or saving commitments, and are particularly exposed to inflation via rising employment costs; particularly where we have existing contracts which were agreed in a low-inflation environment and include inflation risk. If we have increased costs which we are not able to pass on, this will affect the profitability of the contracts concerned and could mean that they become loss-making or that we are unable to meet our contractual commitments, leading to an adverse financial impact and a longer-term reputational impact.

We have established a programme watchlist covering our most significant programmes as part of our monthly reviews and are in discussion with customers where inflation is diverging from contract terms. In respect of new contracts, we have put in place controls to ensure that the terms of the new contracts adequately cover the inflation risk.

Changes to the Principal Risks and Uncertainties

Last year's principal risks and uncertainties remain relevant and three new principal risks have been added. Two of the existing principal risks have been merged as follows:

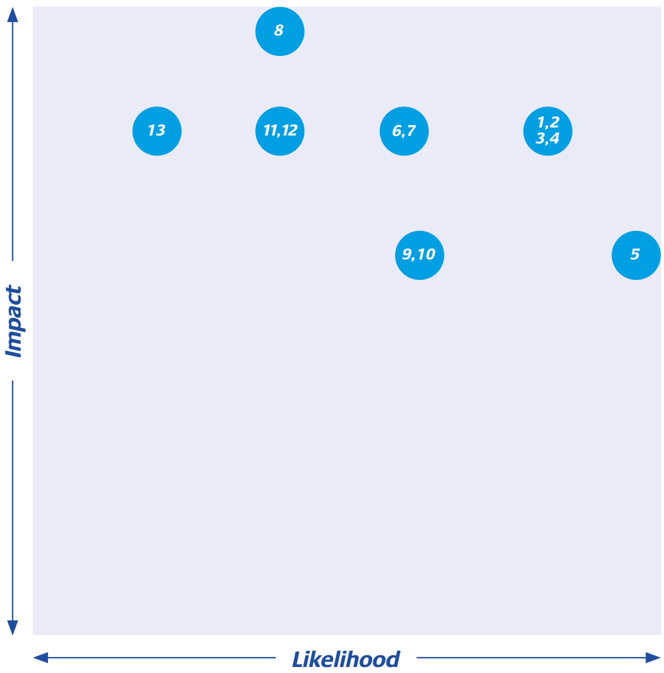
New Principal Risk	Reason for change
Climate & Sustainability	Climate and sustainability risks could cause a material impact on the Group's business, and to the delivery of its strategy or financial results.
Supply Chain Management	Heightened macroeconomic influences and increasing potential for disruption in supply chains.
Technology Disruption to include digital agenda, data management and new technologies	Persistent pace of change and the broadening of the Technology agenda internationally.

Merged Risk	Reason for Change
Existing and New Markets are merged into one	Overlap of risk considerations within new and existing markets led to a belief that these should be considered as a combined risk.
Business Interruption is merged into the Operational Resilience risk	Operational resilience encompasses how we holistically manage disruptions to our business and business interruption in its widest form.

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 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 93 to 103 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.

The principal risks appear in order of their cumulative likelihood and impact scores. Risks are plotted on a net basis including current mitigations.



Principal risk		Risk direction
1	Contract & Project Performance	↔
2	Existing & New Markets	↔
3	IT & Cyber Security	↔
4	Pensions	↔
5	Supply Chain Management	N
6	Operational Resilience / Business Continuity	↔
7	Financial Resilience	↔
8	Health Safety & Compliance including product safety	↔
9	Climate & Sustainability	N
10	Technology Disruption to include digital agenda, data management and new technologies	N
11	Talent Management Retention & Upskilling	↔
12	Regulatory & Compliance	↔
13	Acquisitions & Disposals	↔

Key

↑ Escalated ↓ De-escalated ↔ No movement N New

Principal risks, their impact and mitigation

Contract and project performance

Likelihood 4 ↔ Impact 4 ↔

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**
This reflects the complex nature of the work within the defence and emergency services sectors. Whilst we aim to ensure our contracts only accept risk that can be managed, risk remains in the contract/project delivery.

Potential impact

Our business model drives us to seek to win and execute long-term high-value contracts for the provision of complex and integrated services to our customers. Through delivery of our contractual commitments, often through outcome-based contracts, and accepting a medium appetite for risk we are rewarded by the appropriate margins.

There are usually only a relatively limited number of customers in each of our market sectors. In addition, our market sectors can be highly competitive. This means that our customers have significant market power and can require bidders to accept a substantial transfer of risk from the customer to the supplier. For example, it is common in our markets that the contracts that we tender for may impose strict conditions and clauses.

If we (or our supply chain) underestimate or under-price actual risk exposure or the cost of performance, or if, during the contract, cost inflation diverges from revenue inflation, or if unforeseen or additional costs are incurred, for example, due to extended programme duration, or supply chain shortages driven by the conflict in Ukraine, or exceptional rates of inflation and trade union demands for cost-of-living increase, this could increase our cost to deliver the contract. For example, we operate fixed-price contracts. Actual costs may exceed projected costs, including assumptions on future rates of inflation on which the fixed prices are agreed. Price escalation might be linked to representative indices which allows revenue to track costs, however if this were not the case given that these contracts can extend over many years, it can be difficult to predict the ultimate outturn of costs.

Our contracts tend to involve significant supply chains. Failure by our supply chain partners, including shortages in supply of raw materials and electronic components, or to deliver on their contractual obligations may cause us increased costs or missed schedules, or put us in breach of our contractual obligations.

Long-term contracts often have changes, or updates, to their scope. If we do not properly manage contract changes, we may incur additional costs or fail to deliver contractual requirements.

If any of these key risks materialise, they may increase our costs to deliver on our contractual obligations or may result in the imposition of penalties or the early termination of the contract with the imposition of damages, or reputational damage, which may cause strain on our customer relationship. This may undermine not only our current contract, but also our ability to win future contracts.

The post-Brexit economy has created disruptions to the European labour market, of which we were considerably reliant for certain skills, leading to a supply deficiency for key skills and expertise. Consequently, we have seen an inflation in the cost of labour within many of our key projects and contracts.

Mitigation

This year we have strengthened our formal review and gating processes, both through the opportunity pursuit and bid process, and through project delivery to contract closure. The revised governance has amended the content of the review requirements. Specific focus has been on ensuring we are targeting the right opportunities, matching our capabilities, risk appetite and where we have the best prospect of winning or retaining business. Within these opportunities, more extensive, and where appropriate, independent reviews are conducted to reduce the risk of underestimating risks and costs, to ensure that the risks and opportunities are continually managed and refreshed throughout the contract life. Group policies and procedures have also been refreshed and continue to set a commercial, financial and legal framework for all bids.

Contractual performance is continuously reviewed at contract, business unit, sector and (where appropriate) at Group functional executive level. High risk/high impact contracts have been identified and form part of a 'watchlist'. For these contracts additional reviews, deep dives and, where required, additional functional support is provided in order to best mitigate risks and deliver opportunities. Risks are identified through each Gate to allow early identification of risks to delivery and profitability. Where we identify poor performance, the business will implement a remediation plan, including but not limited to, the use of independent advisors to ensure continued best practice approach is adopted.

Existing and new markets

Likelihood 4 ↔ Impact 4 ↔

We rely on winning and retaining large contracts in both existing and new markets both of which are often characterised by a relatively small number of major customers many of whom are owned, controlled or funded by local or national government.

Risk Appetite: **Medium**
This reflects that, whilst the maintenance of a secure and assured pipeline is essential for continued growth, we may choose to embrace the risks that we can confidently and securely manage.

Potential impact

Major customers, particularly those with government backing, have significant bargaining power and can exert pressure to change, amend or even cancel programmes and contracts. As governments 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 suppliers potentially subject to lower production costs and state 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 of this nature have regulations covering contract terms and pricing, in the UK 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 for a number of reasons. These reasons may include a failure to anticipate 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 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 economy, trade and military requirements.
- Changes in government.

Mitigation

Our focus on the aerospace, defence and security markets, together with our geographical spread, provides a degree of portfolio diversification. We are in ongoing dialogue with our key customers in order to understand their requirements, objectives and constraints, so that we can remain as aligned with them as possible. We monitor expenditure changes in our markets in order 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 target a large bid pipeline, both in the UK and internationally. We bid for contracts we consider have an alignment with the Group strategy and where we believe we stand a realistic chance of success due to, for example, customer understanding, domain knowledge or technical expertise, both in the UK and overseas. As appropriate, we aim to invest in innovation and people to prepare for new ways of working or delivering our services.

We maintain a dialogue with our customers to understand their intentions regarding their pipeline and any regulatory changes that may affect that or the viability of contract delivery.

Likelihood		Impact		Change from last year	
1	Very unlikely	1	Insignificant	↑	Up from last year
2	Unlikely	2	Minor	↔	Same as last year
3	Possible	3	Moderate	↓	Down from last year
4	Likely	4	Major		
5	Very likely	5	Severe		

IT and security

Likelihood 4 ↔ Impact 4 ↔

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

We hold data that is confidential and needs protection, in an environment of increasing cyber threat. Despite controls designed to protect such information, there can be no guarantee that security measures will be sufficient to prevent security breaches or cyber-attacks being successful in their attempts to penetrate our network security and misappropriate confidential information or otherwise cause harm to the Group, for example through denial of service. The Group may be seen as a 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 legacy systems, may create a weakness 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. A breach or compromise of IT system security or physical security at a physical site could lead to loss of reputation, loss of business advantage, disruptions in business operations and inability to meet contractual obligations. 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 have made and will continue to make significant investment in enhancing IT security and security awareness generally. 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 cyber security and similar risks. We conduct comprehensive internal and external testing of potential vulnerabilities. To maintain organisational awareness around cyber security, we provide cyber security education to our staff. The Group maintains business continuity plans that cover a range of scenarios (including loss of access to IT). We regularly test the plans that relate to IT.

Pensions

Likelihood 4 ↔ Impact 4 ↔

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 utilise 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.

Supply chain management

Likelihood 5 ↔ Impact 3 ↔

The Group is exposed to several risks within its supply chain, these can typically be:

- Macroeconomic condition – high inflation, Brexit.
- Disruption Events – disruptions to established supply chains such as natural disasters, wars, strikes.
- Supplier Specific Challenges – we have seen increasing disruption from cyber-attacks on suppliers (i.e., financial failure of suppliers).
- Part Availability for Aged Customer Assets – maintenance of customer assets that are so old that it is not possible to source key parts or components, or the cost of minimum quantities becomes cost or lead-time prohibitive.

Risk Appetite: **Low**

Babcock recognises the adverse effects of the financial resilience risk on our balance sheet and investments, our aim being to eliminate the risk where possible.

Potential impact

Inflationary pressure on the cost of goods and services: Where additional unplanned costs are absorbed within the contract delivery costs and cannot be mitigated. This may lead to the cost of third-party goods or services in our fixed-price or long-term contracts being much higher than forecasted, potentially impacting our profit.

Supply chain disruption: If an event causes restriction to supply, it will either cause inflation as detailed above, or could mean that we cannot secure supply within agreed lead-times, leading to contracts incurring liquidated damages where we have agreed to fixed timescales and carry the risk of supply.

Part availability for aged customer assets: If there are sole supply components for which no alternative can be sourced, this would mean we could not meet our contractual commitments to maintenance of customer assets, leading to either of the points above or incurring reputational damage as a safe and secure partner to the maintenance of critical national assets.

Mitigation

Mitigation can come downstream from within the supply chain, these include, but are not limited to:

- Where possible we have supply contract clauses which dictate or limit inflationary uplift, these are either linked to national published indices or have specific increases lower than the head contract inflationary index. We also often enter into long-term supply contracts that match the head contract duration, so the prices are fixed for the contract duration.
- Pro-actively reviewing supply markets to understand best times to renegotiate, to find the most advantageous times to contract.
- Flowing down specific contract terms to our supply chain to provide protection from inflation and impose some liquidated damages to offset impacts, where possible. Although, this would never likely cover our full exposure.
- Actively engaging with customers on known sole source components and implementing sensible plans to mitigate this, ranging from end of life buys to jointly finding alternative supply.
- Looking to have dual sources of supply or where we have single sources or points of failure, they would be dealt with within local contract disaster recovery planning.
- We monitor our supply chain for risk and continuously invest in risk tools and processes which take data from multiple sources to ensure, where possible, that we foresee and mitigate any potential risk impacts.
- We undertake detailed due diligence on new suppliers, the level of due diligence is linked to the criticality of the goods or services being provided. Where risks are identified mitigation plans would be put in place.

Upstream, our commercial teams also ensure that our customer contracts have adequate contract protections for us in relation to these supply chain risks, these could include:

- Ability to recover costs where inflation exceed limits, especially in 5 years plus contracts.
- Relief from our contractual commitments where parts are customer dictated and we cannot provide alternative sources of supply.
- Ensure our customer contracts have relief for force majeure events and that includes supply chain disruptions caused from those events.

Operational resilience

Likelihood 3 ↔ Impact 4 ↔

We are undertaking multiple change programmes with the introduction of a new strategy, a new operating model to restructure the shape of the Group, and a new People strategy, as well as undertaking the alignment of both the business portfolio and our property portfolio. Additionally, there are several new material opportunities that the Group may pursue – some in new geographies – that may further stretch management bandwidth.

Risk Appetite: **Low**

Given the materially adverse nature of the risk to operational resilience, Babcock looks to recognise and eradicate the emergence of risks to operations where possible, hence risk appetite being set as low.

Potential impact

All these programmes are underway concurrently, in addition to the delivery of the Group's services to its customers. This may put pressure on management bandwidth to oversee all the change programmes, as well as the regular running of the business. This could lead to an elevated risk of mistakes or missed opportunities. If we fail to deliver the change programmes, we will not be able to achieve our strategic goals. Failure to deliver the change programmes may also undermine the confidence of key stakeholders in our future growth and plans.

Mitigation

Management is experienced in delivering programmes of this nature. The role of a change portfolio manager has been created to ensure both completion and synergy across these programmes. There is regular monitoring of progress across all the programmes to ensure that they remain on track, along with regular dialogue with customers at a senior level to ensure that delivery of our contracts is in no way compromised. The Board receives a monthly report with a status update on the key change programmes and major new opportunities.

In order to ensure general operational resilience, we continue to monitor the emergence of business interruption events that could materially and adversely affect the business operations through our Risk Committee. For general business continuity, we have in place IT disaster recovery and business continuity processes that seek to reduce the impact of a such an event for ourselves and our key suppliers. We also maintain relevant and appropriate insurance.

Financial resilience

Likelihood 3 ↔ Impact 4 ↔

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 entirely 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 to be 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 recent rationalisation of the Group portfolio raising proceeds from disposals has strengthened our balance sheet during FY23 resulting in the only material debt of the Group being long-term EuroBonds.

In respect of immediate liquidity, the Group has committed bank RCFs of £775m and £300m, neither of which were drawn as of 31 March 2023.

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.

Health and safety

Likelihood 2 ↔ Impact 5 ↔

Our operations entail the potential risk of significant harm to people and property, wherever we operate across the world.

Risk Appetite: **Low**

For both moral, financial and reputational reasons we would wish to keep the risk as low as possible. Through the eyes of the HSE and high hazard regulators we are legally mandated to keep the risk as low as reasonably practicable.

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 working environments can cause harm to our people and those affected by our operations; 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, and there could be significant impacts if we fail to reach the standards and mandated requirements to adequately mitigate against health and safety 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. 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, investigations being conducted, or if regulatory approval and certification is withdrawn; potentially leading 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. Health and safety 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 performance. Induction and task specific training builds competency of personnel, whilst our communications and safety behaviours programmes are developing an engaged safety 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 provide 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.

Climate and sustainability

Likelihood 3 ↔ Impact 3 ↔

Sustainability is an integral part of our corporate strategy, and our global business employs short- medium- and long- term control measures to manage climate risks.

Risk Appetite: **Low**

Our probability and impact scorings for the risks related to Climate and Sustainability are based on a scenario-based methodology. We determined that the most significant transition risk is labour, which is expected to rise, however our risk appetite allocation remains low as this situation is likely to materialise in the medium and long term and gives us time to implement activities to mitigate.

Potential impact

The Group may be impacted by environmental factors, including physical risks arising from climate change (such as floods, storms etc as many of our sites are based at coastal locations) and transition risks resulting from the process of adjusting to a low carbon economy.

Additionally, if we were to cause contamination or pollution due to failings in respect of air emissions, wastewater discharges, or the use, handling and storage of hazardous materials and waste, this could result in environmental damage and have contractual consequences. 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 Executive Risk Committee and Management teams recognise the possibility of supply chain disruption and facilities disturbance due to climate-change under certain scenarios. As global demand of energy and fuel services changes into 2030 and 2040, it is clear that there may be costs associated with mitigating transition risks, in order to remain competitive within current markets. If global GHG emissions, temperature, and consumption of natural resources are not stabilised, this could impact delivery of our strategy in the longer term.

Mitigation

Independent, quantified scenario analysis was carried out in FY23, from which our Group has identified locations at which climate-related risk poses the greatest threat. Here we have completed occupational health assessments of our physical mitigations and reviewed standard risk management procedures.

Safety, Health, and Environmental Protection is core to everything that we do at Babcock. From our commitment last year to investigate the feasibility of extending our Environmental Management Systems (EMS) across our global operations, we have now developed Group-wide minimum environmental standards. We are also investigating a Group-wide Environmental Data Management System, which will help to protect our people and the environment in both the short term and long term.

Compliance with climate regulation and the development of transition plans are our key priorities. In addition, sectors and regions will continue to deliver and update their climate-related risk registers quarterly and ensure appropriate mitigating actions are in place.

Plan Zero 40 is our chief mitigation mechanism to combat transition risk and will be scaled across the organisation, along with physical inspections across all critical Babcock sites by the end of 2024. We recognise the technological improvements required to transition towards a Net Zero economy for our products and services. 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.

Technological disruption

Likelihood 3 ↔ Impact 3 ↔

We have identified three main attributes to potential technological disruption that potentially 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 look 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

There are three impacts of technological disruption that are mitigated by controls that are regularly reviewed:

Digital change – advancement of modern IT and software solutions enabling improved insight into developing products, delivering services and common change across business sectors and countries. Data management – the change in digital approaches, as larger volumes of internal and external data are being created and processed. This must be appropriately shared, stored, and managed due to sensitivity and security. New technology – disruptive impacts on existing products and services but also opens new opportunities for the company if recognised and leveraged appropriately.

As a result, this may pressurise management bandwidth to oversee the change programmes that rely upon the new technology or digital solutions, and the regular running of the business. This could lead to an elevated risk of mistakes or missed opportunities. Failure to deliver the change programmes, will mean an inability to achieve our strategic goals. Failing to manage these risks may undermine the confidence of key stakeholders in our future growth plans.

Mitigation

Our management is experienced in delivering programmes of this nature. We continue to make significant investment in enhancing IT, to enable management and security of the data. Additional investment is being made in further data analytics solutions, such as Palantir.

We have appointed an experienced team in the Chief Technology Officer (CTO) organisation and set up appropriately linked teams across group who have a track record in successfully identifying new technologies and bringing them through to either enhance existing or introducing new products or services.

Talent management, retention and upskilling

Likelihood 2 ↔ Impact 4 ↔

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 and necessitate over-resourcing resulting in potential negative workforce engagement and retention. Some risk is accepted given by sharing capability across our business and compensating for skills shortages in particular areas.

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 and capabilities develop. Competition for the people we need is high and is likely to remain so for the future. This may be exacerbated by nationality and regulatory restrictions, which may prevent us from accessing talent from the EU or worldwide. This poses risks in both recruiting and retaining such staff. 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 and 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 will be delivered through our People Programme, led by the Group's Chief Human Resources Officer. This Programme is informed by workforce planning and includes the upskilling of our workforce to meet future requirements; enhancing our ability to attract talent; engagement and reward strategies to improve retention; and building better career development opportunities for our employees.

Regulatory and compliance

Likelihood 2 ↔ Impact 4 ↔

Our businesses are subject to the laws, regulations and restrictions of the many jurisdictions in which they operate.

Risk Appetite: **Low**

Babcock always endeavours to act in line with best practices and regulatory requirements. Babcock has zero tolerance for regulatory risk around risks such as anti-bribery and corruption and modern slavery, the risk appetite allocation is therefore set at low.

Potential impact

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. 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 in order 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, our Aviation business is subject to a high degree of regulation relating to aircraft airworthiness and certification, as well as regulations relating to ownership and control. 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 of 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. The Board monitors and reviews all reports and their investigations.

Acquisitions and disposals

Likelihood 1 ↔ Impact 4 ↔

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 its lowest level 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 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

Our focus is currently on operational execution, rather than acquisitions, with the possible exception of 'bolt-on' acquisitions. We will work to enhance our acquisition and integration capability so that we are ready at the appropriate time in the future. We will clearly communicate our disposal strategy and put in place the appropriate transaction resource to prioritise the disposals.

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 2023. 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 87. 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 6, 18 and 20 of this report, our prospects are supported by:

- a diverse portfolio of businesses based on well-established market positions, focussed on naval engineering, support and systems, and on critical services in our core defence and civil markets. In FY23 62% of Group sales were defence related and 38% civil;
- a geographically diverse business with a high proportion of sales to governments and other major prime defence contractors. In FY23, 61% of sales were to defence and civil customers in the UK, and 39% were international;
- long-term visibility of sales and future sale prospects through an order backlog of £9.5 billion as at 31 March 2023, 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 2023, net debt excluding operating leases was £346.2 million and the Group therefore had liquidity headroom of £1.6 billion, including net cash of £0.5 billion and undrawn facilities of £1.2 billion. These facilities are considered more than adequate to meet current and other liabilities as they fall due, and supports 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 July 2023, the Group's committed facilities and bonds totalling £1.9 billion were as follows:

- £300 million three-year RCF maturing 20 May 2024
- Existing £775 million revolving credit facility (RCF), of which £45 million matures on 28 August 2025 and £730 million matures 28 August 2026
- £300 million bond maturing 5 October 2026
- €550 million bond, hedged at £493 million, maturing 13 September 2027
- Two committed overdraft facilities totalling £100 million

The RCFs are the only facilities with covenants attached. The key covenant ratios are (i) net debt to EBITDA (gearing ratio) of 3.5x (ii) 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 RCFs 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.

Base case scenario

The base case budget shows 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 seek to maintain a degree of caution.

It also assumes that the impact of current inflationary pressures can be managed within contract estimates assumed in our planning. 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 £63 million relating to FY24 and around £63 million relating to FY25.

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 £115 million and the lowest net debt increase was 67%. The lowest required reduction in forecast EBITDA to hit the interest cover covenant was £174 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 severe but plausible 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 (including further inflation cost increases, or related failures in supplier resilience, as per our principal risks), 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 of 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 severe but plausible (SBP) downside case, the Board considered the feed of individual risks from the sectors covering the above sensitivities. Overall there were c.90 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.

The majority of these identified risks were seen as 'sector independent' (ie there is no direct read across from one sector to another). A small number are deemed 'non independent' eg inflation, FX etc. The Board decided to include in its combined SBP downside all the 'non independent' risks without reduction, but reduced the aggregation of the 'sector independent' 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.

Going concern assessment and viability conclusion

Based on our review, the Directors have a reasonable expectation that the Group has adequate resources to continue as a going concern for at least 12 months from the date of these financial statements.

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 2028.